



GUARDIAN[®]

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

November 2009

The Guardian Life Small Business Research Institute

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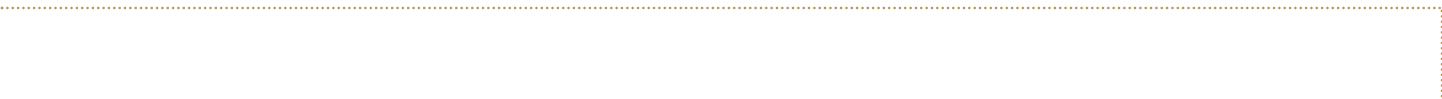
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Welcome to the inaugural report on The Guardian Life Index: What Matters Most to America's Small Business Owners. We believe this groundbreaking research, based on an innovative methodology, provides a more meaningful and intimate understanding of our nation's small business owners. The Guardian Life Index overcomes the limitations of many traditional studies that narrowly view some 20 million individual small businesses as a monolithic entity. Instead, the Index examines small business owners by means of a multifaceted matrix of key industry sectors and owner profiles, quantifying the *intensity* of their goals, value systems, interpretations and decision processes.

We commissioned The Guardian Life Index: What Matters Most to America's Small Business Owners with the strong recognition that small businesses represent an extremely important component of both the American experience and the American economy. According to the U.S. Small Business Administration, they account for 50 percent of U.S. gross domestic product, 44 percent of U.S. payroll and 60-80 percent of American job creation – and have consistently done so for the past decade. In effect, these businesses represent the third largest economy on the planet!¹

We at Guardian Life believe that small businesses form the economic backbone of the American economy. Our goal with this landmark research is to move beyond conventionally known statistical abstracts regarding small business as a "sector;" instead creating in-depth personal portraits of the people who create and sustain business enterprises – probing beneath the numerical to the intimate.

The Guardian Life Index: What Matters Most to America's Small Business Owners is the first initiative of the Guardian Life Small Business Research Institute, a vital and dynamic expression of our company's commitment to better understanding the needs, values and culture of small business owners in America.

For nearly 150 years, the Guardian Life Insurance Company of America has provided individual protection, retirement and employee benefits solutions to America's small business owners. We are mindful of the historical connection between small enterprises and the creation of our mutual insurance company. Guardian Life's founders were entrepreneurial individuals banding together for mutual benefit. Today, the Guardian Life family – including our distribution channel partners who themselves are small business owners – makes every effort possible to build upon our heritage for the benefit of all our customers.

On the following pages, we are delighted to share with you the initial findings and interpretations of our research. For a deeper understanding of the wisdom we are developing about America's small business owners, we invite you to visit the Guardian Life Small Business Research Institute Web site at www.smallbizdom.com.

Sincerely,

K. Rone Baldwin
Chief Operating Officer

¹ U.S. Dept. of Commerce, Bureau of the Census and International Trade Admin

America's small business owners: the stabilizing center of gravity for the American economy

Mark Wolf

Director, The Guardian Life Small Business Research Institute

America's small business owners are the stabilizing center of gravity for the American economy and have been so from the very beginning. As Alexis De Tocqueville, a French visitor to and commentator on the American experiment in individual liberty, observed in 1835, "What astonishes me in the United States is not so much the marvelous grandeur of some undertakings as the innumerable multitude of small ones."²

While they account for as much gross domestic value as their 18,000 larger corporate counterparts³, a key difference between Big Business America and the people who are small business owners is that the latter are not beholden to the investment community nor directly susceptible to economic inventions such as derivatives or sub-prime lending practices. Small business owners focus on their P&Ls, generally operating with balanced budgets and manageable debt. They effectively "mind the store," focusing on customers and employees before themselves. They are unlikely to seek federally funded support because relying on others is not consistent with their fundamental operating DNA.

In our collective experience with this special and extraordinary group of individuals, we have consistently found them to be optimistic and self-reliant. Importantly, with this new research, The Guardian Life Index: What Matters Most to America's Small Business Owners, we have come to appreciate that small business owners in America represent a definable group we characterize as Self-directed Diligent Optimists.

Specifically, through this research, we have been able to uncover the human factors that define and motivate the remarkable people who create and run America's more than 20 million small businesses,³ sector by sector and owner profile by owner profile. Based on the novel insights generated by this study, we see a cohort of small business owners highly committed to making things better for themselves, their businesses, their employees and, by extension, the nation.

