

9 Small Business Trends That Should be on Every Entrepreneur's Radar

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If it seems like 2016 was a booming year for small business, it's because more entrepreneurs are going into business and staying in business. In fact, the survival rate for small businesses remaining in operation past their fifth year rose to 48.73 percent in 2016, compared to 45.95 percent in 2015. That's a 6 percent year-over-year increase, and the highest the survival rate has been since it started being indexed 30 years ago.

With over 28 million small businesses taking up residence on Main Street, my company, Guidant Financial, wanted to take a closer look at who today's small business owners are. We surveyed more than 1,000 of our small business owner clients, asking about their lives as entrepreneurs, how their businesses are performing and what struggles they're facing on a daily basis. Here's what we found to be the most noteworthy small business trends:

Small business owners are opportunistic — when they can afford to be.

At 37 percent, the top reason our clients went into business for themselves was because they were dissatisfied with corporate America. Along with this, the No. 2 reason individuals chose to pursue business ownership was due to the right opportunity presenting itself. The 2016 Kauffman Index of Start-up Activity refers to this as "opportunity entrepreneurship" and reports that 8 out of 10 entrepreneurs in 2016 started their business because they saw an opportunity rather than out of necessity (unemployment.)

Despite business owners' opportunistic nature, many are still having a hard time accessing the capital they need to take advantage of business opportunities. Guidant's small business clients listed "access to capital/cash flow" among their top two challenges, and according to a report from the National Small Business Association, 31 percent of business owners said they were not able to obtain adequate financing in 2016, up from 27 percent the year before. This has created a break for alternative small business funding methods to enter the market. My company, for example, saw a 5 percent uptick in the number of people who used their retirement funds to buy a business in 2016, which has primed them to take action when the time is right, rather than when money allows.



Baby boomers thrive in business ownership.

Between 2015 and 2016, Guidant saw an 83 percent increase in entrepreneurs under 40 who used 401(k) business financing to launch their new ventures, but there's room on Main Street for entrepreneurs of all ages. Baby boomers between the ages of 51 – 69 were our largest group of business owners, representing just under half of all survey respondents.

Times have changed, and there's no denying that people are working longer for a variety of reasons, from financial necessity to wanting to delay retirement. The 2016 Kauffman Index for Startup Activity shows that while the fastest growing group of entrepreneurs is those age 35 – 44, the age range for new entrepreneurs varies from 20 – 64, and these different age groups are represented almost evenly. Twenty years ago, the largest group of new small business owners was in the 20 – 34 age range, accounting for 34.3 percent of total entrepreneurs. The smallest group was age 55 – 64, accounting for 14.8 percent. These groups are now represented almost equally at 25 percent of total new entrepreneurs each.

Small business owners are happier in their new careers.

Entrepreneurs in our survey reported high levels of happiness in their entrepreneurial careers — an average 7.52 out of 10 — with little variance depending on what industry they worked in, how long their business had been in operation, or across different socioeconomic groups.

A 2014 report from Manta revealed that small business owners feel empowerment in creating their own earning potential and feel additional satisfaction in turning their passions into their career. This echoes various reports that say small business owners are happier than those working in the corporate world.

Traditionally underserved groups are turning to alternative funding.

Unfortunately, it's been documented that racial minorities traditionally have less access to capital for purchasing a business. According to a report by the Minority Business Development Agency, "Minority-owned businesses are found to pay higher interest rates on loans. They are also more likely to be denied credit, and are less likely to apply for loans because they fear their applications will be denied." If this trend continues, we expect to see an increase in the number of minority business owners turning to alternative funding methods, such as 401(k) business funding.



Deemed “Rollovers for Business Start-ups” by the IRS, 401(k) business funding allows individuals to use funds in a 401(k) or traditional IRA to buy a business. It’s not a loan, and there are no minimal credit requirements, which means applications and interest rates aren’t involved. In fact, Guidant saw a 35 percent increase in the number of minority-owned businesses using 401(k) business funding in 2016.

Small business owners are educated, but it’s not mandatory.

A large majority of our small business owner clients had some college education, but it’s more common to have not attended college than it was to have earned a doctorate. Eighty-two percent of Guidant’s survey respondents had an associate’s, bachelors or master’s degree, but 15 percent had only a high school diploma or GED. And an even lower percentage had a doctorate degree (3 percent). This signals that with the right experience, financing and support system, any aspiring business owner can pursue their entrepreneurial dreams, regardless of education.

Popular industries are poised for success.

Our clients are opening up shop in every arena from pet grooming to computer repair. The most popular industries for small business owners in 2016 were food and beverage; health and fitness; and business services. For more information on the health of these industries, we looked at the Kauffman Index of Growth Entrepreneurship. This report looks at the high growth of young companies, which is an important indicator for sustained growth in the industry as well as job output. Both health and fitness and business services were listed in the top five high-growth industries, while the food and beverage industry saw its highest year for growth since 2008.

Franchising is a popular option.

Regardless of industry, many entrepreneurs are opening the door to small business ownership through franchising. About 40 percent of our clients used our business funding services to purchase a new or existing franchise. The cost of acquiring a franchise starts as low a few thousand dollars for home-based companies and can reach into the millions for larger, well-known brick-and-mortar establishments. The majority of our clients who purchased a new franchise spent \$50,000 – \$100,000, while existing franchises usually cost anywhere from \$101,000 – \$175,000.



Going into business can be affordable.

Buying a small business can easily turn into a multi-million-dollar deal, and many Guidant clients who secure an SBA small business loan obtain close to the \$5 million maximum limit. But it is possible to start a business with a lower price tag for business owners on a tighter start-up budget. We found that almost 30 percent of our clients spent less than \$100,000 total to acquire their business. Although this is no small price, there are now more funding options than ever before, and entrepreneurs don't need to be millionaires to afford making their dreams of business ownership a reality. In fact, the combined household income for the majority of new entrepreneurs is less than \$150,000.

Small businesses are looking to expand in 2017.

The top two challenges small business owners faced in 2016 were recruiting and retention of employees and lack of capital/cash flow. Over 30 percent of respondents also indicated they struggled with time management, as well as marketing and advertising.

Even though small business owners do have concerns over lack of capital, they are looking to grow. We asked our clients how they would invest additional business capital, and 48 percent indicated they would use it to expand.

Despite the recent uncertainty about us the U.S. economy following President Donald Trump's election, the dust is beginning to settle and entrepreneurs are able to focus their attention toward their business's success.

