



Accelerating the Momentum of American Entrepreneurship: A Paychex Small Business Research Report

An analysis of American entrepreneurship during the past decade and the state of small business today

PAYCHEX

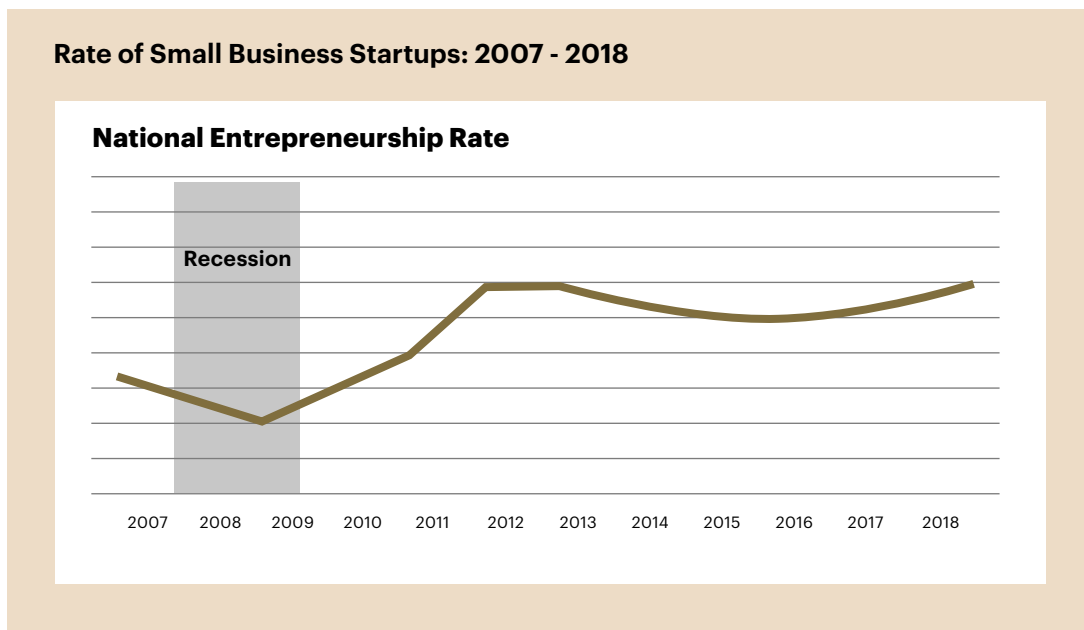
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SECTION 1

The State of Entrepreneurship and Small Business, According to the Data:

An Analysis of Startup Activity Since the Great Recession

Coming out of the recession, small business entrepreneurship has played an important role in the economy. Based on a historical analysis of a subset of its small business clients (1-49 employees), Paychex evaluated the rate of small business entrepreneurship before, during, and after the recession



The rate of entrepreneurship grew immediately following the recession, peaking in 2012 and 2013, and then moderated, declining slightly until 2017 when it began to accelerate again.

In the first quarter of 2018, small business entrepreneurship was near its best pace since the recession. Additionally, since 2014, the rate of business failures has consistently continued to trend lower.

Key demographics impact the rate of entrepreneurship, such as:

Gender:

The percentage of woman-owned small business startups was historically lower and decreased significantly during the recession. Today, the gap is closing between the number of male and female entrepreneurs. In 2007, there was one woman in every four entrepreneurs and, as of 2017, there is now one woman in every three entrepreneurs.

When examining gender data by industry sector, Education and Health Services is the only industry where females have a higher startup rate than males.

