



BizFilings
Small Business
Survey 2021

Motivations & challenges
for small business owners

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Survey Report



Introduction: Who we surveyed and why



To find out what was on the minds of small business owners, we surveyed 400 small business owners for our second annual BizFilings Small Business Survey. The report provides insights into the motivations, issues, and challenges that entrepreneurs face when establishing their business, as well as how the pandemic threw into disarray the normal way of doing business.

Owning a business has its distinct advantages, but it's not without its challenges. This was especially true over the last year and a half, with small business owners feeling the economic and personal disruptions from a global pandemic.

Although the severity in terms of economic impact among small businesses varied depending on location and industry, businesses overall suffered tremendous losses. According to the [U.S. Small Business Administration](#), the number of business closures and people unemployed were at levels not seen since the Great Depression.

One bright spot was in the area of entrepreneurship, which proved to be quite resilient. Four-and-a-half million business applications were filed in 2020 — the largest number on record according to census data reviewed by the [Economic Innovation Group](#).

Small businesses play a major role in the U.S. economy by fostering growth and innovation. There are [31.7 million](#) small businesses in the U.S., which make up around 99.9% of all U.S. businesses in this country. They are responsible for 40.3% of payroll in the private sector and create nearly double the number of new jobs compared to large businesses.

The participants in this survey are mainly first-time business owners and represent a wide spectrum of private industries and a range in age demographics.

Type of business



Construction **13%**



Professional services **12%**



Personal services **12%**



Retail **10%**



Business services **9%**



Other **12%**



Real estate services **4%**



Human services **4%**

What is your age?

Gen Z/Millennials (18-40)	29%
Gen X (41-55)	32%
Baby Boomers/Seniors (56+)	39%

Sixty-three percent have at least two or more employees, and 71% average less than \$250,000 in annual revenue.

Do you have employees?



Number of employees

1	37%
2	21%
3-4	15%
5 or more	27%

Annual revenue

Less than \$250K	71%
\$250-\$500K	15%
\$500K-\$1 million	11%
Average revenue	\$200K

Reasons for starting a business

Some business owners discover the need for independence later in life, while others seem to have possessed an entrepreneurial drive early on. Forty-two percent either had a business idea or started a business when they were young, while 33% had a business idea that impacted their future business ventures.



But the one trait shared by the small business owners we interviewed was that they are by and large a group of self-starters who possess a strong, independent spirit.

Which of the following best describes your business?

88%
Started business on their own

You started this business on your own	88%
You took over/purchased this business from a previous owner	6%
You inherited this business from a family member	4%
You joined a family business	2%

Eighty-eight percent started their business on their own, compared to six percent who either took over or purchased their business from a previous owner or the 4% who inherited their business.

Motivations for starting own business (Among those who started a business on their own)



As for the primary motivators for starting a business, wanting to be one's own boss is the number one reason (66%). This was followed by wanting to utilize education and skills (31%), acting on a lifelong dream (21%), and seeing a market need not being addressed (21%). The top three reasons from last year's survey were wanting to be one's own boss (48%), acting on a lifelong dream (30%), and wanting to utilize education and skills (26%).



Were you always an entrepreneur?

For many small business owners, the seeds of entrepreneurship started in their youth. We asked business owners to think back to when they were in middle school and high school and share what business ideas that they had at the time.

"I wanted to start a restaurant like my parents."

"I began a craft business in high school and still do a few craft shows because I love it."

"I had the idea to do what I am currently doing, which was construction. I also wanted to be a rock star when I was a kid. That, of course, fell through."

"I started a lawn mowing business in my neighborhood. Soon I was making \$60 per week. This was as a 13 year old in the late 70's and into the early 80's. I was able to help my family with the money. My father was an immigrant and worked seven days a week from morning to late night."

"I was and still am a jack of all trades. I'd cut grass and fix the equipment. I'd sell candy. Pretty much anything I could get my hands on I'd figure it out."

Business stage

Survey respondents tend to have been in business for quite some time with 42% having first started their business ten or more years ago. Of the owners who have been in business less than two years, 7% started their new business because of the pandemic.

