SBS

US Small Business Economy

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Introduction to Small Business Industry¶

There is a big difference between a major corporation such as Wal-Mart and the locally-owned barber shop on the corner. But how does one determine its size classification? Is it "small", and if so, what happens when your business grows? When does it cease to be small?¶

The Small Business Administration (SBA) has taken the lead in defining what constitutes a small business in the eyes of the federal government, and the SBA's definition is the most widely used.¶

This body of definitions is called "size standards" and can be found in Title 13 of the Code of Federal Regulations (CFR), Part 121. Small business is defined using size guidelines for the different categories of business enterprises, which include agricultural production, communications, manufacturing, retail, service, transportation and warehousing, and wholesale. Subcategories are included under each of these headings.¶

Size is determined by the amount of average annual receipts or by the number of employees. Service businesses generally have a size standard that would be determined by averaging the gross annual receipts for the last three years. This average is then linked to the North American Industrial Classification System (NAICS) code for the procurement said business is looking to compete under. If a business' average annual receipts falls under the amount designated for that NAICS code, then the firm is considered to be small by definition. For example, if you were selling Computer Programming Services under NAICS code 541511 your average annual receipts over the past three years would have to be below $21.0 million to qualify as a small business. For most manufacturing NAICS codes, the number of employees will be used as a size standard. For example, a mining firm is considered "small" if it has fewer than 500 employees.¶

Characteristics ¶

Researchers and analysts of small or owner-managed businesses generally behave as if nominal organizational forms (e.g., partnership, sole-trader, or corporation), and the consequent legal and accounting boundaries of owner-managed firms are consistently meaningful. However, owner-managers often do not behave with the implied separation between their personal and business interests. Lenders also often contract around organizational (corporate) boundaries by seeking personal guarantees or accepting privately held assets as collateral.[1] Because of this behavior, researchers and analysts should be cautious in the way they assess the organizational types and implied boundaries in contexts relating to owner-managed firms. These include analyses that use traditional accounting disclosures, and studies that view the firm as defined by some formal organizational structure. ¶

Concepts of small business, self-employment, entrepreneurship, and startup¶

The concepts of small business, self-employment, entrepreneurship, and startup overlap to a certain degree but also carry important distinctions. These four concepts are often intermingled with each other.

Below are the key differences of these concepts: ¶

- Self-employment (Solopreneur): an organization created with the primarily intention to give a job to the founders, i.e. sole proprietor operations.
- Entrepreneur[2][1]: you might well wonder whether *entrepreneur* simply means "a person who starts a business and is willing to risk loss in order to make money" or whether it carries an additional connotation of far-sightedness and innovation. The answer, perhaps unsatisfyingly, is that it can go in either direction. *Entrepreneur* has been in used in English to refer to a kind of businessman since at least the middle of the 18th century, when it appeared in translation of the King of Prussia's instructions for his generals (". . . if the country happens not to abound in forage, you must agree with some Entrepreneur for the quantity required."). During the 19th century, it was also used of a go-between or a person who undertakes any kind of activity (as opposed to just a business). By the early 20th century *entrepreneur* appears to have taken on the connotation of go-getter when applied to an independent business owner, a quality that may also be found in the phrase *entrepreneurial spirit*, which began being used at about the same time.
    - Startup: normally identified as a temporary new organization, but the term is more appropriately used in identifying the second stage, in the five stages of the business' life cycle stage. ¶
    - Small business: an organization that is small (few employees) and may or may not have the intention to be bigger.¶

From the summaries, we can see that many small businesses are sole proprietor operations consisting solely of the owner, but small businesses can have a large number of employees. When big firms start out, they too go through each life cycle stage, including the startup stage, but not all small businesses are in the life cycle stage, nor do they all aim to become bigger. Many of these solopreneurs offer an existing product, process or service, and they do not aim at growth. In contrast, entrepreneurs aim for growth and often offer an innovative product, process or service, and the entrepreneurs of small businesses typically aim to scale up the company by adding employees, seeking international sales, and so on, a process which is financed by venture capital and angel investments. Successful entrepreneurs have the ability to lead a business in a positive direction by proper planning, to adapt to changing environments and

[1]

understand their own strengths and weakness.[2] Spectacular success stories stem from startups that built sustainable organizations and expanded in growth. Examples would be Microsoft, Uber, and Facebook which all embody the sense of new venture creation on small business.[3]¶

Size definitions¶

The legal definition of "small business" varies by country and by industry. In addition to number of employees, methods used to classify small companies include annual sales (turnover), value of assets and net profit (balance sheet), alone or as a combination of factors.¶

- In the United States, the Small Business Administration establishes small business size standards on an industry-by-industry basis, but generally specifies a small business as having fewer than 500 employees for manufacturing businesses and less than $7.5 million in annual receipts for most non-manufacturing businesses[4][5].

Demographics ¶

In 2016 a study that examined the demographic of small business owners was published. The study showed that the median American small business owners were above the age of 50. The ages were distributed as: 51% over 50 years old, 33% between the ages of 35 - 49, and 16% being under the age of 35. As for sex: 55% were owned by males, 36% by females, and 9% being equal ownership of both males and females. As for race: 72% were white/Caucasian, 13.5% were Latinos, 6.3% were African American, 6.2% were Asian, and 2% as other. As for educational background: 39% had obtained a bachelor's degree or higher, 33% had some college background, and 28% received at least a high school diploma.[11] ¶

The United States census data for the years 2014 and 2015 shows the women's ownership share of small businesses by firm size. The data explains percentages owned by women along with the number of employees including the owner. Generally, the smaller the business, the more likely to be owned by a woman. The data shows that about 22% of small businesses with 100-500 employees were owned by women, a percentage that rises the smaller the business. 41% of businesses with just 2-4 employees were run by women, and in businesses with just one person, that person was a woman 51% of the time.[11]¶

Advantages¶

Many small businesses can be started at a low cost and on a part-time basis, while a person continues a regular job with an employer or provides care for family members in the home. Internet marketing gives small businesses the ability to market with smaller budgets. Adapting to change is crucial in business and particularly small business; not being tied to the bureaucratic inaction associated with large corporations, small businesses can respond to changing marketplace demand more quickly. Small business proprietors tend to be in close personal contact with their customers and clients than large corporations, as small business owners see their customers in person each week. ¶

One study showed that small, local businesses are better for a local economy than the introduction of new chain stores. By opening up new national level chain stores, the profits of locally owned businesses greatly decrease and many businesses end up failing and having to close. This creates an exponential effect. When one store closes, people lose their jobs, other businesses lose business from the failed business, and so on. In many cases, large firms displace just as many jobs as they create.[14] ¶

Independence is another advantage of owning a small business. A small business owner does not have to report to a supervisor or manager. In addition, many people desire to make their own decisions, take their own risks, and reap the rewards of their efforts. Small business owners possess the flexibility and freedom to make their own decisions within the constraints imposed by economic and other environmental factors.[15] However, entrepreneurs have to work for very long hours and understand that ultimately their customers are their bosses. ¶

Several organizations in the United States also provide help for the small business sector, such as the SBA's Veteran Business Opportunity Center and Small Business Development Center.[16] Small businesses (often carried out by family members) adjust quicker to the changing conditions; however, they are closed to the absorption of new knowledge and employing new labor from outside.[17]¶

Challenges ¶

Being able to objectively identify the life cycle stage of a business, reveal neglected building blocks for sustainability, and aligning building blocks in the correct sequence are the greatest challenges for the survival of businesses. With small businesses accounting for 99% of businesses in the US, high business death rates are an epidemic impacting both the local and national economy, and clearly evident by reports showing that 86% of businesses generate less than $250,000 gross annual receipts. ¶

Small businesses often face a variety of issues, some of which are related to their size. A frequent cause of bankruptcy is under capitalization. This is often a result of poor planning rather than economic conditions. It is a common "*rule of thumb*", not a requirement, that the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his or her anticipated expenses. For example, if the prospective owner thinks that he or she will generate $100,000 in revenues in the first year with $150,000 in start-up expenses, then he or she should have not less than $250,000 available. Start-up expenses are often grossly underestimated adding to the burden of the business. Failure to provide this level of funding for the company could leave the owner liable for all of the company's debt should he or she end up in bankruptcy court, under the theory of under capitalization. ¶

In addition to ensuring that the business has enough capital, the small business owner must also be mindful of contribution margin (sales minus variable costs). To break even, the business must be able to reach a level of sales where the contribution margin equals fixed costs. When they first start out, many small business owners under price their products to a point where even at their maximum capacity, it would be impossible to break even. Cost controls or price increases often resolve this problem. ¶

In the United States, some of the largest concerns of small business owners are insurance costs (such as liability and health), rising energy costs, taxes, and tax compliance.[18] ¶

Contracting fraud has been an ongoing problem for small businesses in the United States. Small businesses are legally obligated to receive a fair portion (23 percent) of the total value of all the government's prime contracts as mandated by the Small Business Act of 1953. Since 2002, a series of federal investigations have found fraud, abuse, loopholes, and a lack of oversight in federal small business contracting, which has led to the diversion of billions of dollars in small business contracts to large corporations. ¶

Another problem for many small businesses is termed the 'Entrepreneurial Myth' or E-Myth. The mythic assumption is that an expert in a given technical field will also be expert at running that kind of business. Additional business management skills are needed to keep a business running smoothly. Some of this misunderstanding arises from the failure to distinguish between small business managers as entrepreneurs or capitalists. While nearly all owner-managers of small firms are obliged to assume the role of capitalist, only a minority will act as entrepreneur.[20] The line between an owner-manager and an entrepreneur can be defined by whether or not their business is growth oriented. In general, small business owners are primarily focused on surviving rather than growing; therefore, not experiencing the five stages of the business life cycle (seed, startup, growth, expansion, and maturity) like an entrepreneur would.[21] ¶

Another problem for many small businesses is the capacity of much larger businesses to influence or sometimes determine their chances for success. Business networking and social media has been used as a major tool by small businesses in the US, but most of them just use a "scatter-gun" approach in a desperate attempt to exploit the market which is not that successful.[22] Over half of small firms lack a business plan, a tool that is considered one of the most important factors for a venture's sustainability. Business planning is associated with improved growth prospects. Funders and investors usually require a business plan. A plan also serves as a strategic planning document for owners and CEOs, which can be used as a "road map" for decision-making.[23]

Impact of Small Business to the Overall US Economy

BY United Capital Funding

How important are Small Businesses to the United States economy?

Since 1997, our firm has been serving SME [small and medium sized entrepreneurs] with a professional menu of working capital and related services. As a result, we have witnessed many ups and down in the United States economy during this period. Given the fact that most of our clients' entire lively hoods are invested in their businesses they need to be not only nimble but really smart to succeed in what has been a very challenging economic environment in the United States.

The question that I posed as the title of this article is very easy to answer; incredibly important. As I have documented in the past, the small business is the most important cog in the United States economy, after consumer spending. The facts, as documented by the Small Business Administration "SBA" are worth presented again to illustrate the magnitude of the small business sector in the overall United States economy. For additional information, go to www.sba.gov, and search under the Heading entitled "Advocacy".

Consider these facts from the SBA when answering the question posed in the title. A small business is defined as an independent business having fewer than 500 employees. For most businesses, 500 employees is hardly a small business. In 2011 [the most current SBA data available,], there were 28.2 million small businesses, and 17,700 firms with 500 employees or more. Over three-quarters of small businesses were nonemployers; this number has trended up over the past decade, while employers have been relatively flat.

Most people simply don't know or understand the magnitude of the small business sector in the United States. Utilizing the data and definitions from the SBA, small businesses make up the following; 99.7% of United States employer firms, 63% of net new private-sector jobs, 48.5% of private-sector employment, 42% of private-sector payroll, 46% of private-sector output, 37% of high-tech employment, 98% of firms exporting goods and 33 % of exporting value.

Source: U.S. Census Bureau, SUSB, CPS; International Trade Administration; Bureau Of Labor Statistics, BED; Advocacy-funded research, Small Business GDP: Update 2002-

2010, www.sba.gov/advocacy/7540/42371

Most people that I talk to or meet also assume that the majority of the new jobs that have been created in the United States over the past 20 years or so are in large or multinationals businesses. In fact, the direct opposite has been the case, Small firms accounted for 63% of the net new jobs created between 1993 and mid-2013 (or 14.3 million of the 22.9 million net new jobs). Since the end of the recession (from mid-2009 to mid-2013), small firms accounted for 60% of the net new jobs.

What are some other facts about the importance of the small business sector in the United States? There is so much data available to document the vital role small businesses play in shaping the size and growth of GDP in the United States that it is difficult to know where to start. But I have highlighted some of the more interesting and what I believe are important facts about small businesses in the United States today in this article.

I have been asked in the past by businesses owners and others when I speak internationally about what kind of business in the United States creates more jobs; startups or existing businesses? This is an important question to research because the answer then needs to be looked at relative to new business formations and death trends present in the United States economy today. So what is the answer to the question of which businesses create more jobs – startups or existing businesses?

