

HOW HAS COVID-19 CHANGED CHALLENGES FOR ENTREPRENEURS?

IMPLICATIONS FOR ENTREPRENEURSHIP SUPPORT

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How Has COVID-19 Changed Challenges for Entrepreneurs? Implications for Entrepreneurship Support

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Executive Summary

COVID-19 has brought widespread changes to the lives and livelihoods of entrepreneurs across the United States. The compounded pressures related to public health, the economy, and the policy environment under COVID-19 have created a great deal of both personal and business uncertainty; and have fundamentally disrupted the entrepreneurial economy. Many businesses closed their brick-and-mortar locations, changed their business operations, and faced significant uncertainty related both to the pandemic as well as to the market, societal, and public policy responses accompanying it. The widespread economic effects of the crisis have changed consumer demand and behavior, and its global impact has had implications for supply chains. Entrepreneurs are facing a threat to their health and that of their families, employees, and customers, as well as an economic recession and a new, more complicated policy and regulatory environment. These pressures are compounded by the substantial uncertainty about future changes in each of these domains.

How is COVID-19 affecting entrepreneurs? And how has it changed the challenges that they face? This report shares findings from a spring 2020 survey of 850 entrepreneurs about their experience during the pandemic, and compares them to results from a survey of more than 400 entrepreneurs in fall 2019, prior to the pandemic.

Highlights include:

- **Finding customers.** The challenge most often cited by entrepreneurs under pandemic conditions was finding customers: nearly 3 in 4 entrepreneurs (72%) reported that finding new customers was very challenging or somewhat challenging. This represents an increase from the 62% of entrepreneurs who reported this was a challenge prior to the COVID-19 pandemic. In open-ended responses, entrepreneurs discussed the difficulty they face in finding new clients when they are unable to meet with people in person. They also noted that consumers are less willing to spend money on goods or services that they do not see as necessities, resulting in decreased demand for many new businesses during the pandemic.
- **Self-doubt and fear.** Half of entrepreneurs (50%) reported self-doubt and fear as a challenge under pandemic conditions – an increase from 42% before the pandemic. While feelings of self-doubt and fear were not among the top five challenges reported by entrepreneurs prior to COVID-19, it was the fourth most commonly cited barrier during the pandemic. It is noteworthy that the pandemic has amplified entrepreneurs' self-doubts and fears about health and safety, both for themselves and for their employees and customers.
- **Finding skilled employees.** Just over a third of entrepreneurs (36%) reported that finding skilled employees was a challenge under pandemic conditions. This is noticeably lower than the more than half (53%) who reported this as a challenge prior to the pandemic. Before the pandemic, entrepreneurs who shared challenges related to employees focused on finding and retaining talent. During the pandemic, challenges in this realm were largely related to managing and connecting with employees who are working remotely, keeping employees healthy and safe, and being able to make payroll.

Entrepreneurs are facing a threat to their health and that of their families, employees, and customers, as well as an economic recession and a new, more complicated policy and regulatory environment.

Challenges among entrepreneurs in the United States during the COVID-19 pandemic

The challenge most often reported by entrepreneurs was **finding new customers** – by nearly 3 in 4 entrepreneurs (72%) with 38% of entrepreneurs reporting it to be very challenging. Nearly 3 in 5 entrepreneurs (58%) cited **keeping existing customers** as a challenge.

About half of the entrepreneurs surveyed cited funding as a challenge, with 53% reporting that **funds to grow the business** and 47% reporting **funds to start the business** were very challenging or somewhat challenging. Half of the entrepreneurs surveyed (50%) reported **self-doubt and fear** as a challenge.

