The Kauffman Foundation and LegalZoom

WHO STARTED NEW BUSINESSES IN 2013?

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Overview

2013 witnessed no shocking boom of economic activity, but the long recovery continued apace and some signs of normalcy even began to trickle back into sight. Entrepreneurs are one of the keystone species of the economy, often helping us assess these broader trends in overall economic health, but data on them and their nascent ventures can be scarce.

Continuing the work started by a 2012 inaugural survey, the Kauffman Foundation and LegalZoom recently finished collecting data from 720 responses to a second annual survey sent out in 2013 to newly incorporated business owners. The results reflect how the economy has moved in the past year—slowly, but trending upward, and here and there we can start to see flashes of a recovery in acceleration.

Before we begin, we emphasize that the low sample size and unique selection pool (i.e., having recently incorporated specifically using LegalZoom) mean that this should not be taken as emblematic of entrepreneurship as a whole—but these respondents give us a valuable snapshot of how some of the most agile young businesses are forming and what they are like.

Demographics I: Little to no change

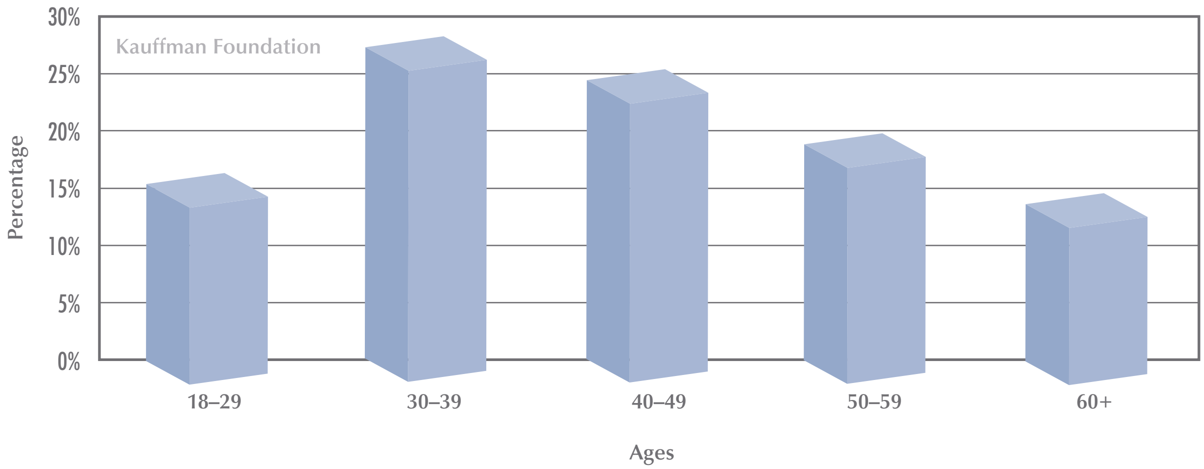
Because 2013 is the second year we've run this annual survey, there is value in making sure this year's sample is comparable to last year's in some basic ways. If the samples are roughly similar in some broad, mainly demographic measures, then we can more validly ascribe differences that we *do* see to changes in the business environment from 2012 to 2013, rather than to a changing sample.

Beginning with a simple gender breakdown, we find that our sample falls broadly in line both with last year's sample and with other studies of entrepreneurship. In our sample, 35.14 percent of respondents are women, which is an increase of 4 percentage points from last year and right around the one-third mark we would generally expect. Although 4 points is not a huge difference, we might interpret the gain as an indicator of broader economic recovery. Since the recession hit men harder than women, and we know that non-employer entrepreneurship rates are countercyclical, a rising share of female entrepreneurship could be due to more men getting back into salaried work (or fewer leaving it). Such a story would accord with the falling unemployment rate in 2012, even though a falling labor force participation rate has been a driving factor there.

Moving into the age splits of our sample, we once again see pretty negligible differences from last year. As with gender, our respondents' ages are in line with other work on entrepreneurs, as the majority of founders both broadly and in this sample fall between thirty and forty-nine years of age (Figure 1).

