THE MEGAPHONE OF MAIN STREET:

REPORT ON AMERICA'S SMALL BUSINESSES

presented by

SCORE

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2017

Volume 1

TABLE OF CONTENTS

U.S. Small Business Administration

Funded in part through a Cooperative Agreement with the U.S. Small Business Administration.
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Executive Summary

SCORE is the nation's largest network of volunteer, expert business mentors, with approximately 10,000 volunteers in 300 chapters nationwide. Since its founding in 1964 as a resource partner of the U.S. Small Business Administration, SCORE has helped more than 10 million current and aspiring entrepreneurs through mentoring, workshops and educational services. In 2016 alone, SCORE helped to create 54,072 new businesses and add 78,691 new, non-owner jobs to the American economy.

Drawing from SCORE's large, diverse population of clients, this data report is the first in a series providing a snapshot of the current American small business landscape. While SCORE has collected this data annually for eight years, this is the first year that selected statistics will be shared with the general public.

This data report unveils statistically significant survey findings drawn from 18,000 respondents, enhancing existing available data on American small business ownership. The report goes beyond the small business data reported in the U.S. Census to provide new details on pre-start businesses, entrepreneurial sentiment and, most significantly, the impact of non-employer firms, start-ups and microbusinesses on job creation.

In presenting this new information, this report fills a gap in the existing research and helps cultivate a more accurate understanding of the true state of today's Main Street, USA. The data contained in this report also lays a foundation for future Megaphone of Main Street reports, which will delve deeper into specialized small business subtopics such as start-ups and small business financing.

Small businesses drive the American economy, both in their local communities and nationwide. In fact, one in two workers in the private workforce run or work for a small business, and one in four individuals in the total U.S. population are part of the small business community.[1] For this reason, the results of this data report are meaningful not only to the American small business community, but also to the nation as a whole.

1 - *http://sbecouncil.org/about-us/facts-and-data/, n.d.*

What Makes This Report Different?

Inclusion of Pre-Start and Start-Up Businesses

Census data and surveys typically do not collect data on entrepreneurs in the earlier pre-start or start-up stages of business. While these budding entrepreneurs may not yet generate revenue or employment, they nonetheless represent an important first step toward business creation and, ultimately, job production and economic growth. Jobs created by new businesses have been in decline since the 1990's[2]. Exploring the size and needs of this group will provide key insights into what it takes for startups to become thriving businesses.

SCORE serves its clients "for the life of (their) business," beginning with the initial conception and progressing through the first critical year in starting up the business. This help continues as the business continues to grow and thrive, and even on through the final transition, when the business is sold or closed.

Because this report is based on a survey of SCORE clients, it accordingly includes data reflecting entrepreneurs at all stages of the business life cycle, including pre-start, start-up and in business.

Survey Responses by Stage of the Business Life Cycle

Business Life Stage*	% of respondents	% of total
Pre-start or in transition	7614	41.2%
Start-up (first year)	5138	27.8%
In business	5712	30.9%

** See Methodology for definition of Business Life Stage.*

Inclusion of the New Freelance Economy

This report contains full-time employment numbers for small businesses, but also includes owner-reported numbers surrounding part-time workers and independent contractors – data categories frequently unexplored in comparable surveys. The large numbers of part-time employees and contractors that survey respondents reported hiring illustrate the importance and impact of the new freelance economy.

Inclusion of Sentiment

Going beyond demographic information and revenue generated, SCORE asked entrepreneurs at each stage of a business life cycle: What do you need? And where do you turn for help? The results reveal what matters to small business owners in all stages of the business life cycle.

2 - *https://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm*

Key Findings

Answers collected from 18,000+ SCORE clients from all 50 U.S. states, plus Washington, D.C., representing various sized small businesses in a broad coverage of industries.