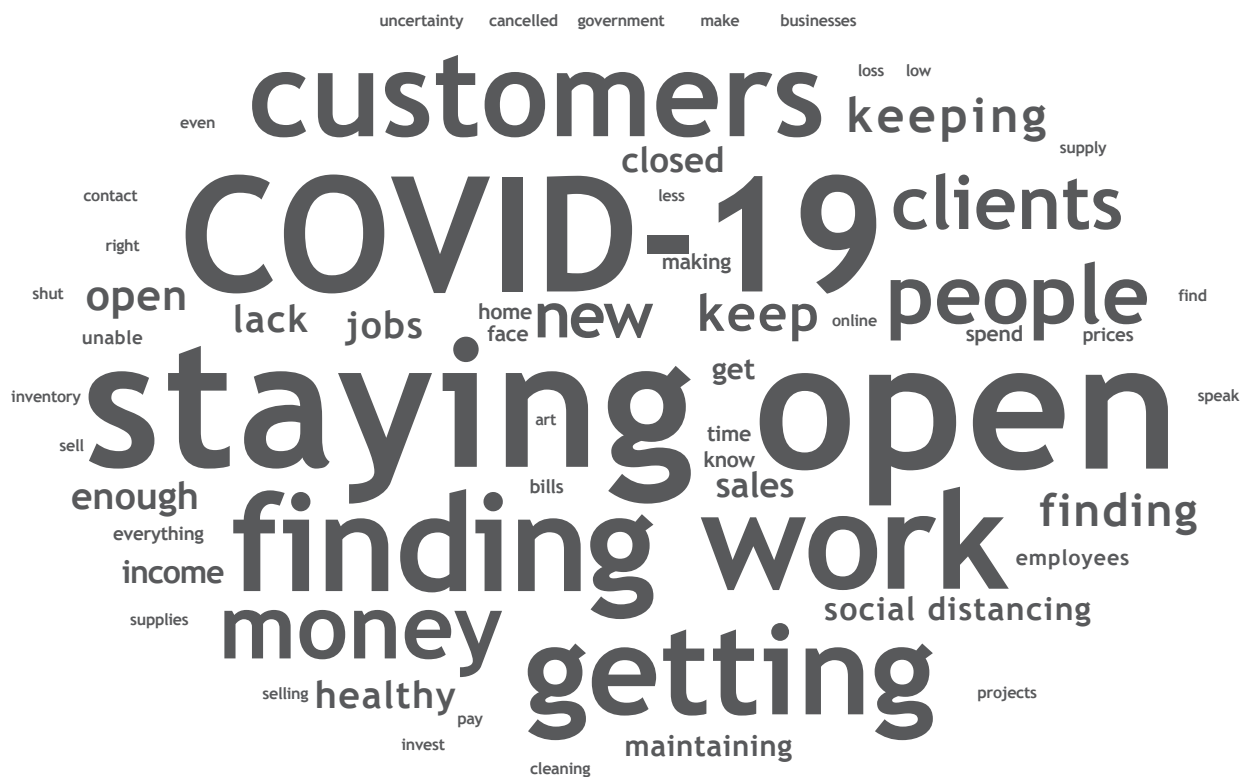
Roughly 2 in 5 entrepreneurs reported that **laws, policies, and regulations** (44%) and **networks and connections** (41%) were a challenge. About 1 in 3 entrepreneurs reported challenges related to **skilled employees** (36%), **technology** (32%), **time to devote to the business** (31%), **information, education, or knowledge** (31%), **location, region, or geography** (30%), and **mentors** (28%). Just over 1 in 4 entrepreneurs (26%) reported that **social support** was challenging, and 17% of entrepreneurs faced challenges related to **inclusion based on race, ethnicity, gender, income, or other factors**.

FIGURE 1 **Entrepreneurs face challenges related to finding and keeping customers.**

	Somewhat Challenging	Very Challenging	Total
Finding new customers	35%	38%	72%
Keeping existing customers	32%	26%	58%
Funds to grow the business	27%	25%	53%
Self-doubt and fear	31%	18%	50%
Funds to start the business	25%	22%	47%
Laws, policies, and regulations	27%	17%	44%
Networks and connections	29%	12%	41%
Skilled employees	22%	14%	36%
Technology	24%	8%	32%
Time to devote to the business	21%	11%	31%
Information, education, knowledge	22%	9%	31%
Location, region, or geography	18%	12%	30%
Mentors who can provide guidance	18%	10%	28%
Social support	17%	9%	26%
Inclusion	11%	6%	17%

In the open-ended response portion of the survey, entrepreneurs were asked to describe, in a few words, the biggest challenges they were facing during the pandemic. The word cloud below illustrates entrepreneurs' responses.