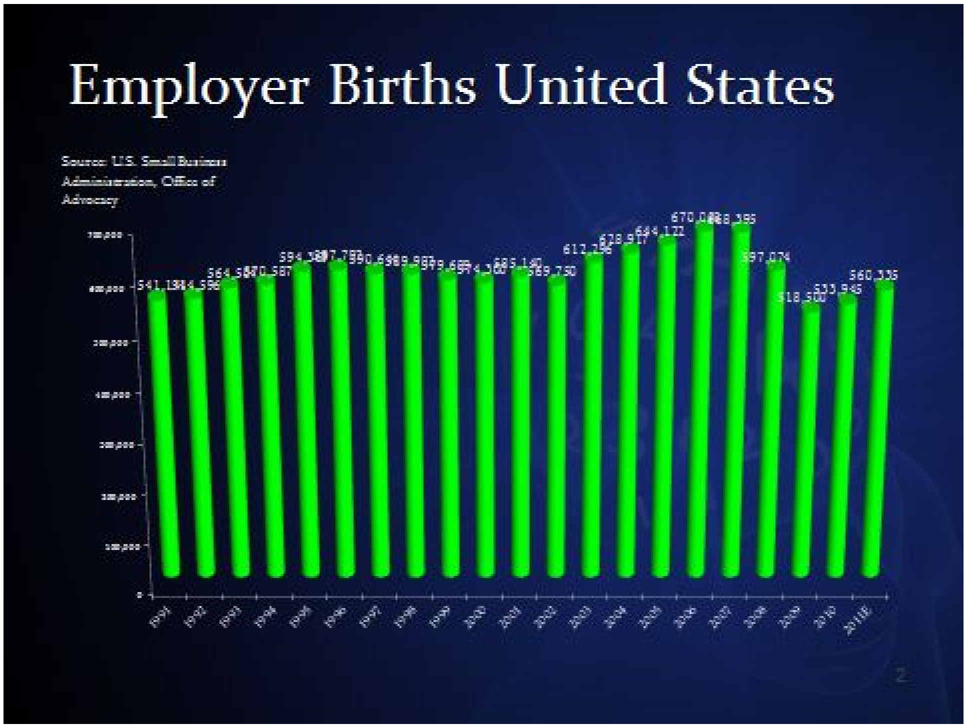
The answer might surprise you. According to the Bureau of Labor Statistics, in the last two decades about 60% of the private sector's new jobs have been created by existing business establishments and about 40% by churn of startups minus closures. While startups account for many new jobs in the United States economy, job losses from firms that close are equally important to account for when looking at the net effect of job creation and employment levels.

So the answer to this question then begs another question; how many small businesses open and close in the United States each calendar year? Has the number of openings and closings increased, decreased or stayed the same over the past couple of years?

My research and findings using SBA data and United States Census Bureau information surprised me. I found somewhat conflicting data even on the SBA website so I did a little more research and decided to use the data from a longer period of time 1990 to 2011 as calculated by the U.S. Small Business Administration, Office of Advocacy, U.S. Census Bureau and the Administrative Office of the U.S. Courts.

According to these sources, about 10% to 12% of firms with employees in the United States open each year and about the same percentages close each year. I would have guessed that these percentages would have been higher than this. But what I found more interesting was the overall long term trend lines for business births and deaths in the United States over the past 20 + years.

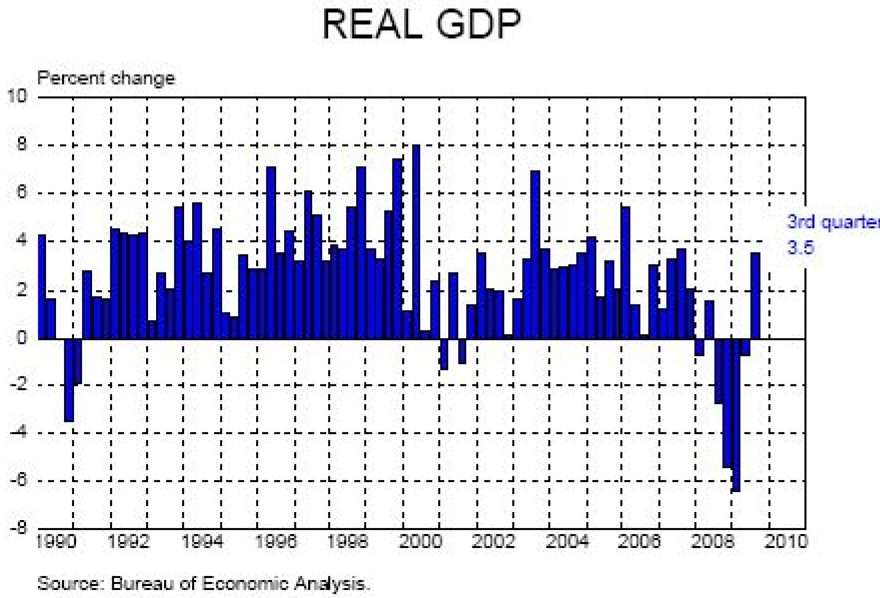
In the period from 1990 to 2011, there have been a total of nearly 12.8 Million business births and 12.2 Million business deaths in the United States. Annual business births over the 20+ years of data have averaged about 587,000 annually and deaths about 559,000 per year. The charts below document the data for business births and deaths over the entire period.



The charts are interesting and document how the numbers of annual business births and deaths have closely mirrored the performance of the overall United States economy. But I think in order to really understand what is currently affecting the United States economic in term of a lack of private sector job growth, we need to do some more detailed research partnering the two sets of data together.

Consider the following facts:

1. When looking at business births on a standalone basis, the numbers appear to be pretty good.
2. But then look at what has happened to business births since the year 2006 in the United States. Keep in mind that 2006 was part of the pre-recession period for the United States. In fact, the economy as measured by real GDP [see chart below} in the United States was actually in retrospect in pretty good shape.

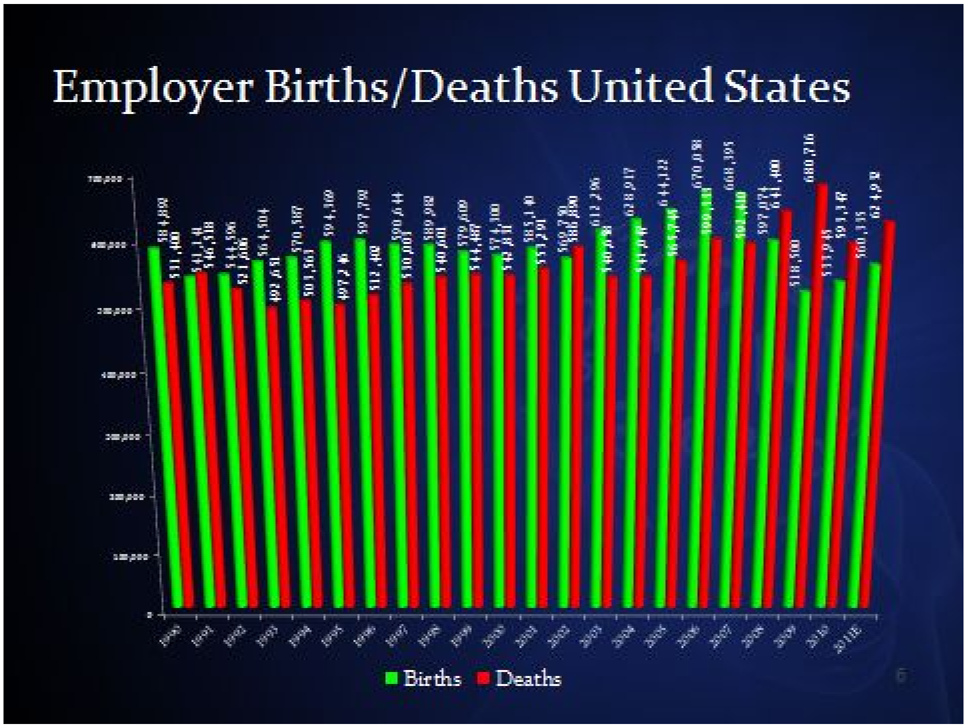


3. Business births peaked in the United States in the year 2006, eclipsing 670,000 for the first time ever. By 2009, this number had dropped more than 22% to only 518,500 births for that year. Estimates for 2011 appear to show a small increase to about 560,000 business births.

The more significant change that has occurred in addition to the huge drop in births is what is happening to the number of business deaths annually in the United States. As we will see below, for the first time ever in the period for which data is available, business deaths are much larger than the number of businesses starting in the United States. This is a very concerning development.

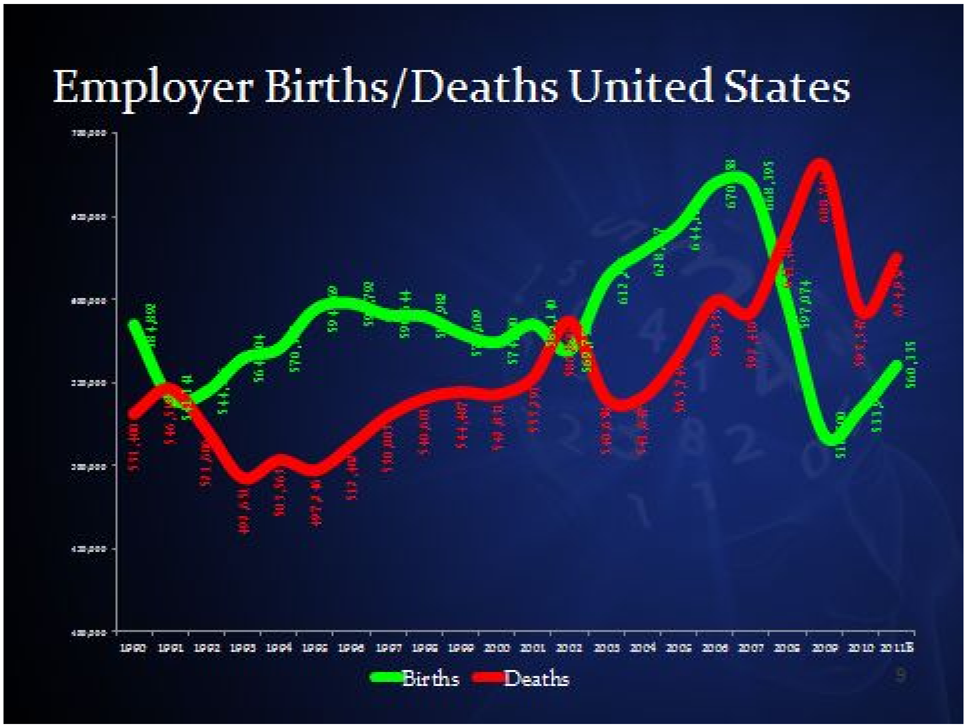
The numbers of businesses that are dying have been increasing for the past 10+ years in the United States. Giving the miserable state of the overall United States economy, I don't think this fact should be surprising. But what is very surprising is that business deaths have begun to consistently and significantly outpace the birth date for new businesses even as we have exited the recession and entered into an "expansion" period. This is an unprecedented change in the small business structural landscape in the United States and not a good one.

Look carefully at the data for births and deaths presented on an annual basis for the past 20 years paired together.



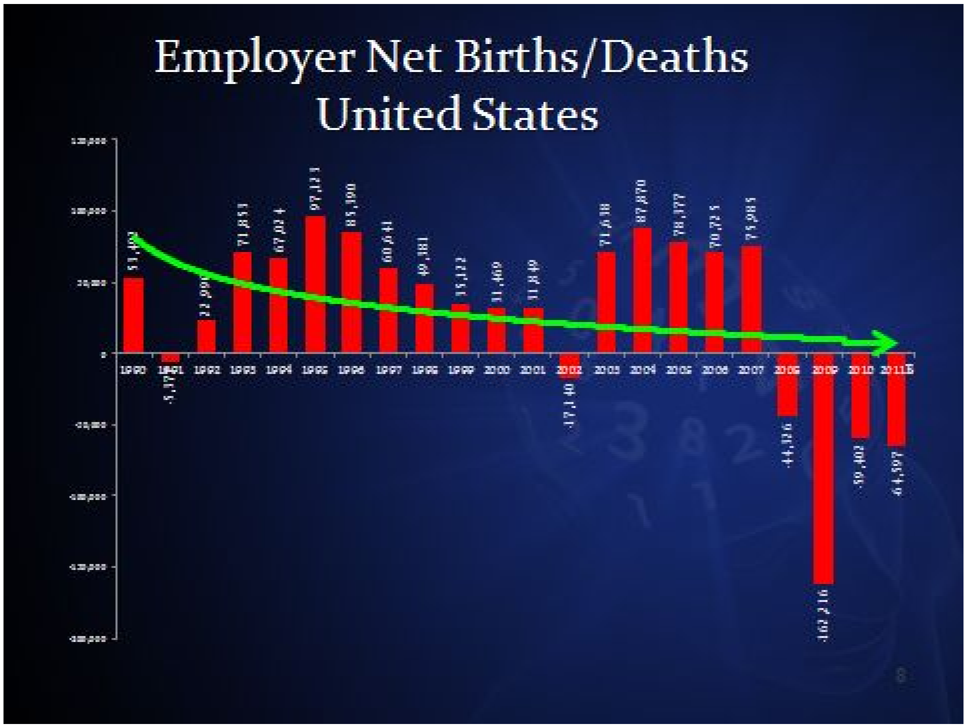
The red bars represent annual deaths for the period 1990 to 2011 while the green bars represent annual births. As you can see on the chart, deaths are running well ahead of births and unlike all of the other years for which data is presented there doesn't appear to be any change coming to correct these negative trends for the near future.

The next 2 charts really startled me. With the exception of the years 1991 and 2002, every single year charted [independent of the overall state of the United States economy] recorded more business births than deaths in the United States economy over the past 20+ years. In fact, several years had 75,000 to nearly 100,000 more births annually than deaths over the period 1990 to 2011. The green line below documents annual business births; the redline business deaths annually.



But starting in 2008, the bottom literally has fallen out from under the business birth track record in the United States. Over the past 4 years alone [2008 to 2011E], there have been more than 330,000 more business deaths than births in the United States. This record number essentially wiped out the surplus of births over deaths all the way back to 2003.

Finally, look at the facts and trends for this unprecedented imbalance of business deaths to births.



There has never been a period of business death to birth imbalance in the United States like what has occurred over the past 4 years or so. Dating back as far as 1990, every year where business deaths exceed births was followed with either a 5 or 10 year rebound in the births well exceeding annual business deaths, Assuming the data for 2012 and 2013 is not materially different, this 6 year run of the loss of businesses has never been seen before in our recent economic history.

So the obvious question is this: why does this even matter? It matters for many important reasons, including the following:

1. As already documented, small businesses are truly the backbone of the United States economy. When they fail or suffer, the economy follows suit immediately.
2. Equally important is the fact that new businesses are also one of the most important forces for innovation in the United States economy. Think about just a couple of the amazing start up stores that come to mind like Facebook, google, etc. and it is very hard to argue against this fact.
3. Not only are small businesses among the most creative and entrepreneurial forces present in our economy, they also lead in new technology and patent creation in the United States.

