

figure comprising the numerator of this percentage is mostly composed of capitalization costs, overhead costs, materials costs, and the costs of goods sold or inventoried.) This percentage is then applied to average establishment receipts to arrive at nonpayroll costs per establishment (an establishment is a business entity operating at a single location). An industry with a significantly higher level of nonpayroll costs per establishment than that of the comparison group is likely to have higher start-up costs, which would tend to support a size standard higher than the anchor size standard. Conversely, if the industry showed significantly lower nonpayroll costs per establishment when compared to the comparison group, the anchor size standard would be considered the appropriate size standard.

4. "Industry competition" is assessed by measuring the proportion or share of industry receipts obtained by firms that are among the largest firms in an industry. In this final rule, the SBA compares the proportion of industry receipts generated by the four largest firms in the industry—generally referred to as the "four-firm concentration ratio"—with the average four-firm concentration ratio for industries in the comparison groups. If a significant proportion of economic activity within the industry is concentrated among a few relatively large producers, the SBA tends to set a size standard relatively higher than the anchor size standard in order to assist firms in a broader size range to compete with firms that are larger and more dominant in the industry. In general, however, the SBA does not consider this to be an important factor in assessing a size standard if the four-firm concentration ratio falls below 40% for an industry under review.

5. "Impact of a size standard revision on the SBA programs" refers to the possible impact a size standard change may have on the level of small business assistance. This assessment most often focuses on the proportion or share of Federal contract dollars awarded to small businesses in the industry in question. In general, the lower the share of Federal contract dollars awarded to small businesses in an industry which receives significant Federal contracting revenues, the greater is the justification

for a size standard higher than the existing one.

Another factor to evaluate the impact of a proposed size standard on the SBA's programs is the volume of guaranteed loans within an industry and the size of firms obtaining those loans. This factor is sometimes examined to assess whether the current size standard may be restricting the level of financial assistance to firms in that industry. If small businesses receive significant amounts of assistance through these programs, or if the financial assistance is provided mainly to small businesses much lower than the size standard, a change to the size standard (especially if it is already above the anchor size standard) may not be necessary.

*Evaluation of Industry Size Standard:* The SBA reviewed data on firms in two industry categories to evaluate a size standard for ITVARs. Most ITVARs operate either in the Computer Systems Design and Related Services industry group (NAICS 5415) or in the Computer and Computer Peripheral Equipment and Software Merchant Wholesalers industry (NAICS 423430, formally code 421430). Instead of equally combining the data from these two industries, the SBA adjusted the data by the proportion of sales of firms that provide both services and equipment. Data from the U.S. Bureau of the Census show that firms in the Computer Systems Design and Related Services industry that provide both services and equipment generate 23% of total industry receipts (see *Sources of Receipts or Revenue*, 1997 Economic Census, Professional, Scientific, and Technical Services, Subject Series, EC975545-LS, U.S. Bureau of the Census, August 2000). In the Computer and Computer Peripheral Equipment and Software Merchant Wholesalers industry, firms providing both equipment and services (service contracts, installing computers, and sales of integrated systems) generate 14% of total industry sales from these and all other activities (see *Commodity Line Sales*, 1997 Economic Census Wholesale Trade, Subject Series, EC97W425-LS, U.S. Bureau of the Census, August 2000). The results of combining the two industries are evaluated using the SBA's size standards methodology described above.

The SBA is aware of ITVAR data from private sector sources. The SBA considered these data but decided not to

use them for three reasons. First, it is unclear whether the private sector data collected include the receipts and employees of affiliates. Second, whether the data separately show the receipts and employees of all industry activities and from just ITVAR activities. These are key conceptual features of the Census Bureau data that the SBA relies upon to evaluate size standard. Without taking those factors into consideration, misleading data on firm size may be relied upon. Third, private sector data usually consist of a limited sample that tends to miss smaller sized firms. Given these uncertainties, the SBA decided to assess the Census Bureau data.

Tables 1 and 2 below show the structural characteristics for the derived ITVAR industry and for two size standards comparison groups. The first comparison group is comprised of all industries with a \$6 million receipts-based size standard, referred to as the "nonmanufacturing anchor group." A firm with \$6 million in receipt size in these industries has, on average, 65 employees. SBA assumes that this size standard is appropriate for a nonmanufacturing industry. This is the most logical set of industries to group to assess whether the anchor size standard is appropriate. The second comparison group consists of the nonmanufacturing industries with the highest receipt-based size standards established by the SBA. The SBA refers to this comparison group as the "nonmanufacturing higher-level size standard group." This group's size standards range from \$21 million to \$30 million. Firms within this size range average in size between 165 employees to 230 employees. If an industry's characteristics are significantly larger than those of the nonmanufacturing anchor group, the SBA will compare them to the characteristics of the higher-level size standards group. By doing so, the SBA can assess whether a size standard should be among the highest size standards or somewhere between the anchor size standard and the highest size standards.

*Industry Structure Considerations:* Table 1 lists three evaluation factors for the ITVAR industry and the two size standards comparison groups. These include two measures of average firm size and start-up costs (as measured by nonpayroll receipts per establishment), and the four-firm concentration ratio.