**East Cleveland Growth Association**

**A.M. WARD BUSINESS CO-OP**

**Market Research Analysis**

According to the study “Entrepreneurship in Low-Income Areas” by Maurice Kugler, Marios Michaelides, Neha Nanda, and Cassandra Agmayani on behalf of the U.S. Small Business Administration (SBA), the study finds that self-employment rates are significantly lower in low-income areas (9.2 percent) relative to other areas (10.9 percent). The study also finds important differences in the characteristics of labor force participants between low-income and other areas, for instance, statistics show that a significant portion of the work force in low-income areas are women, Blacks, and Hispanics, with no more than a high school diploma. Also, the majority of self-employed workers are Black and Hispanic and again, have no more than a high school education. However, statistics also show that there are fewer businesses operating in low-income areas as opposed to the number of businesses in other areas.

The majority of self-employed business owners in low-income areas operate their businesses out of their homes and are less likely to incorporate. The study further determined that businesses such as construction, professional services, administrative support, and agriculture are less likely to be employers in low-income areas. This leads the study to determine that businesses in low-income areas have fewer employees and lower average payrolls.

Using data from a 2013 study by the American Community Survey (ACS) & the County Business Patterns (CBP), the ACS concluded that there are 4 basic income streams in low-income areas:

* **Salary income** – income earned from own business in the form of salary plus income earned from another salary job.
* **Business income** – income earned from own business, other than salary income.
* **Public assistance income** – income earned from Social Security and other public assistance benefit programs.
* **Other income** – income earned from other sources, including rents, interest, and returns on investment

The overall findings of the study were:

**Low-income areas have fewer businesses than other areas.**

* Low-income areas are home to 2 out of every 9 workers, but only 2 out of every 11 self-employed workers, and only 2 out of every 30 businesses with employees

**Businesses in low-income areas have fewer employees.**

* Among businesses with employees, businesses in low income areas have an average of 12 employees while businesses in other areas have an average of 15 employees

**Average household income**

* in the low-income areas was $46,432, while average household income
* in the other areas was $80,281

**Poverty rate**

* in low-income areas was 22.2 percent
* in other areas was 11.1 percent

The East Cleveland Growth Association wants to build a small business framework that helps small business successfully traverse the 5 Stages of Small Businesses as determined by Neil C. Churchill and Virginia L. Lewis, in a study that was published in May 1983. In order to successfully move through the 5 stages and build a sustainable business, ECGA estimates a 5-year maturity cycle for the businesses we will look to support in the A.M. Ward Business Co-op. With that in mind, we will seek lease agreements of not less than 3 years and not more than 5 years.

**Stage 1: Existence**

In this stage the main problems of the business are obtaining customers and delivering the product or service contracted for.

**Stage 2: Survival**

In reaching this stage, the business has demonstrated that it is a workable business entity. It has enough customers and satisfies them sufficiently with its products or services to keep them. The key problem thus shifts from mere existence to the relationship between revenues and expenses.

**Stage 3: Success**

The decision facing owners at this stage is whether to exploit the company’s accomplishments and expand or keep the company stable and profitable, providing a base for alternative owner activities. Thus, a key issue is whether to use the company as a platform for growth. The company has attained true economic health, has sufficient size and product-market penetration to ensure economic success, and earns average or above-average profits. The company can stay at this stage indefinitely, provided environmental change does not destroy its market niche or ineffective management reduce its competitive abilities.

**Stage 4: Take-off**

In this stage the key problems are how to grow rapidly and how to finance that growth.

**Stage V: Resource Maturity**

The greatest concerns of a company entering this stage are, first, to consolidate and control the financial gains brought on by rapid growth and, second, to retain the advantages of small size, including flexibility of response and the entrepreneurial spirit.

The following are some general startup and small-business stats:

**GENERAL STARTUP STATISTICS**

**The statistics below were published in Startup on March 28, 2019, by Matt Mansfield**

* 69 percent of U.S. entrepreneurs [start](https://smallbiztrends.com/2013/07/home-based-businesses-startup.html) their businesses at home.
* According to the National Association of Small Business’s 2017 Economic Report, the majority of small businesses surveyed [are](https://nsba.biz/wp-content/uploads/2018/02/Year-End-Economic-Report-2017.pdf) LLCs (35 percent) followed by S-corporations (33 percent), corporations (19 percent), sole proprietorships (12 percent), and partnerships (2 percent).
* 51 percent of people asked, “[What’s the best way to learn more about entrepreneurship](https://smallbiztrends.com/2015/06/learning-by-doing-entrepreneurship.html)?” responded with “Start a company”.