In a conscious attempt to correct the perception of small business as an undifferentiated "monolith" and to capture the nuance, texture and individuality of America's small business owners, The Guardian Life Index examines more than a dozen key small business sectors. The eight largest of these account for between 50 and 80 percent of gross domestic product within their respective business categories – real estate, personal services, leisure arts & entertainment, dining & accommodations, business services, distribution/retail/wholesale, traditional health care, and financial services. Additional sectors included in the research are manufacturing, green/solar/sustainable/environmental, high tech products & services, alternative/integrated health care, and non-governmental organizations (NGOs).

Small business owners effectively "mind the store," focusing on customers and employees before themselves.

² A History of Small Business in America, Mansel G. Blackford

³ U.S. Dept. of Commerce, Bureau of the Census, and U.S. Dept. of Labor, Employment and Training Admin

The difference between traditional research and The Guardian Life Index

John Krubski
Research Advisor, The Guardian Life Small Business Research Institute
Futurist, Originator of the Index of What Matters Most™

Albert Einstein once said, “The definition of insanity is doing the same thing over and over and expecting different results...”⁴ Recognizing the validity and value of this insight, we designed a research methodology that was bound to deliver compelling results because they would be derived from a non-traditional methodological model (The Index of What Matters Most). The Index measures the positive or negative intensity of responses on a proprietary 21-point scale system.

A metric based on culture and intuition

The Index is grounded in the insight that the number 10 (either positive or negative) represents an intuitively absolute and culturally resonant scale against which any number of ideas can be measured. (How often have you found yourself asking, “On a scale of one to ten?”) More than 25,000 completed questionnaires have confirmed the value of such an absolute scale in that only clearly held values regarding “family, friends, God and religion” consistently warrant eight and above.⁵ Virtually all other issues measured generally fall at or below seven in terms of intensity. Key issues being measured by the Index are expressed as a value somewhere between -10 (the most extreme negative), zero, and +10 (the most extreme positive). Experience with thousands of respondents shows that a 0.5 difference between rankings is meaningful and significant.

What’s important to understand is how deeply concerned small business owners really are.

The clear difference

The following table and radar chart are excellent examples of the difference in findings between intensity metrics and distribution/percentage-based metrics.

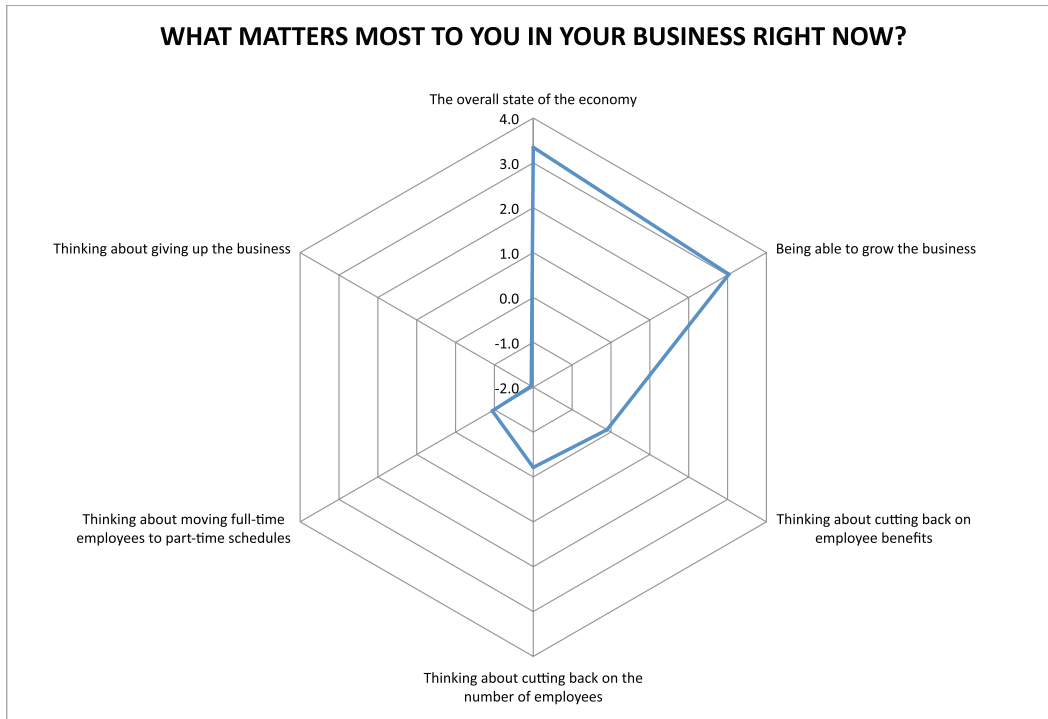
Traditional views may overlook the richer stories

The table below, which displays percentages, represents one way of viewing small business owners’ perspectives. For example, 29 to 39 percent of the respondents are contemplating some form of drastic action, ranging from giving up the business to cutting back on employees.