FIGURE 2 | Entrepreneurs describe their biggest challenges



The following charts present themes and illustrative quotes from entrepreneurs that emerged in the open-ended responses. Common themes aligned with the challenges reported above: finding new customers and keeping existing customers, funding to start and grow the business, self-doubt and fear, and skilled employees.

Finding new customers and keeping existing customers

THEMES	ILLUSTRATIVE QUOTES
Marketing and advertising	<ul style="list-style-type: none"> • developing a marketing strategy to encourage sales • marketing is my biggest challenge....all my marketing must be on social media • marketing and money • marketing is the biggest issue so far • knowing how to spend advertising dollars • advertising
Changes in market demand and customer spending	<ul style="list-style-type: none"> • people don't have extra money to spend so my business has essentially slowed to nothing • no one is spending money right now • people are not purchasing non-essential products as much due to the coronavirus • sales are down as people are out of work and spending on necessities versus other things like my photo and digital art works • because of the virus, there is a lot of uncertainty and people's buying decisions have changed • clients' budgets are being increasingly cut • lack of business, people not spending on my type of service because it is deemed as non-priority
Customer satisfaction and managing relationships/ expectations	<ul style="list-style-type: none"> • keeping our customers satisfied • the biggest challenge now is keeping customers happy • adjusting to different client expectations amidst the COVID environment • managing client relations while social distancing • cannot meet clients face-to-face • maintaining timely communications with clients and employees while working remotely • the biggest challenge now is keeping customers happy because the mail is moving slowly and packages aren't getting delivered as fast as they were before the virus
Changing interactions with customers	<ul style="list-style-type: none"> • being able to operate online • preparing for online events • since I have had to switch to video calling instead of working in my office, people are less inclined to call, and I have lost a lot of business as a result of the pandemic • cannot sell at traditional brick and mortar — all online • our yoga and meditation center had to close our physical location, so we are conducting classes on live stream • retooling to an online training company • managing our location with pick-up only • teaching remotely • trying to provide telehealth services rather than face-to-face services • my person-to-person sales have been eradicated except for a handful of online customers
Interactions with potential customers	<ul style="list-style-type: none"> • it's hard to get new clients without face-to-face meetings • not getting any customers in the door • staying viable with dramatically reduced opportunities to get new business
Customer health/safety	<ul style="list-style-type: none"> • getting customers to conform to mask wearing and maintaining social distance without doing additional construction to my place of business to facilitate it • opening back up and having to deal with customers face-to-face and put people at risk • how to return back to the office and meet with clients face-to-face safely • my biggest challenge at the current time is maintaining contact with my clients and reassuring them that we will be there with all the proper equipment and safety measures to serve them as soon as the government will permit

Funding to start and grow the business

THEMES	ILLUSTRATIVE QUOTES
Loss of revenue due to work cancellations	<ul style="list-style-type: none"> • event cancellations due to the virus • a lot of my work has been cancelled due to current events • canceled services • everything has been cancelled • customers canceling work due to financial concerns • no ability to travel = no revenue
Reduced sales	<ul style="list-style-type: none"> • keeping up sale volume • decreasing sales • staying adrift with a decline in sales • lack of sales • sales have been cut by more than half
Access to financing	<ul style="list-style-type: none"> • access to credit and loans • financing • finding the money to keep investing in my business • right now we are in protection mode: searching for access to funds for sustainability
Covering expenses	<ul style="list-style-type: none"> • reduced business due to the COVID-19 crisis, which means less revenue but the same expenses • at the current moment we have no leads in our pipeline to close, and I only have enough money to pay one more month of rent • maintaining the bills • the sudden loss of 80% of my business while rent and other bills are still due • the biggest challenge this month is to pay the bills • paying bills because lack of business • paying bills • my income is cut in half • major loss of income during our busy season • business is cut in half, not enough income coming in • COVID has decreased my business income by two-thirds • financial hardships • balancing finances while getting a new business up and running AND having children at home
Staying in business	<ul style="list-style-type: none"> • staying afloat right now. Not sure how long we can stay open • keeping my business alive without work • keeping the business alive • no incoming work
Decreasing revenue	<ul style="list-style-type: none"> • revenue • my biggest issue is loss of revenue • fewer customers and less revenue • maintaining business clients and generating revenue • limited revenue • decrease in overall revenue • getting revenue to expand and become more profitable • not making any money • prices are going down even further than before COVID-19. We are losing so much money