Age:

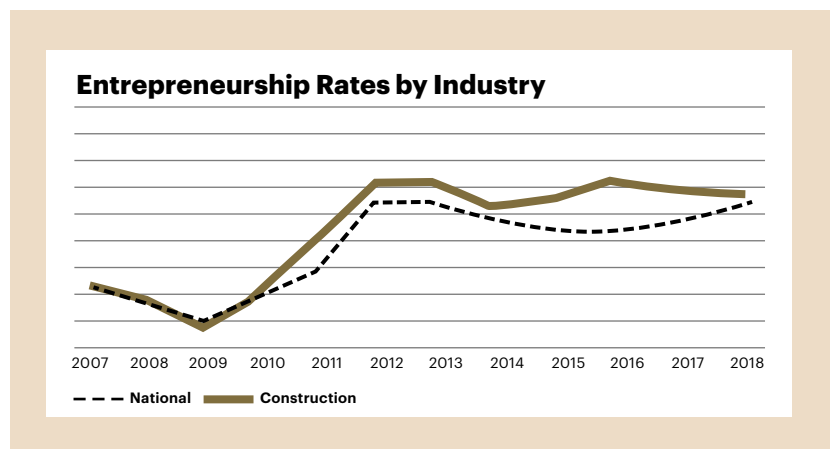
In the past decade, the percentage of new business starts by owners 50-plus years old has increased considerably. In 2007, there were two 50-plus year old entrepreneurs in every 10. Today, the rate stands at three in every 10.

The manufacturing industry boasts the highest percentage of business owners aged 50 years and older, and leisure and hospitality has the highest percentage of business owners under 50 years old.

Industry:

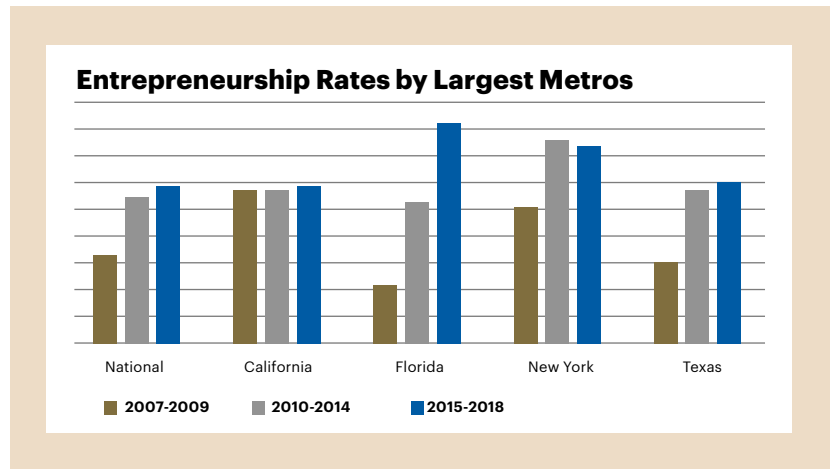
Small businesses in the construction industry were hit hardest during the recession, far outpacing business failures in other industries. While that failures trend continued for several years following the end of the recession, the rate of startups in the Construction industry increased for three years immediately after the recession and has held steady since then.

With a slower pace of business failure, small businesses in the education and health services industry were able to weather the recession better than other industries.



Location:

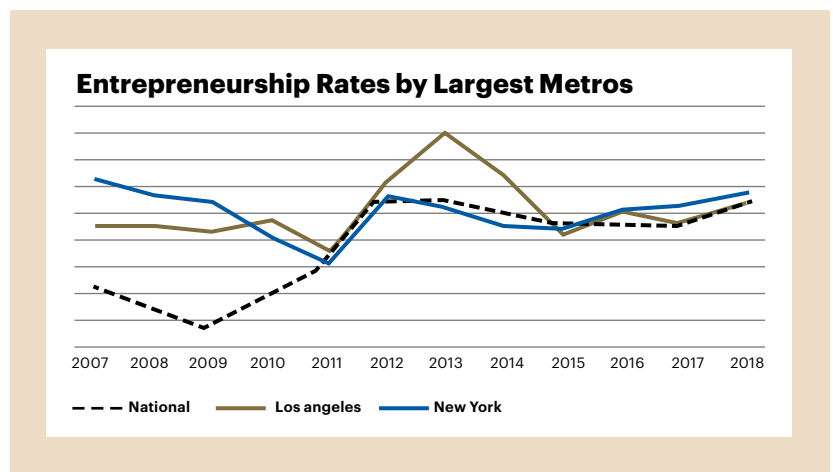
Though Florida had the lowest level of small business entrepreneurship of the four most populous states (California, Florida, New York, Texas) going into the recession in 2007, the state has performed consistently strong over the past decade and now has the highest level of small business entrepreneurship among those four states.