Shared Concerns and Sources of Information

- At all stages of the business life cycle, entrepreneurs were most concerned with marketing and sales, including finding new customers (27.3 % of pre-starts, 48.1% of start-ups and 49.6% of existing businesses).
- Other business owners and peers were the primary source of information and advice for small business owners in all stages of the business life cycle, with 40.3% of pre-starts, 50.6% of start-ups, and 58.4% of existing businesses, reporting that they rely most on these sources. With start-ups, this reliance on peer information was nearly double the rate of the second most popular source of information (Internet search). With existing businesses, this was more than double (2.8 times) the rate of Internet search.

Start-Ups: Jobs Created by Non-employer Firms, Part-Time Workers and Independent Contractors

- 76% (some 14,200 respondents to this study) were non-employer firms or at early stages of start-up, and therefore are not all counted in traditional employment statistics.
- 46% of start-ups reported hiring one or more part-time employees and independent contractors, for an average of 3.2 jobs.
- Only 14% of start-ups obtained financing. Within that 14% that successfully obtained funding, 81% of businesses secured loans and 27% financed via equity raised from investors.
- Start-up growth projections were polarized: 40% of start-ups did not expect growth in the next year, while 35% expected increases in revenue of 50% or more.

Existing Businesses: Microbusinesses Overcome the Odds

- When including part-time employees and independent contractors in calculations, microbusinesses (0-4 employees) contributed the most jobs and hired more new workers in FY 2016, in comparison to small businesses with more than five employees.
- 65% of microbusinesses reported that they thought their companies would be struggling or stagnating in the next year, while 54% of other businesses (>4 employees) anticipated growth in the upcoming year.
- Only 15% of existing businesses obtained financing. Within that 15% that obtained financing, more than 80% of the financing came from SBA loans and other loans.

Introduction to Methodology

SCORE's 2017 SCORE Megaphone of Main Street Report is drawn from data collected through SCORE's eighth annual Client Engagement Survey, conducted by PricewaterhouseCoopers. This survey was issued online to 163,361 SCORE clients from Oct. 31 to Dec. 9, 2016 and covered FY 2016 data (Oct. 1, 2015 – Sept. 30, 2016). There was an 11% response rate from a mix of pre-start, start-up and existing small business owners. In states where sample sizes were below 30 respondents, telephone interviews supplemented the online survey data.

SCORE's annual client survey is a large representation of the U.S. entrepreneurial market. It offers the following measures of validity:

- **Large sample size:** Answers collected from 18,000+ SCORE clients
- **Geographic representation:** Samples collected from all 50 U.S. states plus Washington, D.C.
- **Representative of various sized small businesses:** With especially large samples (N=9942) of micro-businesses (or businesses with 0-4 employees, not including the owner).
- **Broad coverage of industries**
- **Diverse** set of entrepreneurial backgrounds and education
- **Consistency:** Respondent demographics have remained consistent over the past eight years.

Pre-Start Businesses:

In this report, pre-start businesses were defined as non-operational in FY 2016. This category also included businesses that had not begun operations to date, because they were still in the idea phase or those that were still looking to complete licensing, funding partnership agreements, etc.

Critical Services

In this pre-start stage of the business life cycle, potential entrepreneurs identified the following services as most critical to their business's success. There was a fairly even distribution (roughly 25% each) between the three most significant areas of concern: finding financial assistance, finding customers (sales and marketing) and general operations.

Which of the following services are most critical to your business' success?

	# of respondents	% of total
Marketing & sales (finding customers)	1663	27.3
Finding financial assistance	1644	27.0
General operations	1523	25.0
Legal advice	551	9.0
Managing day-to-day finances	455	7.5
Valuating and choosing technologies	163	2.7
Finding and retaining employees	71	1.2
Payroll & benefits	29	0.5
Total	**6099**	

Sources of Information

40.3% of pre-start business owners relied on the advice of other businesses owners or peers compared to other sources of advice. Search engine research followed at 33.5%, with online educational sources lagging far behind.

Which of the following do you primarily go to for answers to your business questions?