Cash flow and capital	<ul style="list-style-type: none"> • cash flow • no sales and no cash • maintaining a sustainable cash flow • getting enough capital to continue building • capital investment to get new work vehicles in order to take on bigger jobs and keep a bigger crew
Customer payments and accounts receivable	<ul style="list-style-type: none"> • collecting past due • collecting fees from clients • cash flow due to delinquent customers

Self-doubt and fear

THEMES	ILLUSTRATIVE QUOTES
Personal health and safety	<ul style="list-style-type: none"> • I'm extremely worried about my own personal safety. I am worried about catching or retaining the virus, also going into a client's home and possibly contracting the virus. • the biggest challenge for my business is not doing anyone's hair because I'm afraid to get sick • staying healthy and safe • staying healthy and free from coronavirus
Uncertainty about what to plan for	<ul style="list-style-type: none"> • we have absolutely no way of knowing what our seasonal program will look like • concern as to when my business will get back to normal since all of my business comes from large events • my business depends on people traveling. Will they still be afraid to travel? Lots of concerns in this area
Uncertainty about timing of re-opening the business	<ul style="list-style-type: none"> • not knowing if we will be allowed to open or not • knowing when it will be safe to return to work • my business is closed, and I don't know when we're able to go back to work • not knowing if we will be allowed to open or not • unsure if future business
Uncertainty about re-opening the business	<ul style="list-style-type: none"> • we are currently closed due to a local mandate. I am concerned when we open again on Monday, there will not be enough business to pay employees and bills • now, we've had to close down for over a month due to coronavirus. I hope after we go back we still can sustain business • not sure about reopening. It's a lot of work for limited reward • I lost my passion and interest in it. It's not important when people are dying
Uncertainty about the economy and society	<ul style="list-style-type: none"> • uncertain timing of opening businesses and recovery of economy • the unpredictability of other businesses becoming operational is a challenge • uncertainty in the world • uncertainty in the markets • the increased volatility of the financial markets • uncertainty about supply chains • child care, school, uncertainty

Skilled employees

THEMES	ILLUSTRATIVE QUOTES
<p>Finding employees</p>	<ul style="list-style-type: none"> • finding dedicated workers • finding qualified employees • finding employees • finding laborers • no workers to process beef
<p>Health and safety</p>	<ul style="list-style-type: none"> • can we stay open, even as the pandemic worsens? Are our staff healthy? Can we keep them so? • safety of staff • trying to keep my employees safe and on the same page • I own a cleaning business, and it's kind of scary. I don't know what conditions or things ... people have had in their homes so it's hard to keep myself and my employees safe • keeping safe and healthy in on-site jobs • being able to protect employees from getting sick • viruses continually haunt our workforce • make sure everyone stays in a safe distance and keeps everything sanitized • keeping everyone as healthy as possible
<p>Coordinating and managing employees</p>	<ul style="list-style-type: none"> • the biggest current challenge is coordinating and collaborating with several individuals and teams during a time in which face-to-face contact needs to be limited • working remotely and having to spend a great deal of money on technology for my employees to work from home • keeping employees working while at home • the biggest problem our business faces at the current moment is that we are not together to sell our art and design it as a team • maintaining timely communications with clients and employees while working remotely
<p>Making payroll</p>	<ul style="list-style-type: none"> • paying employees • lack of funds for payroll • making ends meet without laying off personnel • maintaining payroll and benefits for my employees • keeping enough work going out to keep on all of our employees • need for capital and continued employment for all employees • keeping clients and keeping the work steady so that we can avoid layoffs

Comparisons to challenges before the pandemic

A comparison of the challenges entrepreneurs reported in the fall of 2019 (pre-pandemic) with those in the spring of 2020 (during the pandemic) reveals some dramatic shifts.

