presented by SCORE

THE MEGAPHONE OF MAIN STREET: STARTUPS

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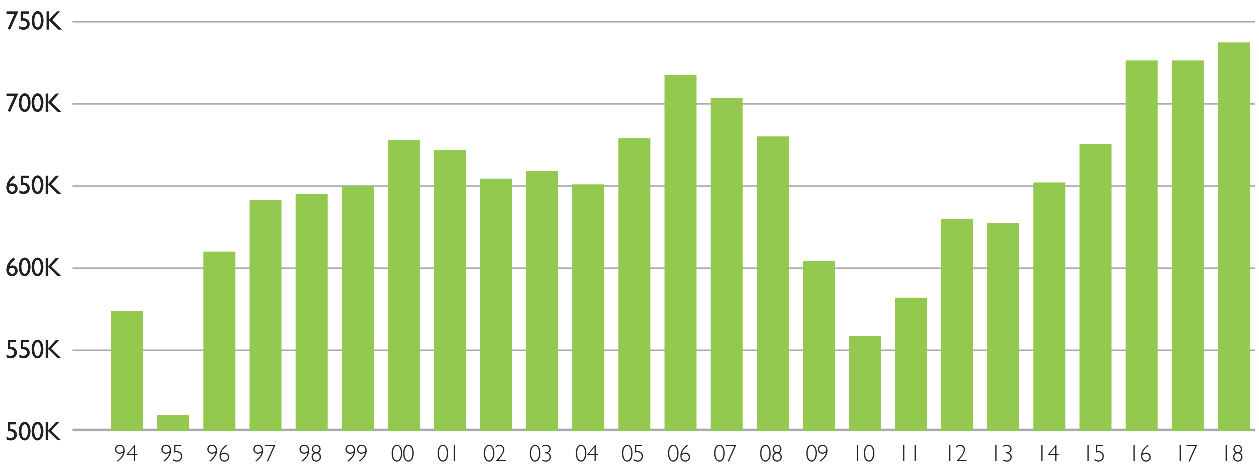
Table of Contents

Why Focus on Startups?

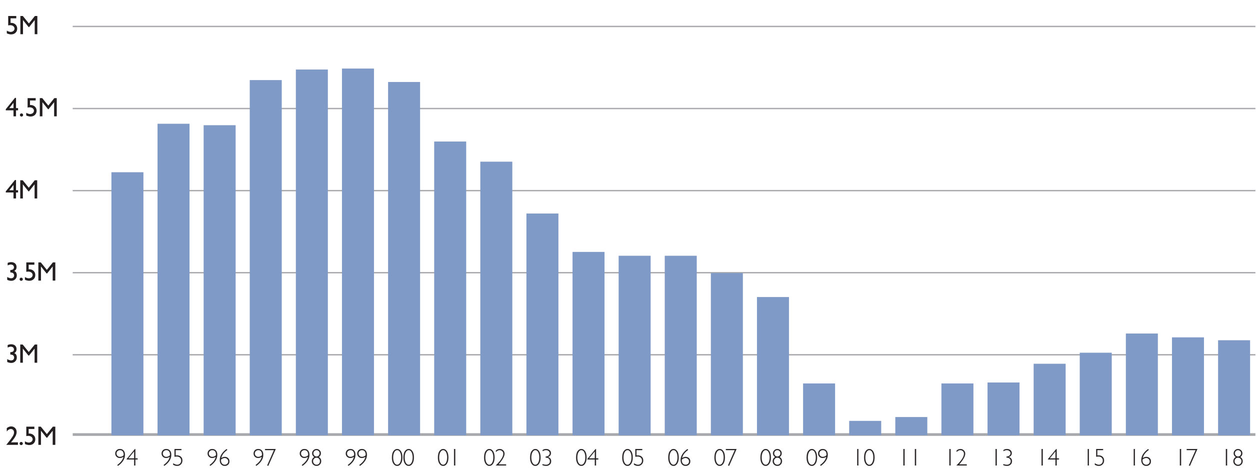
With more than 30 million small businesses currently in operation across the United States, and small businesses employing almost half of all U.S. workers[1], the number of new business starts is generally considered a significant indicator of economic health and innovation[2].

The number of new business startups took a significant dive after the 2008 recession, but has been steadily recovering over the past ten years. Last year alone, there were roughly 740,000 businesses started.



New businesses (less than one year old) in the United States

Despite this upward trend in business starts since the recession, the number of jobs created by these new businesses has flattened to about 3.1 million annually since 2016.



Number of jobs created by startups (less than one year old) in the United States

The first year of operations is a critical time for any small business, with decisions made about market focus, finding financing and hiring a team that will have significant impact on the business's success or failure in the future. Given the importance of this first year, this data report focuses on what we call small business "startups," a term that will be defined for the purposes of this report as a small business that is currently in operation, and which has been in operation for less than one year.

This original research study explores the three biggest challenges that cause small businesses to struggle and/or fail in their first year of operations[3]:

1. No market need for their product or service
2. Running out of cash
3. Difficulty finding and hiring the right team

This latest installment of the Megaphone of Main Street is the fourth in a data report series that presents a snapshot of the current American small business landscape. This particular report delves into the world of startup entrepreneurship, sourcing both qualitative and quantitative data directly from a diverse group of roughly 1,000 startup small business owners across the nation.

The small businesses included in this research represent many industries and geographical locations, while the small business owners themselves represent diverse demographic backgrounds, including age, gender and race/ethnicity.

SCORE conducted this research via an online survey administered to its small business clients in July 2019. All respondents successfully passed screening questions identifying themselves as either startup small business owners, or existing business owners who agreed to reflect on only their first year of operations.

Together, the responses of these startup entrepreneurs represent the voices of the next generation of American small business owners on Main Street, USA.

About SCORE

SCORE is the nation's largest network of volunteer, expert business mentors, with approximately 11,000 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 11 million current and aspiring entrepreneurs through mentoring, workshops and educational services. In 2018 alone, SCORE helped to create 32,387 new small businesses and add 103,300 new, full-time, non-owner jobs to the American economy.

Key Findings

PART 1: Finding Your Way, Finding Customers

- Few entrepreneurs (just 15%) start their businesses due to unemployment or underemployment from a 9-5 job. Instead, many entrepreneurs have a passion for the product or service they provide (40%), or want the flexibility and autonomy of working for themselves (30%).
- Most fledgling entrepreneurs do not start their businesses on a whim. Instead, they have an average of 11.5 years of experience in their particular area of industry.
- New business owners take comfort in being prepared. The support of friends and family was reported to be the strongest source of support (66%), followed by having a business plan and having a mentor (43% each).
- Networking is key. Startups employ a variety of marketing tactics in their first year of operations, but the most effective marketing tactics directly engage with prospective customers through personal networks (65% success rate), speaking at special events (60% success rate) and formal networking groups (54% success rate).

PART 2: Finding Financing

- 42% of entrepreneurs are bootstrapping, starting out with less than $5,000 in cash reserves.
- However, almost half (49%) of respondents began operations with more than $10,000 in the bank, and nearly a quarter had more than $50,000.
- Most startups (78%) did not seek, much less obtain, outside financing, instead relying on personal savings or income from another job. After personal savings and income, the next biggest sources of funds were bank loans (8.2% of all startups surveyed) and loans from friends and family (4.8% of all startups).
- Looking at all outside finding sources (including loans from friends and family), 10% of startups received funds of more than $25,000. Outside financing was most commonly used to purchase equipment (63%), purchase initial inventory (48%), on marketing (48%) and to lease or prepare the business location (41%).