During the first quarter of 2018, the rate of small business starts in the South, as a region overall, outpaced other regions, consistent with the growth seen in Florida.

Entrepreneurship was strong in the West prior to the recession but has been unable to recover its previous pace.

The two most populous metros, Los Angeles and New York, continued to show strong small business startup activity during the recession. Small business entrepreneurship there was not nearly as negatively affected during the economic downturn as other places.



SECTION 2

The State of Entrepreneurship and Small Business, According to Business Owners: Current Attitudes and Perceptions

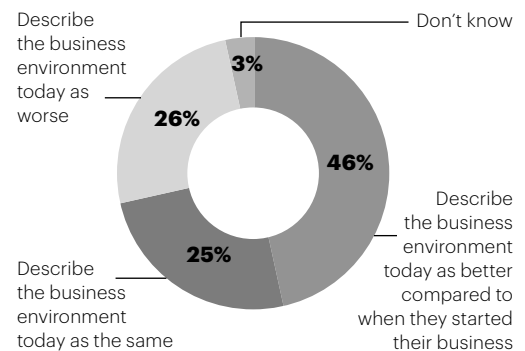
The majority of small business owners would recommend starting a business today.

More than three quarters of small business owners (79%) would recommend starting a business today, while 21% would not.

71% of business owners describe today's business environment as either better or the same compared to when they started their business. Of those respondents, 46% said the business environment is better and 25% said it is the same. Only 26% of business owners describe today's business environment as worse.

Business owners who started their company during or closely following the recession (4-9 years ago) were more likely (57%) to say the business environment is better today than when they started. Among those who started their companies 10 to 19 years ago or 20 or more years ago, only 44% and 32%, respectively, said the business environment is better compared to when they started their company.

79% would recommend starting a business today
21% would not recommend starting a business today



Business size also had an impact on owners' outlook:

- 81% of business owners with 100-500 employees say the business environment is better today than when they started, compared to 69% of owners with 20-99 employees, and 46% of owners with 1-19 employees.
- Owners of larger businesses were also more likely to recommend starting a business today. 94% of owners with 100-500 employees and 91% with 20-99 employees would recommend starting a business today compared to 78% of owners with 1-19 employees.

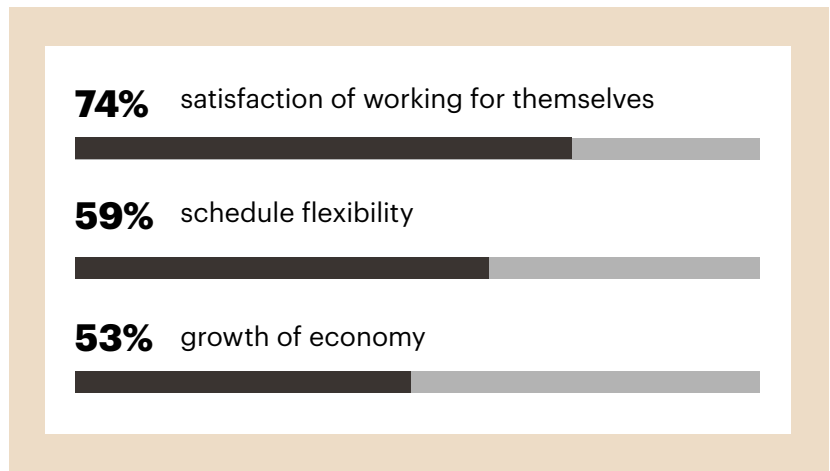
Why Do Entrepreneurs Recommend Starting a Business Today?

Entrepreneurs across the board thrive off the satisfaction of working for themselves and controlling their own schedules.

Of those business owners who would recommend starting a business today:

Most (74%) cited the satisfaction of working for themselves as a reason they'd recommend starting a business today.

- Satisfaction of working for themselves was the top reason business owners age 50 plus (78%) and 35-49 (76%) said they'd recommend starting a business.