What matters most to you in your business right now?	Total
Being able to grow the business	75%
The overall state of the economy	75%
Thinking about cutting back on the number of employees	39%
Thinking about cutting back on employee benefits	38%
Thinking about moving full-time employees to part-time schedules	32%
Giving up the business	29%

⁴ Letters to Solovine: 1906-1955, Albert Einstein
⁵ John Krubski, architect, Index of What Matters Most™

However, what's important to understand is *how deeply* concerned small business owners really are. When the same question is evaluated using the proprietary positive/negative scale deployed in The Guardian Life Index, a different perspective emerges.



Small business owners are in business - and committed to staying in business - for the long haul.

A more positive picture

In the above case, our findings show that most small business owners reacted negatively to options such as cutting back on employee benefits (-0.1), reducing the number of employees (-0.2), moving full time employees to part-time schedules (-0.9) and giving up the business (-1.1).

These metrics define a far more positive picture, with clear statistical validation, of what is going on in the hearts and minds of America's small business owners: they are in business – and committed to staying in business – for the long haul.

My customers, my employees and me

A key finding of The Guardian Life Index is that small business owners across all sectors share a fundamental business philosophy that can be simply and succinctly expressed as follows: *my customers, my employees and me*.

Customers are the number one concern of small business owners, ranking highest in intensity on The Index of What Matters Most scale. Positive numbers above three are highly significant, based on experience in using the proprietary 21-point scale that underlies The Guardian Life Index's research methodology.

Customers matter most

The highest intensity metrics in the entire Guardian Life Index relate to customers:

What matters most to your business?	Total
Having customers who appreciate what I do	5.8
Keeping the customers I have from leaving	5.6
Keeping my customers happy	5.2
Whatever matters most to my customers matters most to me	5.0
Finding some way to be noticeably different than competitors	4.9
Making my customers into friends	3.9

Customers are the number one concern of small business owners.

Employees also matter

Small business owners are similarly passionate about their employees:

What matters most to you in your business?	Total
My employees	5.5
Quality of my staff	4.7
Creating positive working environment for themselves and others	4.6
Giving my employees reasons to feel good about being part of our team	4.3
Helping others to have income and opportunities	3.9
My management team	3.9

Reassurance regarding what small business owners won't do

At the opposite end of the scale are issues that matter least. Even slightly negative numbers indicate strong passions. In The Guardian Life Index, small business owners reacted negatively to the following:

What Matters Most to your business right now?	Total
Cutting back on employee benefits	(-0.1)
Reducing the number of employees	(-0.2)
Moving full time employees to part time schedules	(-0.9)
Giving up the business	(-1.1)

And then there's me

Finally, beyond customers and employees, what matters most to small business owners is their own well-being and independence, as these positive intensity metrics underscore:

What Matters Most to you?	Total
Personal freedom	5.3
Being able to make my own decisions	4.9
Doing something for a living that I love to do	4.2
Being creative	4.1
Having the security of knowing that I control my own fate	3.9
Meeting new people all the time	3.9

What about money?

Contrasting the metrics associated with customers, employees and self, small business owners' feelings about financial matters are about half as intense:

What Matters Most to you?	Total
Being able to add significantly to my retirement funds	2.5
Making enough money to pay my family's personal expenses	2.4
Being able to pay myself as much as I should	2.3

Rather than viewing the achievement of monetary rewards as their primary goal, small business owners focus on fulfilling the needs of their customers and employees, relying upon their own abilities and independent judgment to prioritize their time and attention. They believe that personal gratification and financial rewards will flow as an outcome from this approach to running a successful business.

Why America's small business owners are leading the way out of the recession

According to The Guardian Life Index, 92 percent of America's small business owners are optimistic about the immediate and long term future of their own enterprises and the nation's economic outlook. Fifty-four percent expect to maintain business as usual, and an additional 38 percent are confidently looking forward to expanding their businesses over the next 12 to 24 months.