PART 3: Finding the Right Team

- Startup entrepreneurs personally handle the majority of their business functions during their first year of operations, by necessity, not choice. They contract work out when specialized expertise is required, most often in the realms of legal, manufacturing, accounting/finance and technology.
- Startups are hiring. Over half (54%) of startups were looking to hire employees during their first year of operations; and, 8% more startups are looking to hire in the next year, compared to two years ago.
- Finding competent workers is a real struggle. Half (52%) of startups cited difficulty filling job openings (up from 41% in 2017). A third (33%) of startups had job openings they couldn't fill, which is about double the 14% who reported unfilled openings in 2017.

PART 1:

Finding Your Way, Finding Customers

Highlights

- Few entrepreneurs (just 15%) start their businesses due to unemployment or underemployment from a 9-5 job. Instead, many entrepreneurs have a passion for the product or service they provide (40%), or want the flexibility and autonomy of working for themselves (30%).
- Most fledgling entrepreneurs do not start their businesses on a whim. Instead, they have an average of 11.5 years of experience in their particular area of industry.
- New business owners take comfort in being prepared. The support of friends and family was reported to be the strongest source of support (66%), followed by having a business plan and having a mentor (43% each).
- Networking is key. Startups employ a variety of marketing tactics in their first year of operations, but the most effective marketing tactics directly engage with prospective customers through personal networks (65% success rate), speaking at special events (60% success rate) and formal networking groups (54% success rate).

Much has been said in the media about the rise and strength of the gig economy, with some debate about what constitutes a true small business start, as opposed to a part-time side hustle that is designed to bring in supplemental income[4].

To further investigate this question, this study asked respondents to define their original intentions in starting their business. Results show that most businesses were started with the intention to create a job, at least for the owner. Overall, 68% of entrepreneurs started their business with the intention of that business serving as the sole income for the owner. This is roughly consistent with findings in a previous Megaphone of Main Street data report on women's entrepreneurship, which found that 62% of women entrepreneurs depended on their business as their primary source of income[5].

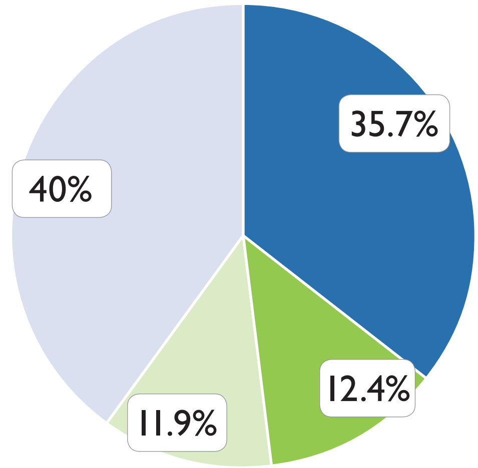
Please select the option that best describes your new business in your first year:

Supplemental work (35.7%): The business is not the owner's primary source of income and the owner has no plans to hire employees in the next 12 months.

Contract work (12.4%): The business is the owner's primary source of income, the owner works as an independent contractor or 1099 worker, and the owner has no plans to hire employees in the next 12 months.

Stable non-employer (11.9%): The business is the owner's primary source of income, the owner does not work as an independent contractor or 1099 worker, and the owner has no plans to hire employees in the next 12 months.

Early stage potential employer (40%): The firm has been in business for 1 year or less and the owner has plans to hire employees in the next 12 months.



Intended Business Function

This data also shows a positive employment outlook, with 40% of startups planning to hire new employees during the upcoming year.

Small Businesses Are Not Started on a Whim. Most Entrepreneurs Launch Their New Business with Passion, Focus and Experience.

Before starting, how many years of experience did you have in the industry of your new business?

On average, respondents had 11.5 years of experience in their respective industries before starting an independent business. When further analyzing this data by industry, experience ranged from 7-14 years of prior experience.

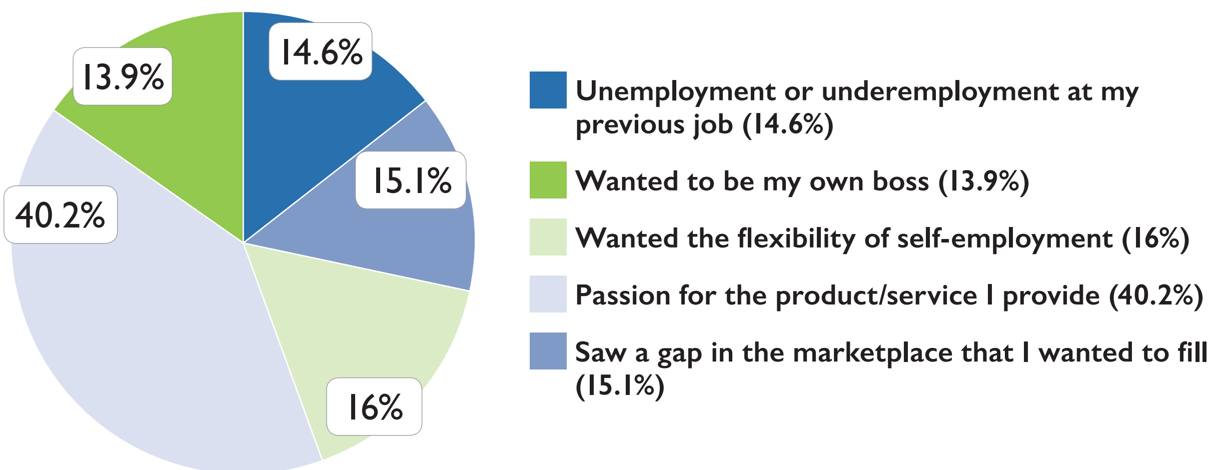
These significant prior years of experience show that even new entrepreneurs just starting their businesses launched with considerable expertise and knowledge about their particular industries. This finding is consistent with previous research in SCORE's Megaphone of Main Street data report on women's entrepreneurship, which found that prior experience was the main factor entrepreneurs considered when selecting the type of business they would start[6].

Entrepreneurs start businesses with considerable preexisting personal experience, and they situate their businesses in industries where they have prior experience; but, why do they choose to try their hand at entrepreneurship?

Entrepreneurs Start Businesses with Passion for the Product or Service They Provide, and a Desire to Work for Themselves.

The data shows that few entrepreneurs (15%) choose to start their businesses due to reasons of unemployment or underemployment. Instead, many entrepreneurs begin a new business because they have a passion for the product or service they provide (40%), or because they want to be their own boss and have the flexibility of self-employment (30%). These findings remain consistent even when segmenting the data by age of business, age of owner or geographic location (rural/suburban/urban).

What was the main reason you decided to start your own business?



"I am a brown woman and I am a "necessity entrepreneur," because I could not be paid enough working for someone else given my expertise."

Knowing that the first year of entrepreneurship is both a thrilling and challenging time, the research next focused on what areas of concern most worried startup small business owners. Not surprisingly, top concerns for new business owners included supporting themselves financially, and finding new customers. These concerns did not differ by the age of the owner or by geographic location (rural/suburban/urban).

Entrepreneurs were less concerned about having enough time to run their businesses, and, surprisingly, reported less concern about raising outside capital. One possible explanation for lower concerns about capital could be that startup entrepreneurs might see themselves as so unlikely to obtain outside capital that they don't even attempt to obtain it, a hypothesis which is supported in part two of this report.