As noted, there hasn't been much of a shift in the age composition of our sample from 2012 to 2013. There was a slight drop-off in respondents aged 18–29, but a slight rise in the 30–39 category; similarly, a small decrease in 50–59 was met with a bump among entrepreneurs 60+. If we cross-tabulate age with gender, we see the same trend as 2012—

Figure 1
Age Distribution

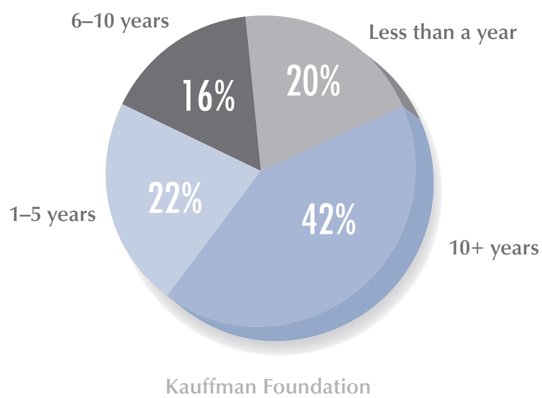


women are again more likely to be younger compared to the whole sample (with slightly higher shares in the 18–29 and 30–39 brackets), and they are far less likely to be 60+ (making up only 25 percent of entrepreneurs in that oldest age category).

Just as with age and gender, when we asked about prior work experience in the relevant industry, we received nearly identical responses to last year (Figure 2).

Compared to 2012, we see just a 2 percentage point decline among those with 1–5 years of experience, and that is made up for by a rise of a point each in "Less than a year" and "10+ years." It is doubtful that these miniscule shifts in age and experience mean anything other than that we have a new sample this year, and that our n isn't high enough to wash out changes of a percentage point or so. Regardless, as we noted above, sometimes no story at all is exactly what we hope for—the fact that many of these basic demographic measures are similar will make the differences we do observe more meaningful.

Figure 2
How many years of previous industry work experience did you have before starting this company?



The majority of survey respondents report having at least half a dozen years of prior industry or work experience before starting their present businesses.

Demographics II: Small movement, muddy interpretations

While most basic demographic measures did not change very much from 2012 to 2013, there were some contained but clear shifts in the founders' characteristics this year.

In 2012, 44.7 percent of respondents had previously started businesses, but that dropped in 2013 to 41.4 percent. Furthermore, in 2013 only 48 percent of those who started companies previously had started more than one, which is a drop of 4 percentage points from last year.

Much of serial entrepreneurs' performance can be explained by selection effects (i.e., if you're good at starting businesses, it's easier to start multiple), but we also know that there are positive learning effects from serial entrepreneurship.[1] So, both drops cited above suggest that this cohort of founders will have less success than 2012's group did—either because they have less inherent ability, and/or because they have had fewer previous ventures from which to learn. It is hard to say what (if any) directional relationship this finding should have with the broader economy, and we emphasize that the drop is relatively minor, but it is something to keep an eye on for now (Table 1).

As we can see from an age breakdown of these numbers, the drop in experience was driven by the older cohorts. In particular, those aged 40–49 who had previously started businesses dropped six points from 2012, and the share of founders aged 50–59 with previous entrepreneurial experience dropped five points. Any number of stories come to mind here, but none in particular are glaringly convincing.

Moving into the entrepreneurs' educational background, our job of interpretation does not get any easier, as we find a mixed bag compared to last year.

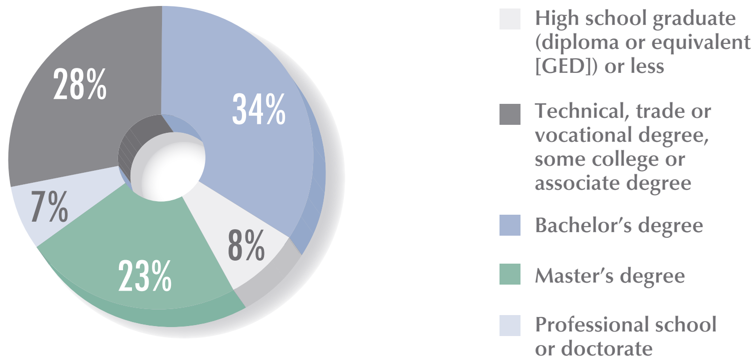
Table 1

Companies Started

Besides this one, how many other businesses have you started?	Total Responses	18–29	30–39	40–49	50–59	60+
5	17		3	2	6	6
4	8		1	1	4	2
3	31	1	5	10	6	9
2	88	5	12	26	24	21
1	154	18	49	39	26	22
0	422	88	127	99	70	38
Totals	**720**	**112**	**197**	**177**	**136**	**98**
Total, have previously started company	298	24	70	78	66	60
Percentage of Total	**41%**	**21%**	**36%**	**44%**	**49%**	**61%**

1. Chen, Jing. "Selection and Serial Entrepreneurs." *Journal of Economics & Management Strategy*, Volume 22, Number 2, Summer 2013, 281–311.