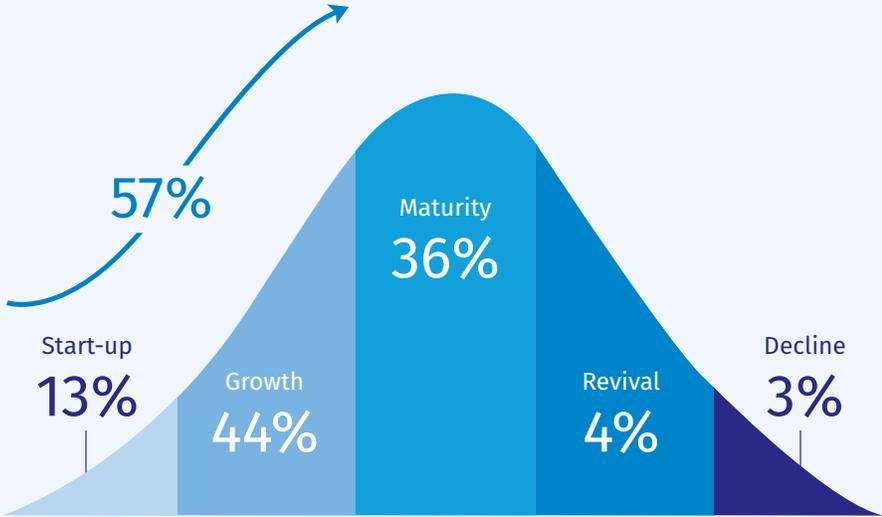
First started/entered business



7%
Started/took over business because of pandemic

Small business owners are mainly in the start-up and growth stages (57%) of the business life cycle, followed by maturity (36%). This is not surprising, given the length of ownership of many of the respondents.

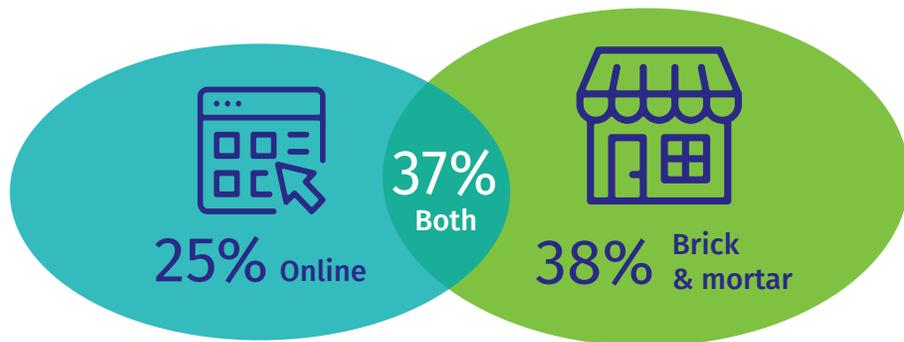
Business life-cycle stage



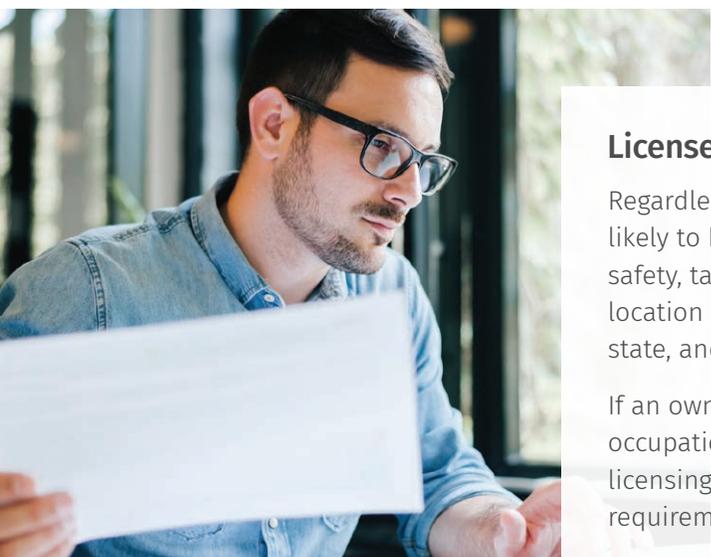
Brick and mortar vs. ecommerce

In 2020, ecommerce experienced a huge spike, largely due to many people working from home and because of quarantine lockdown rules. According to a report by IBM, the pandemic may have accelerated ecommerce growth by about five years.