	# of respondents	% of total
Other business owners/peers	2609	40.3
Internet search	2166	33.5
Friends or family	706	10.9
Books	344	5.3
School/online courses	317	4.9
YouTube	131	2.0
Social media	98	1.5
Podcast	50	0.8
Blogs	53	0.8
Total	**6474**	

Start-Up Businesses:

In this report, start-ups were defined as businesses that were started or acquired in FY 2016 (Oct. 1, 2015 – Sept. 30, 2016) and which were still in current operation at the conclusion of FY 2016.

Growth Prospects

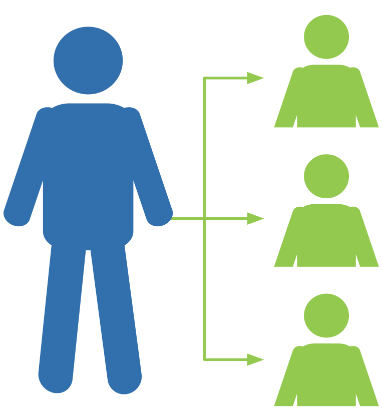
New business owners proved to be either tentative or bullish about their growth prospects, submitting polarized responses to growth projections. 40.3% predicted no growth at all, while 34.6% predicted greater than 50% growth.

Will your business experience an increase in revenue in 2016?

	# of respondents	% of total
No growth	1679	40.3
Less than 20% growth	612	14.7
21-50% growth	429	10.3
Greater than 50% growth	1439	34.6
Total	**4159**	

Jobs Created

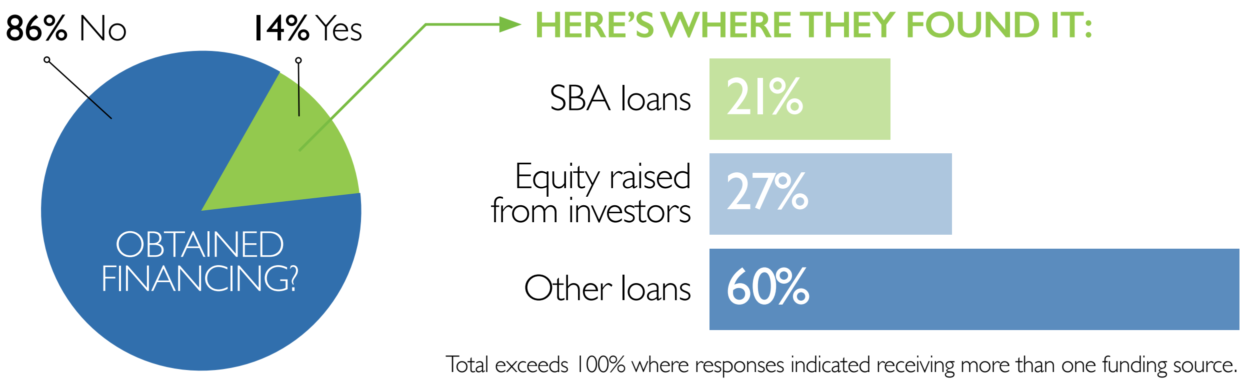
This study is unique in including part-time employees and independent contractors in job calculations. In doing so, it demonstrates how start-ups make a greater impact on employment than suggested by employment calculations that only count full-time jobs. For example, 76% of start-up respondents in this study identified themselves as non-employer firms or having no full-time employees (not including the owner), but 46% of start-ups in this study report hiring one or more part-time employees or independent contractors, for a total of 3.2 workers per firm.



