

THE MEGAPHONE OF MAIN STREET: SMALL BUSINESS JOBS REPORT

Small Businesses and Employment

FALL 2017

presented by
SCORE 



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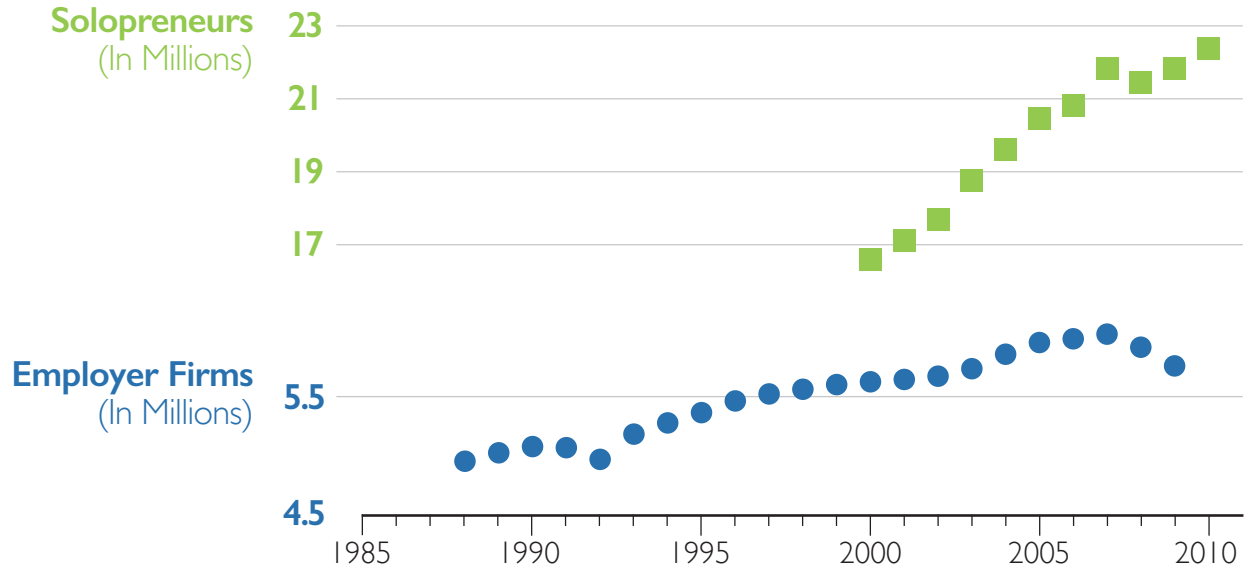


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Executive Summary

Small businesses employ almost half of all workers in the United States and, through hiring, have been responsible for much of the economic recovery since the 2008 recession.¹ Over the past year, hiring activity has been on an upward trend for small businesses, with plans to add workers hitting the highest level since 1999.² Interestingly, there is a growing shift in the types of jobs generated by small businesses. While the number of firms that employ full-time workers has remained relatively flat, non-employer businesses (also called “solopreneurs”) have been increasing. There has also been a marked increase in the “gig economy,” which describes the use of contractors and part-time workers to fill roles within businesses.



Source: U.S. Census Bureau, SUAB and Nonemployer Statistics.³

This latest installment of the Megaphone of Main Street is the second in a data report series providing a snapshot of the current American small business landscape. This particular report delves into the story behind the changing face of U.S. small business hiring and employment, sourcing both qualitative and quantitative data directly from 1,736 small business owners across the nation.

SCORE conducted this research via an online survey administered to its small business clients between Sept. 21 and Oct. 9, 2017. All respondents successfully passed screening questions identifying themselves as small business owners, with results analyzed according to a business' size, area of industry and location, as well as the owner's age and gender.

Among the small business owners who responded, the average business had been operating for 8.5 years, with 77 % of respondents reporting annual sales receipts under \$500,000. These and other more detailed statistics mentioned later in this report indicate that this survey's respondents represent America's true small business owners, and the faces of Main Street, USA.

1 - https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf
2 - <https://www.wsj.com/articles/small-business-hiring-rises-in-july-1501770668>
3 - Figure 1, https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf

Part I, entitled Small Businesses and Employment, explores small business hiring, including where small business owners are finding qualified workers, and the specific challenges they face in filling open positions. More than half of small business owners found it difficult to fill their hiring needs in the past six months, with more than a quarter stating they were unable to fill job openings.

Part II, The Impact of the “Gig” Economy, delves into the employment of part-time and full-time workers who help to run a business, as well as the owner’s motivation for choosing one type of worker over another. While the small businesses surveyed were increasing hiring across the board, the greatest growth was found in gig-economy positions.

Part III, Small Business Owner Sentiments Are Overwhelmingly Positive, shows that today’s entrepreneurs are firmly optimistic, despite a few marked areas of concern around policies that favor large businesses, and difficulties finding qualified workers and providing them with desirable salaries and healthcare benefits.

This report goes beyond existing studies of small business employment in several key ways. First, it polls solopreneurs and contractors, recognizing their significant impact on employing other workers beside themselves. Next, this report analyzes several key data points according to business demographics for each respondent (micro-business versus regular small business, rural versus urban location), as well as demographics related to the small business owner his/herself (age, ethnicity). Finally, this report delves into more in-depth questions about the hiring process, such as what methods small businesses are successfully using to find qualified workers, and their top reasons for hiring an employee or contractor.

Small businesses drive the American economy, both in their local communities and nationwide. With one in two workers in the private workforce running or working for a small business, these survey results illustrate emerging hiring trends that have wide-reaching national impact.

