

The face of today's small-business owner

A study by Experian's Business Information Solutions

Using demographic and credit information to understand
the needs of today's small-business owners



The face of today's small-business owner

About this study

Understanding today's business owner is vital to any marketing campaign. After all, small-business owners — or companies comprising fewer than 500 employees — make up 99.7 percent of all U.S. businesses and total approximately 23 million businesses in the United States, according to the Small Business Administration (2004). Large and midsize companies seeking to sell products and services to the small-business owner will find this study useful and insightful in helping determine how to target and/or engage this highly sought-after audience.

This study examines the role demographic information plays in understanding the face of today's small-business owner. Not only does it provide insights on the demographic makeup of a small-business owner, but it also helps marketers better understand issues facing business owners of various industries. In addition, the study highlights the correlation between the credit score of the small business and the small-business owner.

This report will offer insight into these important questions and more:

- What is the average age and income of a small-business owner and how do these averages compare across major industries?
- How many small-business owners also are homeowners, what is their average length of residence, and what part of the country do they live in?
- Which small-business owners are most charitable, and what causes are important to them?
- How receptive are small-business owners to mail-order and e-mail offers?
- Does the credit score of a small business correlate to the credit score of its owner?

Methodology

To develop this study, Experian® analyzed proprietary data from its INSOURCESM consumer demographic database and a specialized segment of Experian's National Business Database known as Business Owner Link. By utilizing both business and consumer information, Experian is able to provide the most comprehensive view of today's small-business owner.

Experian first selected a random sample of 1 million small-business owners from more than 3 million Business Owner Link records. Then, researchers cross-referenced the business owner records against the 250 million consumer records from the INSOURCE consumer demographic database to compare small-business owners with the general U.S. population. The data was collected on Aug. 31, 2004.

Section I: Small-business owner profile

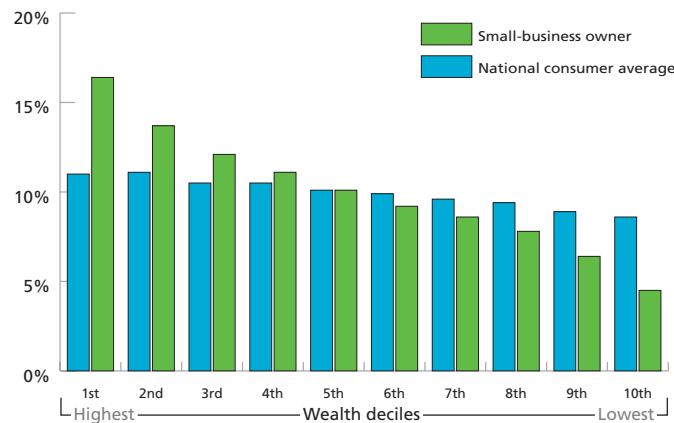
Affluence

Small-business owners are wealthier than the general population, with 69 percent more likely to belong to affluent suburbia. Small-business owners have an average income of \$71,690, which is 21 percent higher than that of the U.S. population at \$59,378.

Additionally, small-business owners are more likely to reside in higher-value homes; 75 percent own a home valued at \$500,000 or more. Small-business owners also are at least 30 percent more interested in golfing, boating, fitness, tennis, and domestic and foreign travel than the overall population, activities that traditionally are reserved for the more affluent population.

Where the wealth lies

A look at the percentage of small-business owners per decile



- 45 percent more likely to reside in the highest wealth decile
- 2 percent less likely to reside in the lowest wealth decile

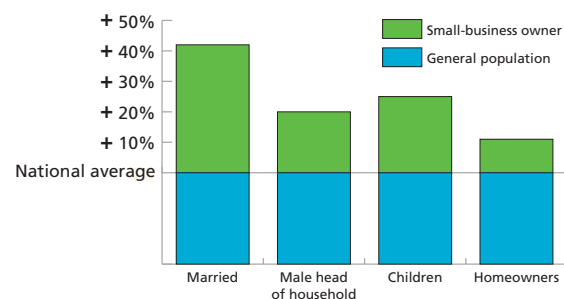
As noted here, the small-business owner is represented higher in the top four deciles compared with the national average.

Traditional household

Small-business owners tend to come from traditional households — one in which there is a male head of household who is married with children. This contrasts with the popular view of a small-business owner as a younger or single entrepreneur. The national average head of household age of a small-business owner is 50.3 years old.

Traditional households

Small-business owners' households as compared with national averages



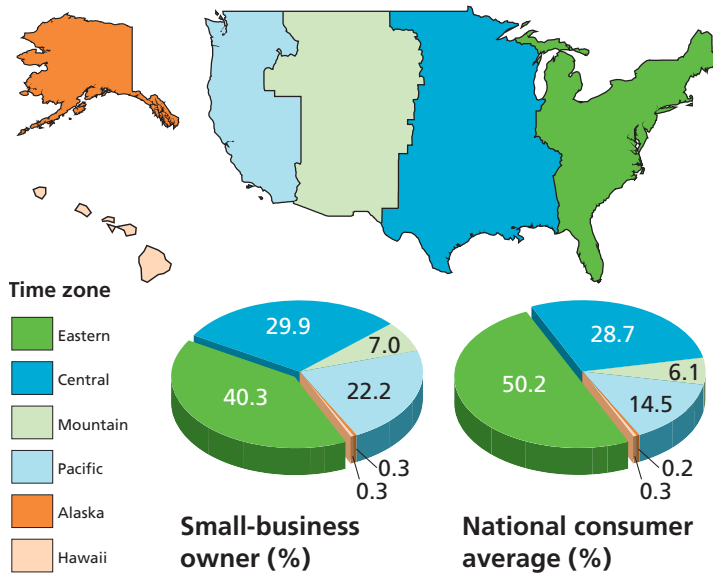
- 42 percent more likely to be married than the general population
- 20 percent more likely to be in a household with a male head of household
- 25 percent more likely to have children
- 11 percent more likely to be homeowners