The second most popular (59%) reason why business owners recommend starting a business is the schedule flexibility entrepreneurship offers that working for someone else may not.

- 67% of women selected this option compared to 47% of men.
- This was also the most popular option (67%) among business owners age 18-34, reflecting the flexible work trend valued by millennials and Generation Z.

The growth of the economy was also high on business owners' list of reasons to start a business today (53%).

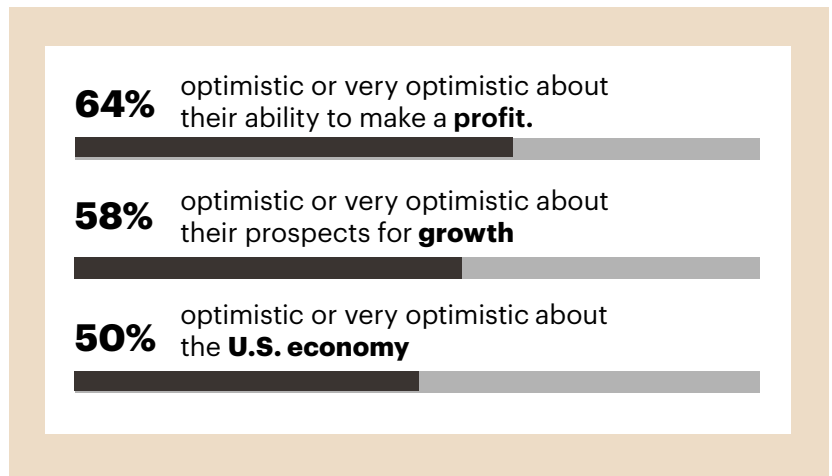
Would-be entrepreneurs must also contemplate the reasons not to open a business in the current climate. When those business owners who said they would not recommend starting a business today (21%) were asked why not, 76% said that the economy is difficult for small businesses.

Today's Entrepreneurs are Optimistic About Their Ability to Make a Profit and Grow

For the most part, business owners today have a positive outlook on their future, but they are realistic about the challenges they face.

Based on the current business climate, business owners are optimistic about the future of their businesses:

- Nearly two-thirds (64%) are optimistic or very optimistic about their ability to make a profit.
- 58% are optimistic or very optimistic about their prospects for growth.
- 50% are optimistic or very optimistic about the U.S. economy.



Business owners aged 18-34 are the most optimistic age group about their ability to hire and raise wages; 52% and 54% are at least somewhat optimistic about these issues, respectively.

Owners who have been in business 4-9 years were the most optimistic business age group on every issue, from their ability to make a profit, to their prospects for growth, to the economy overall and their ability to hire and raise wages.

Though cases of financial fraud and cyberattacks are frequently in the news, 78% of business owners are only slightly or not at all concerned about the threat of financial fraud, and 79% are only slightly or not at all concerned about the threat of a cyberattack.

But some of the everyday, inevitable issues facing their businesses remain concerning for entrepreneurs:

- 90% of business owners are at least slightly concerned about rising costs (38% are very concerned).
- 84% of business owners are at least slightly concerned about taxes (37% are very concerned).
- 67% of business owners are at least slightly concerned with finding quality employees (30% are very concerned).
- Approximately 25% of business owners are at least somewhat pessimistic about their ability to hire and raise wages, respectively.

But Entrepreneurs Must Also Overcome Barriers

Business owners are most concerned with access to capital when starting a business, but once the business is up and running, the threat of competition reigns supreme as their biggest barrier

Today's business owners ranked the biggest barriers to getting started by most challenging to least challenging:

- 1 Access to capital (28%)
- 2 Competition in general (25%)
- 3 Lack of adequate business planning (24%)
- 4 Competition from online businesses (22%)
- 5 Finding quality employees (19%)
Complying with regulations (19%)
Taxes (19%)

Access to capital was the biggest barrier to starting a business (28%), closely followed by competition in general (25%) and lack of adequate business planning (24%).

Age and the industry also played a role in how business owners ranked their top challenges.