New Businesses Are Most Concerned About Making Enough Income to Support Themselves, and Finding Customers.

Which of the following are/were of significant concern to you in your first year as a business owner?

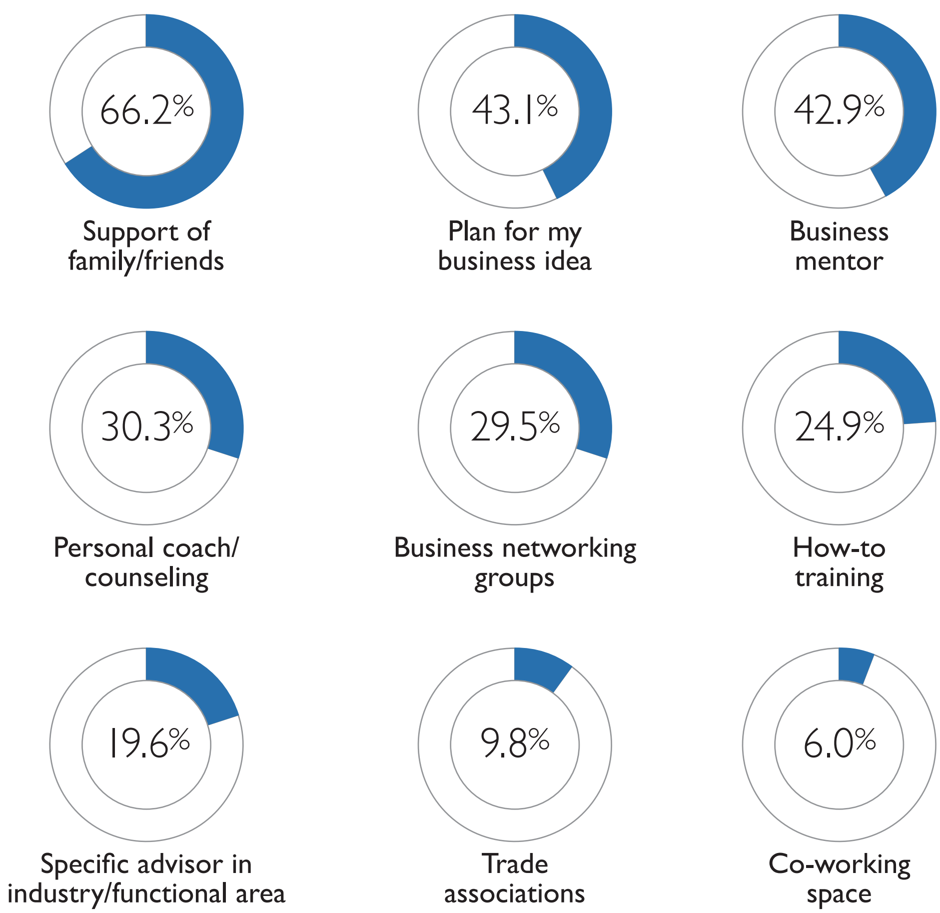
	No worry at all	Little worry	Moderate worry	Significant worry	Of great worry
Making sufficient income to support myself	8.0%	15.9%	21.8%	25.6%	**28.6%**
Getting customers	5.7%	13.7%	25.4%	**28.4%**	26.8%
Raising capital	**26.5%**	19.2%	19.3%	17.2%	17.9%
Fear of failure	13.1%	20.4%	**29.1%**	20.4%	16.9%
Losing my initial investment of personal funds	19.7%	**26.5%**	24.0%	16.6%	13.3%
Legal/insurance/tax issues	14.1%	27.4%	**28.6%**	18.3%	11.7%
Competition from larger companies	23.3%	**30.5%**	24.1%	14.0%	8.0%
Technology needed	24.3%	**33.5%**	24.9%	10.7%	6.6%
Being able to devote enough time	**30.0%**	26.2%	22.9%	15.2%	5.8%

Little Worry — Great Worry

Startup Entrepreneurs Turn to Friends and Family, Mentors and a Solid Business Plan for Support.

Acknowledging the immense pressure that entrepreneurs face as they navigate their critical first year, this research questioned where startup entrepreneurs turned for inspiration and motivation. Their answer was that they relied most on the support of their family and friends. Interestingly, the next biggest source of support for new business owner was having a solid business plan, followed closely by having a business mentor to whom they could turn for tools, ideas, and support. This finding is consistent with previous research from The Megaphone of Main Street data report on women's entrepreneurship, which found that businesses were more likely to be successful if business owners worked with a mentor[7].

What kept you motivated/inspired when you hit rough patches in the first year? (check all that apply)



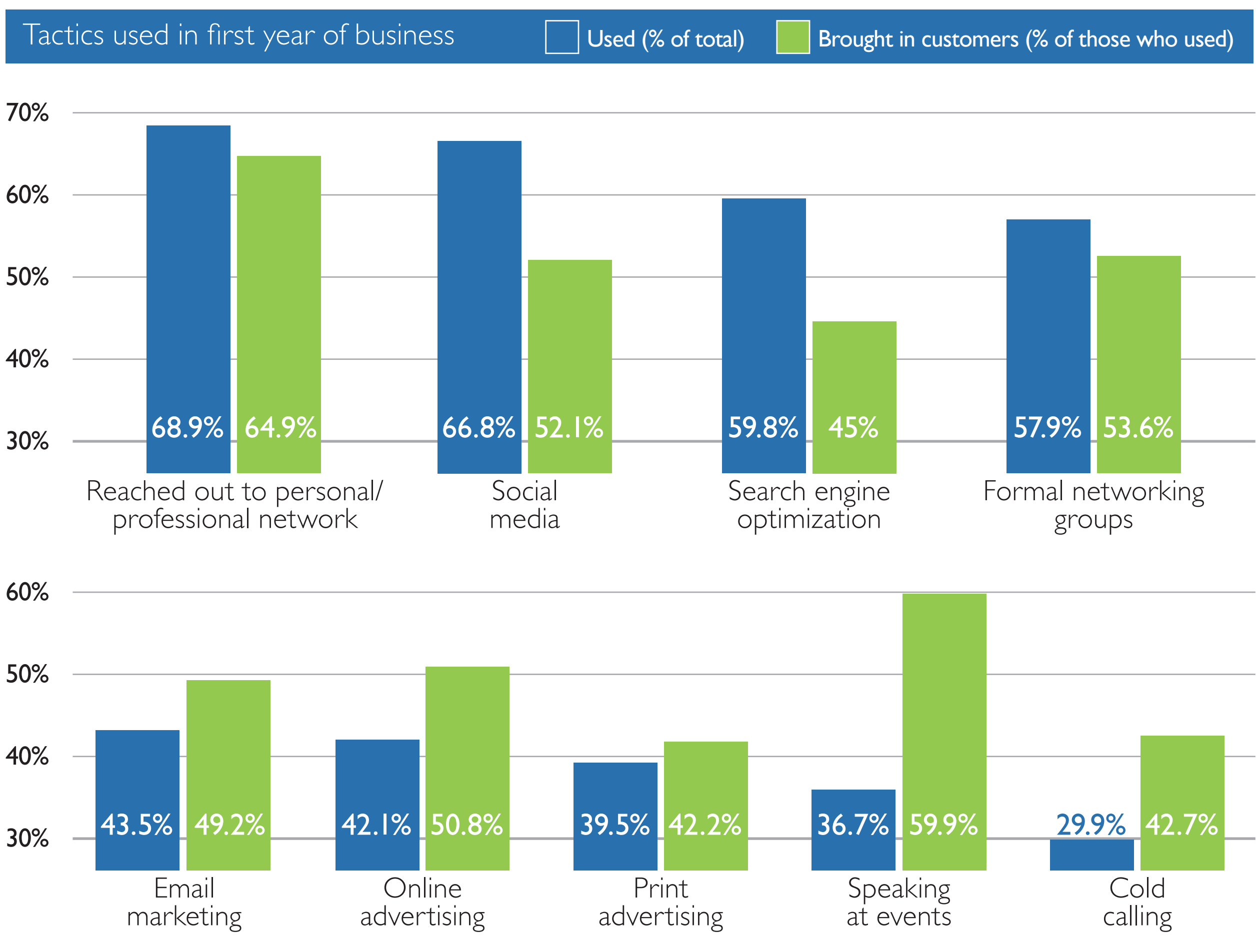
Personal Connection Is Key to Effective Marketing.