Which of the following best captures the plan for your business over the next 12-24 months? Select all that apply.	Total
Maintain business as usual	54%
Plan to expand the business	38%
Looking to transform the business in some major way	11%
Plan to downsize the business	8%
Actively looking to sell the business	5%
Looking to merge my business with another company	4%
Actively looking to sell the business	3%
Looking to turn over the business to a family member	2%

Despite the current economic climate, nearly 60 percent of U.S. small business owners expect their 2009 revenues to remain stable or increase. Significantly, 27 percent of America's small business owners anticipate 2009 revenue increases of up to 25 percent over 2008, and 6 percent expect to see revenue increases of more than 25 percent by year's end.

Compared to 2008, what do you anticipate your revenues will be for 2009?	Total
Same or Greater than 2008 (TOTAL)	59%
About the same as 2008	27%
More than 25% greater than 2008	6%
10%-25% greater than 2008	12%
Up to 10% greater than 2008	15%

In contrast, nearly 41 percent of the respondents expect lower 2009 revenues. However, for one-third of small business owners, the decline will be 25 percent or less. Only 8 percent project revenue declines of more than 25 percent. These percentages suggest that most small business owners have effectively managed through 2009's economic difficulties – a positive finding that is consistently reinforced by intensity metrics throughout The Guardian Life Index.

Compared to 2008, what do you anticipate your revenues will be for 2009?	Total
Lower than 2008 (TOTAL)	41%
Up to 10% lower than 2008	16%
10-25% lower than 2008	17%
More than 25% lower than 2008	8%

Nearly 60 percent of U.S. small business owners expect their 2009 revenues to remain stable or increase.

Self-directed, diligent optimists – the DNA of America’s small business owners

The more compelling story generated by the new research study is the “why” behind small business owners’ optimism. The upbeat projections and positive plans are not surprising considering the cultureography of individuals who found, operate and evolve America’s small businesses. Understanding cultureography, a measure for interpreting a complete values system, is possible thanks to the new methodology used in this research. Coined by John Krubski, the researcher who created The Index of What Matters Most, it is an evolution of the concepts of demography and psychography.