But the traditional brick-and-mortar business model is far from obsolete. Thirty-eight percent of those surveyed have chosen to run their business strictly as a brick-and-mortar operation, followed closely by 37% who are running their business both as a brick-and-mortar and online. Twenty-five percent are doing business solely online.



Of those businesses with physical locations, 8% have more than one location, and 3% own a franchise business.



License requirements for online businesses?

Regardless of whether a business location is physical or virtual, there are likely to be certain business license and permit requirements for public safety, tax, or other reasons. These obligations vary according to the location and the industry type, and they can be dictated at the federal, state, and local levels.

If an owner operates out of their home, they may need to obtain a home occupation permit. Even if they only operate online, there still may be licensing, tax, and other obligations. Online businesses must follow legal requirements as do their brick-and-mortar counterparts.



Taxing of online sales

In 2018, the U.S. Supreme Court decided *South Dakota v. Wayfair, Inc.*, a case in which the Court held that a state can require out-of-state sellers to collect and remit sales taxes, even if those sellers have no physical presence in that state.

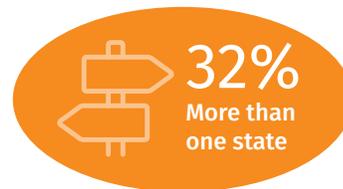
Most states have now adopted rules on what entails a tax “nexus”, the relationship between a taxing authority and a business. If a business meets a state’s rules for establishing a tax nexus, that business is obligated to collect sales tax for sales in that state. These rules vary from state to state, but often involve maintaining a location, having employees, or reaching a set sales threshold.

Doing business from more than one state and globally

For business owners with more than one location, 32% operate out of more than one state. This means that they may have had to qualify with the state to obtain authority to do business.

The term “foreign qualification” can be confusing. Foreign, in this case, does not mean international. In fact, foreign qualification is a term used for receiving the authority to do business in a state other than your home (or domestic) state.

Are your business locations in one state or multiple states?



Some survey respondents conduct business that is international in nature. Seventeen percent of these small business owners said that they have business dealings outside of the U.S. Top regions include Canada, the U.K., and Western Europe.

**International
business**
17%



Number of business owners conducting business outside of U.S. (Multiple responses possible)

Canada	59%	Asia Pacific	33%
U.K.	50%	Ireland	30%
Western Europe/Scandinavia	47%	South America	30%
Eastern Europe	38%	Caribbean	21%
Mexico	35%	Africa	17%

Fears and challenges

Starting a business is a huge undertaking, so it makes sense that the survey results reveal an overall need for guidance and support in all aspects of running a business, from operations and taxes to laws and regulations.

As was the case last year, fear of failure tops the list of challenges for many small business owners (45%, compared to 39% from the previous survey). Concern for doing something wrong was the second greatest challenge (33%, up 2 points from last year). The third biggest challenge was how to price services (29% compared to 21% last year). The pandemic most likely contributed to a greater number of business owners experiencing these issues.

45%

Fear of failure
is biggest
challenge

Top 7 challenges and fears

	2021	2020
1 Fear of failure	45% ↑	39%
2 Concerned doing something wrong	33% ↑	31%
3 How to price my services	29% ↑	21%
4 No one to advise me	26% ↑	25%
5 Staying on top of laws and regulations	21% ↓	23%
6 How to set up my business	20%	
7 Don't understand tax implications	20% ↓	23%

● New to top 7 for 2021



Here are some of the biggest business hurdles cleared by our survey participants.

- “I had to create a base of customers. Customers are not promised to any business. I had to earn a strong base of clients and customers.”
- “Finding a bank that would allow me to borrow the money needed to start the business. But I ultimately got some help from my parents, and I appreciate the loans I received from my local credit union and loans for equipment repair and replacement.”
- “Getting to learn all the aspects of daily business.”
- “Finding time to be with my family.”
- “Creating the time it took to do everything I needed to do. Wearing multiple hats.”
- “The fear of failure has been an interesting one to overcome. I’m much more comfortable with hearing ‘no’ now. It doesn’t feel personal.”