Business owners aged 18-34 were less likely to be concerned with finding good employees as a barrier (7%) than their older counterparts (23% in the 35-49 age group and 21% in the 50 plus age group).

Business owners in the manufacturing industry were most concerned with finding quality employees (39%), while those in professional services think the biggest barrier to starting a business is access to capital (30%). Owners of retail/wholesale companies find competition from online businesses (29%) to be most challenging.

Those barriers evolve as the business grows

The biggest, most challenging barriers to running a business according to today's small business owners are:

- 1** Competition in general (31%)
- 2** Competition from online businesses (24%)
- 3** Access to capital (22%)
Managing cash flow (22%)
- 4** Taxes (22%)
Complying with regulations (22%)
- 5** Finding quality employees (22%)
- 6** Lack of adequate business planning (19%)

Competition in general and competition from online businesses are owners' top two barriers to running a business at 31% and 24%, respectively. Access to capital and managing cash flow come next on the list, both at 22%.

Lack of adequate business planning falls down the list as businesses get up and running but remains more challenging for younger business owners (26% for those aged 18-34 compared to 19% overall). Lack of adequate business planning was also the top most challenging barrier for business owners who started their company less than four years ago (29%).

Finding (and Keeping) the Right Employees

The tightening labor market is having an impact. Nearly one-third of business owners are very concerned about finding quality employees and just over a quarter (26%) are pessimistic about their ability to hire.

Only 39% of business owners said they are optimistic or very optimistic about their ability to hire, and 30% said they are very concerned about finding quality employees – consistent with the tightening labor market.

26% of men chose finding quality employees as a top barrier to running a business compared to 16% of women.

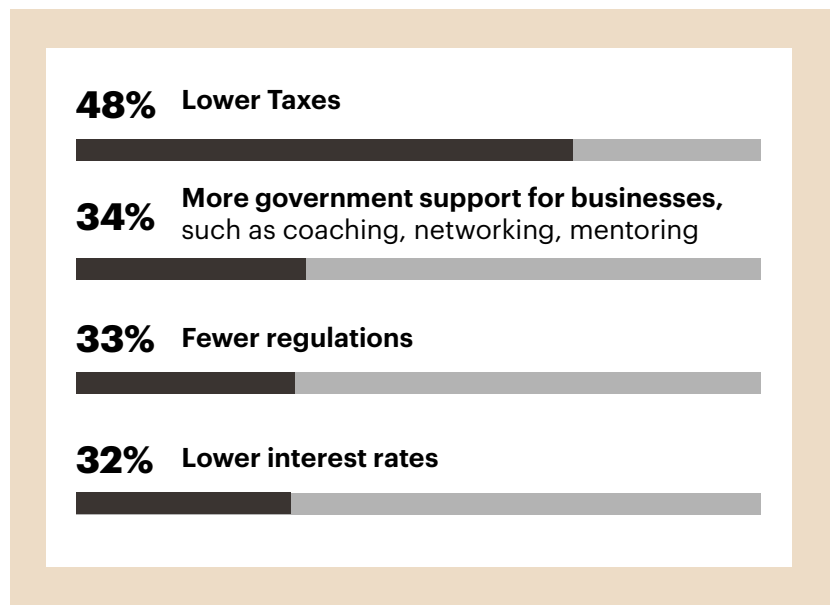
The gig economy is another factor in the employment situation. 35% of business owners agree that the rise of the gig economy and contract workers is good for their business, but 51% still aren't sure whether this employment option is a good one for their organization

Entrepreneurs Count on Government Policies to Help Them Overcome Their Barriers and Encourage New Business Formation

The business environment is always in flux, and new business regulations with the potential to encourage business formation are always on the horizon.

Business owners want the government to support them with coaching, networking, and mentoring programs, but also want the government to impose fewer regulations and lower taxes.

Business owners think lower taxes (48%), followed by more government support for businesses, e.g., coaching, networking, or mentoring (34%), fewer regulations (33%), and lower interest rates (32%), are the changes in government policy that would be most effective in encouraging business formation.