A recent report entitled “An Analysis of Small Business Patents by Industry and Firm Size” funded by the SBA documented that small businesses produced 16 times more patents per employee than large firms did. 16 times!

There are also several other very important points to consider about this unsettling trend or imbalance between business deaths and births. When small businesses fail for whatever reason, there can be a chain reaction impact on the personal credit and net worth of the owners of the failed business. In addition, when small businesses fail, they cannot benefit from the growing percentage of work now being awarded to small businesses by the Federal, State and local governmental entities. In fiscal 2012 alone over 22% of all contracting dollars went to small businesses according to the SBA. The Department of Defense accounted for the majority of the small business procurement.

So the fact that business deaths remain well above annual birth rates today helps shed some light on why the current “recovery” has been so anemic when looking at net job creation, capital investment, expansion, need for credit, etc. Until this imbalance changes, it will be very difficult for the United States recovery to gain momentum on a sustainable basis.

Bankruptcy ¶

When a small business fails, the owner may file for bankruptcy. In most cases, this can be handled through a personal bankruptcy filing.[25] Corporations can file bankruptcy, but if it is out of business and valuable corporate assets are likely to be repossessed by secured creditors, there is little advantage to going to the expense of a corporate bankruptcy.[26][27] Many states offer exemptions for small business assets so they can continue to operate during and after personal bankruptcy.[28] However, corporate assets are normally not exempt; hence, it may be more difficult to continue operating an incorporated business if the owner files bankruptcy.[29]

Social responsibility ¶

Small businesses can encounter several problems related to engaging in corporate social responsibility, due to characteristics inherent in their size. Owners of small businesses often participate heavily in the day-to-day operations of their companies. This results in a lack of time for the owner to coordinate socially responsible efforts, such as supporting local charities or not-for-profit activities[32] Additionally, a small business owner's expertise often falls outside the realm of socially responsible practices, which contributes to a lack of participation. Small businesses also face a form of peer pressure from larger forces in their respective industries, making it difficult to oppose and work against industry expectations.[32] Furthermore, small businesses undergo stress from shareholder expectations. Because small businesses have more personal relationships with their patrons and local shareholders, they must also be prepared to withstand closer scrutiny if they want to share in the benefits of committing to socially responsible practices or not.[32]¶

Job quality ¶

While small businesses employ over half the workforce in the US [33] and have been established as a main driving force behind job creation,[34] the quality of the jobs these businesses create has been called into question. Small businesses generally employ individuals from the Secondary labor market. As a result, in the U.S., wages are 49% higher for employees of large firms.[34] Additionally, many small businesses struggle or are unable to provide employees with benefits they would be given at larger firms. Research from the U.S. Small Business Administration indicates that employees of large firms are 17% more likely to receive benefits including salary, paid leave, paid holidays, bonuses, insurance, and retirement plans.[35] Both lower wages and fewer benefits combine to create a job turnover rate among U.S. small businesses that is three times higher than large firms.[34]

Employees of small businesses also must adapt to the higher failure rate of small firms, which means that they are more likely to lose their job due to the firm going under. In the U.S. 80% of small businesses last at least one year, but this percentage drops to 50% for firms reaching five years in operation.[33] The U.S. Small Business Administration counts companies with as much as $35.5 million in sales and 1,500 employees as "small businesses", depending on the industry. Outside government, companies with less than $7 million in sales and fewer than five hundred employees are widely considered small businesses¶

Cyber crime ¶

Cyber crime, in the business world can be broken down into 4 main categories. They include loss of reputation and consumer confidence, cost of fixing the issue, loss of capital and assets, and legal difficulties that can come from these problems. Loss of reputation and consumer confidence can be impacted greatly after one attack. Many small businesses will struggle to gain confidence and trust in their customers after being known for having problems prior. Cost of fixing the cyber attack would require experts outside of their field to further the investigation and find the problem. Being down for a business means losing money at the same time. This could halt the online operations and mean the business could potentially be down for a long period of time. Loss of capital and assets ties well in with the cost of fixing the issue. During a cyber attack, a business may lose their funds for that business. Worst-case scenario, a business may actually lose all their working capital and funds. The legal difficulties involved with cyber crime can become pricy and hurt the business itself for not having standard security measures and standards. Security not only for the business but more importantly the customer should be number one priority when dealing with security protocol.[36] ¶

The monetary dollar damage caused by cyber crime in 2016 equalled out to be over 1.33 billion dollars in the United States alone. In 2016, California alone had over 255 million dollars reported to the IC3. Certain cyber attacks can vary on how long it takes to solve a problem. It can take upwards to 69 days for an average everyday attack on a business. The types of attacks include viruses and malware issues. Employee activities within the workspace can also render a cyber attack. Employees using mobile devices or remote work access off the job makes it easier for a cyber attack to occur[37]¶

Marketing¶

Although small businesses have close relationships with their existing customers, finding new customers and reaching new markets is a major challenge for small business owners. Small businesses typically find themselves strapped for time to do marketing, as they have to run the day-to-day aspects of the business. To create a continual stream of new business and find new clients and customers, they must work on marketing their business continuously. Low sales (result of poor marketing) is one of the reasons of small business failure. Common marketing techniques for small business include business networking (e.g., attending networking events or trade fairs), "word of mouth" promotion by existing customers, customer referrals, Yellow pages directories, television, radio, and outdoor ads (e.g., roadside billboards), print ads, and Internet marketing. TV ads can be quite expensive, so they are normally intended to create awareness of a product or service. Another means by which small businesses can advertise is through the use of "deal of the day" websites such as Groupon and LivingSocial. These Internet deals encourage customers to patronize small businesses.¶

Many small business owners find internet marketing more affordable. Social media has also become an affordable route of marketing for small business. It is a fraction of the cost of traditional marketing and small businesses are able to do it themselves or find small social marketing agencies that they can hire out for a small fee. Statistically, social media marketing has a higher lead-to-close rate than traditional media. Successful online small business marketers are also adept at utilizing the most relevant keywords in their website content. Advertising on niche websites that are frequented by potential customers can also be effective, but with the long tail of the Internet, it can be time intensive to advertise on enough websites to garner an effective reach.¶

Creating a business website has become increasingly affordable with many do-it-yourself programs now available for beginners.

A website can provide significant marketing exposure for small businesses when marketed through the Internet and other channels. Social media has proven to be very useful in gaining additional exposure for many small businesses. Many small business owners use Facebook and Twitter as a way to reach out to their loyal customers to give them news about specials of the day or special coupons, generate repeat business and reach out to new potential clients. The relational nature of social media, along with its immediacy and twenty-four-hour presence lend intimacy to the relationships small businesses can have with their customers, while making it more efficient for them to communicate with greater numbers. Facebook ads are also a very cost-effective way for small business owners to reach a targeted audience with a very specific message. In addition to the social networking sites, blogs have become a highly effective way for small businesses to position themselves as experts on issues that are important to their customers. This can be done with a proprietary blog and/or by using a back-link strategy wherein the marketer comments on other blogs and leaves a link to the small business' own website. Posting to a blog about the company's business or service area regularly can increase web traffic to a company website.¶

Contribution to the economy¶

In the US, small businesses (fewer than five hundred employees) account for more than half the non-farm, private GDP and around half the private sector employment.[33] Regarding small business, the top job provider is those with fewer than ten employees, and those with ten or more but fewer than twenty employees comes in as the second, and those with twenty or more but fewer than one hundred employees comes in as the third (interpolation of data from the following references).[40] The most recent data shows firms with fewer than twenty employees account for slightly more than 18% of the employment.[41]¶

According to "The Family Business Review," "There are approximately seventeen million sole-proprietorship in the US. It can be argued that a sole-proprietorship (an unincorporated business owned by a single person) is a type of family business" and "there are twenty-two million small businesses (fewer than five hundred employees) in the US and approximately 14,000 big businesses." Also, it has been found that small businesses created the newest jobs in communities, "In 1979, David Birch published the first empirical evidence that small firms (fewer than 100 employees) created the most new jobs", and Edmiston claimed that "perhaps the greatest generator of interest in entrepreneurship and small business is the widely held belief that small businesses in the United States create most new jobs. The evidence suggests that small businesses indeed create a substantial majority of net new jobs in an average year." The U.S. Small Business Administration has found small businesses have created two-thirds of net new private sector jobs in the US since 2007.[42] Local businesses provide competition to each other and also challenge corporate giants. Of the 5,369,068 employer firms in 1995, 78.8 percent had fewer than ten employees, and 99.7 percent had fewer than five hundred employees.[43]¶

Sources of funding¶

Small businesses use various sources available for start-up capital:¶

- Self-financing by the owner through cash savings, equity loan on his or her home, and or other assets¶
- Loans or financial gifts from friends or relatives¶
- Grants from private foundations, government or other sources¶
- Private stock issue¶
- Forming partnerships¶
- Angel investors¶
- Loans from banks, credit unions, or other financial institutions¶
- SME finance, including collateral-based lending and venture capital, given sufficiently sound business venture plans¶

Some small businesses are further financed through credit card debt—usually a poor choice, given that the interest rate on credit cards is often several times the rate that would be paid on a line of credit at a bank or a bank loan. Recent research suggests that the use of credit scores in small business lending by community banks is surprisingly widespread. Moreover, the scores employed tend to be the consumer credit scores of the small business owners rather than the more encompassing small business credit scores that include data on the firms as well as on the owners.[44] Many owners seek a bank loan in the name of their business; however, banks will usually insist on a personal guarantee by the business owner.¶

In the United States, the Small Business Administration (SBA) runs several loan programs that may help a small business secure loans. In these programs, the SBA guarantees a portion of the loan to the issuing bank, and thus, relieves the bank of some of the risk of extending the loan to a small business. The SBA also requires business owners to pledge personal assets and sign as a personal guarantee for the loan. The 8(a) Business Development Program assists in the development of small businesses owned and operated by African Americans, Hispanics, and Asians.[45]¶

Business networks and advocacy groups¶

Small businesses often join or come together to form organizations to advocate for their causes or to achieve economies of scale that larger businesses benefit from, such as the opportunity to buy cheaper health insurance in bulk. These organizations include local or regional groups such as Chambers of Commerce and independent business alliances, as well as national or international industry-specific organizations. Such groups often serve a dual purpose, as business networks to provide marketing and connect members to potential sales leads and suppliers, and also as advocacy groups, bringing together many small businesses to provide a stronger voice in regional or national politics. In the case of independent business alliances, promoting the value of locally owned, independent business (not necessarily small) through public education campaigns is integral to their work.¶

The largest regional small business group in the United States is the Council of Smaller Enterprises, located in Greater Cleveland.[48] A number of youth organizations, including 4-H, Junior Achievement, and Scouting have special interactive programs and training to help young people run their own small business under adult supervision.[50]¶

References¶

- https://www.merriam-webster.com/dictionary/entrepreneur
- https://en.wikipedia.org/wiki/Small_business
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Macro-Sustainability

Big businesses are big for a reason — they're getting something right, usually when it counts the most. Moreover, they've already found their footing after making it through the early days of uncertainty and instability. That successful leadership journey alone counts as an invaluable lesson for smaller business owners.

You can learn a lot by studying exactly what big businesses have done right, even if their circumstances might seem irrelevant. Experience is the best teacher, and learning from the experiences of those who've already succeeded is priceless. When you consider how certain choices impacted their success, you can scale those strategies to fit your own business. Following the lead of a larger company can feel like trying to fill too-big shoes: You can't imitate everything: Your budget is smaller, your market reach is less extensive, and you have less room for error. Perhaps that's all the more reason to retrofit winning strategies onto your growing company.

Companies of any size can follow these strategies, even if they aren't as established as the companies proving their worth:

The Five Business Life Cycle Stages

Summary

The five lifecycle stages of business (seed, startup, growth, expansion, and maturity) represent the journey businesses will take, from the moment they conceive the idea to start the company all the way through its inception (also known as the official launch) and various growth phases until it becomes a mature, sustainable organization. Much like planting a tree starts with a single seed, a business starts with a single idea, a plan, and a dream. How well the idea is cultivated, making good choices rather than bad ones, over time and trust in the sustainability process will go a long way toward ensuring a business survives as long as the entrepreneur decides.

Starting a business is challenging and at times, very overwhelming. According to the Department of Labor, there are more than 400,000 small-businesses that open their doors every year, and only 50% of them survive the first five years. However, with a firm understanding of the five life cycle stages of a business, and which life cycle stage the business is in currently, provides the entrepreneur and business experts with insight to make objective decisions, adjust strategies, and anticipate potential obstacles.

Seed Stage

The seed stage represents the first steps an entrepreneur takes into small-business ownership, before they even launch their product or service. At this point in the process, a business idea is simply that – an idea or vision in the entrepreneurs head. No money has been put toward developing the idea, no research has been conducted into the viability of the business when it comes to potential clients, investors, existing and future market conditions and their impact on the sustainability of the company, or even the entrepreneur’s existing financial situation.
This stage is relevant because the future of the idea depends on the entrepreneur’s willingness to take a step back and consider all of the aforementioned concepts and how they will impact the potential of their future company.

It is important that business life cycles are not approached alone. Perhaps more important than reflecting on the ideas and formulating a plan is that entrepreneurs must pool together as many resources as possible and ask a lot of questions before they attempt to do an official launch. Sustainable businesses are built by teams, not just one person. The faster an organization realizes this fact, the faster they can build and achieve the growth they desire.

Startup Stage

The startup stage is the second stage of the business life cycles and the most pivotal, scary, and touch-and-go piece to sustainability, because the organization is graduating from the “idea” phase and officially launching products and/or services. That means it’s out there for the masses to consume – for better or for worse. The startup stage is relevant because everything at this point in the game is in flux and mistakes that go unchecked can have lasting ramifications on the company’s health. This includes whether or not sound decisions were made, not just on the product or service, but also with finances, company name, branding, legal structure, and any relationships created with key service providers. It is in the startup stage that business’ ultimately launch their product or service, though keep in mind that sweeping changes can be expected as organizations adopt suggestions from those close to them as well as initial feedback from customers.