About SCORE

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, full-time, non-owner jobs to the American economy.

Key Findings

PART I: Small Businesses and Employment

Hiring is Becoming More Challenging:

- More than half (55.5%) of small business owners said it was more difficult to fill their hiring needs in the past six months than it had been previously.
- 27.3% of small business owners surveyed said they had job openings in the past six months that they could not fill.
- 51.3% of business owners cited an inability to find qualified applicants as their greatest hiring challenge.

Personal Referrals Help Find Qualified Workers

- By far, business owners reported having the greatest success hiring through personal referrals, with 19% relying on personal referrals from workers and 17% relying on referrals from other business owners during the hiring process. Most importantly, 41%-53% of those business owners who used personal referrals reported successfully hiring someone.

PART II: The Impact of the “Gig” Economy

The Gig Economy Is on the Rise

- Business owners reported a 37% increase in hiring gig workers over the past six months, compared to increases of 13% for full-time employees, 22% for part-time employees, and 12% for part-time independent contractors.
- 19.8% of businesses surveyed reported replacing employees (of any type) with contractors over the past six months.
- 47% of non-employer/solopreneur firms reported hiring other people part-time to help run the business, for an average of 3.2 workers, including the owner.
- Top reasons to hire an employee included consistency of work (57%) and commitment to the company, vision and brand (53%). Contractors were considered preferable to employees for specialized knowledge (50.8%) or temporary needs (41%).

PART III: Small Business Owner Sentiments Are Overwhelmingly Positive

- 69% of all small business owners are optimistic about their growth over the next six months.
- 82% of millennial business owners (younger than age 35) reported feeling very or somewhat optimistic about their growth over the next six months.

Future Concerns

- As a whole business owners were most concerned about policies that favor large businesses negatively impacting their growth outlook (48%), although fewer millennials worried about this (26%).
 - Above any other issue, millennial business owners were most concerned about the ability to find and keep qualified workers (41%).
-

Comments from Respondents:

“Quality employees are hard to find.”

“I could hire a lot of reasonably qualified people, but I’m not even making minimum wage myself. How can I possibly hire someone and pay them three times what I make without any benefits?”

“As far as employees are concerned, turnover has been my biggest issue. I can’t afford to pay what large companies pay, so I offer work from home positions and they can complete the work when they have time to provide some benefits.”

Small Businesses and Employment

Small businesses employ almost half of all workers in the United States, but this survey questioned whether that same impact was felt when considering small businesses of different sizes and differing locations across the country. For this reason, data was subdivided and further analyzed according to business location (rural versus urban) and business size (micro-businesses of 0-4 employees versus small businesses with 5+ employees).

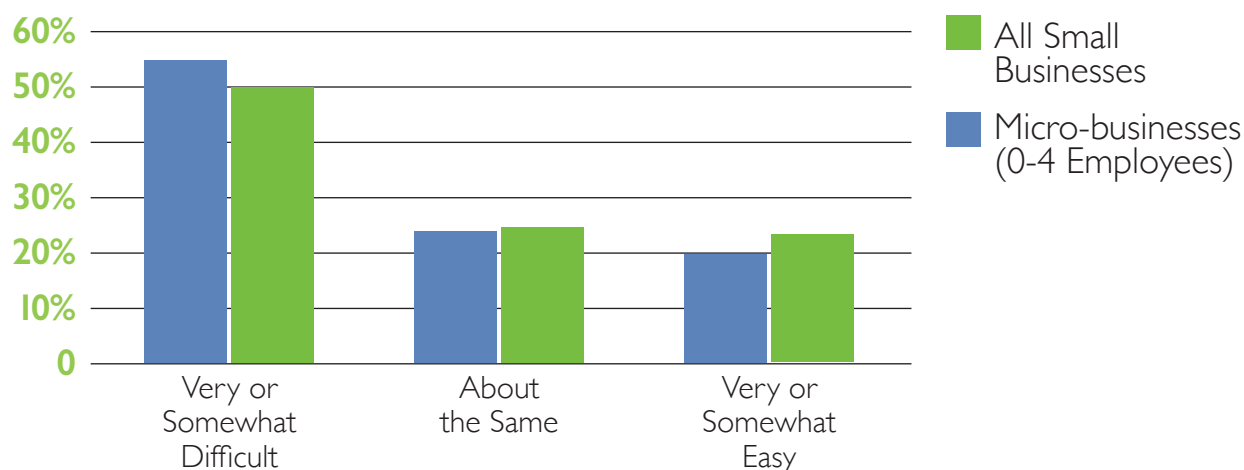
It should be noted that the vast majority (92%) of business owners who responded to the survey were located in urban areas, with only 8% located in rural or mostly rural areas. This demographic distribution is similar to outside research indicating that urban entrepreneurs vastly outweigh rural entrepreneurs at a rate of 6:1.⁴

All businesses reported a similar overall struggle to adequately fill their hiring needs, although slightly fewer micro-business owners attributed that to rising demand for higher salaries (22.1%, compared to 26.2% of all small business owners) and fewer micro-business owners reported an inability to find qualified applicants (43.4%, compared to 51.3% of all business owners). There was no significant difference found between rural and urban business owners.

Hiring is Becoming More Challenging

More than half (55.5%) of small business owners said it was more difficult to fill their hiring needs in the past six months than it had been previously. Further analysis of the data showed that this 55% remained consistent across businesses of all sizes, in both rural and urban locations.