Knowing that finding customers was a major concern for startup small business owners, the research next evaluated what marketing techniques entrepreneurs most often employed, and what they perceived was most effective.

While networking and reaching out to personal and professional networks remain the most common method for seeking new clients, business startups also reported heavy reliance on digital marketing, including social media and search engine optimization (SEO).

In terms of which techniques ultimately proved to be effective at bringing in new customers, startup entrepreneurs reported that techniques centered on personal connection and communication produced the best results. They perceived that reaching out to personal networks (65% success rate), and speaking at special events (60% success rate) produced the best results, followed by formal networking groups such as the Chamber of Commerce and professional trade associations (54% success rate).

In your first year of business, what marketing tactics did you use, and which were successful? (Check those that apply)



Tactic/medium	Examples of efforts
Reaching out to personal/ professional network	• Business from referrals or former employers.
Social Media	• Launched a podcast series. • Providing samples to others to share on social media.
Search engine optimization	• Google maps
Formal networking groups	• Freelancer marketplace • Listing in professional association • Local events, Chamber of Commerce • Membership in local tourism association • Partnering with complimentary service leaders to promote services and assist with name recognition • Paid referrals, like Home Advisor • Web-based job boards (freelance editing & writing)
Email marketing	• Blogging • Content marketing
Online advertising	• Government listing
Print advertising	• Community news • Classified advertising
Speaking at events	• Events that marketed to potential customers • Hosting events at my yoga center • Renting booths at local events • Trade shows
Cold calling	• Door to door/ business to business introduction • Guerrilla marketing - waving cars over to taste food • Knocking on doors • Handing out flyers to new home owners
Other	• Customer referrals • Distributors • Farmers markets • Public relations and news articles about grand opening and a "women in business" article in the newspaper • Special events that gathered media attention • Purchasing leads

What Did Marketing Success Look like for This Group of Startup Entrepreneurs?

The vast majority (89%) of startups had at least some paying customers by the end of their first year of operations. It must be noted that the vast majority of survey respondents were SCORE clients and had taken advantage of SCORE mentoring, workshops and/or online educational resources, which could have played a role in this high rate of success.

Not surprisingly, there was a wide range reported in the number of customers a startup served in their first year. Professional service businesses in health care, technical and business-related areas tended to have fewer customers, whereas retail and food service businesses tended to have a broader customer base.

By the end of your first year, how many paying customers did you have?

Number of customers	0	1-5	6-10	11-20	21-50	51-100	101-999	1000+
% of responses	11.5%	25.8%	12.2%	10.6%	14.2%	8%	10.1%	7.6%

The startups surveyed also reported a wide range of results in their average revenue earned per client during their first year.

One particularly striking example is startups in the manufacturing industry. The median average revenue was low ($250 per customer), but showed an extremely broad range of 0 - $5M, reflecting the inclusion of everything from small, homemade goods vendors to large-scale equipment manufacturers.

For your first year, what was the average revenue per customer?

Industry	Range Customers after first year	Median Customers after first year	Range Average Revenue / Customer	Median Average Revenue / Customer First Year
Real estate, Rental & Leasing	0-60	4	0-$72,000	$4,500
Technical & Scientific Services	0-200	5	0-$200,000	$1,500
Transportation & Warehousing	0-200	12.5	0-$500,000	$1,500
Professional & Business Services	0-9,500	6	0-$1,500,000	$1,250
Banking, Finance & Insurance	0-330	25	0-$30,000	$900
Home or Personal Maintenance Services	0-720	17.5	0-$20,000	$600
Agriculture, Farming, Fishing & Hunting	0-100	25	0-$60,000	$550
Health Care & Social Assistance	0-1500	10	0-$300,000	$500
Manufacturing & Industrial	0-6,090	15	0-$5,000,000	$250
Arts, Entertainment & Recreation	0-100,000	25	0-$40,000	$100
Accommodation & Food Services	0-34,000	60	0-$75,000	$50
Retail & Wholesale Trade	0-10,000	100	0-$100,000	$40
Nonprofit, Public and Professional Organizations	0-50,000	4.5	0-$20,000	$30

PART 2:

Finding Financing: Funding the Dream

Highlights

- 42% of entrepreneurs are bootstrapping, starting out with less than $5,000 in cash reserves. However, almost half (49%) of respondents began operation with more than $10,000 in the bank, and nearly a quarter had more than $50,000.
- Most startups (78%) did not seek, much less obtain, outside financing, instead relying on personal savings or income from another job. After personal savings and income, the next biggest sources of funds were bank loans (8.2% of all startups surveyed) and loans from friends and family (4.8% of all startups).
- Looking at all outside finding sources (including loans from friends and family), 10% of startups received funds of more than $25,000. Outside financing was most commonly used to purchase equipment (63%), purchase initial inventory (48%), on marketing (48%) and to lease or prepare the business location (41%).

After lack of market need for their product or service, and a resulting inability to find customers, the second most common reason for business startups to fail is running out of cash[8]. According to a U.S. banking study, 82% of business failures are due to poor cash management[9].

Building upon previous research from the Megaphone of Main Street data reports, which found that securing adequate cash flow to maintain the business and to sustain personal needs was a top concern[10], the next section examines how startups prepare for financial uncertainty.

First Year Financial Resources Draw on Personal Savings and Income.

Data shows that most new business owners begin their first year of operations equipped with resources, including considerable relevant experience and some financial reserves.

These financial reserves most often came from personal savings, or income from another job. 42% of startup small business owners reported starting out with less than $5,000 in cash resources. These findings were consistent with other studies on startup financing, including a recent study from Kabbage that found that roughly a third of small businesses get started with less than $5,000.[11]

Despite the prevalence of bootstrapping, this is not to suggest that startups typically begin their operations without financial resources. In fact, almost half (48.6%) of respondents had more than $10,000 in startup funds, and nearly a quarter had more than $50,000.

The vast majority of startups did not obtain funding from bank loans, or even cash advances on credit cards. They also did not generally borrow from, or seek donations from, family and friends. Investors, crowdfunding and grants were also uncommon techniques to obtain financing.

How much cash did you have in startup funds before starting your business?