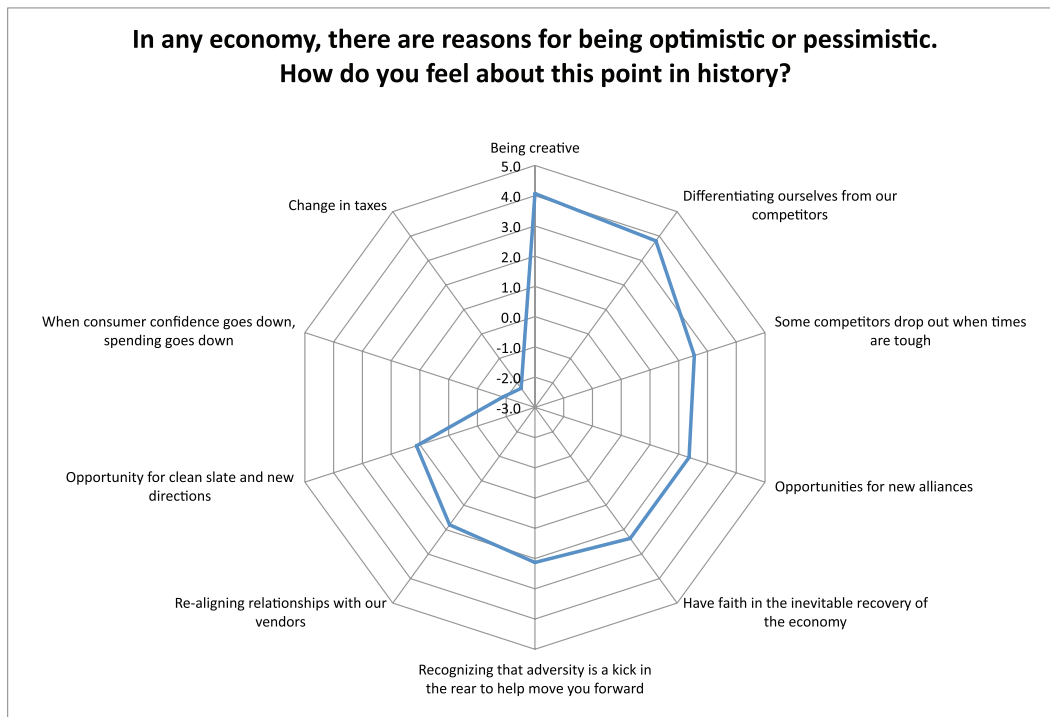
The ability to make my own way is key

Cultureographically, America’s small business owners largely depend on themselves, relishing the ability to control their own fates. They say that the sense of “being able to make my own decisions” continues to improve and rates a 4.9 average on the “changing for the better” metric. Also improving are the “satisfaction of creating something of value” (4.3), “doing something for a living that I love to do” (4.2) and “the security of knowing that I control my own fate” (3.0) – all responses moving in the positive direction.

Index: Things getting better or worse (Positive #'s = Changing for Better, Negative #'s = Changing for Worse)	
Being able to make my own decisions	4.9
Satisfaction of creating something of value	4.3
Doing something for a living that I love to do	4.2
The security of knowing that I control my own fate	3.0

Cultureography is a measure for understanding a complete values system.

Reasons for their optimism range from being creative to recognizing that adversity is an impetus for moving forward. The strongest reasons for pessimism are things over which small business owners have little or no control – particularly items of a government-imposed nature.

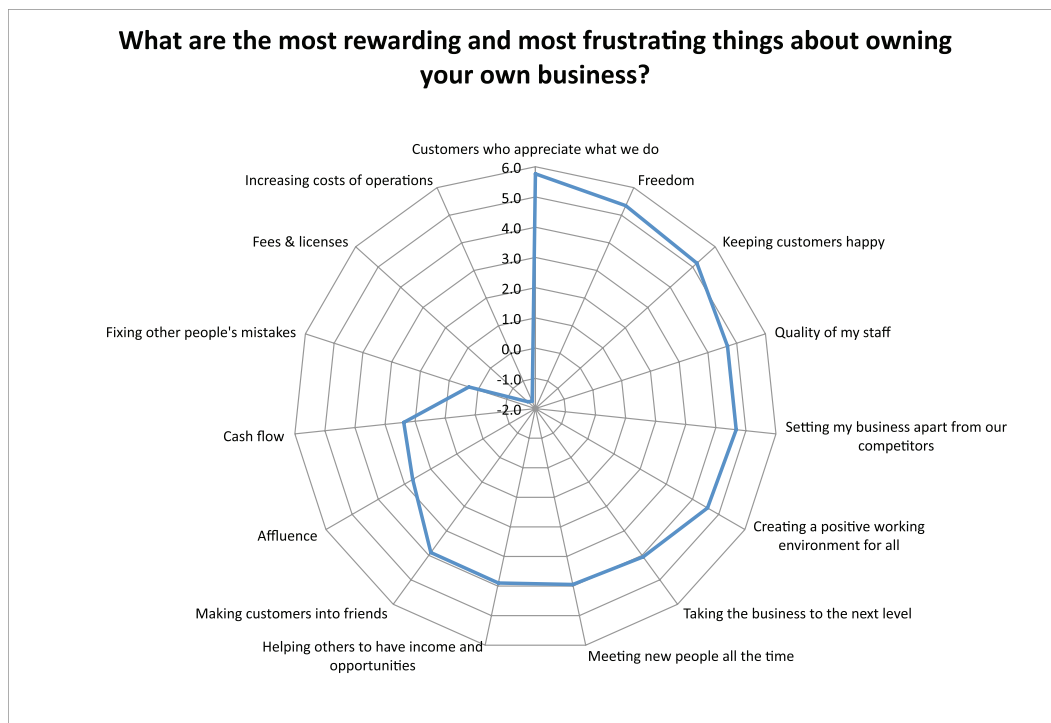


For America’s small business owners, doing business is social, up-close and personal

While it is self-evident that small businesses operate on a smaller scale than big businesses, The Guardian Life Index underscores perhaps the most significant difference between these two types of enterprises: the highly intense connection between small business owners and the people who are their customers and employees.

Customer has a personal dimension

Small business owners not only “talk the talk,” they clearly “walk the walk” when it comes to customer relationships. They appear to truly enjoy developing close relationships with them, even to the extent of making customers into friends. “Having customers who appreciate what we do” (5.8) and “keeping customers happy” (5.2) rank just above “meeting new people all the time” (3.9) and “making customers into friends” (3.9).