**SMALL BUSINESS OWNER STATISTICS**

[**Gender**](https://www.guidantfinancial.com/small-business-trends/)**:**

* + 73 percent identify as male; and
  + 25 percent identify as female.

[**Age Range**](https://www.guidantfinancial.com/small-business-trends/)**:**

* + 50-59 years old: 35 percent;
  + 40-49 years old: 25 percent;
  + 60-69 years old: 18 percent;
  + 30-39 years old: 14 percent;
  + 18-29 years old: 4 percent; and
  + 70+ years old: 4 percent.

[**Education**](https://www.guidantfinancial.com/small-business-trends/)**:**

* + High School / GED: 33 percent;
  + Associates Degree: 18 percent;
  + Bachelor’s Degree: 29 percent;
  + Master’s Degree: 16 percent; and
  + Doctorate: 4 percent.

[**Reason**](https://www.guidantfinancial.com/small-business-trends/)**for starting business:**

* + Ready to be his/her own boss: 26 percent;
  + Wanted to pursue his/her passion: 23 percent;
  + The opportunity presented itself: 19 percent;
  + Dissatisfied with corporate America: 12 percent;
  + Laid off or outsourced: 6 percent;
  + Not ready to retire: 6 percent;
  + Other: 5 percent;
  + Life event such as divorce, death, etc.: 3 percent.

[**Ethnicity**](https://www.bizbuysell.com/2018-Small-Business-Owner-Buyer-Demographics)**:**

* + White/Caucasian – 71 percent;
  + Hispanic/Latino – 6 percent;
  + Black/African American – 7 percent;
  + Asian/Pacific Islander – 11 percent;
  + Other – 5 percent.

**STARTUP FAILURE RATE STATISTICS**

* **Of all small businesses**[**started in 2014**](https://www.bls.gov/bdm/us_age_naics_00_table7.txt)**:**
  + 80 percent made it to the second year (2015);
  + 70 percent made it to the third year (2016);
  + 62 percent made it to the fourth year (2017);
  + 56 percent made it to the fifth year (2018).
* **Given those numbers, a bit more than half of all startups actually survive to their fourth year, while the startup failure rate at four years is about 44 percent.**
* [**Top 10 causes**](https://www.cbinsights.com/research/startup-failure-reasons-top/)**of small business failure:**
  + No market need: 42 percent;
  + Ran out of cash: 29 percent;
  + Not the right team: 23 percent;
  + Got outcompeted: 19 percent;
  + Pricing / Cost issues: 18 percent;
  + User un-friendly product: 17 percent;
  + Product without a business model: 17 percent;
  + Poor marketing: 14 percent;
  + Ignore customers: 14 percent; and
  + Product mistimed: 13 percent.

**INDUSTRIES WITH THE BEST STARTUP STATISTICS**

***The 10 most profitable small business industries by net profit margin (NPM)***[***are***](https://www.sageworks.com/media/press-articles/these-are-the-10-most-profitable-industries-in-2017/)***:***

1. Accounting, Tax preparation, Bookkeeping, and Payroll Services: 18.4 percent NPM
2. Lessors of Real Estate: 17.9 percent NPM
3. Legal Services: 17.4 percent NPM
4. Management of Companies and Enterprises: 16 percent NPM
5. Activities Related to Real Estate: 14.9 percent NPM
6. Offices of Dentists: 14.8 percent NPM
7. Offices of Real Estate Agents and Brokers: 14.3 percent NPM
8. Nonmetallic Mineral Mining and Quarrying: 13.2% NPM
9. Offices of Other Health Practitioners: 13 percent NPM
10. Medical and Diagnostic Laboratories: 12.1 percent NPM

**INDUSTRIES WITH THE WORST STARTUP STATISTICS**

**The 10 least profitable industries in the US by net profit margin (NPM)**[**are**](https://www.forbes.com/sites/sageworks/2017/09/24/these-industries-generate-the-lowest-profit-margins/#2524947ff49d)**:**

1. Oil and Gas Extraction: -6.9 percent NPM
2. Software Publishers: -5.1 percent NPM
3. Beverage Manufacturing: -3.7 percent NPM
4. Semiconductor and Other Electronic Component Manufacturing: -0.3 percent NPM
5. Forging and Stamping: 0.4 percent NPM
6. Farm Product Raw Material Merchant Wholesalers: 0.9 percent NPM
7. Beer, Wine, and Distilled Alcoholic Beverage Merchant Wholesalers: 2.1 percent NPM
8. Petroleum and Petroleum Products Merchant Wholesalers: 2.8 percent NPM
9. Grocery Stores: 2.2 percent NPM

**East Cleveland Income & Employment Data:**