Growth Stage

The growth stage is particularly relevant from the standpoint that this is where an organization really should begin to see the fruits of its’ labor take root. Not only are the products or services doing well on the market, but the business is taking on more clients and solidifying its’ brand as a competitive force. With that also comes a steady stream of income, which is helping the entrepreneur finally offset the initial expenses from the startup stage. In many cases, a business owner will see a decent profit beyond that, allowing them to hire employees and increase their marketing efforts.

It is important to note that while the business is officially in the season of growth, it still must be mindful of a whole new set of challenges. This includes taking note of how fast the company is growing and whether or not it has the capacity to do so. If an organization finds itself reaching capacity quickly, and has not properly scaled, that growth can actually hinder the business. The organization will need to manage these changes appropriately, including the possibility of hiring additional employees (those who share the same vision and can be an extension of the entrepreneur), increasing production schedule to meet client needs, setting clear and attainable goals, and more.

Expansion Stage

The Expansion stage is when a business owner begins to feel like a wily veteran. Not only do they have a tried-and-true blueprint for how they want their company to operate, but they've established themselves in a competitive industry and have even gone so far as to turn several time-consuming operations pieces over to staff – allowing the entrepreneur more freedom to turn their attention to other projects. One of the bigger projects involves expansion. The organization has increased its capacity to grow and can now consider expanding its reach into different markets with perhaps a larger list of available products and services from when the business first started.

The Expansion stage is where most businesses experience rapid growth into other areas, but it's important that they are careful and don't take on too much. While the company should be looking for ways to expand and take on more opportunities, they should follow the same methodologies that got them to this stage in the first place, by having a carefully thought out plan in place. Organizations will need to research other markets to ensure they will have similar success, and go through the same alpha and beta testing phases to see how new clients react to new services.

Maturity

Once a company reaches the Maturity stage, the entrepreneur will notice consistent profits year over year and stability across the board. They would have successfully created a self-sustaining business they can be proud of for years to come. When they reach this stage as a business owner, they have a few options:

1. Continue with the status quo and operate their business under the same blueprint.
2. Seek out further growth opportunities and revenue streams.
3. Plan their exit strategy through a partial or full sale.

It is common for entrepreneurs to continue following the same blueprint at this point, but if they choose to stick around and see how much further they can grow their business, they will need to revert back to the same questions they faced during the expansion stage – research other markets to ensure they will have similar success, and go through the same alpha and beta testing processes to see how new clients react to their products or services. Entrepreneurs are encouraged to take a holistic look at everything and ask themselves if this is the best course of action and if they can financially account for any unforeseeable pitfalls.

On the other hand, if an owner has reached the point where they don't see themselves staying with the company or decide it's time to pursue another venture, an exit plan would allow them to turn the reins over to another entrepreneur who is willing to purchase their company (full or partial sale) and take it to even greater heights. If this is the step the entrepreneur chooses, they should ensure they are turning the company over to someone who has the ability to grow what they have created.

The Five Sustainability Pillars¶

Summary

Pillar Five© provides a laser-focused compass or map for business owners and experts to ensure a business is created for long-term sustainability by identifying the life cycle stage, neglected building blocks, and providing the relevant blocks in the correct sequence. Every life cycle stage is important in this process and in every life cycle stage of a business there specific building blocks that must be addressed and at all times they can be grouped into five main pillars (categories). Hence, the term Pillar Five. These five sustainability pillars are the foundation and the scaffolding of a business. If one of these are not solid, then the business has a higher risk of not surviving.

The Five Sustainability Pillars

The Five Sustainability Pillars are the five core components required in the development process of any business, especially those generating less that $250k annually. These pillars are constructed in a way that they may be evaluated and used to rate a business's sustainability level based on the completion and implementation of specific tasks, directly impacting their growth. Each life cycle stage a business goes through, is supported by these five sustainability pillars. The way any business grows is mirrored in the increasing complexity and consistent review of these pillars.

Infrastructure Pillar

The Infrastructure Pillar primarily addresses the legal foundation of a business and the naturally cohesive components that work in tandem to fortify and fuel the company's purpose, existence, and functionality. Bottom line: every business should have a solid base to begin from or refer back to in the event the company is currently on shaky ground. The five key components that make up the Infrastructure Pillar are; knowledge of business, business details, team development, legal formation and technology details.

This Pillar addresses the basic questions of setting up a sustainable business, everything from having a name, email, physical address, and proper registration to the important steps toward developing a team. The Infrastructure Pillar helps to lay out and understand the groundwork of setting up a business the sustainable way.

Management Pillar

The Management Pillar is the second pillar. In addition to having a solid infrastructure, the Management Pillar focuses on 7 core components; Team Development, Business Plan, Operational Details, Growth Strategy, Market Test, Client Development, Financial Strategy, Financial Review, Marketing Review, and Exit Plan

The stability and performance of the management pillar ultimately determines a company's forward movement and if it is doing so in a way that aligns with a sustainable and achievable goal. For example: the creation of an advisory board is not necessarily one of the first things many entrepreneurs consider, yet it is one of the most crucial parts of creating and maintaining a viable business.

The Management Pillar also addresses some of the administrative areas that are not necessarily on the mind of most business owners, critical components such as a business plan, a launch plan, client niche, client attraction, and marketing. Lastly, it addresses the tough financial questions that any entrepreneur and their mentors need to be aware of, including personal financial status, business financial status, and the connection between the two. These are often the most neglected areas as they are considered “background work.”

Without the Management Pillar, businesses miss out on the plan creation that leads to a solid launch and day-to-day business, both of which are crucial for long-term sustainability.

Marketing Pillar

The Marketing Pillar is the third of five pillars. This pillar addresses the key marketing needs of a business, like developing the required groundwork and a consistent strategic sales process. There are so many core business functions that stem from a good marketing plan that marketing can easily be considered the lifeline of a sustainable business. Thus, the Marketing Pillar is relevant because without marketing, there's no brand and nothing a potential client or customer can relate to his or her experience. Marketing helps inform, engage, and grow. And at the end of the day, no marketing means no sales.

In addition to the more easily understood and applied areas of advertising a product or service, marketing actually begins with the product development, which needs to be in line with a clearly-defined client or niche. The brand is also a crucial marketing component upon which all other sales components rest.

Many times, these areas of marketing are forgotten or entered into half-heartedly after a business has launched. It is important to note that every time a product or service is created, it requires the same marketing diligence as the very first one to ensure sustainability of the product or service and the business itself. Without putting into practice all the elements of the Marketing Pillar, an organization is unable to sustain its presence in the marketplace.

The Marketing Pillar is a compilation of these six(6) components; Client Development, Market Test, Marketing Details, Marketing Review, Technology Details, and Financial Strategy.

Finance Pillar

The fourth pillar of the five sustainability pillars is Finance. The Finance Pillar addresses all aspects of the financial side of a business and the key building blocks that must be nurtured from the very beginning so that a business owner may ensure their business can be launched successfully and is financed properly. Entrepreneurs often find out when it's too late, that launching a company and maintaining it over time does not work without a forecasted financial plan, which includes everything from establishing separate bank accounts and having launch sales goals to ensuring consistent income, securing additional income, pricing products and services correctly, and being able to deal with rapid sales increases.

Starting a business requires money, and how much a company will need from the seed stage through launch and many years down the road depends on several factors. Some of those factors include things like; determining the exact amount of capital, if any, needed to complete a specific life cycle stage, the necessary capital to cover your expenses until a business is able to provide income, setting up a bank account in the business name, separate from any personal accounts?

The Finance Pillar provides a clear picture of where strengths and weaknesses are – whether the business is being launched today or struggling to survive five years later – and which building blocks to address. Without putting the building blocks in the correct sequence to develop a stable Finance Pillar, a business will never become self-sustaining.

Finance Pillar is a compilation of these five(5) building blocks; Financial Review, Financial Strategy, Financial Details, Technology Details, and the Owner's Financial Review.

Credit Pillar

The Credit Pillar is the final pillar required in the development process of any business. The building blocks in this section help even the savviest entrepreneurs understand the differences between personal credit and business credit, and more importantly, how the two are more intertwined than they might think.

When starting out as a business owner, much of what investors and creditors rely on to determine a company's credit worthiness is the owner's personal credit – specifically, looking at past credit behavior to determine future behavior. Since business credit is a track record of a business' financial responsibility that companies, investors, and financial organizations use to determine whether or not they want to lend to that company and owner, it's imperative that these blocks are established.

The Finance Pillar aligns the intricate components of two key building blocks, Owner's Credit Details and Business Credit Details. Things like knowing the company's credit score and DUNS number, including how to establish business credit and how to properly monitor active tradelines, is critical as a company moves forward and begins exploring credit opportunities with various lenders.

The Credit Pillar provides a better picture of where a business owner needs to position themselves that they can have the necessary capital to grow their business.

Small Business Support Systems¶

Marketing for Consultants Study (2019)

BY Michael Zipursky

How does consultants get new clients?

Do they have a system in place for winning consulting projects?

Do they have a marketing strategy — or do you rely on hope to get more clients?

If you're a consultant, you're in the business of marketing.

To get consulting clients, you need to generate conversations with the right prospects.

Marketing is how you generate these conversations. Without marketing, you don't have a consulting business.

At Consulting Success, helpings consultants master their marketing to get more clients is our forté.

We study and help you apply what works — and avoid what doesn't.

And in this post, we're sharing what we learned from a survey which we sent to over 34,000 consultants on our list.

If you want to learn what's working (and what's not) for consultants in 2019 for getting more clients, read on.

Summary Of Our Key Findings On Marketing For Consultants in 2019

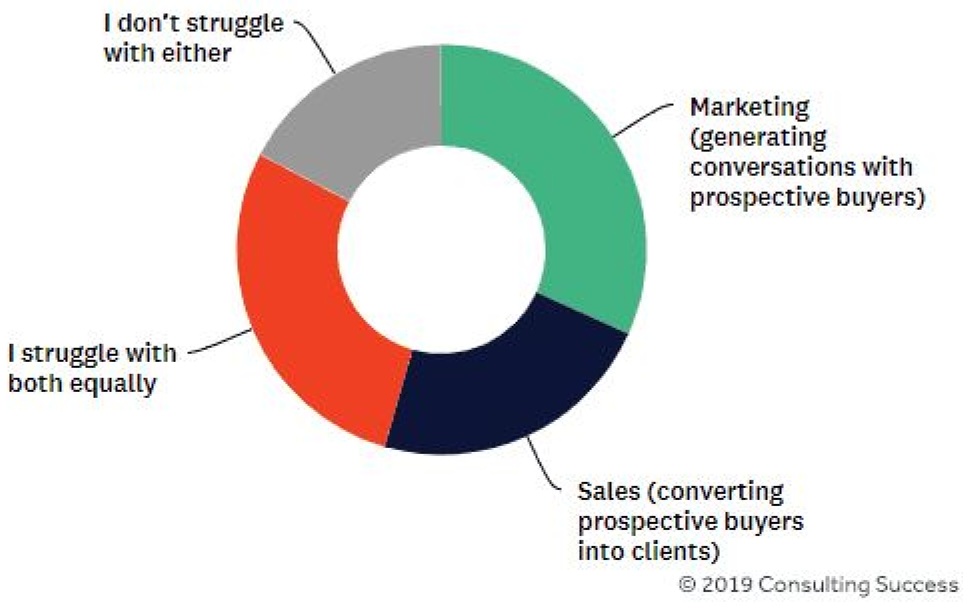
1. Referrals are king. 37% of consultants listed "referrals" as their primary means of generating new business — 20% higher than the next most selected answer: Networking & Events (18%).
2. More consultants struggle with marketing (32% say they struggle with marketing) more than they struggle with sales (23% say they struggle with sales). 28% say the struggle with both equally — and only 17% say they don't struggle with either.
3. Investing more in your marketing correlates to a higher income. Over 50% of consultants investing $5K+ in their marketing are earning more than $150K per year.
4. Consultants dislike making phone calls. 41% of them claim making phone calls as their most disliked marketing method. However, 7% of consultants say that making phone calls makes them the most money — the third highest income-generating marketing method for the consultants we polled.
5. Consultants win a large percentage of their business by referrals. 22% of consultants win 95%+ of their business via referral — and over 50% of consultants win 60%+ of their business via referral.
6. Marketing frequency correlates to less of a reliance on referrals. Consultants who market their business daily rely less on referrals. Consultants who market their business only when they need a new client rely heavily on referrals.
7. We see a positive correlation between marketing frequency and the number of clients. Consultants who work with 1-3 clients per year market their business less (only 25% market their business daily) than consultants who work with 6+ clients per year (38% market their business daily).
8. Consultants who earn $150K-$1M+ rely far less on referrals. 28% of them listed 20-40% of their business coming from referrals — the most chosen answer for consultants earning $150K-$1M+.
9. Years of experience is highly correlated to income. The more experienced consultants (15+ years of experience) are earning the most annual income.
10. 70% of consultants polled have no employees — but 41% of consultants polled work with 1-3 contractors per year (more so than those who work with none at 36%).
11. Women struggle with marketing and sales equally (38% of women consultants polled say so). Men struggle more with marketing than sales (32% say they struggle with marketing the most). Women are also much more reliant on referrals (of women consultants polled, 36% of them win 95% of their business via referral compared to 18% for men).

12. 34% of consultants listed “Realize my potential” as the #1 reason they started their own consulting business. “Be my own boss” was the second most popular answer at 26%. “Realize my potential” was the most popular answer for men, and “Be my own boss” was the most popular answer for women.

Below, you’ll find a comprehensive look at the survey data.

Consulting Marketing Statistics

What do you struggle more with?



Why do we decide to put out a study on marketing for consultants?

Because marketing and sales are a challenge for consultants. And the data backs that up.