46% OF START-UPS HIRED, EACH CREATING, ON AVERAGE, WORK FOR 3 PEOPLE

Financing

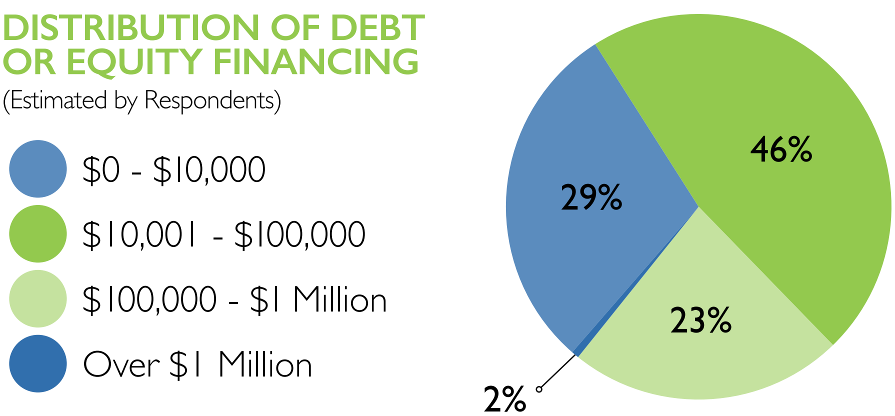
Of the start-ups surveyed, 86% did not obtain loans or equity financing, while 14% had obtained funding in FY 2016.



Total exceeds 100% where responses indicated receiving more than one funding source.

DISTRIBUTION OF DEBT OR EQUITY FINANCING

(Estimated by Respondents)



Resources Needed

In their first year of operation, start-up owners reported that marketing and sales services were most critical to their respective business' success, with nearly half (48.1%) seeking help with marketing and sales. Following this, 20.6% were concerned with general operations such as learning opportunities and business support.

Which of the following services are most critical to your business' success?

	# of respondents	% of total
Marketing & sales (finding customers)	2170	48.1
General operations	929	20.6
Finding financial assistance	544	12.0
Managing day-to-day finances	406	9.0
Legal advice	260	5.8
Valuating and choosing technologies	86	1.9
Finding and retaining employees	88	1.9
Payroll & benefits	33	0.7
Total	**4516**	

Sources of Information

More than half (50.6%) of start-up owners relied most heavily on the advice of other businesses owners or peers compared to other sources of advice. Search engine research followed at 25.8%, with online education and the advice of friends and family following even further behind, at just over 11% each.

Which of the following do you primarily go to for answers to your business questions?

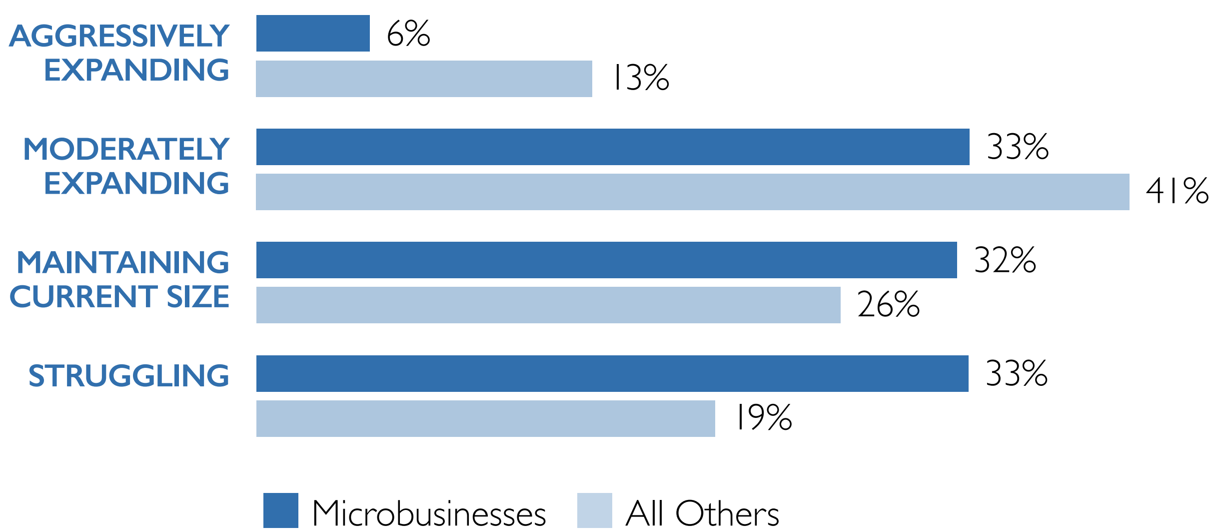
	# of respondents	% of total
Other business owners or peers	2283	50.6
Internet search	1164	25.8
Friends or family	508	11.3
Education (YouTube, Podcast, Blogs, Books, School/online courses)	497	11.0
Social media	58	1.3
Total	**4510**	