While **finding customers** was the challenge cited most often by entrepreneurs both before and during the pandemic, the percentage of entrepreneurs reporting this as a challenge was higher during the pandemic than before (72% vs. 62%). Notably, most of this increase can be seen in the percentage of entrepreneurs who reported that finding new customers was *very* challenging, which nearly doubled from 23% in fall 2019 to 38% in spring 2020. This is not entirely surprising, as the pandemic resulted in restrictions on the ways many entrepreneurs were able to interact with customers and clients, and it led to decreased spending among consumers.

These challenges were highlighted in entrepreneurs’ open-ended responses about their biggest challenges, as well. They talked about the difficulty they’ve experienced in finding new clients when they cannot meet with people face-to-face, and the challenge posed by potential customers who aren’t willing to spend money on goods or services that they do not see as necessities during the pandemic.

FIGURE 3 Challenges reported by entrepreneurs during COVID-19 compared to challenges reported prior to COVID-19

FALL 2019				SPRING 2020		
Very Challenging	Somewhat Challenging			Somewhat Challenging		Very Challenging
62%	23%	29%	Finding customers	35%	38%	72%
49%	20%	29%	Funds to grow the business	27%	25%	53%
42%	14%	27%	Self-doubt and fear	31%	18%	50%
46%	19%	27%	Funds to start the business	25%	22%	47%
46%	15%	31%	Laws, policies, and regulations	27%	17%	44%
45%	12%	33%	Networks and connections	29%	12%	41%
53%	22%	31%	Skilled employees	22%	14%	36%
39%	10%	28%	Time to devote to the business	21%	11%	31%
37%	8%	30%	Information, education, knowledge	22%	9%	31%
	25%	7%	Location, region, or geography	18%	12%	30%
33%	10%	23%	Mentors who can provide guidance	18%	10%	28%
	25%	9%	Social support	17%	9%	26%
	13%	5%	Inclusion	11%	6%	17%

While feelings of self-doubt and fear was not among the top five challenges reported by entrepreneurs before the pandemic, it was the fourth most commonly cited barrier among entrepreneurs in spring 2020.

The percentage of entrepreneurs who reported that **funds to grow the business** and **funds to start the business** were challenges showed little change from before the pandemic to during the pandemic (49% vs. 53% and 46% vs. 47%, respectively). This consistency in the percentage of entrepreneurs who cited funding as a challenge is perhaps surprising given the financial difficulties many have experienced during the pandemic. The open-ended responses illustrate, however, that many businesses were likely more focused on the more immediate challenge of staying in business during the pandemic rather than any longer-term plans to grow their businesses.

The percentage of entrepreneurs who reported self-doubt and fear as a challenge was notably higher during the pandemic than before (50% vs. 42%). While feelings of self-doubt and fear was not among the top five challenges reported by entrepreneurs before the pandemic, it was the fourth most commonly cited barrier among entrepreneurs in spring 2020.

The open-ended responses reveal that entrepreneurs were feeling great uncertainty, which likely contributed to the high percentage of entrepreneurs citing self-doubt and fear as a challenge. They expressed uncertainty about when they could re-open, when people would be able to travel again, how they could keep customers and employees safe when they re-open, what re-opening might look like, whether it made sense to re-open, and when they would be able to get inventory again, among other concerns. The open-ended responses also indicate that many self-doubts and fears during the healthcare crisis focus, in particular, on health concerns. COVID-19 has amplified fears about personal health and safety that may not even have been considerations for most entrepreneurs before the pandemic.