	$1-$5,000	$5,001-$10,000	$10,001-$50,000	> $50,000	Total Receiving funds from this source
Income from another job	13.7%	3.9%	6.7%	3.4%	27.6%
Personal funds	26.9%	10.2%	18.5%	10.7%	66.3%
Bank loan	0.8%	0.8%	4.2%	5.4%	11.2%
Borrow from friends/family	5.7%	0.7%	3.4%	1.4%	11.3%
Donations from friends/family	3.8%	0.7%	1.7%	0.1%	6.4%
Cash advance from credit cards	4.1%	1.7%	2.8%	0.4%	9.0%
Investors	0.7%	0.3%	0.8%	1.5%	3.4%
Grants	0.7%	0.3%	0.6%	0.6%	2.1%
Crowdfunding	1.5%	0.1%	0.0%	0.0%	1.7%

Total startup cash from all sources	$0	$1-$5,000	$5,001-$10,000	$10,001-$50,000	> $50,000
	15%	27.2%	8.9%	24.5%	24.1%

The amount of savings entrepreneurs must have in their bank accounts to successfully navigate their first year varies greatly depending on what type of business they start. Typically, mentors recommend that entrepreneurs have at least three to six months of cash reserves when starting any business. While it may take considerable effort to build up these savings, three months of cash reserves is still considered risky, given that startups often need six months or more to gain paying customers[12].

However, some businesses, such as restaurants or manufacturing, can have large startup costs for real estate and equipment purchases that necessitate larger savings accounts, while other types of businesses, such as personal services, can be operated out of an entrepreneur's home, and require little startup funds beyond what the owner needs to pay personal bills.

To account for this disparity, and to estimate the viability of entrepreneurs' savings accounts across a variety of industries, this study asked entrepreneurs how many months of cash reserves they had when starting their businesses. More than 60% of startups had three months or more in cash reserves during their first year of operations, which bodes well for the financial strength of these businesses.

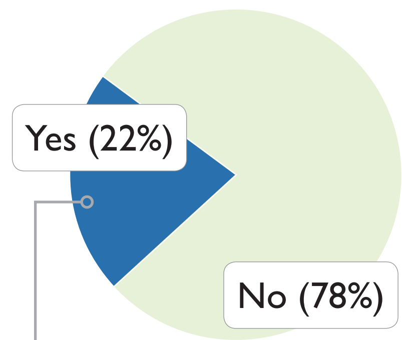
In your first year, how many months of business operations can you pay for in cash reserves before you need to pivot (abandon your new business)?

Seeking Outside Financing

Consistent with previous research studies[13] and hypotheses from part one of this report, the majority of startups (78%) did not seek outside financing. Of the 22% of startup entrepreneurs who did seek financing, most attempted to obtain bank loans or SBA loans. Online lenders were also an emerging source for financing.

Obtaining Outside Financing

The most successful source of outside financing was loans from friends and family, with 77.3% of startup entrepreneurs who sought these personal loans (the subset of 22%) successfully obtaining them. Surprisingly, 58% of startup entrepreneurs who sought bank loans were successful in securing them. However, given how few people actually sought out these loans (again, working within the 22% subset of entrepreneurs who sought financing), the total number of successful loan recipients was 8.2% of all entrepreneurs surveyed.

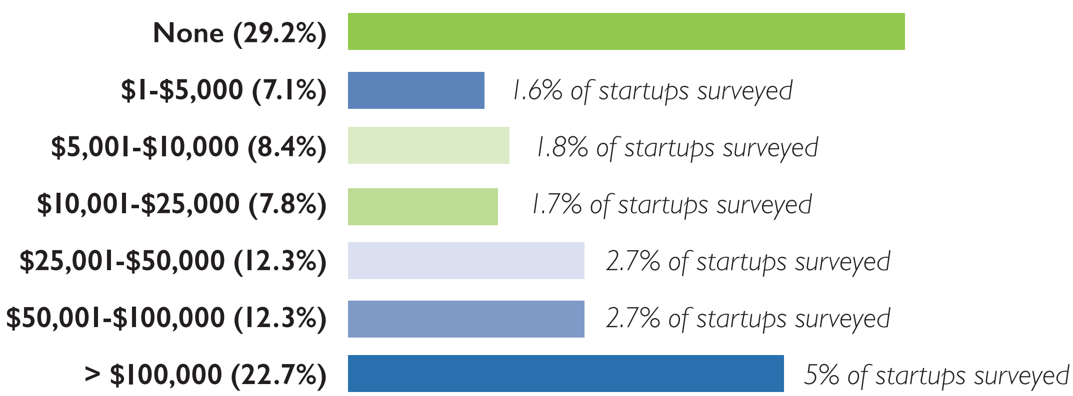


	Of those who sought financing, they tried these sources	% who sought financing that were successful in obtaining it	% of total entrepreneurs who were successful in obtaining financing
Bank or other financial institution	64.5%	58%	**8.2%**
Friends / family loan	28.4%	77.3%	**4.8%**
SBA loan	45.8%	31%	**3.1%**
Online lender	28.4%	36.4%	**2.3%**
Angel investors	24.5%	26.3%	**1.4%**
Crowdfunding	15.5%	25%	**0.8%**

Within the subset of the 22% of startup entrepreneurs who tried to secure outside funds, one third were not successful. Although the chart below appears to show that a large percentage of the entrepreneurs who sought funding managed to obtain it, the numbers above again only represent the experiences of the 22% subset who even sought financing.

Startup entrepreneurs who successfully obtained outside financing represent a small portion of the total number of entrepreneurs, with just 10% of all entrepreneurs surveyed receiving startup funds of more than $25,000.

How much outside funding did you obtain during your first year from all sources – loans, SBA loans, loans from family and friends, investors, etc.?



Startup entrepreneurs were most likely to utilize outside financing for purchasing equipment, preparing their business location or purchasing initial inventory.

What did you use outside financing for in your first year? (check all that apply)			
63.2%	Purchasing equipment	**27.4%**	Product development
48.1%	Purchasing inventory	**25.5%**	Hiring staff
48.1%	Marketing	**23.6%**	Paying my salary/support during startup
40.6%	Leasing and preparing business location	**11%**	Other (licenses, operating expenses, etc.)

In conclusion, the vast majority of startup entrepreneurs relied on personal cash reserves to fund their business dreams, and they did not seek outside funding. Of those who did pursue outside financing sources, the highest percentage of success was seen among loans from friends and family, followed by bank loans. Startup funds were most often used to purchase equipment and inventory, prepare business locations and invest in marketing.

PART 3

Finding the Right Team: Staffing and Labor Challenges

Highlights

- Startup entrepreneurs personally handle the majority of their business functions during their first year of operations, by necessity, not choice. They contract work out when specialized expertise is required, most often in the realms of legal, manufacturing, accounting/finance and technology.
- Startups are hiring. Over half (54%) of startups were looking to hire employees during their first year of operations; and, 8% more startups are looking to hire in the next year, compared to two years ago.
- Finding competent workers is a real struggle. Half (52%) of startups cited difficulty filling job openings (up from 41% in 2017). A third (33%) of startups had job openings they couldn't fill, which is about double the 14% who reported unfilled openings in 2017.

No entrepreneur can successfully run their business alone. Previous research has shown that even solopreneurs in established small businesses – who, by definition, were the only employees in their businesses – employed an average of 3.2 additional people, in some capacity, to assist them with essential business functions[14].

Because of this necessary reliance on the expertise of others, the third major reason that startups fail is not having the right team[15].