Business owner age and length of time in business impacted the policy changes they ranked as most effective:

Business owners age 50 and older are nearly two times more likely (39%) than business owners age 18-34 (20%) to rank fewer regulations in their top two most effective policy changes.

Compared to 14% of business owners overall, 29% of business owners aged 18-34 would like to see more government training and support for digitizing businesses, as would 20% of owners in business less than 4 years and 22% in business 4-9 years.

Owners in business more than 20 years were two times more likely (46%) to rank fewer government regulations among their top two policy changes than business owners of less than 4 and 4-9 years (both 23%).

Entrepreneurs Grow Their Businesses at Their Own Speed

Every business faces unique challenges and opportunities based on the current business environment, and each business owner seeks different outcomes from their entrepreneurial endeavors.

Only 11% of business owners say rapid growth is their top priority at this time. The majority are happy to remain comfortably profitable or grow at a moderate rate.

“Comfortably profitable” was the top choice for male owners, owners in business 10 or more years, and owners age 50 or older.

“Manageable rate” was the top response from female business owners, owners in business nine or fewer years, and owners 18-34 years old.



Small Business Owners on Retirement

Regardless of whether they're an entrepreneur or an employee, retirement is a goal of most Americans, but entrepreneurs face different challenges when planning for retirement.

41% of business owners are at least somewhat optimistic about their ability to retire comfortably; 23% are neither pessimistic nor optimistic; and 37% are at least somewhat pessimistic.

Not surprisingly, younger business owners (aged 18-34) are most optimistic about their ability to retire comfortably (63%) compared to owners 35-49 years old (33%) and 50 years and older (40%).

Only 30% of business owners say they're relying solely on the sale of their business to fund their retirement.

Takeaways

What Does This Mean for Would-Be Entrepreneurs as well as Current and Potential Business Owners?

Business owners agree that it's a good time to start a business, and the data shows that more Americans are doing just that.

Entrepreneurs are optimistic about their ability to start, although barriers exist. These challenges will continue to evolve with new technology and government regulations.

Though business owners are concerned with some of these barriers, they feel that certain policy changes would make the business environment even better for those looking to start a business today.

Methodology

Entrepreneurship Analysis - Section 1

Utilizing readily available, aggregated payroll information from a subset of its clients, Paychex developed an empirically driven analysis to measure the rate of small business entrepreneurship in the United States over the past decade. For this analysis, small business entrepreneurship was defined as new business starts as a percent of total sales. Small businesses were defined as having 1-49 employees. Historical results were summarized monthly, seasonally adjusted using X13 ARIMA, and reported using annual averages to create a simple, meaningful indicator of entrepreneurship levels. Trending the results reveals movement in small business entrepreneurship. An upward trend represents an increase in entrepreneurship, while a downward trend is a sign of a slowdown.

Survey Data - Section 2

All data on attitudes and perceptions among the small business community was taken from the results of the Paychex Small Business Survey, administered by Bredin, a third-party research firm specializing in small business. The survey was conducted online between March 9, 2018 and March 19, 2018 and polled 500 principals of U.S. companies with fewer than 500 employees.

About Paychex

Paychex, Inc. is a leading provider of integrated human capital management solutions for payroll, human resources, retirement, and insurance services. By combining its innovative software-as-a-service technology and mobility platform with dedicated, personal service, Paychex empowers small- and medium-sized business owners to focus on the growth and management of their business. Backed by more than 45 years of industry expertise, Paychex serves over 650,000 payroll clients as of May 31, 2018, across more than 100 locations in the U.S. and Europe, and pays one out of every 12 American private sector employees. Learn more about Paychex by visiting www.paychex.com, and stay connected on Twitter and LinkedIn.

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To learn about how Paychex Flex® could be the right HR tech for your business, visit payx.me/RightTech.



How Paychex Can Help

Regardless of which government policy and regulatory changes come to pass, resources are available to new and current business owners. Paychex offers a full range of HR services, from getting new businesses set up with payroll and HR basics like employee handbooks, to implementing time and attendance software and recruitment management programs, as a company grows. Visit www.paychex.com to learn more.

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