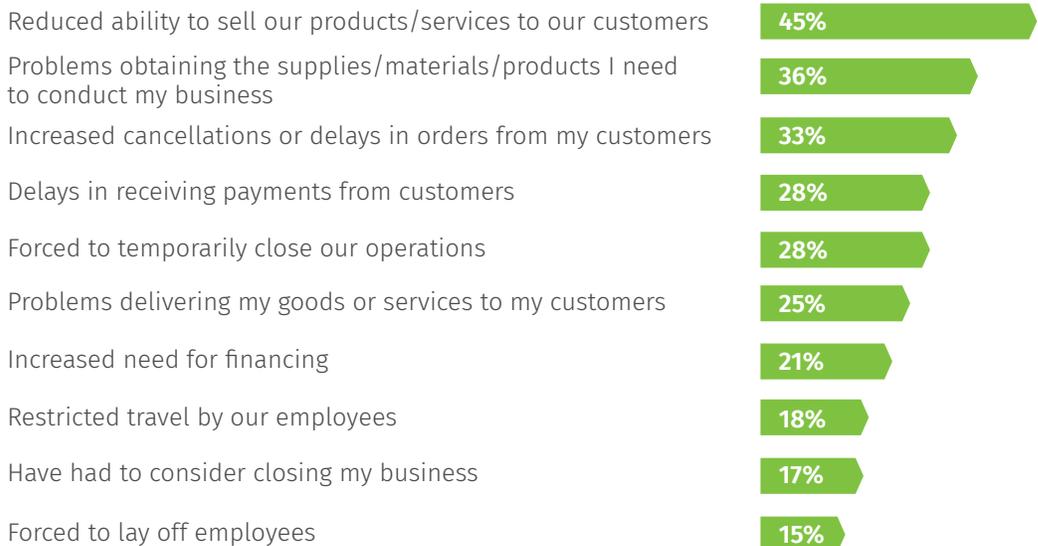
Conquering business challenges

Pandemic concerns

The pandemic has had a profound impact on small businesses. Seventy-five percent of survey respondents claim that their business has changed due to the pandemic. Businesses were negatively affected in a number of ways, including a reduction in sales and payments, supply chain issues, and even being forced to close operations.

Impact of the pandemic (Among businesses that changed due to pandemic)

75%
Business changed due to pandemic



Fifty-one percent of owners say revenue is down compared to the previous year, and 48% are worried that current economic and other challenges due to the pandemic will affect the future of their business.

Compared to about a year ago, would you say that the current monthly revenue for your business is...?



51%
Down



22%
Up



27%
About the
same as a
year ago



48%
Concerned that current
economy/ challenges as
a result of the pandemic
will impact the future
success of business