Entrepreneurs Personally Fulfill Multiple Business Functions

Data below shows that during the busy first year of startup business operations, the startup owner personally handled the majority of business functions in the first year. Specialized functions were most likely to be contracted out, including legal, manufacturing, accounting/finance and technology.

"I am in the process of hiring interns for both affordability and to offer valuable experience to the next generation of workers. YES!!! I would hire more (and full-time) if I could afford to do so!"

Who handles/handled the following functions in your business in your first year?

	You as Owner	Employee	Contractor	Intern	Family/ Friend (un-paid)
Strategy/planning	**96.6%**	0.6%	0.6%	0.1%	2.1%
Sales	**92.9%**	3.5%	1.5%	0.1%	1.8%
Marketing	**92.3%**	1.5%	2.4%	0.1%	3.5%
Logistics/inventory/ distribution	**88.9%**	5.3%	2.8%	0.1%	2.8%
Service delivery or product creation/manufacturing	**82.6%**	9.3%	6.1%	0%	2.0%
Technology	**79.1%**	2.5%	10.3%	0.3%	7.8%
Accounting/finance	**76.7%**	3.5%	14.3%	0%	5.4%
Manufacturing	**72.7%**	6.1%	18.8%	0.3%	2.0%
Legal	**60.5%**	1.3%	32.6%	0.4%	5.1%

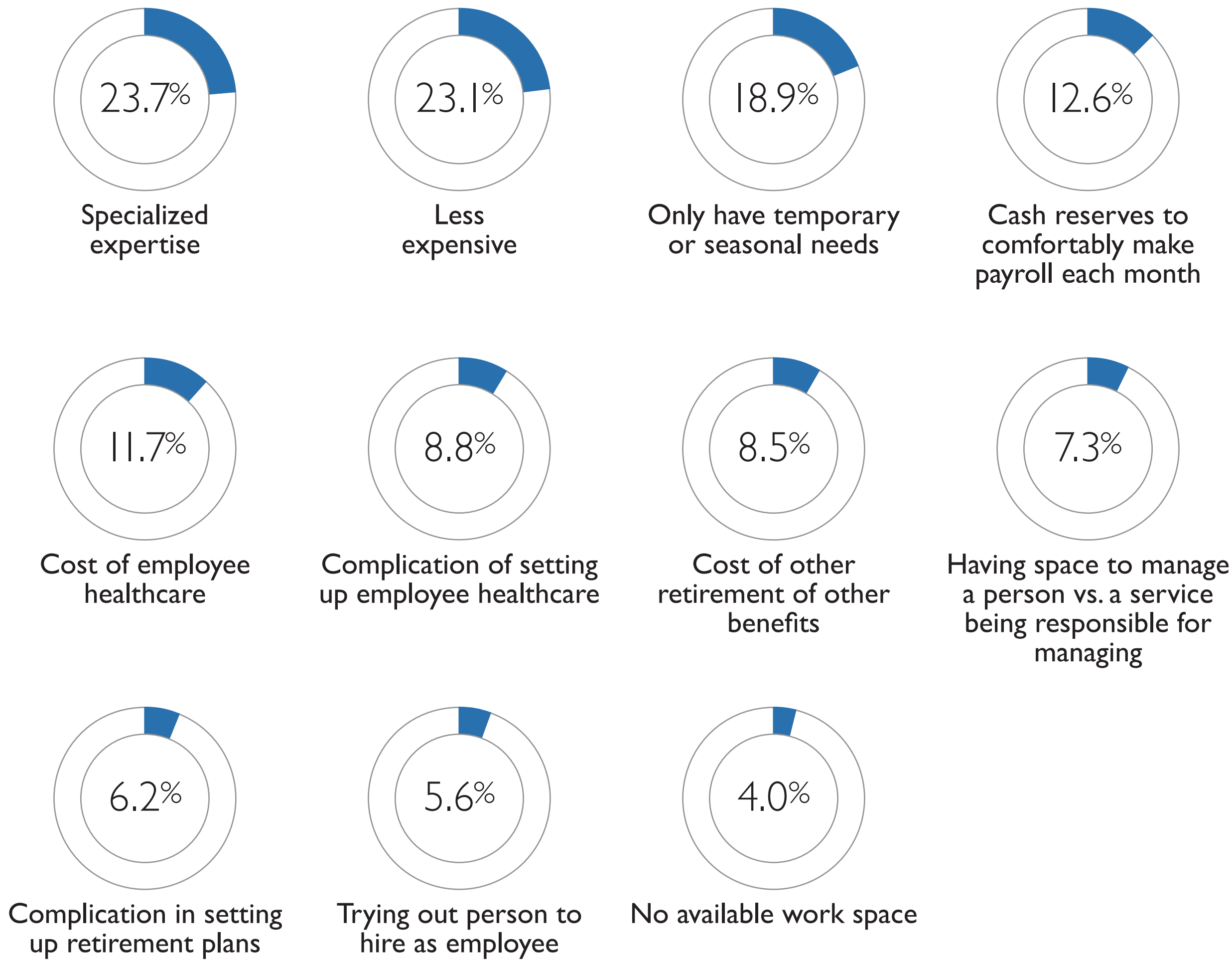
Contractors Provide Specialized Expertise

While more established small businesses often hire people to help with their work[16], startup entrepreneurs reported that hiring a full-time employee in their first year of operations was not always justified, based on the additional expense of employees, and the temporary or seasonal nature of some work. When they did hire additional help, they tended to gravitate towards contractors who could provide specialized expertise, in areas such as law, accounting or marketing.

These hiring trends were consistent with previous research on startup entrepreneurs[17], and remained consistent among rural, suburban and urban small business owners.

> *"There is not enough work for employees or contractors. If my workload begins to exceed my personal limitations, I may hire an employee, if it was someone I really trusted. Otherwise, I would refer business to another established coach. I prefer to stay small and simple."*

If applicable, in your first year why did/will you hire a contractor or temporary worker, instead of an employee? (Check all that apply)

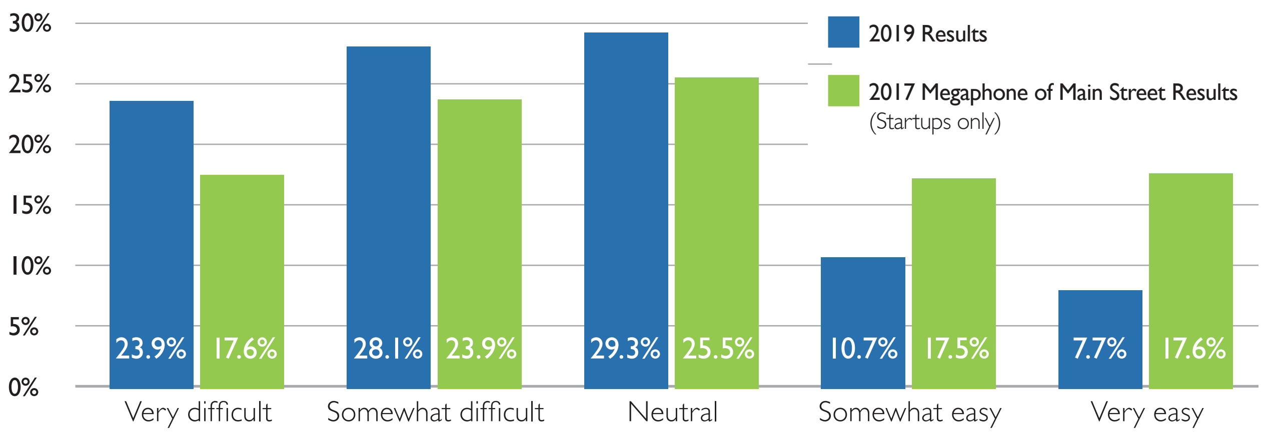


Startups Are Hiring, but Struggle to Find Qualified Workers

This data shows that 54% of startups had attempted to hire someone during their first year of operations, a significant increase from the 38% of startups who were looking to hire in fall of 2017[18].