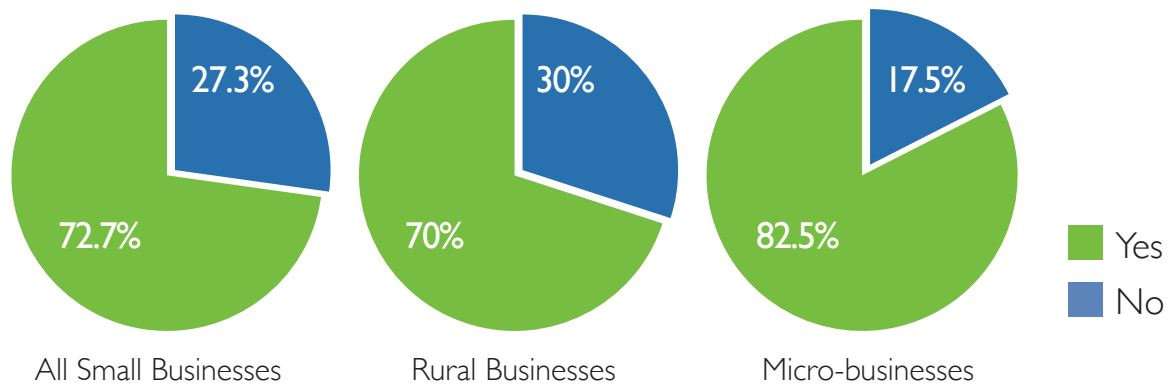
In the past 6 months, rate the difficulty in filling your hiring needs:



4 - <https://www.sba.gov/sites/default/files/advocacy/Retreat-Rural-Entrepreneur.pdf>

27.3% of all small business owners surveyed said they had job openings in the past six months that they could not fill. This was consistent across different small business sizes and locations with two exceptions: 1) Slightly more (30%) of rural businesses were unable to fill job openings, and fewer micro-businesses (17.5%) reported that they had jobs they were not able to fill.

Could you fill all the job openings you had in the past six months?



What specific issues are making hiring so difficult right now?

By far, the greatest concern reported (51.3%) by business owners was an inability to find qualified applicants. Next, business owners reported that employees had rising demand for higher salaries (26.2%) and for healthcare benefits (21.9%) that business owners could not provide.

Concern	Small Businesses	Micro-businesses
	Percent	Percent
Cannot find qualified applicants (skills/expertise)	51.3	43.4
Need to raise salary/wages to be competitive	26.2	22.1
Do not offer healthcare benefits	21.9	21.4
Time consuming to hire qualified workers	18.2	17.9
Need to offer other benefits (apart from healthcare) to attract workers	12.9	12.4
Candidates did not pass drug-testing requirements	8.9	6.9
Company location not desirable to candidates	6.6	6.2

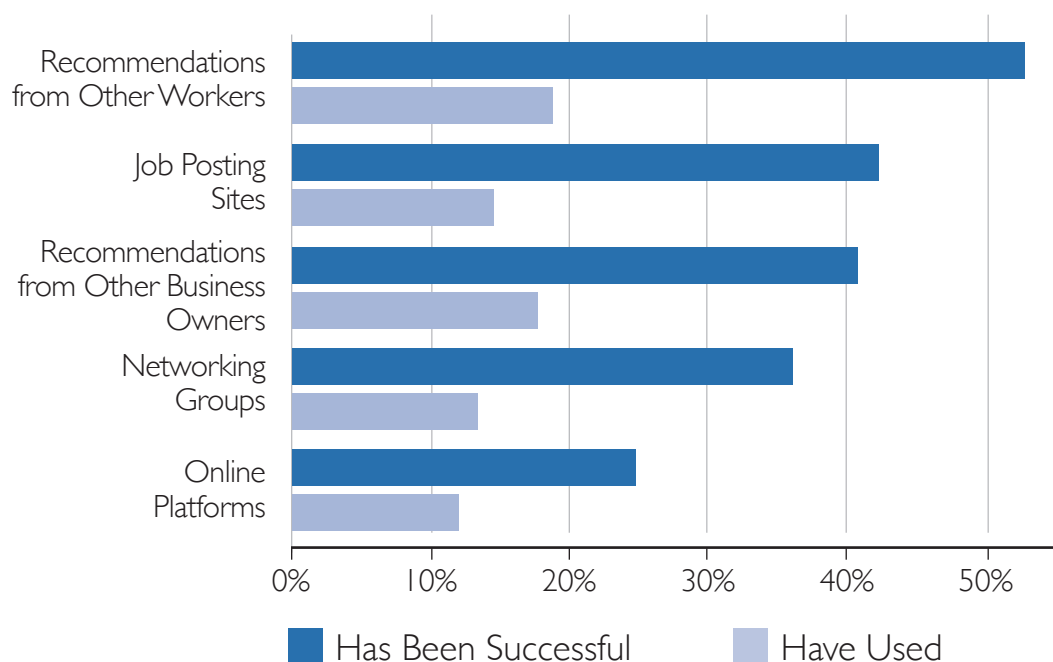
Hiring Tools

Business owners reported utilizing a variety of sources in their search for qualified workers, including personal recommendations from other business owners and workers, job posting websites, networking groups and other online platforms.

By far, business owners reported finding the greatest success through personal referrals. 19% used personal referrals from workers, with 53% of those who used this method successfully finding a new hire. 17% used referrals from other business owners, with 41% of them subsequently hiring someone.

Following personal referrals, the next most popular choice was job posting sites, with 15% of business owners trying them, and 43% of those who tried it successfully finding a worker this way.