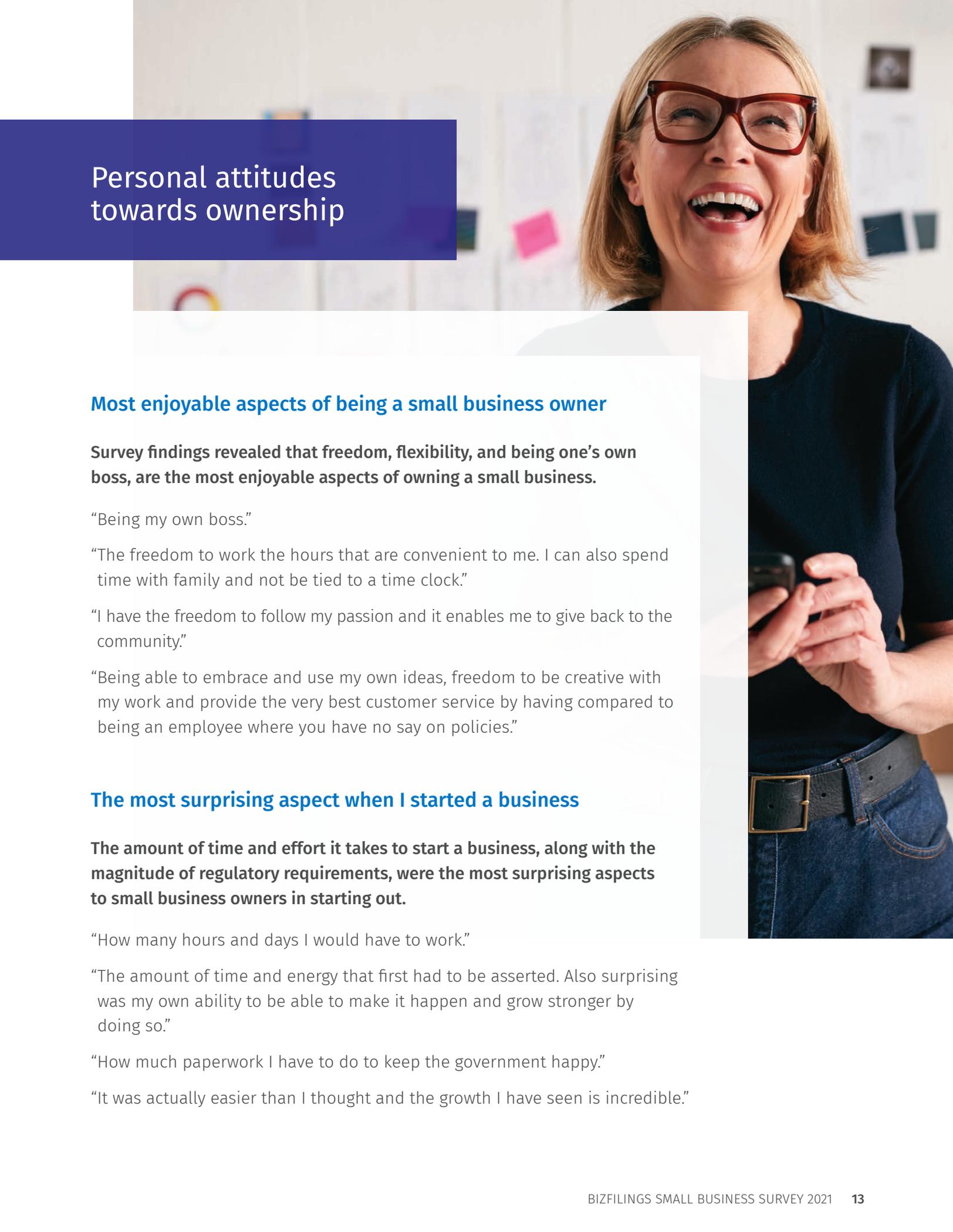


There was federal relief in the form of loans and grants, such as the Paycheck Protection Program (PPP). But although many owners were aware of the PPP loan (86%), only 18% were able to successfully take advantage of it.

Which of the following statements apply to you?



In order to survive, numerous small businesses had to resort to implementing a pivot strategy. They had to creatively rethink how they operated. With in-person transactions nearly impossible, businesses moved to selling their goods online or offering their services through video conferencing. Retail manufacturers began producing hand sanitizer and masks, and bars and restaurants offered delivery and to-go food and beverages for the first time.

A woman with blonde hair and red-rimmed glasses is smiling broadly while looking at her smartphone. She is wearing a dark blue t-shirt and jeans with a black belt. The background is a blurred office space with a whiteboard and various papers.

Personal attitudes towards ownership

Most enjoyable aspects of being a small business owner

Survey findings revealed that freedom, flexibility, and being one's own boss, are the most enjoyable aspects of owning a small business.

"Being my own boss."

"The freedom to work the hours that are convenient to me. I can also spend time with family and not be tied to a time clock."

"I have the freedom to follow my passion and it enables me to give back to the community."

"Being able to embrace and use my own ideas, freedom to be creative with my work and provide the very best customer service by having compared to being an employee where you have no say on policies."

The most surprising aspect when I started a business

The amount of time and effort it takes to start a business, along with the magnitude of regulatory requirements, were the most surprising aspects to small business owners in starting out.

"How many hours and days I would have to work."

"The amount of time and energy that first had to be asserted. Also surprising was my own ability to be able to make it happen and grow stronger by doing so."

"How much paperwork I have to do to keep the government happy."