For the roughly half of startups that were looking for employees, 52% found it difficult or very difficult to fill their job openings, with results consistent among rural, suburban and urban startup entrepreneurs. This is an increase in difficulty from startup respondents in our 2017 research, among whom only 41% of startup respondents reported difficulty with filling open positions[19].

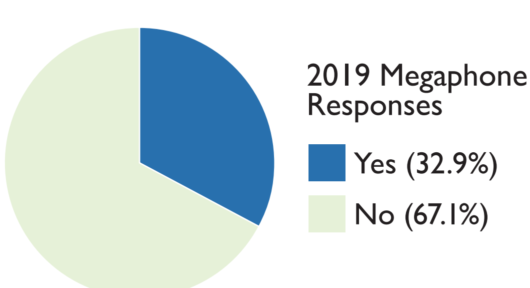
In the past six months, rate the difficulty in filling your hiring needs:

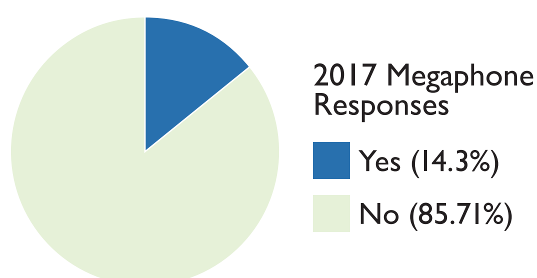


One-third (33%) of those startups that were looking to hire had job openings they could not fill. These numbers were consistent when segmenting by geographic location (rural, suburban and urban areas).

Previous research from 2017 showed that just 14% of startups that were looking to hire someone had job openings they could not fill, indicating that it has gotten harder for startups to find qualified workers.

Did you have job openings you were not able to fill in the past six months?





While the time and expense required to hire help was cited as a critical barrier to filling opening positions, entrepreneurs reported that the biggest barrier to hiring employees was the difficulty in finding qualified applicants who had the needed skills or expertise for the position. This finding was consistent among rural, suburban, and urban businesses, with twice as many startups citing the problem, compared to startup respondents in SCORE's 2017 research[20].

If you had job openings you could not fill, what was the problem? (Check all that apply.)

	2019 Megaphone Responses	**2017 Megaphone** (Startups only)
Cannot find qualified applicants (skills/expertise)	75.7%	34.6%
Need to raise salary/wages to be competitive	28.8%	23.1%
Do not offer healthcare benefits	27.0%	26.9%
Time consuming to hire qualified workers	24.3%	19.2%
Need to offer other benefits (apart from healthcare) to attract workers	11.7%	11.5%
Company location not desirable to candidates	7.2%	N/A
Candidates do not pass drug-testing requirements	6.3%	15.4%

Conclusion

When considering new business starts as a significant indicator of economic health and innovation, two major sets of statistics take center stage. First, although the number of new business startups took a significant dive after the 2008 recession, it has been steadily recovering since then, with 740,000 new businesses started in 2018 alone.

However, the employment created by these new businesses has not seen the same rates of recovery, with the number of jobs created flattening to about 3.1 million annually over the past three years. The data in part three of this report reveals that this employment stagnation is due to business owners' difficulty with finding qualified workers, as opposed to entrepreneurs operating independently by choice.

Over half of startups (54%) tried to hire employees during their first year of operations, but said that finding competent workers was a real struggle. Half (52%) of startups cited difficulty filling job openings, a significant increase from the 41% of startups who reported hiring difficulties hiring workers in 2017. One-third (33%) of startups reported having job openings they couldn't fill, which is about double the 14% of startups who reported unfilled job openings in 2017.

With 8% more startups looking to hire in the next year, compared to 2017, it remains to be seen whether the number of unfilled job openings will continue to grow. For now, most startup entrepreneurs are handling the majority of their first-year business functions personally.

As this report explores, hiring challenges weren't the only problems facing entrepreneurs in their first year of business operations. Finding customers and running out of cash also kept entrepreneurs up at night.

42% of entrepreneurs started out with less than $5,000 in cash reserves, although half of entrepreneurs began operations with more than $10,000 in the bank.

Although entrepreneurs who sought bank loans, or loans from friends and family, saw relatively high degrees of success, the low number of entrepreneurs who pursued any kind of outside financing meant that startup capital was overwhelmingly likely to come from an entrepreneur's personal savings, or income from another job.

These entrepreneurs begin to seem particularly heroic considering that many are not only singlehandedly running their business operations during their first year, but also personally funding their endeavors. While new to their business operations, these entrepreneurs have, on average, more than a decade of experience in their area of industry. They know they can count on the support of family and friends when times get tough, and they take comfort in a solid business plan and a strong mentor.

Startup entrepreneurs are encouraged to take advantage of the variety of free, online resources at www.score.org that are designed to help new business owners successfully navigate their first year. Resources include business planning templates, blog posts and articles on trends in the startup world, and the SCORE Startup Roadmap sponsored by FedEx. The Roadmap helps aspiring entrepreneurs to define their business idea and guides them through their business launch, addressing common fears and challenges, including identifying a market need for their offering, finding and securing funding, and hiring the right team.

SCORE will stay attuned to the experiences of these startup entrepreneurs, as well as the experiences of more established small businesses, through the continuation of the Megaphone of Main Street data report series. 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 interview inquiries, or to discuss future research partnerships, at media@score.org.

Methodology & Demographics

SCORE surveyed from a list of 9,889 people who agreed to respond to small business research studies. 1,141 people responded for an 11.5% response rate.

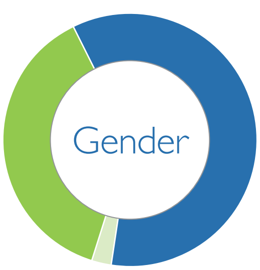
Because this study aimed to capture the voices of startup entrepreneurs, respondents were asked to identify their current business stage as a screener question.

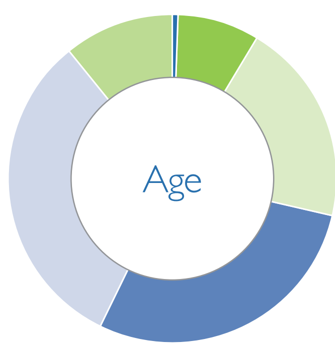
Stage of Business Ownership

	Percent	Count
Pre-start: I am thinking of starting a business and taking steps to learn more.	16.4%	187
Startup: I am in the first year of owning my business	25.2%	288
In business: I have been a business owner for over a year.	51.4%	586
I am **exiting** or looking to sell my business.	2.8%	32
None of the above.	4.2%	48
Totals	**100%**	**1,141**

Entrepreneurs in the pre-start business stage, or who answered "none of the above" were excluded from the responses, for a final data set of 906 startup responses. Business owners who had been in business for longer than the one-year startup period were asked to reflect on their first year of operations when answering the questions.