Where did you look for workers? Where were you successful in finding them?



Comments from Respondents:

“I am actually experimenting with my business in that I am trying to only use contractors/freelancers. So far I haven’t had any issues with this approach.”

“For years I was in a Catch-22 situation: I couldn’t grow without help, and without growth I couldn’t afford help. An independent contractor was the perfect solution.”

“If a contractor fails, you can cut them loose. If an employee fails, you’re stuck with the costs of training, the risks of training locally (competition), salaries, infrastructure and more. I need assistance, but I will not go the employee route again.”

The Impact of the “Gig” Economy

Much has been written in the press about the rise of the gig economy, a term used to describe the rise of part-time workers and contractors who are hired to help with business operations and services.⁵ Of those small businesses in this survey that had employees, 19.8% reported replacing employees (of any type) with contractors over the past six months, which points towards a growing trend of replacing full-time workers with part-time or temporary workers.

A 2015 report by the U.S. Government Accountability Office estimated a “contingent workforce” of 40.4% in 2010, growing from an estimated 35.3% in 2006.⁶ Updated numbers are expected this year, with all signs pointing to even greater numbers of part-time and self-employed workers.

When asked who helps them with running their business, many business owners (including solopreneurs) reported hiring additional contractors, freelancers and temporary help.

Solopreneurs Positively Impact Employment

Of particular note is that 47% of non-employer/solopreneur firms reported hiring other people to help run the business, for an average of 3.2 workers, including the owner. According to the U.S. Census, non-employer firms are defined as “small, unincorporated businesses, which may or may not be the owner’s principal source of income” and have no paid full-time employees.⁷ However, these statistics show that nearly half of these businesses are employing part-time workers or contractors. This is consistent with findings in the first Megaphone of Main Street data report, published in May 2017.⁸

Hiring Is on the Rise, but Especially for Gig Workers

In assessing hiring trends, business owners (including solopreneurs) reported an increase in hiring in all categories of workers over the past six months. Hiring increased for full-time employees (13%), part-time employees (22%), part-time independent contractors (12%), and temporary help provided by agencies or contract firms (3%), but the greatest growth was in one-time project or gig workers (37%).

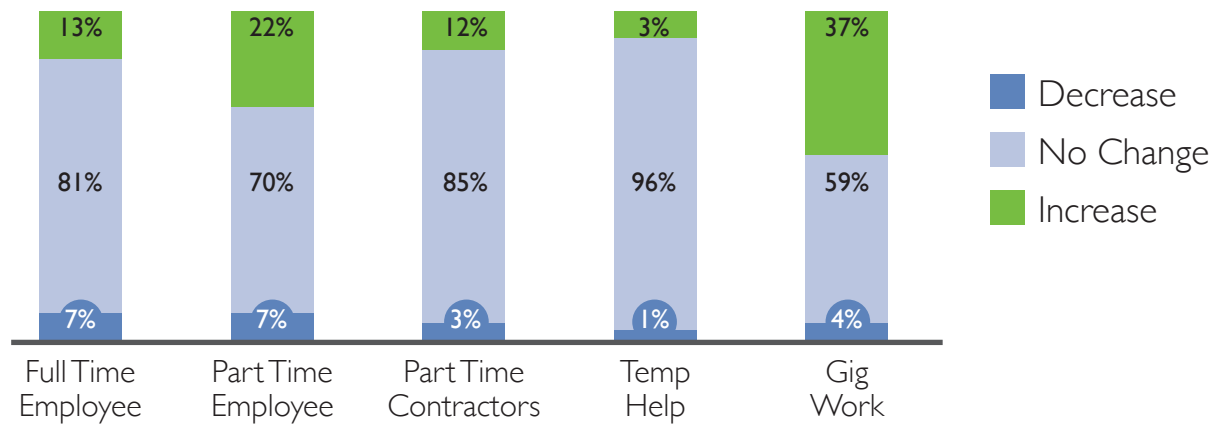
5 - <https://www.bls.gov/careeroutlook/2016/article/what-is-the-gig-economy.htm>

6 - <http://www.gao.gov/assets/670/669899.pdf>

7 - <https://www.census.gov/epcd/nonemployer/view/define.html>

8 - https://s3.amazonaws.com/mentoring.redesign/s3fs-public/Megaphone-main-street-volume-1-data-report-Apr-2017_0.pdf

During the last 6 months, did the total number of contractors in your firm increase, decrease, or stay the same?



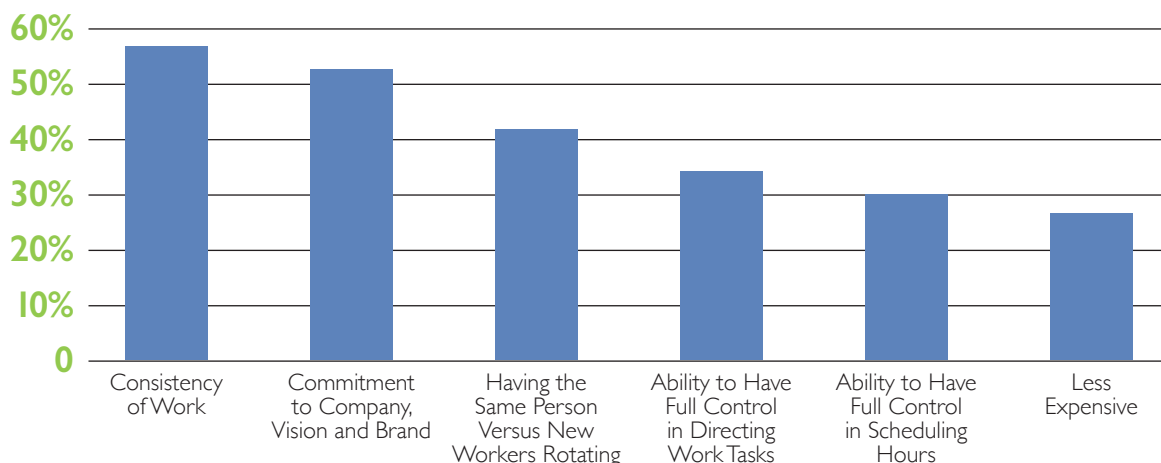
Hiring Decision: Employee versus Contractor

When considering the makeup of their staff, business owners must weigh the advantages and disadvantages of hiring an employee versus a contractor.