Existing Small Businesses

In this report, existing business respondents were defined as businesses that were started or acquired prior to FY 2016 (before Sept. 30, 2015) and which were still in current operation at the conclusion of FY 2016.

Growth Projections – Micro Businesses are Struggling

While the majority of existing business respondents reported growth in 2016, 65% of microbusinesses (0-4 employees) reported hat their business had struggled to grow in FY 2016 or had maintained its current size. Microbusinesses were half as likely to be aggressively expanding, and were 50% more likely to consider themselves struggling, compared to the other businesses in this study.

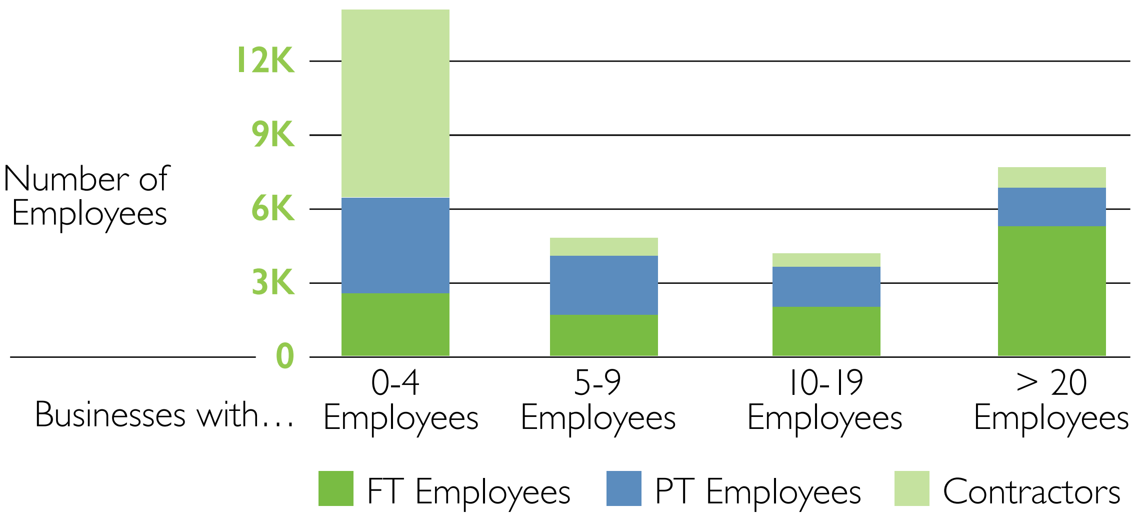


Jobs Created

Looking solely at full-time jobs created misses the full impact that existing small businesses have on employment economics. Analysis of part-time and independent contractor jobs created reveals that microbusinesses (0-4 employees) actually created more jobs than small businesses with more than five employees.

