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SMALL BUSINESS

Smallest U.S. Firms Struggle to Find Workers

Employment at businesses with fewer than 20 employees stalled last year

By Ruth Simon

Updated Feb. 9, 2020 5:35 pm ET

The number of people working at small companies essentially didn't budge last year, even as larger businesses continued to expand their payrolls for a record 10th straight year.

Head count at businesses with fewer than 20 employees was essentially unchanged in 2019, according to an analysis of ADP payroll data by Moody's Analytics. Companies with 500 or more employees, by contrast, increased their workforces by 2.3%. January showed the same patterns, according to data released Wednesday.

The sluggishness in small-business hiring is particularly striking because it is the first time small companies haven't added to their payrolls since 2010, when businesses of all sizes were recovering from the financial crisis. More than 5.3 million businesses have fewer than 20 employees, based on the latest data available from the Small Business Administration.

Small businesses are the first to feel the pinch from a tight labor market, but the challenges they face in adding workers highlight a threat to companies of all sizes and to the broader economy. Their "problems are symptomatic of what all businesses will be struggling with in the not-so-distant future," said Moody's chief economist Mark Zandi, who analyzed the ADP data.

"The demographics are overwhelming. Unless we change immigration laws significantly, all businesses will be struggling to find workers," Mr. Zandi added. "This will become a significant brake on economic growth."

Hiring at the smallest firms was especially weak in the manufacturing, natural-resources, transportation, construction and retail sectors, he said.

Economic confidence of small businesses rebounded in January, posting its first year-over-year gain since September 2018 as owners' outlook for the U.S. economy improved, according to a survey conducted by the Journal and Vistage Worldwide Inc., an executive-coaching

Just over 60% of the 711 respondents said they expect the total number of people employed by their firm to increase during the next 12 months. Most of the respondents employed fewer than 100 people last year.

Finding workers in today's tight job market is particularly challenging for small-business owners who must juggle writing job postings and weeding through résumés with the normal demands of running a company. At some companies, tariffs and other business challenges have put pressure on head count.

“It's just extremely difficult to find somebody who wants to work and seems hungry to make money doing sales,” said Mia Allen, co-owner of Rose Pallet in Bridgeview, Ill., a 10-person company that sells wooden pallets, crates and lumber to manufacturers and distribution centers.



Rose Pallet's Mia Allen, with a supplier. Ms. Allen says it is 'extremely difficult to find somebody who wants to work.'

PHOTO: TAYLOR GLASCOCK FOR THE WALL STREET JOURNAL

Ms. Allen figured she waded through roughly 300 résumés—mostly on nights and weekends—for more than two months, and interviewed more than 50 candidates by phone, before bringing on a consultant to help her find a new salesperson. “When we found the person, it was a quicker process because we didn't want to dillydally and lose her.”

Jared Veteto, president of Cogitic Corp., a Colorado Springs, Colo., manufacturer, is working with a dozen outside recruiting firms. He hired two people for his 18-person company, which serves the space and defense industries, after interviewing 40 candidates. Mr. Veteto still has 10 more openings for programmers and manufacturing engineers. “The barrier to hiring more people is finding them,” he said.

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Smaller companies often struggle to match the pay and perks offered by larger employers, though they can offer other benefits, such as increased responsibility.

Action Machinery International Inc., a distributor of metal-cutting and -fabricating machine tools with 13 employees, lost one employee to a competitor offering higher pay last year. “It was a better offer with a larger company,” President Randy Breitenbach said. “It was just something I couldn’t match.”

The Englewood, Colo., company boosted overall head count by one last year, but hiring and retaining workers is a challenge when workers have so many options. “Small businesses in particular have a lot to offer people in terms of autonomy and less rules and more flexibility,” Mr. Breitenbach said. “But if you are purely looking at how many dollars per hour, what is your 401(k) match and how much vacation, it is very difficult for small businesses to compete.”

SHARE YOUR THOUGHTS

How is the tight job market affecting you or your employer? Join the conversation below.

Some
small
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are
growi

ng rapidly despite the tight job market. MediSuite, a national mail-order pharmacy based in Cary, N.C., lost one employee last year but was able to hire four others, bringing total head count to 13. Its location near two pharmacy schools and the movement of more people into the Raleigh-Durham area have eased recruiting, said Tim Furman, president of the company.

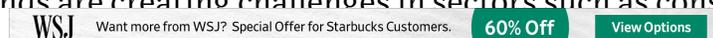
Regular hours are another selling point. “Our business is open Monday through Friday, from 9 a.m. to 5 p.m., which is extremely attractive to pharmacists and pharmacy technicians” who don’t want to work nights and weekends, Mr. Furman said.

When President Trump imposed tariffs on Chinese imports, Nu-Set Inc., a lock manufacturer and distributor in City of Industry, Calif., rethought its business model. Head count fell to 16 from a peak of 20 in 2018 as the family-run business dropped some lower-margin locks.

Shifting production to another country wasn’t an option, Nu-Set Chief Executive Caron Ng said, because the company’s locks are manufactured in a Chinese factory owned by her family. Manufacturing the locks in the U.S. is too costly, she added.

“Last year, there was a lot of uncertainty,” Ms. Ng said. With trade tensions easing, she said she is feeling more optimistic and hopes to hire as many as six new employees this year.

Changing customer demands are creating challenges in sectors such as construction. Jennifer



said it has gotten tougher to turn a profit as large clients add requirements, such as having one supervisor per job site.

Bigger companies “can throw more money at projects,” and can more easily wait 90 days for payment, said Ms. Jirsa, who now has 10 employees, down from 17 at the start of last year. She is moving away from bidding on jobs for large corporations and is instead looking to secure contracts from federal, state and local governments seeking to do business with women- and minority-owned businesses.

Some small companies are using software to drive efficiencies that keep head count down and allow the companies to remain competitive. North Carolina Trailer Sales Inc. invested in new software that costs \$15,000 a year to streamline bookkeeping and other administrative tasks.

The Thomasville, N.C., trailer dealership isn’t likely to add more workers until it is ready to open a new location, owner Johnny Shelton said, adding that 11 of the company’s 15 employees are squeezed into a 720-square-foot office.

“We want to make sure we are in a good, positive cash-flow situation,” Mr. Shelton said, and that “the economy is going to work with us.” He expects sales to be about the same this year as they were in 2019.

Other companies are taking advantage of a boom in service providers willing to handle functions such as human resources and marketing. Altraco, a contract manufacturer in Thousand Oaks, Calif., outsourced accounting in 2019 and this year plans to shift logistics and the creation of artwork and presentations to third parties.

Adding workers is particularly expensive in California because of the high cost of living and state laws and regulation, said Scott Williams, co-owner of Altraco, which has 16 employees, two fewer than a year ago. “Before we add people, we would look for an outsource opportunity because it’s cheaper,” Mr. Williams said. “It’s a global economy,” he added. “You have to be relentlessly pursuing efficiencies or you won’t survive.”

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