Hiring an Employee

In this survey, business owners reported that their top reasons to hire an employee included consistency of work (57%), followed by a full-time worker's commitment to the company, including its vision and brand (53%).

What has an impact on your decision to hire an employee versus a contractor or temporary worker? (Check all that apply)



IRS Concerns Play a Role, Too

While some business owners saw hiring an employee as “The right thing to do,” others worried about Internal Revenue Service (IRS) regulations in deciding whether to hire a contractor or an employee:

“Fear of the IRS coming in and saying that all along my contractors were employees.”

“The increase in paperwork, bookkeeping and the stress of performing for the IRS is nearly impossible to bear.”

Hiring a Contractor

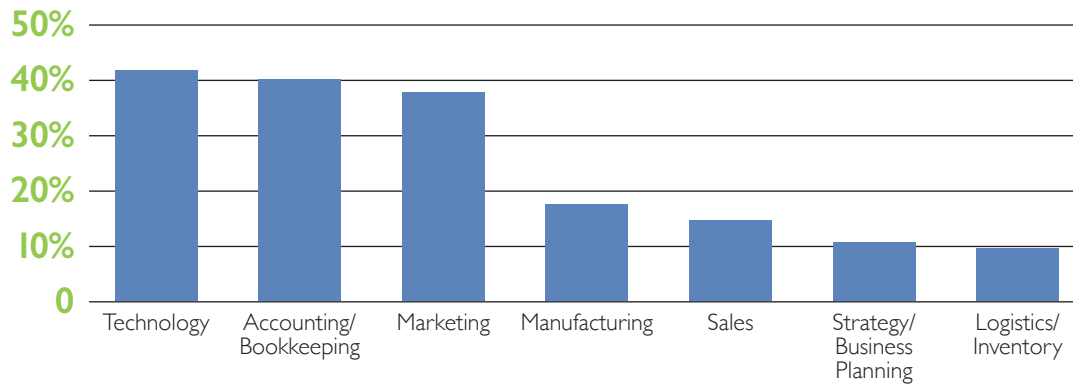
In contrast, there were certain business needs better filled by a contractor than an employee. The top reasons that business owners reported for hiring a contractor instead of an employee included valuing a contractor’s specialized expertise (50.8%) and only having temporary needs (41%), followed by concerns about having sufficient cash reserves to make payroll (35.1%) and the cost of providing employee healthcare (30.7%):

What has an impact on your decision to hire a contractor or temporary worker versus an employee? (Check all that apply)

Value	Percent
Specialized expertise	50.8
Only have temporary or seasonal needs	41
Cash reserves to comfortably make payroll each month	35.1
Cost of employee healthcare	30.7
Less expensive	25.5
Complication of setting up employee healthcare	20.4
Cost of other retirement benefits	20.1
Having to manage a person versus a service being responsible for managing	18.2
Complication in setting up retirement plans	16.1
Try-out person to hire as employee	15.4
No available work space	10.4

In contrast, there were certain business needs better filled by a contractor than an employee. The When they chose to hire contractors, business owners employed them in a variety of functions, but most often in specialized expertise areas, such as technology (42%), accounting (41%) and marketing (38%):

In what business functions do you outsource to contractors? (check all that apply):