Figure 3
Highest Degree Attained



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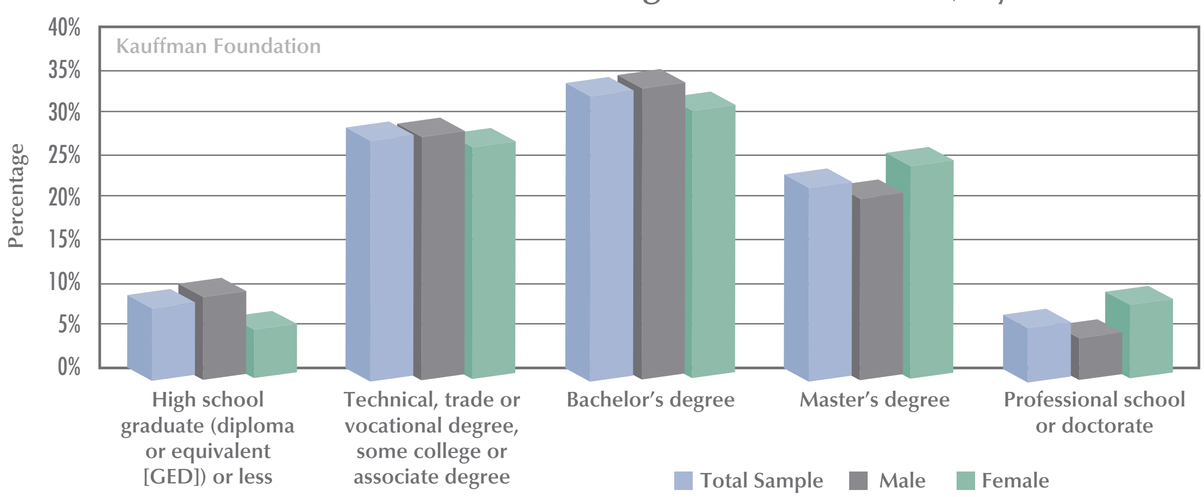
Specifically, high school as the highest degree is down 2 percentage points from last year, bachelor's completion is down 3 points, and professional school or doctorate attainment is down 1 point—but all 6 points of the matching gains came from master's degree holders (Figure 3).

As expected, since there was not much movement in educational attainment as a whole, a gender breakdown reveals a similar picture as last year (Figure 4). We do, however, notice that women appear to have captured most of the gains in the master's degree breakdown, which aligns both with broader national trends of women outpacing men in education and with the increased share of women in this year's sample.

When we switch from an educational cross-tabulation by gender to one by age, we come across our first notably different results from 2012.

Two big shifts stand out: first, the share of 18–29 year olds whose highest attained degree

Figure 4
Educational Attainment among Business Owners, by Gender

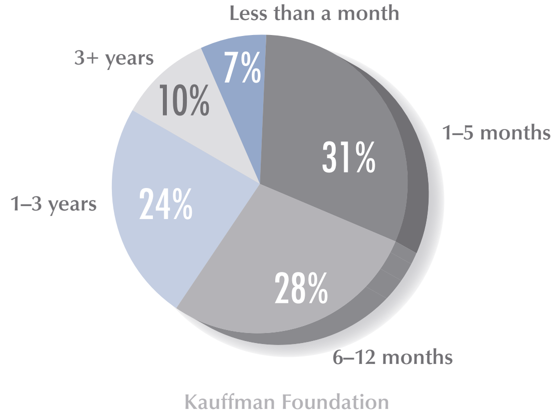


was technical/trade/vocational/some college rose significantly from last year, almost matching those with bachelor's degrees. That is in stark opposition to last year, when bachelor's degrees among that age group dominated, beating out technical et al. by about 20 percentage points. The second big change to highlight is the meteoric rise of master's degree attainment among 60+ year olds—from below 20 percent and a clear third place last year, to more than 30 percent and a clear first place in 2013. Although all ages gained some master's holders, the 60+ category clearly felt the impact most—but for no particular reason that stands out to us. (Figure 5).