"It was actually easier than I thought and the growth I have seen is incredible."

Business structure and registration

The choice of business structure (aka legal or business entity structure) is one of the more important decisions a business owner can make due to its legal, financial, and operational implications.

Most popular business structure

Many business owners choose to be a sole proprietorship, a non-registered business type that does not require any formal documents to be filed. All you need to do to create a sole proprietorship is to simply begin operating as your business.

Only 40% of survey respondents, compared to 60% last year, have chosen to register their business (forming a separate legal entity) with the state. This may be due to the increase in new small businesses starting out during the pandemic.

Ease and low-cost are two main reasons that explain the popularity of the sole proprietorship especially when first starting a business, allowing you to prove that your small business idea is viable.

Business registration



Sole proprietorship/not registered **59%**

Registered business **40%**

Note that a sole proprietorship leaves the owner personally liable for all obligations of the business. This is because there is no separation between personal assets and those of the business. If the business is ever sued, the owner would be liable for the result of that lawsuit. It also can be more difficult to obtain capital or have the business survive the owner's death.

Sole proprietorship: Pros and cons



Advantages

- Easy to start
- No separate tax filing required
- Can freely mix business & personal assets
- No ongoing state requirements
- Don't have to pay unemployment tax on self (do need to pay employee unemployment)

Disadvantages

- Owner is subject to unlimited personal liability
- Obtaining capital can be more difficult
- Rarely survive owner's death or incapacity
- Can only have one owner

Most popular registered business structure

Among our survey respondents who chose to form a legal entity, the limited liability company (LLC) is the most popular registered business structure (64%). The LLC combines certain aspects of a corporation (such as limited liability) with those of a partnership (flexibility and pass-through taxation).

The second most popular registered business structure in our survey is the S corporation (21%) followed by the C corporation (6%). A corporation is a legal entity separate from its owner(s) and offers limited liability. The “C” and the “S” refer to subchapters of the Internal Revenue Code. The difference between a C corporation and an S corporation is how they are taxed for federal income tax purposes.