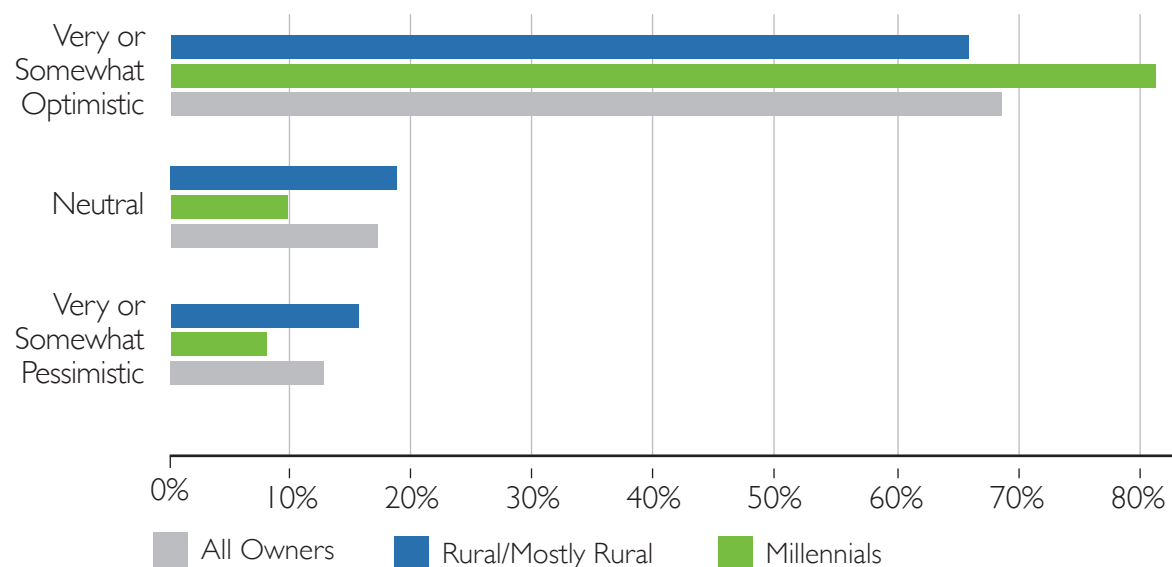
Small Business Owner Sentiments

Small Business Owners are Overwhelmingly Optimistic

Despite the previously detailed challenges of hiring qualified workers, overall 69% of small business owners reported feeling optimistic about their growth over the next six months. It is particularly noteworthy that this optimism was shared by small businesses of all sizes (including micro-businesses), in both rural and urban locations, and across diverse small business owner ethnicities, ages and genders.

One significant difference in sentiment was observed between millennials and the general population of small business owners. 82% of business owners younger than age 35 reported feeling very or somewhat optimistic about their growth over the next six months, compared to 69% among all business owners.

Overall, how optimistic are you regarding the future growth of your business in the next 6 months?



Small Business Owners' Concerns

(Statistics referenced are from chart on following page.)

As a group, small business owners were remarkably similar in the issues that concerned them as they considered their future growth.

As a group, business owners reported feeling concerned about the following issues negatively impacting their growth outlook:

- Policies that favor large businesses (48%)
- Access to capital (39.7%)
- Proposed changes in healthcare (36%)

Comments from Respondents

"Export financing for buyers has not been developed to match the demand for small manufacturers. I have been trying to get financing for my buyers overseas now for 25 years."

"It is very, very hard to start and maintain a small business. There is no access to investment capital."

"Healthcare is a huge issue. It... is daunting."

"I don't want to be in the health insurance business; I want to focus on running my business."

"Major simplification of tax codes, federal, state and sales, would be a big help."

On average, millennial business owners were LESS concerned about the following issues, compared to the general population of business owners:

- Just 26% were concerned about policies that favor large businesses, compared to 48% of all business owners
- Just 29% were concerned about proposed changes in healthcare, compared to 36% of all business owners

At the same time, millennial business owners were MORE concerned about the following issues, compared to the general population of business owners:

- 41% were concerned about their ability to find and keep qualified workers, compared to 33% of all business owners

Among rural or mostly rural small business owners, proposed changes in healthcare proved less concerning than they were to the general population of small business owners, with 27.5% concerned, compared to 36% overall.

How do you feel about the impact of the following issues on your small business success in the next 6 months?	Very or somewhat negative impact	No effect	Very or somewhat positive impact
Policies that favor large businesses	48%	44.5%	6.6%
Millennials	26.2%	59%	14.7%
Micro-business	49.2%	44.2%	7.7%
Rural or mostly rural	44%	45.2%	10.7%
Ability to find and keep qualified workers	33.5%	49.9%	16.6%
Millennials	41.3%	39.7%	19%
Micro-business	25.9%	59.4%	14.7%
Rural or mostly rural	30.6%	49.4%	20%
Access to Capital	39.7%	42.5%	17.9%
Millennials	34.9%	40.3%	25.8%
Micro-business	40.3%	42.2%	17.5%
Rural or mostly rural	38.6%	39.8%	21.7%
Corporate income tax	27.6%	60.6%	11.8%
Millennials	32.2%	58.1%	9.6%
Micro-business	23.9%	64.4%	11.7%
Rural or mostly rural	31%	57.5%	11.5%
Personal income tax	34.5%	53.2%	12.2%
Millennials	29%	59.7%	11.3%
Micro-business	34.9%	52%	13.1%
Rural or mostly rural	30.2%	55.8%	14%
Proposed changes in Healthcare	36%	55.8%	7.2%
Millennials	29.4%	60.8%	9.8%
Micro-business	32%	60.7%	7.4%
Rural or mostly rural	27.5%	61.3%	11.3%
Local labor laws (minimum wage, paid time off, etc.)	27.1%	65.7%	7.2%
Millennials	26.2%	59%	14.7%
Micro-business	21.7%	71.6%	6.6%
Rural or mostly rural	25.3%	71.3%	3.4%

Survey Methodology & Respondent Demographics

Methodology

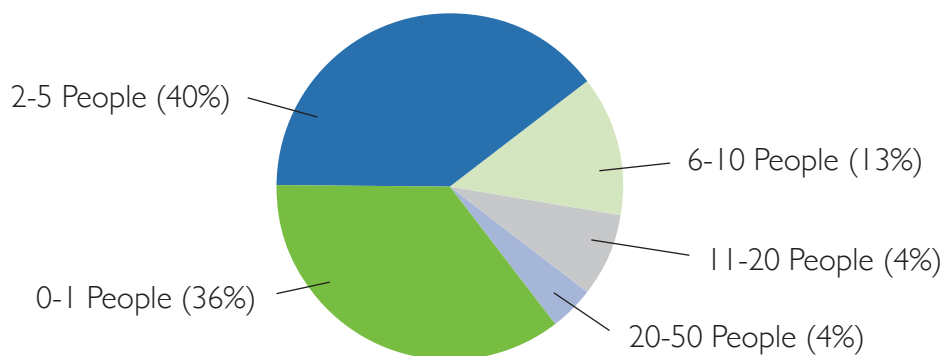
SCORE conducted this research via an online survey administered to its small business clients between Sept. 21 and Oct. 9, 2017. All respondents successfully passed screening questions identifying themselves as small business owners, with the question: "Are you currently operating a small business?" Survey results were analyzed according to the following demographics:

- Industry
- Business size (micro-businesses of 0-4 employees versus small businesses with 5+ employees)
- Business location
- Owner's gender
- Owner's race
- Owner's age group

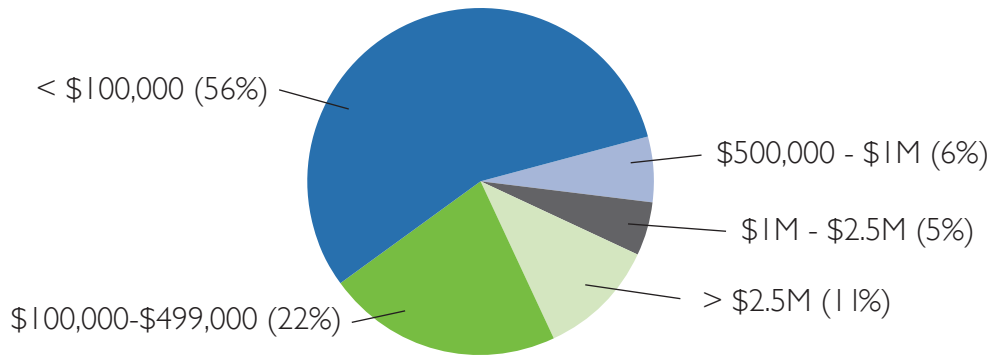
Demographics

This survey was comprised of 1736 respondents currently running a business, most of whom run micro-businesses.

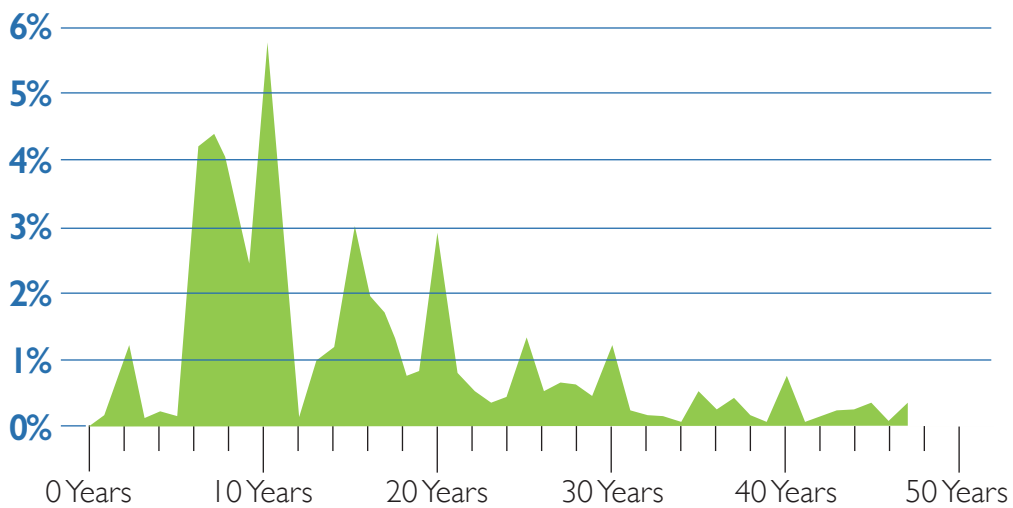
**How many people help you run your business (including yourself)?
(Include employees, contractors and freelancers)**



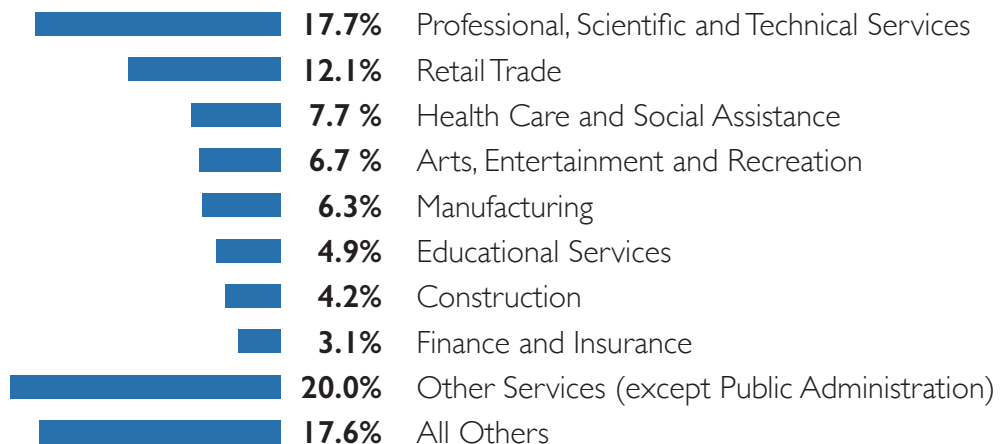
77% of respondents had annual sales receipts under \$500,000.