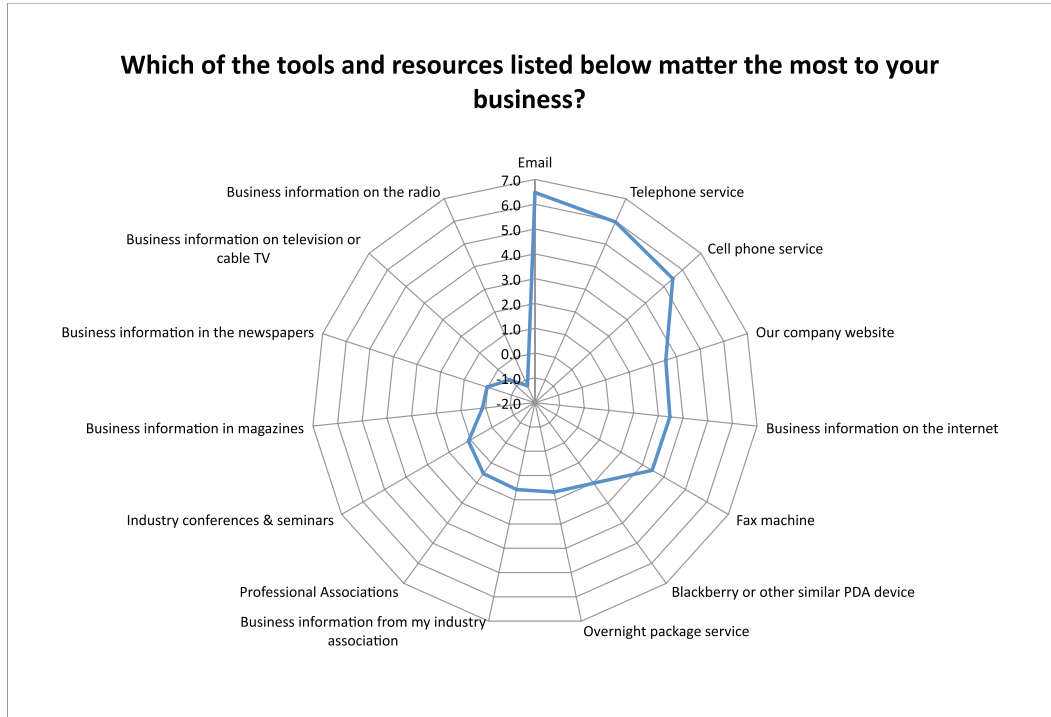
America’s small business owners are clearly more focused on people rather than process.

Small business runs on interpersonal relationships

The connection to employees is similarly grounded in personal connection, with “quality of my staff” (5.2), “creating a positive working environment for all” (4.6), and “helping others to have income and opportunities” (3.9) all rating high on the small business owners’ job and career measures. America’s small business owners are clearly more focused on people rather than process.

The tools and resources that matter most to small business owners

Don't ask America's small business owners to give up email or their phone service. These are the fundamental business tools they rely upon. Also don't expect small business owners to be riveted to their radios or television sets for the latest business information – for that they would be most likely to rely on the Internet.



An important resource to running a small business is effective incoming and outgoing communication.

Communications and connections

Based on these findings, it appears that the single most important resource to running a small business is effective incoming and outgoing communication: email (6.5), telephone service (6.0), cell phone service (5.5) and company Web site (3.5). The availability of these resources makes it possible for even the smallest business to function effectively and make as professional a presentation as even the largest corporations.