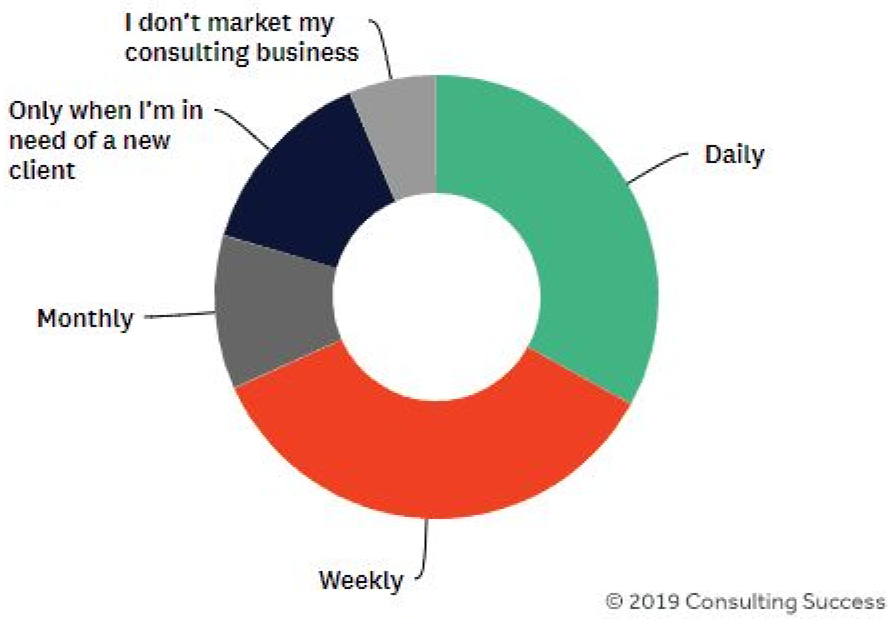
- 32% of consultants say they struggle most with their marketing (generating conversations with prospective buyers).
- 23% struggle more with sales (converting prospects into clients).
- And 28% struggle with both equally.
- Only 17% of consultants claim they don’t struggle with either.

What’s the difference between consultants who struggle with their marketing and those who don’t?

- 39% of consultants who don’t struggle with marketing are actually marketing their business daily. We propose that the more you market your business, the less likely you are to struggle with it.

- Consultants who don't struggle with marketing rely less on referrals. If you don't know how to get clients without referrals, chances are you're struggling with your marketing.
- Consultants who don't struggle with marketing use more contractors (52% use 1-3 contractors per year) than those who do struggle with marketing (only 29% use 1-3 contractors). This might suggest that if you don't have contractors to help you run various parts of your business, you don't have the time to market your business.

How often do you spend time marketing your business?



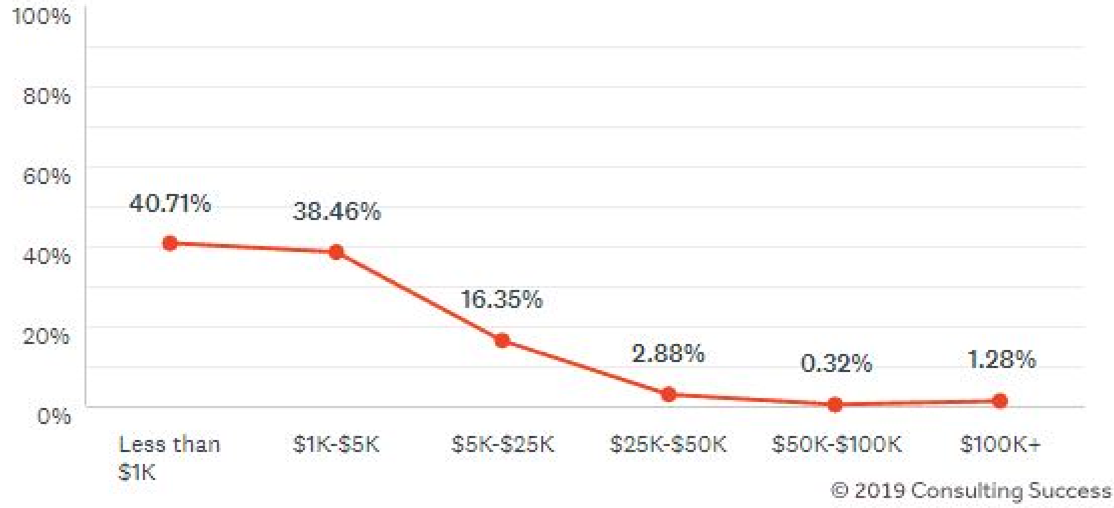
- Most consultants we poll market their business weekly (35%).
- 33% of consultants market their business daily.
- 11% of consultants market their business monthly.
- 14% of consultants market their business only when they need a new client — and 6% don't market their business at all.

Consultants who market their business daily do not rely on referrals nearly as much.
For consultants who only market their business when they need a new client, over 50% of them get most of their business from referrals.

Even if you're confident in your ability to generate referrals, marketing only when you need clients isn't the best approach.

We recommend developing a marketing strategy so you can be proactive in acquiring new clients. You should build a predictable and reliable marketing system.

How much money do you spend on marketing your consulting business each YEAR?



Consultants don't invest much in their marketing. Those who do invest tend to have higher incomes.

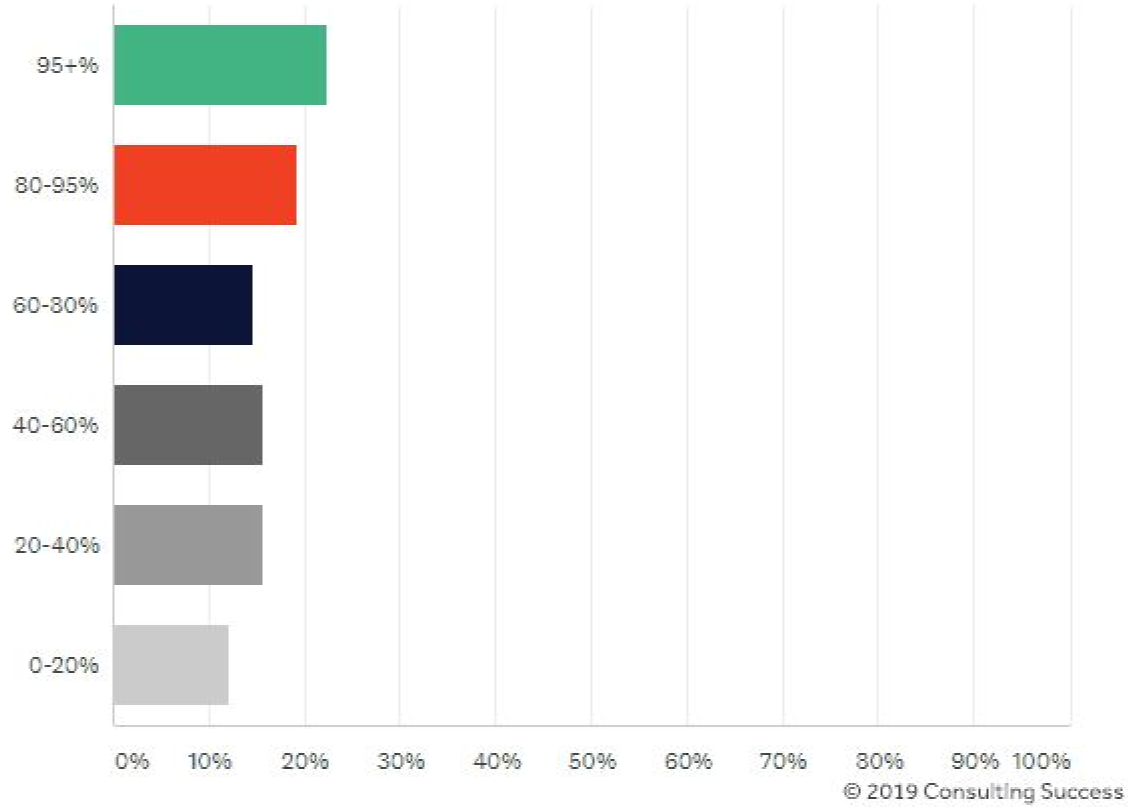
- 40% invest less than $1000 in their marketing each year.
- 38% invest $1000-$5000.
- 20% invest $5000+.

Marketing is not an expense — it's an investment. When you invest in your marketing (the right way), you should see a return on your investment.

Marketing's job is to generate conversations with prospective buyers so you can get more clients and make more money.

We observed that the highest-earning consultants tend to invest more in their marketing — over 50% of consultants who invest $5K-$25K in their marketing are making more than $150K per year — with 30% making over $300K per year.

What percentage of your business comes from referrals?



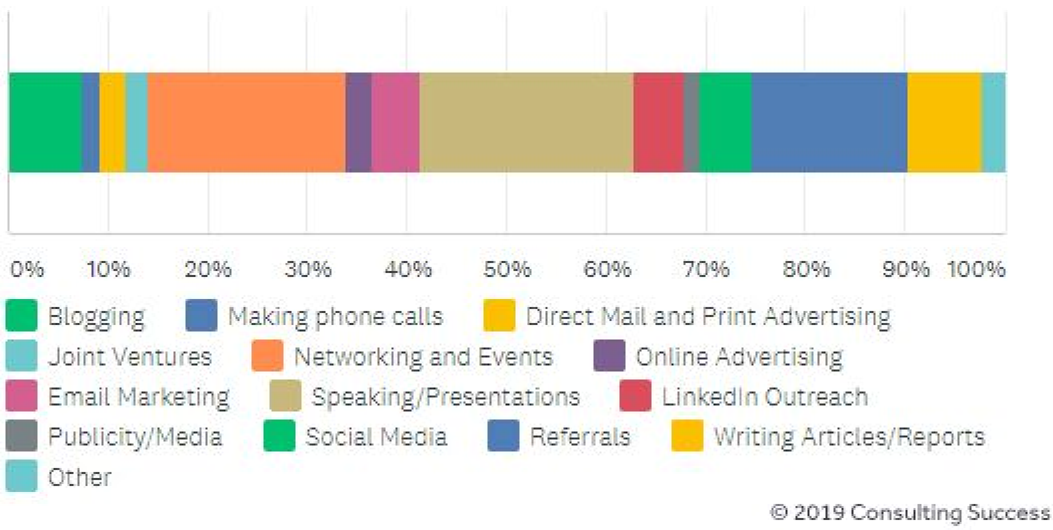
Marketing is difficult for consultants in a competitive marketplace — and that's why consultants rely heavily on referrals.

Over 55% of consultants get 60% of their new business from referrals.
This can mean that they have become very good at referral marketing or networking — but it can also mean they're having trouble generating new business outside of immediate relationships.

Referrals will always be a great source of your new business. But, there's always a possibility that your referral well runs dry. We advise consultants not to put all of their eggs in one basket and learn to attract clients through other means.

Consultant Marketing Preferences

What type of marketing do you enjoy the most?

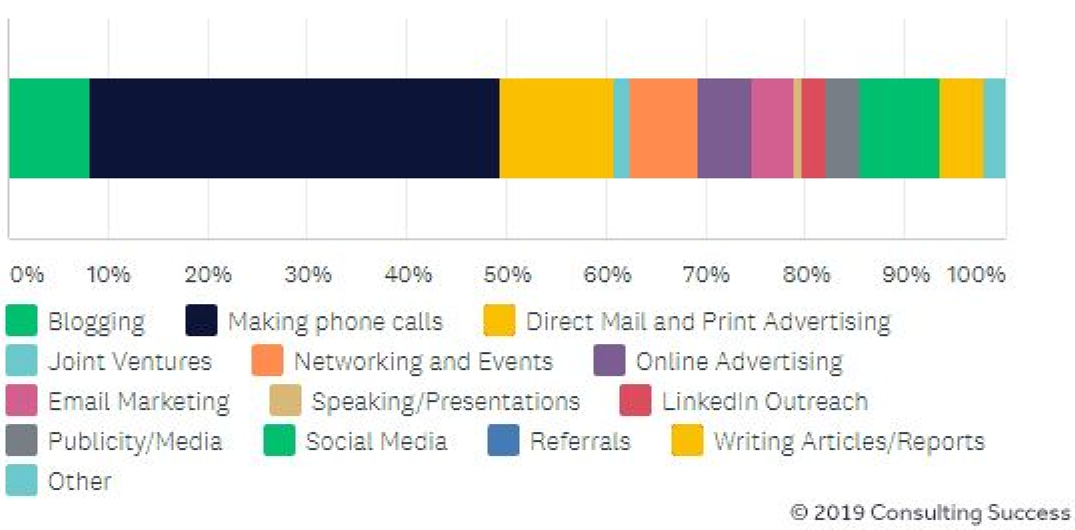


Speaking looks to be the most popular marketing method for consultants at 21%.

Networking and events (20%), referrals (16%), and writing (7%) were the next most popular marketing methods.

These methods provide a nice mix of relationship-building and demonstrating your expertise — two critical aspects of marketing for consultants.

What type of marketing do you dislike the most?

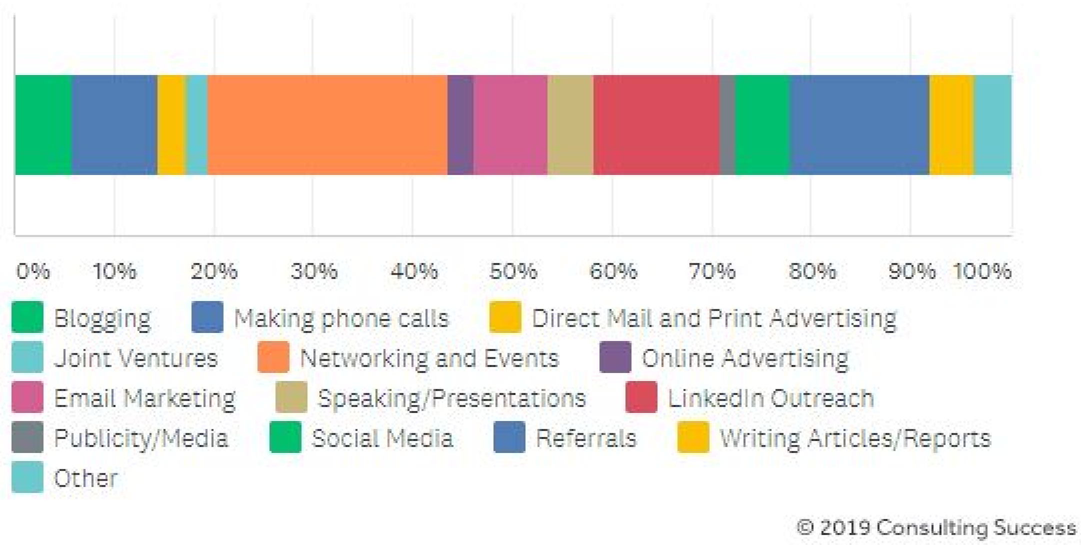


The data is clear — consultants don't like making phone calls.