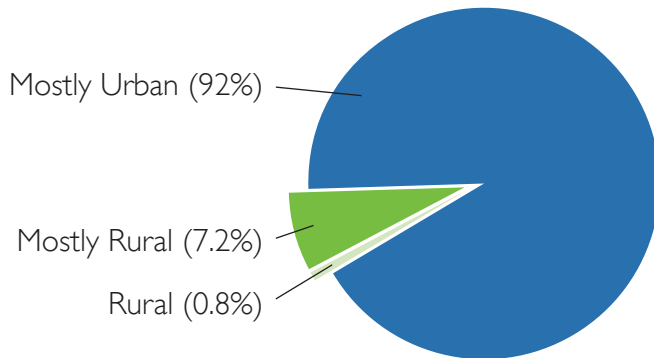
The average business had been operating for 8.5 years.



The small business owners who answered this survey came from a variety of industries:



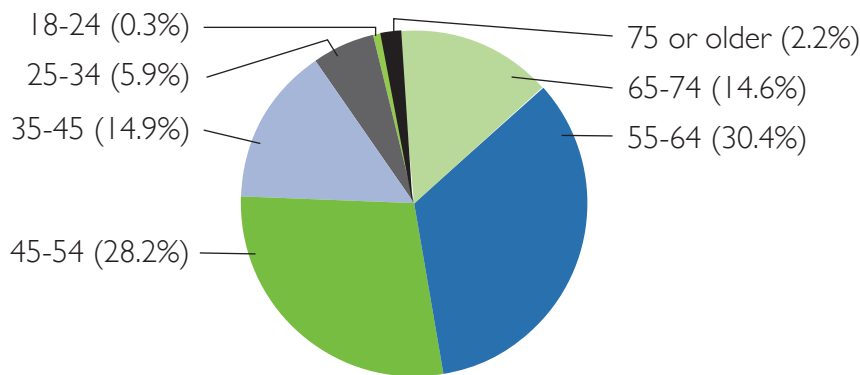
The businesses were mostly located in urban areas:



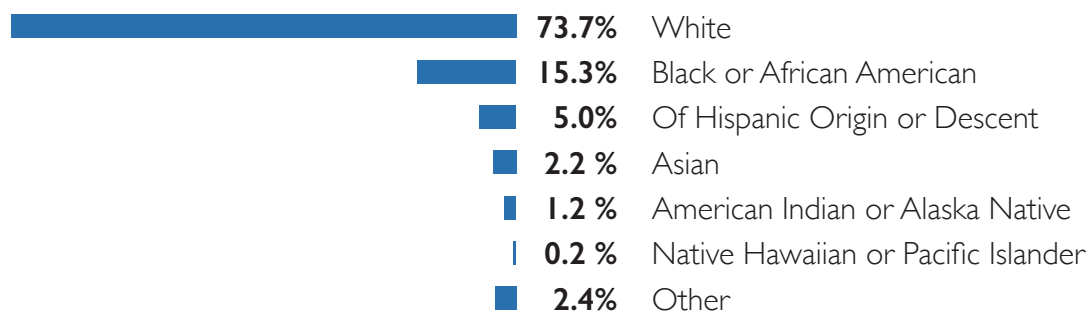
Based on location, businesses were classified by the 2010 Census definition into urban versus rural locations.

- Mostly Urban: <50% Rural Population
- Mostly Rural: 50%- 99% Rural Population
- Completely Rural: 100% Rural Population

Business owners came from diverse age groups:



Survey respondents were balanced between genders (56.5% female), with a distribution that parallels the racial diversity of the United States:⁹



⁹ - <https://www.census.gov/quickfacts/fact/table/US/PST045216>

Conclusion

Small Business Owners are Overwhelmingly Optimistic

Small businesses employ almost half of all workers in the United States. This powerful impact on employment has ripple effects that positively influence the nation's economic health. Particular attention must be paid to non-employer firms, which vastly outnumber other types of small businesses. Of the 29.6 million American small businesses in existence in 2014, 80% (23.8 million) were non-employer firms.¹⁰

The term “non-employer,” which refers to a business not having any paid full-time employees, fails to tell the whole story of the powerful impact these types of small businesses have on employment. In fact, this survey finds that 47% of non-employer firms or “solopreneurs” pay or “employ” other workers, for an average of 3.2 workers – including contractors, part-time workers and temporary help – including the owner. This finding builds upon past research in the previous Megaphone of Main Street data report, which suggested that micro-businesses contributed more total jobs to the American economy than any other type of small business when accounting for part-time workers.¹¹

Steady increases in job creation and hiring activity bode well for workers, but these jobs will not look like the jobs of the past. Almost 20% of businesses surveyed reported that they have replaced employees with contractors over the past six months, and business owners reported a 37% increase in hiring gig workers over the past six months, out-pacing any other category of worker.

The good news for job seekers is that demand for qualified workers is strong, with more than half of businesses struggling to fill their open positions. Another finding that may be useful to both sides of the employment desk is the point that personal referrals still see the highest degree of success, suggesting that networking is worth the time and effort.

Looking forward to 2018, this report probed entrepreneurial sentiment and determined that more than two-thirds of today's entrepreneurs remain firmly optimistic about their future growth, and are united in identifying a few areas of concern as they look toward the future. Policies that favor large businesses, finding qualified workers, and providing those workers with attractive salaries and healthcare benefits remain at the forefront of small business owners' minds.

SCORE will stay attuned to the experiences of small business owners across the nation through future Megaphone of Main Street data reports. As the voice of America's small businesses, SCORE unites business experts and small business owners, both of whom are available to provide interviews, background information and personal experiences of entrepreneurship to the media. Please contact SCORE's media office for inquiries at media@score.org.

10 - <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf>

11 - https://s3.amazonaws.com/mentoring.redesign/s3fs-public/Megaphone-main-street-volume-1-data-report-Apr-2017_0.pdf



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