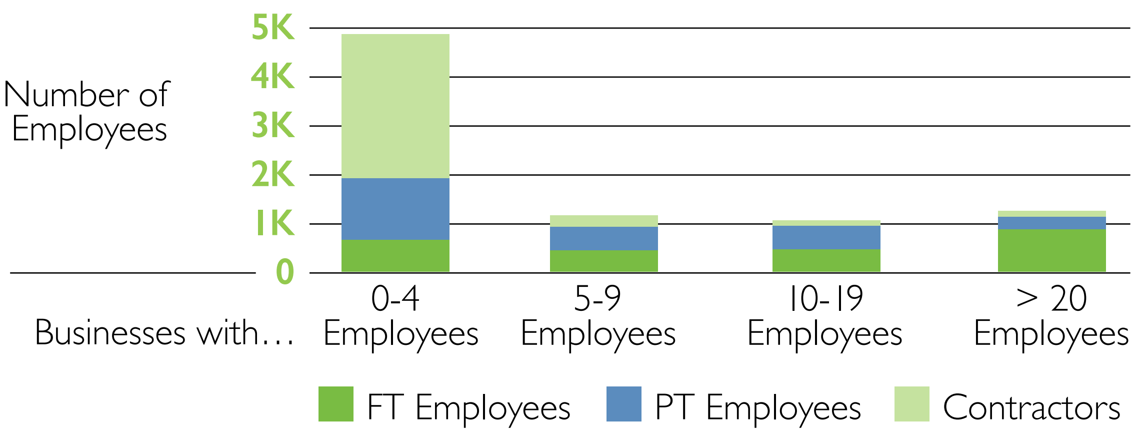
This is a particularly meaningful number considering that microbusinesses were also more likely to report they were struggling, in comparison to small businesses with more than four employees.

NOT INCLUDING YOURSELF, HOW MANY PEOPLE DID YOU EMPLOY IN 2016?



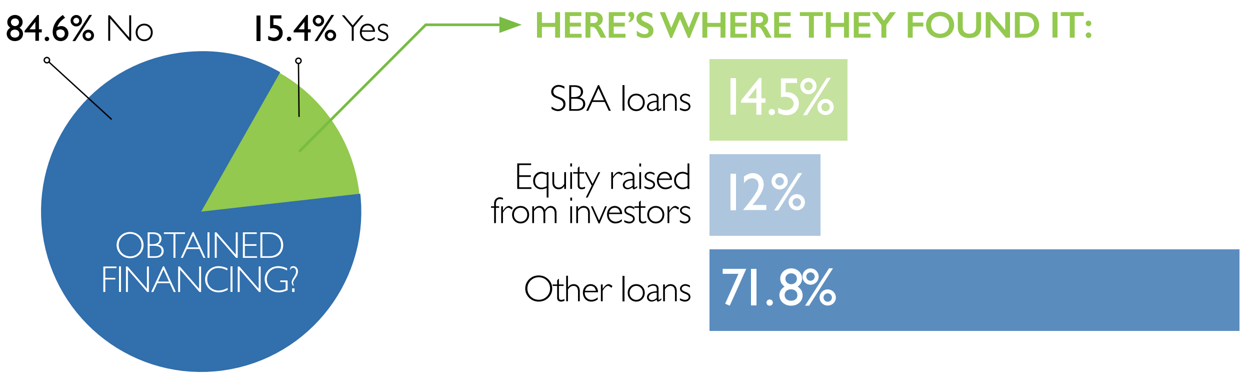
This same trend occurs when assessing growth projections of new hires, with microbusiness owners projecting more hires overall for the coming year than small businesses with more than four employees.

HOW MANY PEOPLE WILL YOU HIRE IN 2016?



Financing

Just as the majority of start-ups reported that they had not obtained financing, most existing small businesses similarly reported that they had not obtained loans or equity financing. However, those existing businesses that did receive funding were more likely than start-ups to obtain loans in FY 2016.



Concerns

Similar to start-ups, nearly half (49.6%) of existing small businesses were most concerned with finding new customers and with marketing and sales.

Which of the following services are most critical to your business' success?

	# of respondents	% of total
Marketing & sales (finding customers)	2446	49.6
General operations	919	18.6
Managing day-to-day finances	552	11.2
Finding financial assistance	533	10.8
Finding and retaining employees	209	4.2
Legal advice	164	3.3
Valuating and choosing technologies	75	1.5
Payroll & benefits	30	0.6
Total	**4928**	

Sources of Information

Owner respondents rely heavily on the advice of other businesses owners or peers (58.4%), compared to other sources of advice. Search engine research followed behind at 20.8%, while online education and the advice of friends and family lagged even further behind.