41% of consultants listed making phone calls as their most disliked form of marketing. The next most disliked was direct mail and print advertising at 12%. There was an even spread among the rest of the methods.

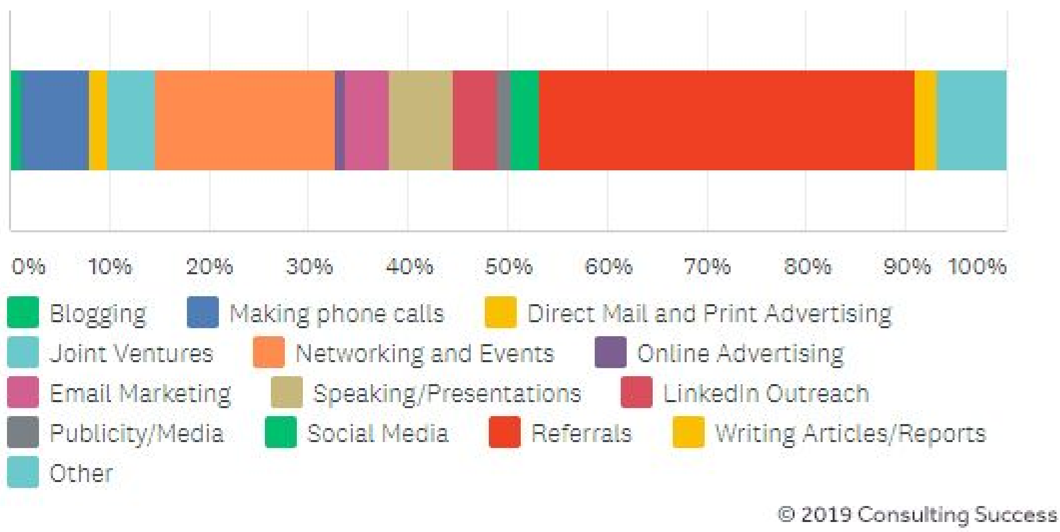
Why do consultants dislike picking up the phone? It's uncomfortable and time-consuming. But, there are ways to make it more effective.

What type of marketing do you spend the most TIME on?



Consultants spend their time on a variety of different marketing methods.
24% of consultants chose "Networking & Events" as the marketing method they spend the most time on.
Referrals came in second at 14%. The third was LinkedIn outreach at 12%.

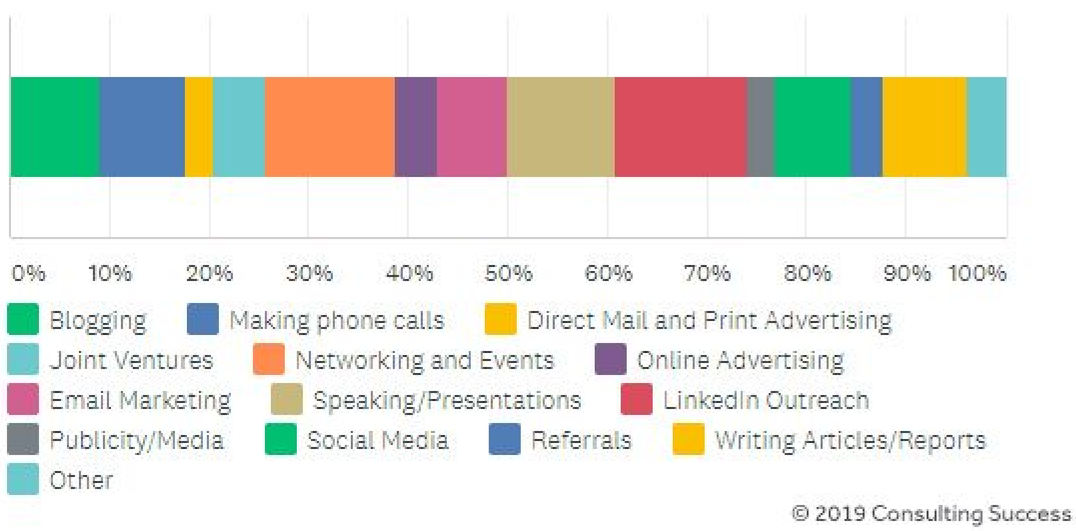
Which of the below has made your business the most MONEY?



Referrals make consultants the most money — with 38% of consultants choosing referrals as their highest income earning marketing method.

Next was networking and events at 18%. In third was making phone calls at 7%.

What area of your marketing are you planning to improve/work on most in 2019?



Consultants are interested in improving many areas of their marketing in 2019.

The most popular answers were Networking & Events and LinkedIn Outreach at 13% each.

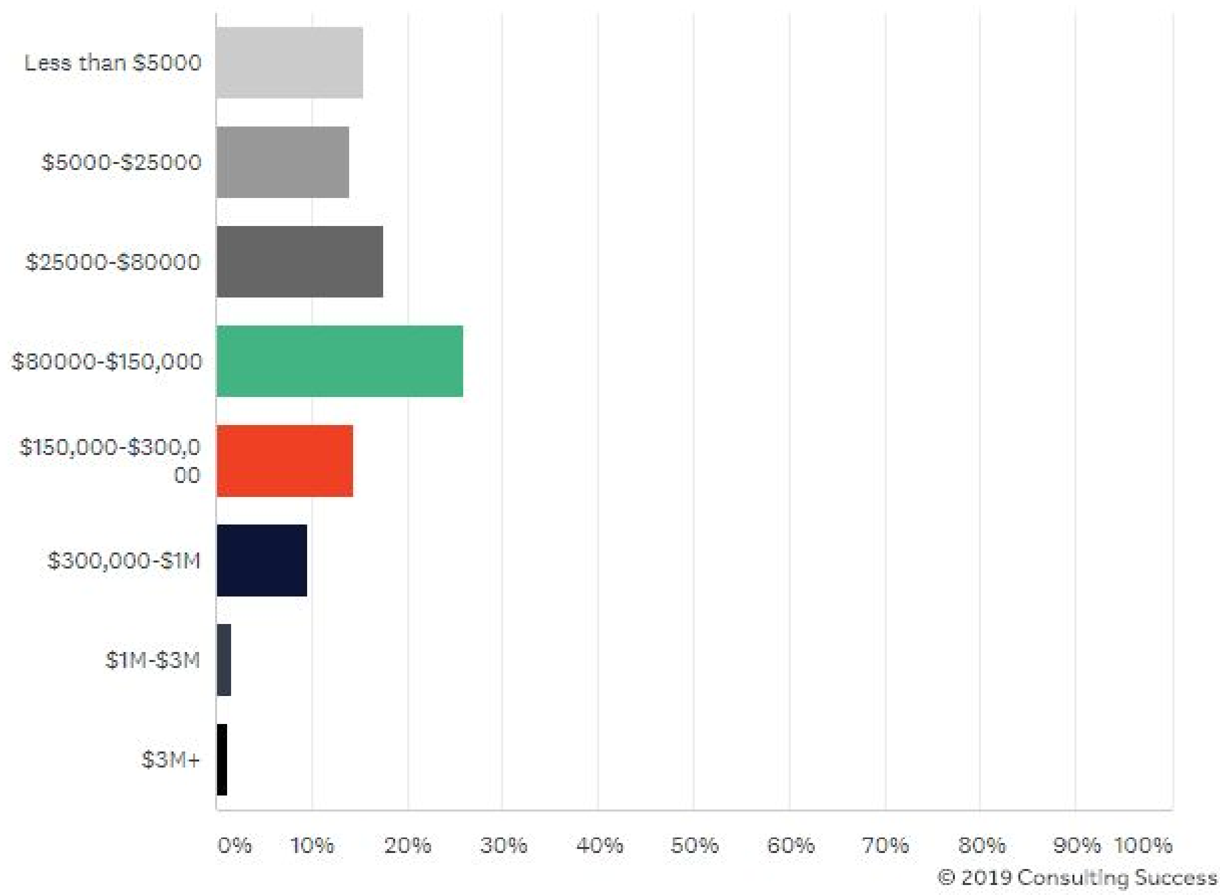
Speaking, blogging, writing, and email marketing are also drawing a lot of interest.

Very few consultants are looking into direct mail or traditional media to market their business. With the rise of social and new media, these more traditional methods have fallen out of favor – that doesn't mean they can't work well.

However, there are still effective ways to market your business via traditional media.

Consulting Business Statistics

What is your annual income from consulting?



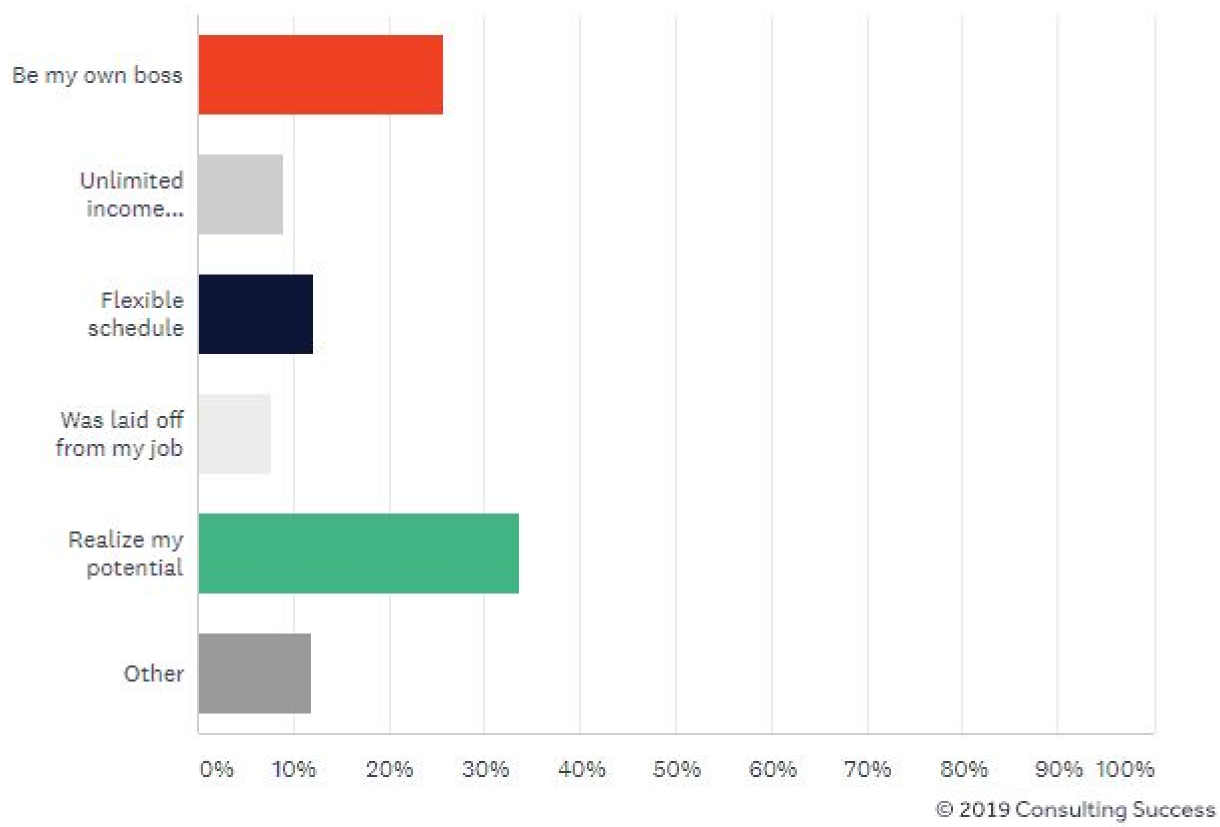
- 26% of the consultants who took our survey make between $80K-$150K
- The next most chosen answer was $25K-$80K (17%)
- 14% make between $150K-$300K
- 14% make $5000-$25K
- And 13% make $300K+

So, what are the consultants who are making more than $300K doing differently with their marketing?

- They market their business daily.
- They invest more in their marketing.
- They rely far less on referrals.
- They spend more time reaching out to potential clients on LinkedIn.
- They tend to earn more money from writing and blogging.
- They have more years of experience.

Ask yourself — if you're not making over $300K per year, are you doing the 6 things above?

What is the #1 reason you became a consultant?