Finally, we have one very interesting and unique point of data that is extraordinarily difficult to interpret, but certainly worth mentioning. Typically, the time before a business incorporates is a black box, not least because it is hard to define when an entrepreneur truly starts "working" on an idea. To get a sense of at least the length of that gestation period, though, we asked respondents how long they spent developing their ideas before their companies became legal entities (Figure 6).

Figure 6

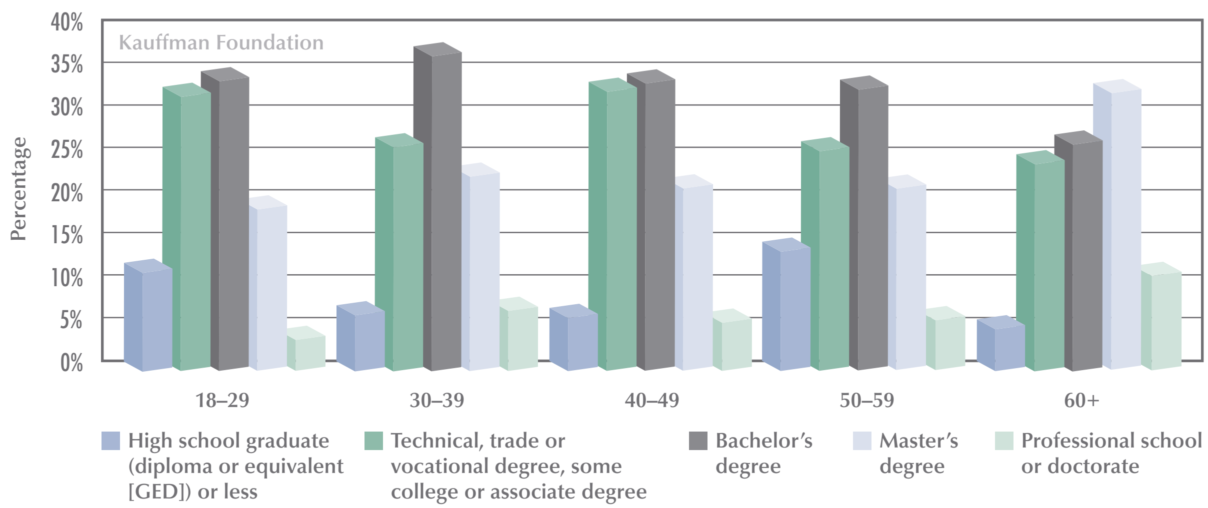
How long did you work on developing this business idea before the company became a legal entity?



34 percent spent more than a year, about the same as last year, and 6.5 percent spent less than a month, dropping from 9 percent last year.

Figure 5

Educational Attainment among Business Owners, by Age Group



While it's an imperfect and subjective question, we nonetheless got similar results to 2012—34 percent spent more than a year, about the same as last year, and 6.5 percent spent less than a month, dropping from 9 percent last year. Again, it is hard to say just how to assign meaning to these responses, but we consider this just a first crack toward understanding what happens *before* entrepreneurs get on most data collectors' radar—a crucial time period with a conspicuous dearth of data.

Business Characteristics: Modest, positive trends

Moving from founder to business characteristics, we continue to see small shifts from 2012, but we also see in this section some flashes of bigger change. As last year, we begin this portion with a reminder that, because the businesses are new, the majority naturally will be small. Not every entrepreneur follows this trend, but we should approach our sample with the expectation that most of these companies are not yet world-beaters.

That being said, 68.5 percent of businesses in our 2013 sample have no employees other than the owner(s), whereas 26.5 percent have one to four employees. Respectively, these percentages are down 1.35 points and up 1.5 points from the previous year. The slight, positive trend accords with our story of a modest but steady recovery in 2013.

As far as the sectoral breakdown, Consulting once again dominates the list, with 12 percent of the sample, followed by many of the usual suspects from 2012 to round out the top ten (Table 2).

Consulting, Technology, Other Services, and Construction held about even, whereas Retail Stores inched up 2 percentage points and Sales rose 1 point, while Real Estate and Business Services each fell 2 points. Health Care and Education made their debut on the top ten, bumping out Entertainment and Home Services from last year.