Which of the following do you primarily go to for answers to your business questions?

	# of respondents	% of total
Other business owners or peers	2866	58.4
Internet search	1022	20.8
Friends or family	516	10.5
Education (YouTube, Podcast, Blogs, Books, School/online courses)	455	9.4
Social media	51	1
Total	**4910**	

Methodology and Demographics – The Faces of Main Steet, USA

Methodology

- SCORE's 2017 SCORE Megaphone of Main Street Report is drawn from data collected during SCORE's eighth annual Client Engagement Survey, issued by PricewaterhouseCoopers.
- This survey was issued online to 163,361 SCORE clients from Oct. 31 – Dec. 9, 2016 and gathered information for FY 2016 (Oct. 1, 2015 – Sept. 30, 2016).
- The survey drew an 11% response rate of 18,464 responses from a mix of pre-start, start-up and existing small-business owners.
- Following the online fielding period, 450 SCORE clients were targeted for phone follow-up from Dec. 12 – Jan. 6, 2017 in order to fill state quotas of a minimum of 30 respondents.

Defining Pre-Start, Start-Up Businesses and Existing Businesses

Respondents were grouped into the following stage of business using responses to the following questions:

	Did you start or acquire a business in the last year (i.e. since Oct 1, 2015)?	Are you currently operating this business?	# of respondents
Pre-start or in transition	No	No	7614
Start-up	Yes	Yes	5138
In Business	No	Yes	5712

Demographics

Overall respondents were 58% women and 42% men. This shows a larger proportion of women as compared to the overall U.S. population.[3]

SCORE survey respondents

Overall U.S. population

Demographics results for Industry, Gender, Age, Education, and Race have been consistent +/- 2% over the past 3 years (2014, 2015, 2016) SCORE has been conducting the survey.

Race	Pre-start/ transition		Start-up		Existing		Survey Total	2015 Census[3]
White	3900	51.2%	3086	60.1%	3826	67.0%	65%	61.6%
Black or African American	1673	22%	892	17.4%	671	11.7%	19%	13.3%
Of Hispanic origin or descent (such as Mexican, Puerto Rican, Cuban, or other Spanish background)	547	7.2%	337	6.6%	311	5.4%	7%	17.6%
American Indian or Alaska Native	138	1.8%	102	2%	70	1.2%	2%	1.2%
Asian	324	4.3%	193	3.8%	194	3.4%	4%	5.6%
Native Hawaiian or other Pacific Islander	38	.5%	34	.7%	21	.4%	1%	0.2%
Other	168	2.2%	78	1.5%	84	1.5%	2%	
Total	**7614**		**5138**		**5712**			

3 - *Census Data V2015, https://www.census.gov/quickfacts/table/PST045216/00*

Age	Pre-start/ transition		Start-up		In Business		Survey Total	2015 Census[3]
18 to 24	163	2.4%	81	1.7%	28	0.5%	2%	12.6%
25 to 34	524	4.6%	847	17.9%	506	9.6%	15%	17.8%
35 to 44	1160	16.9%	1145	24.2%	1012	19.3%	22%	16.4%
45 to 54	1555	22.7%	1319	27.8%	1456	27.8%	28%	17.4%
55 to 64	1830	26.7%	1030	21.7%	1548	29.5%	24%	16.5%
65 to74	1536	22.4%	289	6.1%	605	11.5%	8%	11.1%
75 or older	92	1.3%	29	0.6%	91	1.7%	1%	8.2%
Total	**6860**		**4740**		**5246**			

Overall, 71% of respondents were college graduates and 29% had high school diplomas with some college and vocational training. The distribution is consistent across all three stages of entrepreneurship.