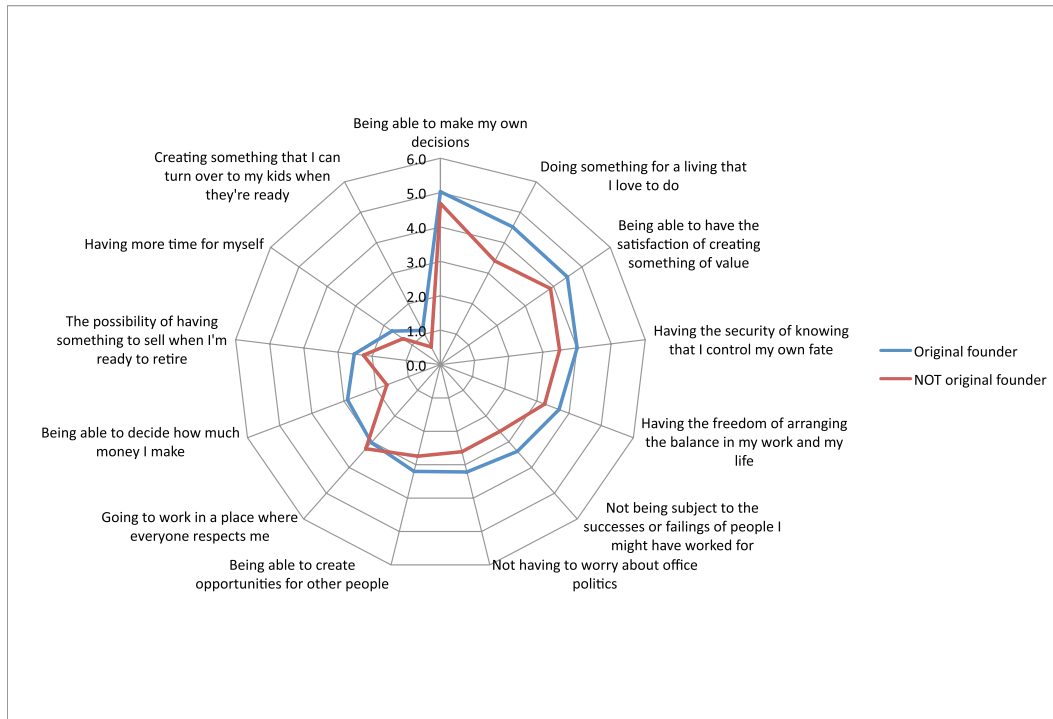
Conventional media have a challenge in becoming of value to small business owners

Interestingly, small business owners value their fax machines (3.5) more than their Blackberry/PDA's (2.0). They believe in information from their industry associations (1.6), professional associations (1.5), industry conferences and seminars (1.1) far more than they value business information in magazines (0.1), business information in newspapers (0.0), cable television (-0.6) and business information on the radio (-1.3).

Founders vs. Non-Founders

Founders are happy they made the move to self-ownership

Overall, the founders of America's small businesses feel well-justified in having made the decision to be on their own outside of corporate America. They show continual validation of this choice across a range of measures, most of which center on self-reliance and self-realization. "Being able to make my own decisions" (5.0), "doing something for a living that I love to do" (4.5), "being able to have the satisfaction of creating something of value" (4.5), "having the security of knowing that I control my own fate" (4.0), and "having the freedom of arranging the balance in my work and my life" (3.7).



Founders show continual validation of their choice to start a small business.

Non-founders are less focused on personal realization than founders

Three things that distinctly separate the founders of small businesses from their non-founder colleagues are "being able to decide how much money I make" (2.9 vs. 1.7), "doing something for a living that I love to do" (4.5 vs. 3.4), and "not being subject to the successes or failures of the people I might have worked for" (3.4 vs. 2.6). The one area that non-founders marginally value more than founders is "going to work in a place where everyone respects me" (3.3 vs. 3.0).

Differences between industry sectors and geographic regions

Industry sectors

The Guardian Life Index examined small business owners within 13 key industry sectors. Optimism varied across these sectors with respect to revenue projections for 2009. Sectors with the highest number of owners who anticipate stable or increased 2009 revenues are the following:

Industry sector	Owners who anticipate stable or increased 2009 revenues
Traditional health care	72%
Financial services	68%
High tech products/services	66%
Dining and accommodations	66%
Manufacturing	57%

Regions and states

From a regional perspective, the South has the highest percentage of owners who project stable or increased revenues for 2009. Texas is the state with the highest percentage of owners who project stable or increased revenues for 2009, considerably exceeding three other large states measured by The Guardian Life Index.

Region	Owners who anticipate stable or increased 2009 revenues
South	62%
Northeast	61%
Midwest	59%
West	56%

Key State	Owners who anticipate stable or increased 2009 revenues
Texas	69%
California	51%
New York	49%
Florida	49%

Texas is the state with the highest percentage of owners who project stable or increased revenues for 2009.

The Guardian Life Index: What Matters Most to America's Small Business Owners polled more than 1,100 respondents representing a wide range of key small business industry sectors, four census regions, four key states (California, Texas, New York and Florida) and two major DMA's (New York and Los Angeles). It was fielded in May, 2009. The methodology employed an online survey of 25 minutes' duration covering 135 issues of importance to small business owners, as well as an extensive battery of industry sector and owner profile questions.