Similar percentages of entrepreneurs reported that **laws, policies, and regulations** were a challenge in fall 2019 and spring 2020 (46% and 44%, respectively), in light of the regulations and requirements related to social distancing and cleaning for operations during the COVID-19 pandemic. Nearly 2 in 5 entrepreneurs (41%) reported that **networks and connections** were a challenge in spring 2020, representing only a slight decrease from the 45% of entrepreneurs who reported the same challenge in fall 2019.

Just over a third of entrepreneurs (36%) reported **skilled employees** as a challenge. This is noticeably lower than the more than half who reported this challenge in the fall of 2019. In fact, this shift represents the largest change in responses for any single challenge. This is not surprising given the sharp rise in unemployment and its ongoing high levels in the United States. The open-ended responses to the survey reflect these findings, indicating that entrepreneurs' concerns about employees are less about finding and retaining talent and more about keeping employees healthy and safe, managing and connecting with employees who are working remotely, and being able to make payroll.

Just over a third of entrepreneurs reported skilled employees as a challenge. This is noticeably lower than who reported this challenge in fall 2019. This represents the largest change in responses for any single challenge.

The percentage of entrepreneurs reporting that it was a challenge to find **time to devote to the business** fell from 39% before the pandemic to 31% during the pandemic, which may reflect the larger amount of time entrepreneurs have to devote to their businesses because of a lack of engagement with customers and clients or a lack of consumer demand. It may also reflect some of the larger structural changes taking place for entrepreneurs who may have begun working remotely during the pandemic, for example, spending less time commuting to their businesses. Some entrepreneurs may have been laid off from another job they had held simultaneously, leaving them with more time to devote to their businesses.

A smaller percentage of entrepreneurs reported that getting the **information, education, or knowledge necessary for running a business** was a challenge during the pandemic compared to before the pandemic (31% vs. 37%). This is somewhat surprising, given the vast uncertainty surrounding COVID-19 and the volume of information many entrepreneurs needed in order to find financial assistance programs, move businesses online, and keep up with public health guidelines and regulations, among other tasks. It is likely, however, that the types of information that entrepreneurs are seeking during the pandemic are focused on fewer topics.

Location, region, or geography was cited as a challenge by a slightly larger percentage of entrepreneurs in spring 2020 than in fall 2019 (30% vs. 25%), and **mentors who can provide guidance** was reported by a slightly lower percentage during the pandemic than before it (28% vs. 33%). **Social support** remained relatively steady, with around a quarter of entrepreneurs reporting it as a challenge in both the spring and the fall (26% and 25%, respectively). Seventeen percent of entrepreneurs cited **inclusion based on race, ethnicity, gender, income or other factors** as a challenge during the pandemic, compared to 13% before it started.

Implications for entrepreneurship supporters

A wide range of entrepreneurship supporters — including investors, entrepreneurship support organizations (ESOs), funders, and policymakers at the local, state, and national levels — are faced with the need to learn in real-time and adapt their work to meet the challenges shared by entrepreneurs in the midst of a global pandemic. Below, we discuss these challenges and outline some key considerations for entrepreneurship supporters.

The COVID-19 pandemic has shifted some of the key challenges that entrepreneurs face. During the pandemic, entrepreneurs are reporting that finding new customers is challenging — and often very challenging — as face-to-face interactions are more limited and many consumers are spending less on goods and services that they don't see as necessities. Entrepreneurs are also more often pointing to self-doubt and fear as a challenge, and they see many facets to the uncertainty that surrounds their businesses amidst this pandemic. Entrepreneurs are less concerned about finding and retaining skilled talent; they are more focused on keeping connected with their employees while working remotely, keeping their employees safe and healthy, and being able to maintain payroll.

Consideration for entrepreneurship supporters: What shifts are you seeing among the entrepreneurs you serve? How are you adapting your priorities and approach to meet the challenges currently confronting the entrepreneurs you serve?

The percentage of entrepreneurs reporting that it was a challenge to find time to devote to the business fell from 39% before the pandemic to 31% during the pandemic, which may reflect the larger amount of time entrepreneurs have to devote to their businesses because of a lack of engagement with customers and clients or a lack of consumer demand.