Because our sample is smaller in 2013 than it was in 2012, there were only a few businesses (thirty-five total) with more than five employees. Surprisingly,

Table 2

Business Activity

Type of Business Activity	Frequency	Percent of Total
Consulting	91	11.93%
Retail Store	56	7.34%
Technology: Internet (eCommerce, website)	44	5.77%
Service: Other services	41	5.37%
Construction / Contractor	32	4.19%
Sales	31	4.06%
Service: Business services	26	3.41%
Education and Instruction	26	3.41%
Health care	26	3.41%
Real Estate	26	3.41%

though, Technology companies led the way in the category this year, rising from only eighth in 2012.

Among those businesses that had more than five employees, the most common business activities are:

- Technology: Internet (eCommerce, website)
- Food and Beverage (Service)
- Sales
- Retail Store
- Health Care
- Service: Security services

Switching our attention back to measures of size, we find expectedly that the businesses in our sample are mainly small—77.5 percent had revenue below $50,000. However, that mark is 4.5 percentage points lower than last year, and a full 12 percent had revenues above $100,000, which is 4 points higher than in 2012. These are small shifts, but, again, they show that, in 2013, the arrow was pointing up, if only modestly.

If we break down the revenues by gender, we find some more encouraging news as compared to last year (Table 3).

Table 3

Revenue by Gender

	Number of companies	Percent of annual revenue by income level and gender
0–$49K	**559**	**77.64%**
Female	203	36.31%
Male	356	63.69%
$50K–$99K	**75**	**10.42%**
Female	18	24.00%
Male	57	76.00%
$100K–$249K	**49**	**6.81%**
Female	17	34.69%
Male	32	65.31%
$250K–$499K	**21**	**2.92%**
Female	8	38.10%
Male	13	61.90%
$500K–$1 million	**8**	**1.11%**
Female	5	62.50%
Male	3	37.50%
$1 million+	**8**	**1.11%**
Female	2	25.00%
Male	6	75.00%
Grand Total	**720**	**100.00%**

Unlike in 2012, we do not see the gender imbalance steadily worsening as revenue increases (with the exception of $1 million+)—instead, the share of women entrepreneurs holds fairly steady across the range of revenues, and even flip-flops (albeit with an extremely low n) at $500,000–$1 million.

The final business characteristic that we want to take a look at is funding sources, one of the most crucial statistics we have on new business owners. Before we dive in, note that these options were not mutually exclusive in the survey—respondents could check more than one box. In 2013, 86 percent of our sample used personal savings, which is a massive 20 point jump up from 66 percent last year. Sixteen percent reported using credit cards, an increase of 6 percentage points, while 8.5 percent used retirement savings and 6.5 percent secured bank or home equity loans, with both of those figures representing increases of 2 points from 2012. While it's encouraging to see the smaller bumps, the big story is obviously the jump in use of personal savings. This is a striking and strongly heartening increase, and we hope it signals a broader economy-wide shift from savings to investment—a key mentality switch among the nation's wealth holders that would be, by definition, an indication that recovery has truly arrived.

Operations

Finally, we take a quick look at the various difficulties that entrepreneurs might have in forming a new business and running their nascent ventures. With regard to general business difficulties, 37 percent did not list any, down 3 percentage points from last year. Among those who did, 36 percent cited unpredictability, which is a massive decline of 19 points from 2012's figure of 55 percent. Reinforcing that positive result, 28 percent of those who had a business difficulty listed lack of access to credit, down from 45 percent in 2012. These huge declines are the strongest evidence we find in this survey for improving business conditions and, therefore, for an improving economy. Much of the improvements in predictability probably stem from political reasons (e.g., we're out of an election year), but, regardless of the cause, this big trend should mean that businesses are more comfortable investing. Furthermore, such investments should be easier to make, as it appears that access to credit is far less of a problem in 2013 than it was in 2012.

Wrapping up 2013

Undoubtedly, economic pessimism lingers in the air, especially among macroeconomists with names like Summers. Even the most negative views are starting to perk up a bit, though, and for every piece of evidence we can put together to support secular stagnation, it seems that two opposite reasons spring up in favor of growth.

These surveys are the smallest fraction of a very large puzzle—entrepreneurship—which itself is only a piece of the even broader economy. Nonetheless, these several hundred entrepreneurs are attuned to the pulse of the economy—they wade through government to set up shop, sell directly to their first customers just to stay alive, and compete with each other (knowingly or not) for just a small slice of the pie. Entrepreneurs are engaged with the economy on a daily basis in a visceral, immediate way that most of us happily avoid; and when they return briefly with dispatches from the front like these, it may only be a small picture, but it is a vibrant, moving, and telling one.

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