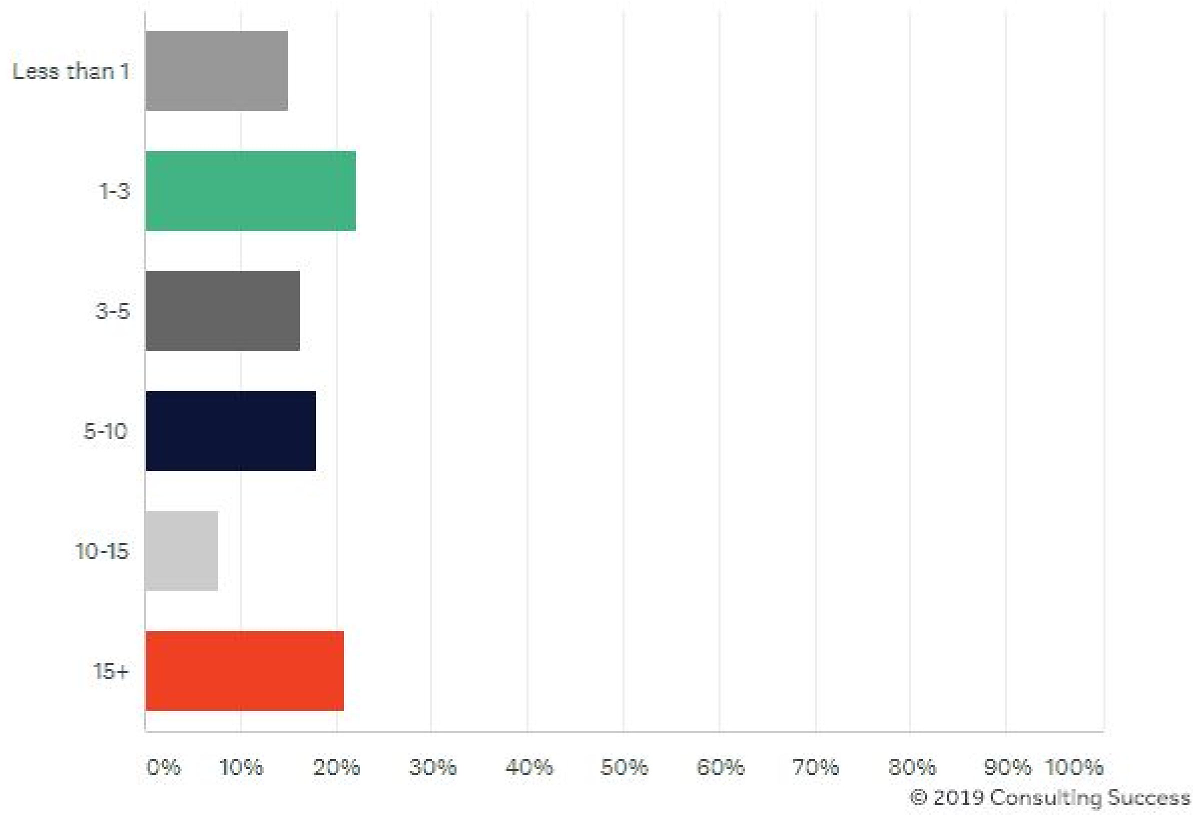


If you want to realize your potential or be your own boss, you're in good company.

- 34% of consultants we polled listed "Realize my potential" as the #1 reason they become a consultant. 26% said chose "be my own boss."
- 12% chose the flexible schedule, 9% said unlimited income, and 8% said they became a consultant because they were laid off.

Consulting is a great business to start for all of these reasons.

How many years have you been a consultant?

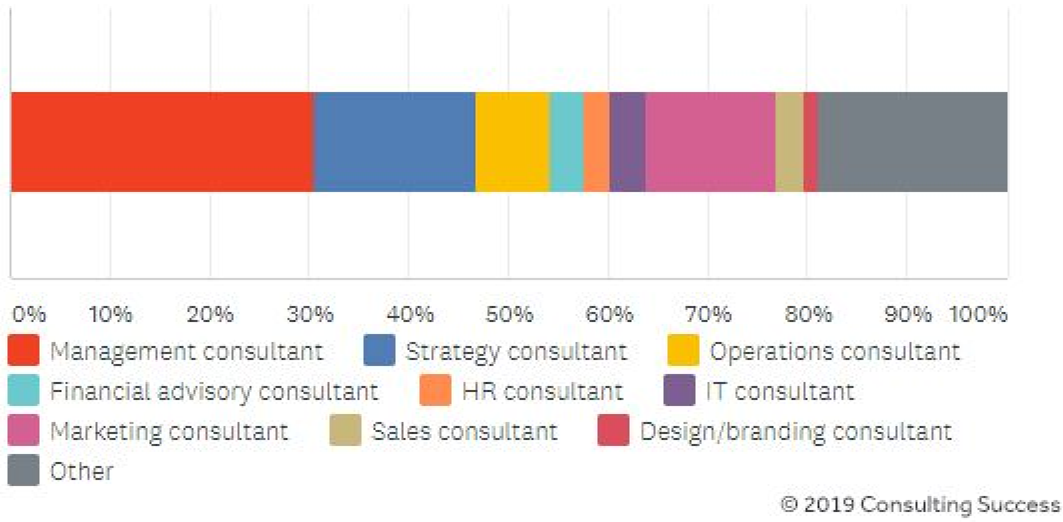


Consultants who took our poll have various degrees of experience.

- 22% of consultants have been a consultant for 1-3 years.
- 21% of consultants have been a consultant for 15+ years.
- The other answers came were 5-10 years (18%), 3-5 years (16%), and 10-15 years (8%).
- 15% of consultants are brand new — and have been consulting for less than 1 year.

As you might imagine, we observed a correlation between years of experience and income. The consultant with the highest income have the most years of experience. If you're a new consultant, hang in there. As your experience grows, so will your income — provided that you're continually increasing your value.

What type of consultant would you consider yourself?

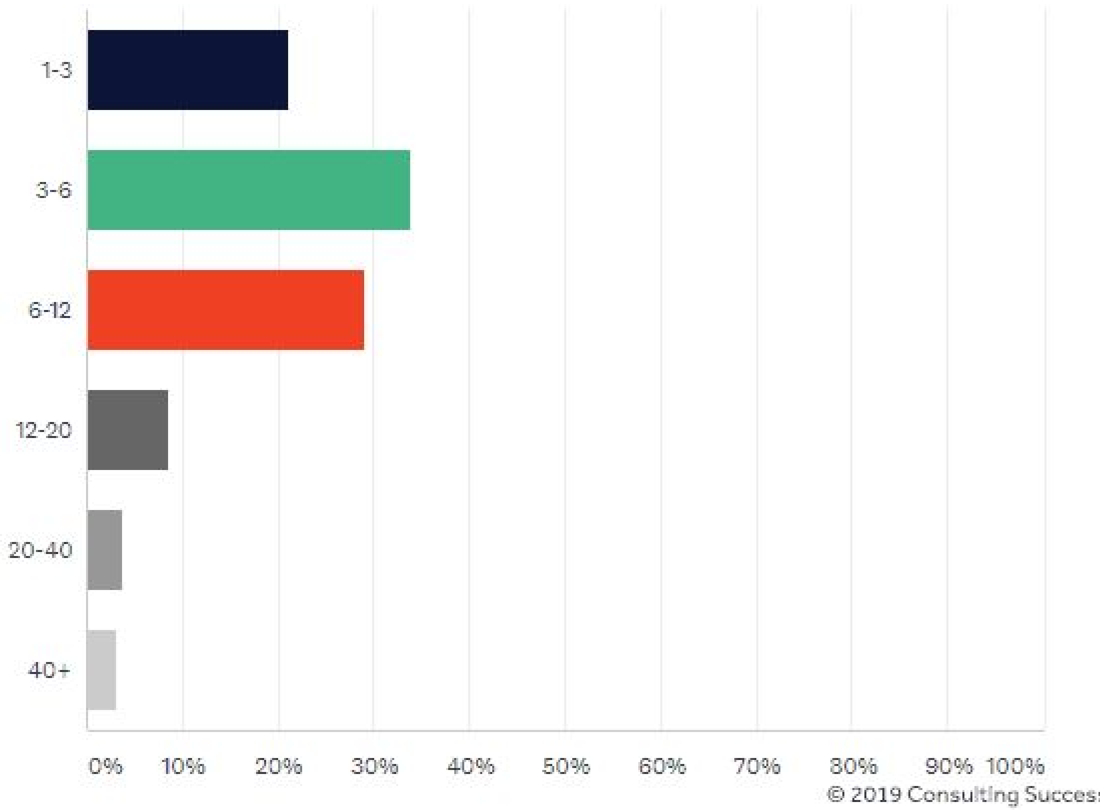


Our survey featured a diverse group of consultants.

30% are management consultants. 16% are strategy consultants, 13% are marketing consultants, and 7% are operations consultants.

Others included financial advisory consultants (4%), HR consultants (3%), IT consultants (4%), sales consultants (3%), and design consultants (1%). 19% selected other.

How many clients do consultants work with each year?

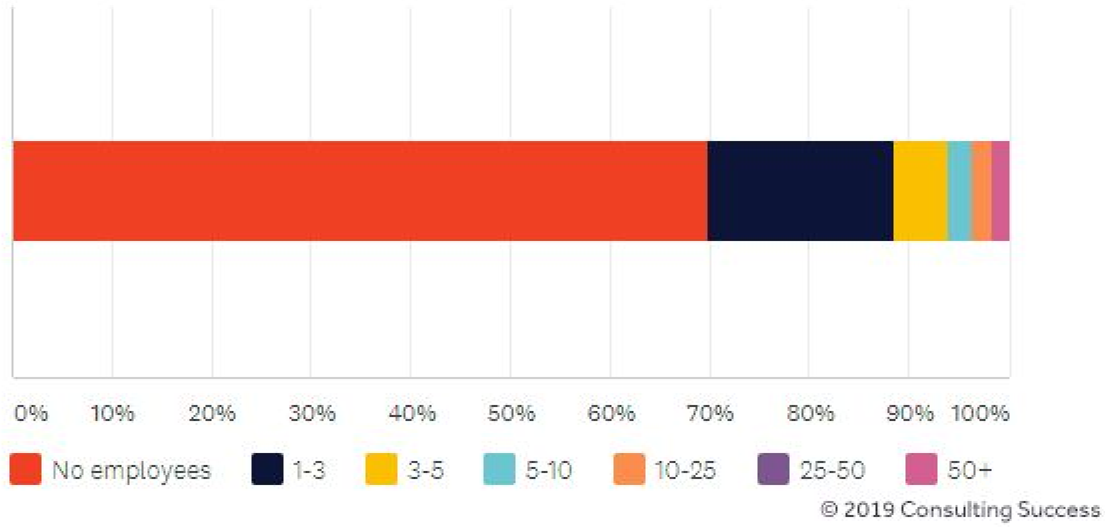


As for how many clients consultants work with each year, the most popular answer was 3-6 (34%). "6-12 clients" was the second most chosen answer (29%), and 1-3 was the third (21%). 16% of consultants polled work with more than 12+ clients per year — suggesting they're leveraging productized consulting to take on more clients and scale up.

How does the number of clients play in a firm's marketing?

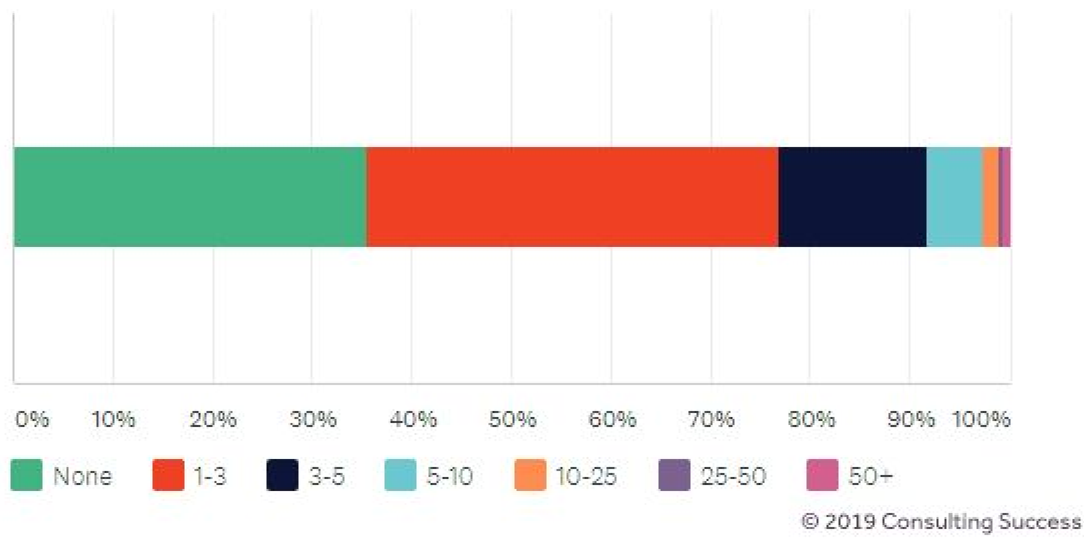
- Consultants who only work with 1-3 clients per year struggle with both marketing and sales equally (45%). We think that when you work with 1-3 clients per year, you might be in a dangerous position. You risk becoming reliant on one client as the sole source of income — and you risk becoming more of an employee than a consultant.
- Consultants who work with 1-3 clients per year market their business far less frequently. If you want more clients, try marketing your business daily — or at least weekly.
- There is a correlation between the number of clients and a reliance on referrals. The fewer clients a consultant works with each year, the more they seem to rely on referrals. If you're relying on referrals too much, chances are you're not marketing your consulting business effectively.

How many full-time employees do consultants have?



- 70% of consultants we polled have no employees and are independent consultants.
- 19% of consultants polled have 1-3 employees.
- 12% have more than 3 employees.

How many part-time employees or contractors do consultants work with each year?



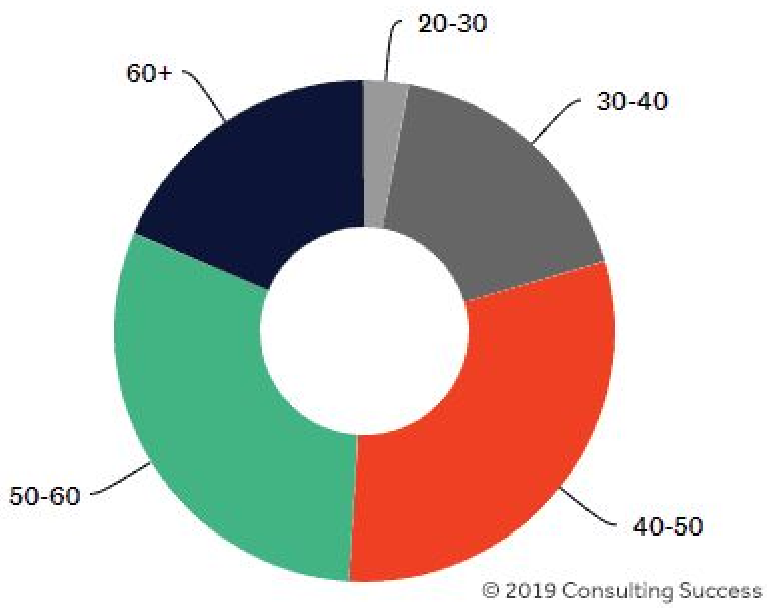
While 70% of the consultants we polled do not have any full-time employees, many consultants do work with contractors each year.