Popular registered business structures

Limited Liability Company (LLC)	64%
S corporation	21%
C corporation	6%



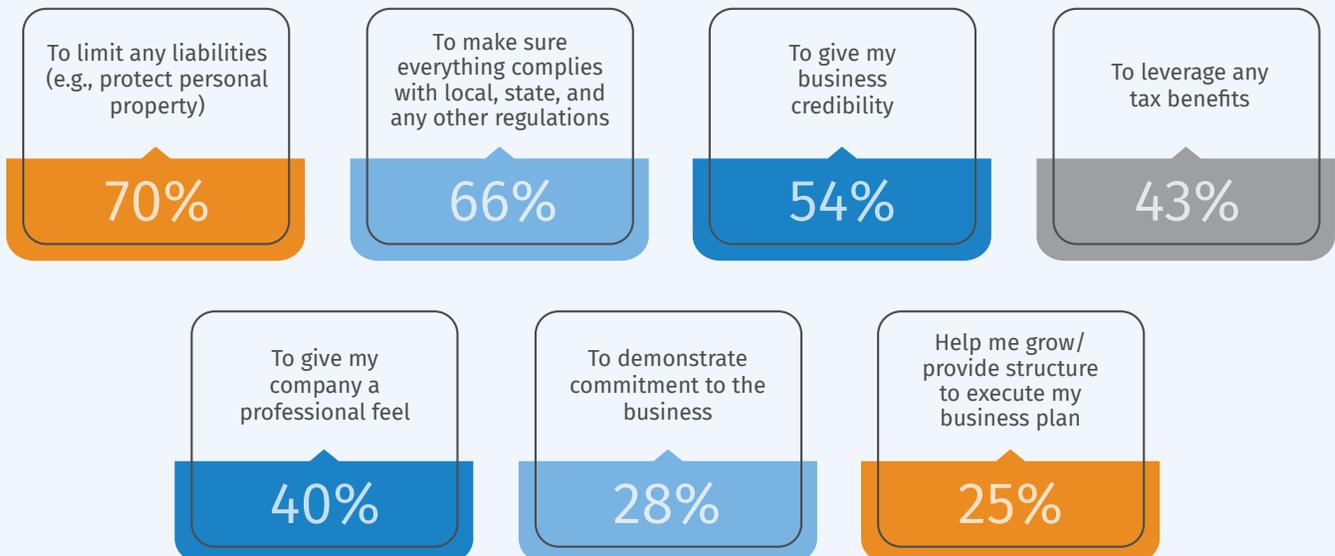
54%

Believe business registration gives credibility

Reasons for registering a business

Business owners have multiple reasons for forming a separate legal entity. Seventy percent want to limit any liabilities, 66% were required to register by law, and 54% thought that registration would give their business credibility among banks and customers.

Why did you decide to officially register your business?



When to register your business

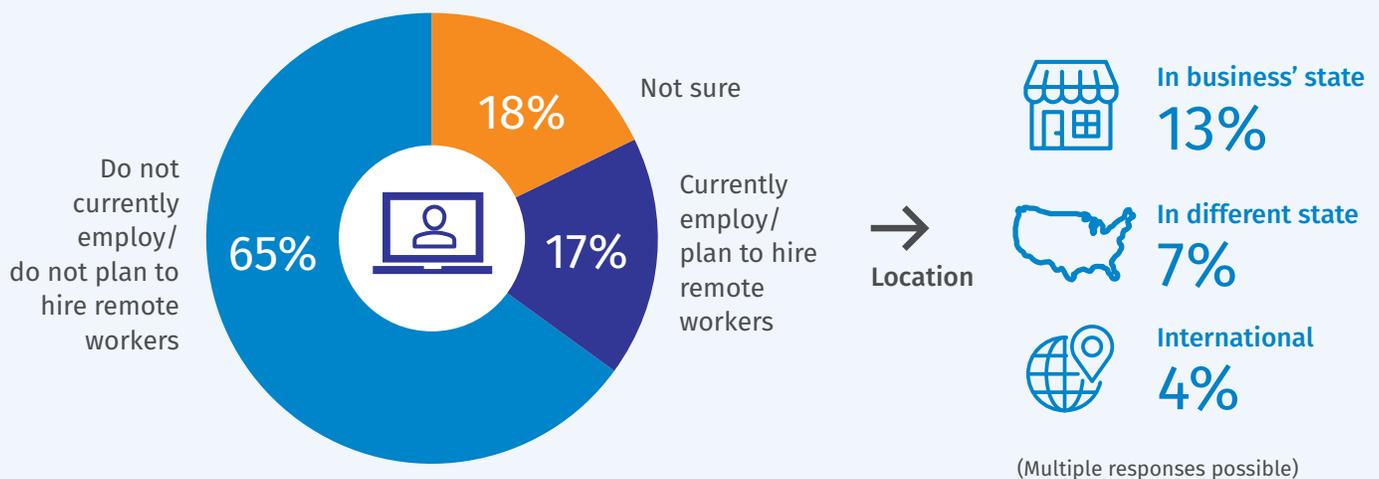
Here are some common reasons why a business may decide to switch from a sole proprietorship to either a corporation or an LLC.

- **Limiting liability.** A business owner may want to limit exposure to liability. While there are filing fees and ongoing obligations with registering your company, that cost can be well worth it when compared to the thousands of dollars one could be liable for as a sole proprietorship.
- **Tax flexibility.** Sole proprietors don't have much input as to how their business is taxed. All income is subject to self-employment tax.
- **Financing.** Banks are often reluctant to lend to sole proprietorships
- **Funding.** It's also hard to raise the money needed for a business as a sole proprietorship.

The use of remote workers in small business

Small business owners in our survey tend not to employ remote workers. But for the small number that do, there may be a number of legal obligations that must be met, including payroll, foreign qualification, and permit requirements. In this current world, you may need to consider offering remote work options to compete for talented workers in 2021 and beyond.