Education	Pre-start/ transition		Start-up		In Business	
No high school diploma	32	0.4%	36	0.8%	23	0.4%
High school graduate/GED	299	4.1%	157	3.3%	220	4.2%
Some college	1320	17.9%	765	16.1%	879	16.8%
Trade/Technical/Vocational training	445	6.0%	270	5.7%	336	6.4%
College graduate	2329	31.6%	1634	34.4%	1792	34.2%
Some post-graduate work	532	7.2%	376	7.9%	471	9.0%
Post-graduate degree	1798	24.4%	1466	30.8%	1520	29.0%
Total	**7380**		**4754**		**5241**	

Industry

Distribution among industries was also consistent, with the majority of start-ups and existing business entrepreneurs operating in the Professional Services and Sales sectors[4]. As seen in the table below, this mix was largely consistent with the U.S. Census data distribution for firms with less than 20 employees (updated Feb 9, 2015).

	Start-up		In Business		Overall Survey Results	Census Data (Firms < 20 employees)
Professional Services (Accounting, Real Estate, Insurance, Medical, Legal, Architectural, Education, Management Consulting, etc.)	1793	35.6%	1926	34.3%	35%	41.1%
Sales (Retail, Wholesale, etc.)	973	19.3%	964	17.2%	18%	16.8%
Technology/Information Systems/ Telecommunications	335	6.6%	303	5.4%	6%	1.2%
Hospitality Services (Restaurants, Lodging, Event Planning, Tourism, etc.)	375	7.4%	325	5.8%	7%	7.7%
Skilled Trade Services (Plumbing, Electrical, Roofing, Welding, etc.)	261	5.2%	526	9.4%	7%	11.6%
Manufacturing/Engineering	211	4.2%	440	7.8%	6%	3.8%
Agriculture/Farming/Ranching	62	1.2%	81	1.4%	2%	0.4%
Transportation Services Freight, Shipping, Warehousing etc.)	88	1.7%	87	1.5%	1%	2.9%
Not applicable	944	18.7%	965	17.2%	18%	
Total	**5042**		**5617**			

4 - *https://www.sba.gov/advocacy/firm-size-data*

Conclusion

Small businesses touch the lives of every American and drive the United States economy. One in four individuals in the U.S. is part of the small-business community, with one in two workers in the private U.S. workforce running or working for a small business. Small employers comprise 99.7 percent of all employer firms in the U.S.

In addition to significant findings on the employment impact of start-ups and microbusinesses, this study provides additional value to the small business community by suggesting several previously unexplored areas that will benefit from future research in upcoming SCORE Megaphone of Main Street reports.

The data presented in this report indicates that part-time employees and independent contractors are a crucial component of the full picture of U.S. job growth and employment, which has previously been overlooked in comparable studies. When including part-time positions and independent contracts, microbusinesses contribute more total jobs to the economy than other types of small businesses, with strong hiring projections. Further studies with more robust data on this new, fluid workforce are needed.

Future reports in this series will also explore the topic of small business financing. In this survey, 86% of start-ups and 85% of existing businesses reported not obtaining loans or equity financing, but we do not yet have information on whether these businesses sought financing and were unsuccessful, or whether they simply utilized other sources of capital. These statistics suggest that future SCORE reports should explore where these entrepreneurs are getting the capital to run their small businesses, among other compelling finance-related questions.

Marketers and educators targeting American entrepreneurs may be interested to learn what sources they are currently relying on for answers to their business questions. At all stages of the small business life cycle (40.3% of pre-starts, 50.6% of start-ups, and 58.4% of existing businesses), the primary source of information is other business owners or peers, more than any other source of information. In the case of start-ups, this is nearly double the rate of the next most popular source of information (Internet search); and, in the case of existing businesses, it is well more than double the rate of Internet search.

This report is the first in a series called The Megaphone of Main Street. Stay tuned for subsequent reports.

SCORE is the voice of America's small businesses, with business experts and small business owners available to provide interviews and background information. Please contact SCORE's media office for inquiries at media@score.org.