41% of consultants we polled use 1-3 contractors per year. 36% use none, and 23% use more than 3.

Contractors are a great way to scale up your business — without having to deal with the overhead that full-time employees bring.

Consulting Demographics

What is the average age of consultants?



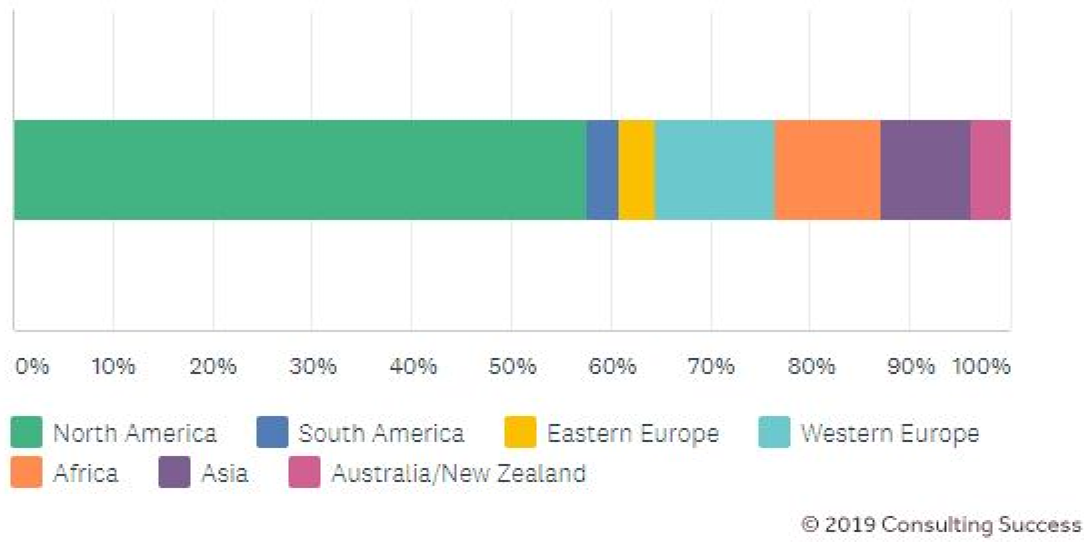
It's never too late to start your consulting business.

- Over 60% of the consultants we polled are 40-60.
- Nearly 20% are older than 60.
- 20% are 40 or younger.

How does marketing compare across different ages? Here's what we found:

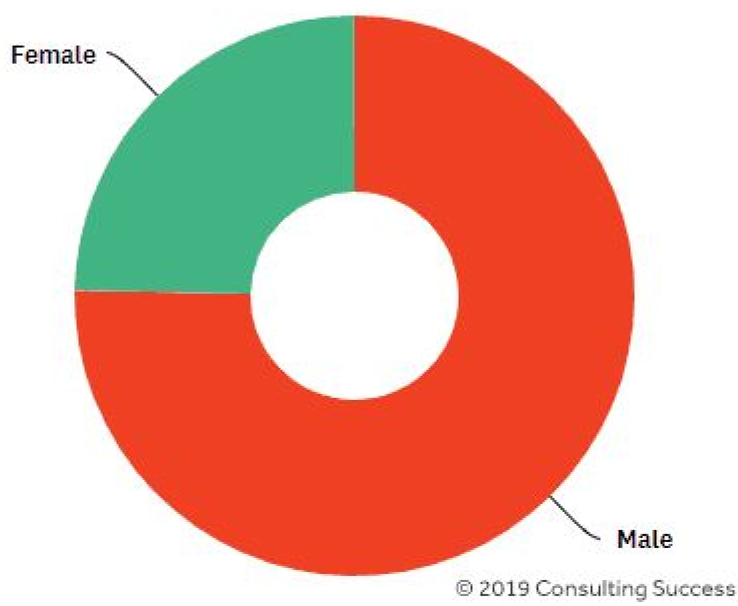
- The younger generation enjoys blogging more (22% chose blogging as their favorite marketing method).
- Making phone calls doesn't become more enjoyable as you age — every age group listed making phone calls as their least favorite marketing method.
- Millennial consultants are making most of their money via Joint Ventures and Online Advertising — even more so than referrals. Consultants who are 30-40+ make most of their money via referral.

Where do consultants live?



The majority of consultants polled in our survey live in North America at 57%. Western Europe (12%), Africa (11%), and Asia (9%) follow.

I am…



75% of the consultants polled in our survey are male, and the other 25% female.

We observed some interesting gender dynamics in consulting:

- 13% more female consultants listed networking and events as their favorite marketing method than men.
- Women struggle with marketing and sales equally (38% list that they struggle with both). Men, on the other hand, have more trouble with marketing (32% say they struggle with marketing more).
- Double the percentage of women (36%) win 95%+ of their business via referral than men (18%). When it comes to why they chose to become a consultant, “realize my potential” was the most popular answer for men (35%). For women, “Be my own boss” was the most popular answer (32%).

Past Study Comparison

So how does this year’s study compare to last year’s study?

In the 2018 study, referrals were the marketing method that consultants spent the most time on at 22%. In 2019, 24% of consultants listed networking and events as the marketing method they spend time on — with referrals dropping to 14%.

Referrals make consultants the most money in both 2018 and 2019.

Consultants are investing similar amounts into their marketing in both years.

Consultants work with more clients per year in 2019 compared to 2018.

Want to see the 2018 study in its entirety? We’ve archived the study for you to see here.

Marketing For Consultants Action Plan

Don’t just read the study and think “that’s neat” — we create these studies to help you take action.

If you’re a new consultant and don’t know where to start with your marketing…

Check out our article on starting a consulting business. It will help you build up your new consulting business the right way.

We’ve also recently launched the Momentum program if you want to follow a step-by-step system to generate consistent clients.

If you’re an experienced consultant but aren’t happy with your pipeline of incoming projects… Check out our article on 10 Proven Marketing Tactics for Consultants and Coaches — and make the habit of actually doing them!

If you are wondering how you can vastly improve your own marketing and sales process — and find more qualified clients who pay more for your expertise — we would be happy to chat with you. On our call, you'll learn how your marketing process could be improved — at no cost to you.

Learn how we support consultants in our Clarity program and book a complimentary call.
Want to hear from women in consulting?

Our podcast features thriving consultants like Dauwn Parker, Elizabeth Woolfe, Nancy Halpern, and many more.

If you're working more like a contractor and want to get into the business of consulting, listen to our podcast with Doug Miller: Moving From Agency Work To Starting Your Own Consulting Business.

Business Service Providers¶

What Is Business to Business (B2B)?

Business to business also called B to B or B2B, is a form of transaction between businesses, such as one involving a manufacturer and wholesaler, or a wholesaler and a retailer. Business to business refers to business that is conducted between companies, rather than between a company and individual consumers. Business to business stands in contrast to business to consumer (B2C) and business to government (B2G) transactions.

Understanding Business to Business (B2B)

Business-to-business transactions are common in a typical supply chain, as companies purchase components and products such as other raw materials for use in the manufacturing processes. Finished products can then be sold to individuals via business-to-consumer transactions.

In the context of communication, business to business refers to methods by which employees from different companies can connect with one another, such as through social media. This type of communication between the employees of two or more companies is called B2B communication.

Research firm Forrester estimated that in 2014, U.S. business-to-business retail accounted for about half of the U.S. economy's gross domestic product, selling upwards of $8 trillion in goods.

B2B E-Commerce

Late in 2018, Forrester said the B2B e-commerce market topped $1.134 trillion – above the $954 billion it had projected for 2018 in a forecast released in 2017. That's roughly 12% of the total $9 trillion in total US B2B sales for the year. They expect this percentage to climb to 17% by 2023. The internet provides a robust environment in which businesses can find out about products and services and lay the groundwork for future business-to-business transactions. Company websites allow interested parties to learn about a business's products and services and initiate contact. Online product and supply exchange websites allow businesses to search for products and services and initiate procurement through e-procurement interfaces. Specialized online directories providing information about particular industries, companies and the products and services they provide also facilitate B2B transactions.

B2B Examples

Business-to-business transactions and large corporate accounts are commonplace for firms in manufacturing. Samsung, for example, is one of Apple's largest suppliers in the production of the iPhone. Apple also holds B2B relationships with firms like Intel, Panasonic and semiconductor producer Micron Technology.

B2B transactions are also the backbone of the automobile industry. Many vehicle components are manufactured independently, and auto manufacturers purchase these parts to assemble automobiles. Tires, batteries, electronics, hoses and door locks, for example, are usually manufactured by various companies and sold directly to automobile manufacturers.

Service providers also engage in B2B transactions. Companies specializing in property management, housekeeping, and industrial cleanup, for example, often sell these services exclusively to other businesses, rather than individual consumers.

B2B Relationship Development

Business-to-business transactions require planning to be successful. Such transactions rely on a company’s account management personnel to establish business client relationships. Business-to-business relationships must also be nurtured, typically through professional interactions prior to sales, for successful transactions to take place. Traditional marketing practices also help businesses connect with business clients. Trade publications aid in this effort, offering businesses opportunities to advertise in print and online. A business’s presence at conferences and trade shows also builds awareness of the products and services it provides to other businesses.

Small Business Associations

9 Organizations That Can Help Your Business Right Now

You don't have to go it alone--these organizations can help you start, grow, or save your business.

Brian Moran
CEO, Small Business Edge

In America, there are literally thousands of support organizations for small-business owners. Within a stone's throw from most towns and cities, you can find a Small Business Administration office, a Small Business Development Center, a SCORE chapter, a local Chamber of Commerce, or a membership organization dedicated to helping people start, manage, grow, and sometimes save their small businesses. The best part is that much of what they do is either free or offered at a nominal cost. You can get information on financing, take a class on social media, listen to speakers talk about technology, and network with other like-minded entrepreneurs.

There is no reason for you not to leverage these resources for your businesses. Make a point to visit at least two of the organizations listed below before the end of 2013. If you don't find at least one or two nuggets of information to help you in your business, please contact me and I will personally help you find the information you seek for your company.

Small Business Administration

The SBA offers small-business counseling and training through district offices across the country. You will find business development specialists providing free and low-cost services in your area.

Best for: A wide range of business owners. In one office, you may find someone who has yet to start a business next to an entrepreneur seeking a $5 million loan to buy real estate.

SCORE

Known as "counselors to America's small business," SCORE is a nonprofit association of more than 13,000 volunteer business counselors throughout the United States and its territories. SCORE members are trained to serve as counselors, advisors, and mentors to aspiring entrepreneurs and business owners. These services are offered at no fee as a community service.

Best for: Startups during their first two years. SCORE offers tremendous support to companies seeking to avoid the traps that will kill most new companies in the first 24 months.

Small Business Development Centers

SBDCs help aspiring entrepreneurs realize their dreams and help existing businesses remain competitive in a complex, ever-changing global marketplace. SBDCs are hosted by leading universities and state economic development agencies.

Best for: Existing companies looking to get to the next level.

Chamber of Commerce

Your local or regional chamber is a member community organization that actively facilitates, educates, and advocates on behalf of its members through various services and programs. Chamber member offerings typically include networking opportunities and events, educational seminars, leadership development, and special offers to chamber members from other chamber members.

Best for: Companies interested in local networking and business development.

Veterans Business Outreach Centers

The Veterans Business Outreach Program (VBOP) is designed to provide entrepreneurial development services such as business training, counseling, and mentoring, as well as referrals for eligible veterans owning or starting a small business. The SBA has 16 different organizations participating in this cooperative agreement and serving as Veterans Business Outreach Centers (VBOC).

Best for: Veterans who want to start a business or need assistance in managing and growing an existing business.

Women's Business Centers

WBCs represent a national network of nearly 100 educational centers throughout the United States and its territories assist women in starting and growing small businesses. The SBA's Office of Women's Business Ownership (OWBO) oversees the WBC network, which provides entrepreneurs (especially women who are economically or socially disadvantaged) comprehensive training and counseling on a variety of topics in several languages.

Best for: Women who own their own businesses, whether it's in the startup or growth phase.

Procurement & Technical Assistance Centers

PTACs provide local, in-person counseling and training services designed to assist businesses that want to sell products and services to federal, state, and/or local governments. PTAC services are available either free of charge, or at a nominal cost.

Best for: Business owners who wished they knew about such services before they started on the arduous journey of selling products and services to the government.

United States Export Assistance Centers

Each U.S. Export Assistance Center (USEAC) is staffed by professionals from SBA, Department of Commerce, Export-Import Bank and other public and private organizations. Together, their mission is to help small and midsize businesses compete in today's global marketplace by providing export assistance.

Best for: Entrepreneurs with their sights set on the global stage.

Certified Development Companies

CDCs are nonprofit corporations certified and regulated by the SBA. They work with participating lenders to provide financing to small businesses. There are 270 CDCs nationwide, covering specific geographic areas.

Best for: Existing business owner looking for debt financing to buy capital equipment, another company, or enter new markets.

Running a business today is challenging. Don’t make it harder on yourself by trying to do everything on your own. Take time to visit the above-mentioned support organizations and let them help you run a better and smarter company.

As the founder and CEO of Brian Moran & Associates, Brian helps entrepreneurs run better businesses. He was formerly the executive director at The Wall Street Journal, overseeing the financial and small-business markets across the WSJ franchise. From 2002 to 2010, Brian ran Veracle Media and Moran Media Group, content companies in the SMB market.