Hiring of remote workers



Monitoring and managing legal and government regulations

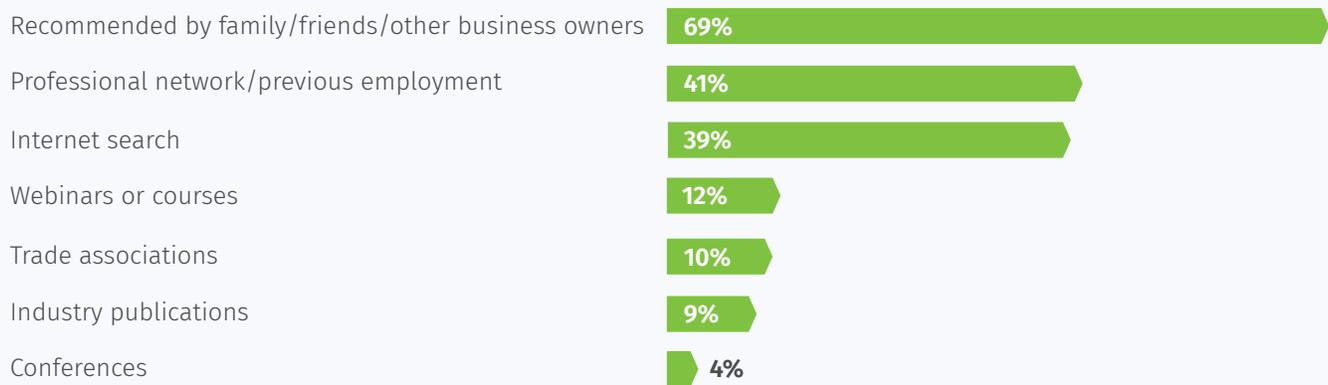
Small business owners have repeatedly demonstrated that they like to handle things on their own. When it comes to managing regulatory matters, 81% prefer to do it themselves. With 59% of survey respondents being sole proprietorships, this makes sense.

How monitor/manage legal requirements (Multiple responses possible)

Do it myself	81%
Use advisors (e.g., CPA, attorney, etc.)	26%
Use online legal services	8%
Use consultants	7%

For those seeking advice, referrals from friends, family, or other business owners are key to sourcing outside consultants. Professional networks and internet searches play a secondary role.

Sourcing outside consultants/advisors



Small business owners are confident in their ability to keep up with legal and financial requirements. Yet 70% acknowledge that they could use professional assistance across a wide array of areas, mainly due to their own lack of knowledge. Tax accounting and reporting is a critical area.

Areas needing assistance

70%

Require assistance with legal & financial matters



Need assistance

Tax accounting and reporting

Licenses and permits

Liability insurance

Deciding if another business type is better

Filing annual reports

Business contracts/statements of work

Payroll

Expanding business to a new state

Human Resources

70%

41%

20%

16%

15%

13%

11%

8%

6%

5%



None of these/ don't need assistance

30%

Owners continue to have the same can-do attitude that they revealed throughout this survey.

Conclusion

Although many business owners expressed concern over how the pandemic would affect the future success of their business, quite a few were optimistic about the next 12 months.

Owners continue to have the same can-do attitude that they revealed throughout this survey. Forty-nine percent expect their business to grow, while 43% believe that business will remain stable. Only 8% expect performance to decline.

Business expectations over next 12 months

49%
Grow

43%
Remain stable

8%
Decline



The fact remains that despite the hiccups and barriers encountered, almost all small business owners feel that the effort is worth it. Ninety-one percent agreed that having their own business is more rewarding than working for someone else.



Owning my own business is more rewarding than working for someone else



About BizFilings

BizFilings is your full-service legal and business partner for online incorporation, forming an LLC, running a business, and more for small businesses. Over the past 25 years, BizFilings has incorporated hundreds of thousands of businesses.

We were founded by entrepreneurs

The fact that we have a soft spot for entrepreneurs should come as no surprise. It's in our genes — we were co-founded in 1996 by serial entrepreneur, Brian Wiegand, and his business partner Rick Oster. We are proud to be the pioneers of the online incorporation space.

We are all business

Our single focus is to help entrepreneurs and business owners start, run and grow their companies. We work with companies of all sizes and offer products, services, and tools that provide companies the support they need throughout the life of their business.

Visit the **[BizFilings business owner's toolkit](#)** for resource materials to help manage your small business today.

This information is not intended to provide legal advice or serve as a substitute for legal research to address specific situations.

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