Challenges to entrepreneurship are often interrelated. Barriers to entrepreneurship often represent a constellation of factors, both direct and indirect.¹ These relationships are perhaps even clearer during the COVID-19 pandemic, as entrepreneurs' financial challenges are tied to their inability to meet with clients, to customers' unwillingness or inability to spend money on their goods and services, and to the need to keep their employees on payroll. While financial capital is crucial in many cases, entrepreneurs also need to determine how to run their businesses in the midst of so much uncertainty in the months ahead.

The unique nature of COVID-19 as a public health emergency also means a higher degree of uncertainty about challenges in the future. Not only have entrepreneurs already seen infection rates decrease and then increase again, but there is concern that a resurgence of infections during flu season will be particularly difficult. This unpredictability can exacerbate existing challenges and make it more difficult to implement strategies that would otherwise stabilize businesses. Entrepreneurs may find it more difficult, for example, to confidently predict how they might manage cash flow, even if they have access to relief programs. It is not clear how long entrepreneurs can rely on programs that help businesses retain or pay workers if cash flow continues to be affected. In addition to all of this, entrepreneurs are concerned about keeping themselves, their employees, and their customers healthy and safe.

Consideration for entrepreneurship supporters: Challenges for entrepreneurs have often been interrelated – even before the pandemic. What role can your organization play in a time when health uncertainties remain substantial? Direct “lifeline” programs that target short-term stabilization may not be sufficient, and entrepreneurs may be reluctant to take on these programs if they are unsure about their future. While most emergency support programs offer short-term, “sprint” solutions, the COVID-19 pandemic has become a marathon. Do models of entrepreneurship support need to change so they can be effective for entrepreneurs over the long term?

Many entrepreneurs face challenges not only as business owners, but also as family and household members. Entrepreneurs spoke of lost revenues and decreased sales, as well as reduced cash flow and efforts to find financing to stay afloat. Many spoke of financial hardships – the need to pay bills and cover rent. It is often unclear when entrepreneurs are thinking strictly about their businesses or instead about their personal situations because of the connectedness of both spheres. Entrepreneurs' personal financial well-being and their household financial situations are closely tied to the well-being of their businesses.

Consideration for entrepreneurship supporters: To what extent are entrepreneurs' businesses separate from their personal financial and household situations? Do entrepreneurship support interventions and policies that focus primarily on the business serve entrepreneurs who have fewer personal and household resources in the same way that they help those with greater resources?

About the Data

Findings presented in this report are based on data from two separate surveys, both conducted by Global Strategy Group on behalf of the Kauffman Foundation. The first survey was administered in fall 2019 and included 405 entrepreneurs and 109 aspiring entrepreneurs. The second survey was undertaken in spring 2020 and included 850 entrepreneurs. In both surveys, entrepreneurs were identified as individuals who had either opened or co-opened their own businesses.

As part of these surveys, entrepreneurs were asked to describe the biggest challenge their business is facing. Following the open-ended portion, respondents were given a list of potential barriers and asked to rate each as “very challenging,” “somewhat challenging,” “not that challenging,” “not at all challenging,” or “not applicable to my business.” In the spring 2020 survey, two additional potential challenges – keeping existing customers and technology – were included in this list because they were mentioned frequently in the responses to the open-ended question in the fall 2019 survey. Respondents were asked the open-ended questions before being presented with the list of potential barriers to evaluate so that their open-ended answers were not influenced by the options. In this report, responses of “very challenging” or “somewhat challenging” are considered challenges. Probability weights were used to calculate descriptive statistics. Percentages of entrepreneurs reporting particular challenges do not always equal the sum total of very challenging and somewhat challenging percentages shown in the figures due to rounding errors.

Both surveys are representative of business owners across the United States, rather than of businesses or industries. Findings from the surveys and this report, therefore, reflect trends among business owners and should not necessarily be used to make conclusions about businesses.

Note: (1) Looze, J. and Desai S. (2020) “Challenges Along the Entrepreneurial Journey: Considerations for Entrepreneurship Supporters,” Ewing Marion Kauffman Foundation: Kansas City.