Gender and Age





Responses to this survey skewed towards older entrepreneurs and away from younger entrepreneurs, when compared to the nationwide average of small business owners[21].

Ethnic Background

While the ethnicities of survey respondents roughly parallel the ethnicities of the nationwide population of small business owners, there is noteworthy underrepresentation among the population of Hispanic entrepreneurs[22].

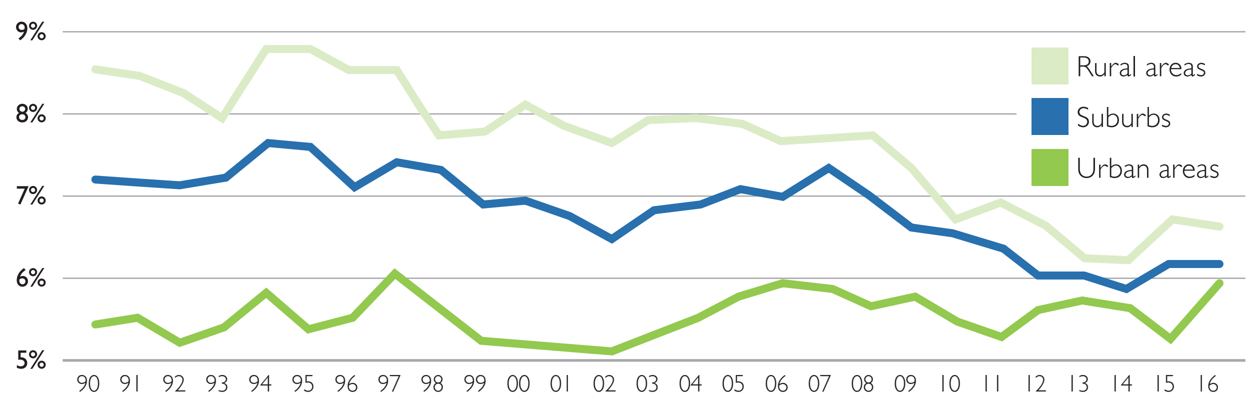
	Percent	Share of entrepreneurs by race
White	72.2%	55.3%
Black or African American	12.9%	11.8%
Of Hispanic origin or descent (such as Mexican, Puerto Rican, Cuban, or other Spanish background)	5.4%	23.6%
American Indian or Alaska Native	0.6%	no data
Asian	2.8%	6.5%
Native Hawaiian or other Pacific Islander	0.3%	no data
Some other race	1.6%	n/a
I prefer not to answer	4.1%	n/a

Location

This study had a higher response rate among rural entrepreneurs than the U.S. population distribution between rural and urban entrepreneurs,[23] even when taking into account that self-employment is higher in rural areas than suburban or urban areas.

As seen in the graph below, 6.5% of people living in rural areas start new businesses, a higher percentage than people living in urban or suburban areas.

	Percent
Urban	33.9%
Suburban	47.2%
Rural	19.0%



Percentages of self-employed in rural, suburban and urban areas

Industry/category of business:

	Overall	Rural	Suburban	Urban
Agriculture, Farming, Fishing & Hunting	**2.1%**	7.2%	1.0%	0.5%
Accommodation & Food Services	**6.1%**	7.2%	6.5%	4.5%
Arts, Entertainment & Recreation	**10.0%**	11.2%	8.4%	10.4%
Banking, Finance & Insurance	**1.9%**	2.4%	2.9%	0.9%
Health Care & Social Assistance	**10.0%**	5.6%	11%	11.3%
Home or Personal Maintenance Services	**7.4%**	4%	8.1%	7.2%
Manufacturing & Industrial	**6.7%**	14.4%	4.5%	5.4%
Nonprofit, Public and Professional Organizations	**5.3%**	3.2%	3.5%	7.2%
Professional & Business Services	**25.7%**	18.4%	30.3%	28.8%
Real Estate, Rental & Leasing	**2.5%**	4%	2.3%	1.8%
Retail & Wholesale Trade	**14.9%**	15.2%	14.8%	11.7%
Technical & Scientific Services	**6.3%**	5.6%	6.1%	8.6%
Transportation & Warehousing	**1.2%**	1.6%	0.6%	1.8%

Survey respondents had started businesses in a wide variety of industries. Geographic location seemed to have an impact on the area of industry chosen, with rural entrepreneurs more likely to start businesses in sectors such as agriculture and manufacturing.

Products vs. Services:

	Percent	Rural	Suburban	Urban
Products	**23.0%**	35.7%	20.1%	17.6%
Services	**50.9%**	38.9%	52.1%	57.5%
A mix of products and services	**26.1%**	25.4%	27.8%	24.9%

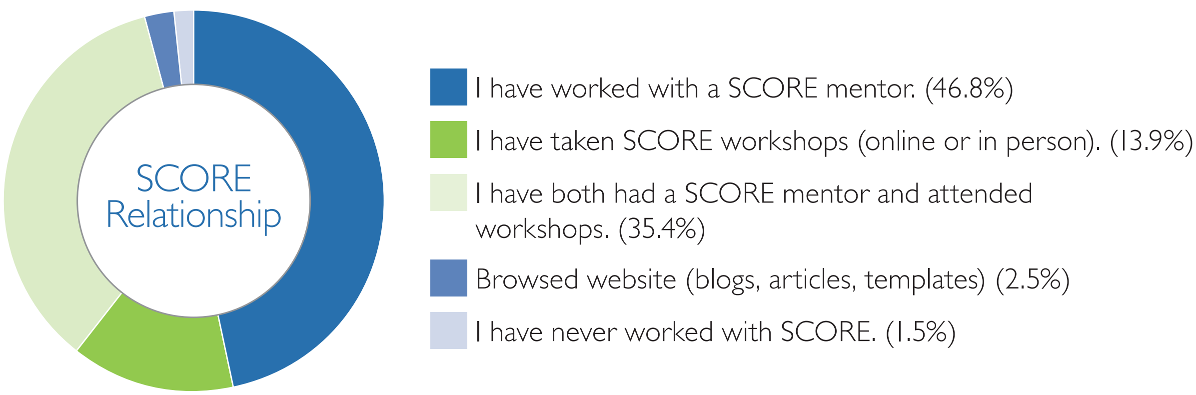
Product-based businesses produce tangible, consumable offerings, including retail establishments and manufacturing, while service-based businesses offer less tangible products such as IT consulting or medical services. An example of a mix of products and services would be a healthcare provider that also sells vitamin supplements.

Online vs. Brick and Mortar:

	Percent	Rural	Suburban	Urban
Primarily online	**17.8%**	19%	16.6%	16.9%
Primarily brick and mortar	**14.3%**	19%	15%	9.8%
Primarily in person (service)	**42.5%**	30.2%	45%	46.7%
A mix of online and direct	**25.4%**	31.7%	23.3%	26.7%

Rural entrepreneurs were more likely to have storefronts than urban startups (perhaps due to the cost of real estate) and were less likely to be service-based businesses.

Respondent Relationship with SCORE



It should be noted that the majority of survey respondents were SCORE clients, and had received mentoring and/or educational services from SCORE. While all reported findings are statistically significant, the absence of a control group of businesses that were not SCORE clients should be taken into account when analyzing implications of this data. In particular, 82% of respondents had previously worked with a SCORE mentor, and research shows that mentored businesses are more successful than non-mentored businesses[24].

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