Location of residence

While small-business owners are dispersed across the United States, there are some significant regional differences. This research finds that business owners are overrepresented in the Pacific and Mountain time zones compared with the general U.S. population. Conversely, this research shows that small-business owners are underrepresented in the Eastern time zone, as they are 20 percent less likely to reside in the Eastern region of the United States than the overall population.

Where small-business owners reside

Likelihood as compared with the overall population, by time zone



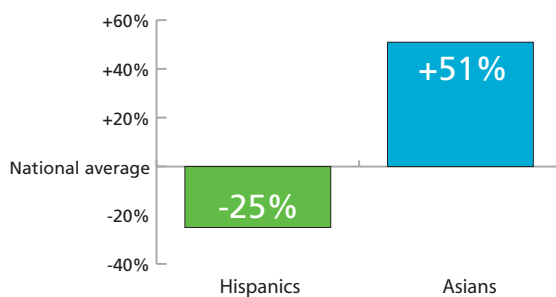
- Eastern time zone: 20 percent less likely than the overall population
- Pacific time zone: 53 percent more likely than the overall population
- Mountain time zone: 16 percent more likely than the overall population

Minority representation

Relative to the percentage of the Hispanic and Asian populations in the United States, Hispanics are underrepresented as small-business owners and Asians are overrepresented. In other words, Asians are more likely to be business owners than Hispanics, even though Asians make up a smaller percentage of the U.S. population.

Minority small-business owners

Percentage of minority-owned small businesses relative to population



- Hispanics are 25 percent less likely to be business owners than the national average. Hispanics make up 6.6 percent of business owners.
- Asians are 51 percent more likely to be business owners than the rest of the U.S. population. Asians make up 2.3 percent of business owners.

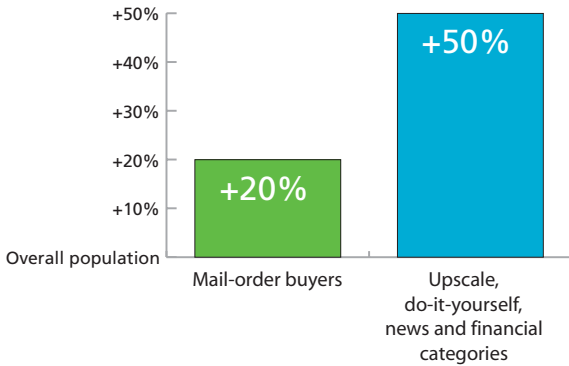
Mail-order buyers

Small-business owners are prime consumers of mail-order marketing. In fact, small-business owners are 20 percent more likely to be mail-order buyers than the overall population.

Furthermore, small-business owners are 50 percent more likely to purchase items via mail order from certain categories.

Mail-order buying

Small-business owners are more likely to purchase via mail order



Small-business owners are 50 percent more likely to purchase items via mail order from the following categories:

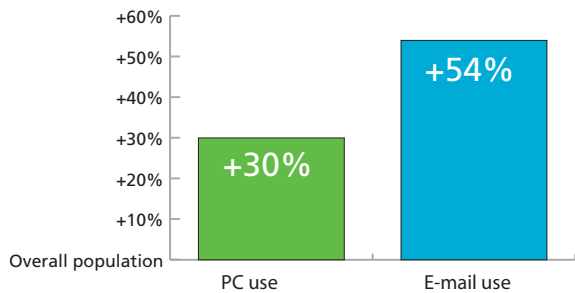
- Upscale
- Do-it-yourself
- News and financial

Interest in technology

Small-business owners are at least 30 percent more interested in using their PC and/or being online than the general U.S. population. Also, small-business owners are 54 percent more likely to be receptive to e-mail than the general population, with an overall e-mail receptive rate of 34 percent.

Technology use

Small-business owners are more interested in technology



Section II: Industry focus

Demographics

Income

There are notable differences in the average income of a small-business owner when compared across industries. As noted in Section I, small-business owners have a 21 percent higher income than the general population, with an average income of \$71,690.

The finance, insurance and real-estate industry boasts the most affluent small-business owners, with an average income 36 percent higher than other industries and nearly \$10,000 more than the average income of a small-business owner. This is consistent with the fact that small-business owners in finance, insurance and real estate have high education levels and the highest percentage of undergraduate degrees when compared with other industries. Additionally, small-business owners in industries such as services, wholesale trade, public administration and manufacturing boast above-average incomes.

Age

The national consumer average head of household age is 51.7 years old, while small-business owners are slightly younger with an average age of 50.3 years old. While several industries, such as mining and wholesale trade, rank on or around the national average, it's significant to note that small-business owners in the finance, insurance and real-estate industry have the highest average age of any industry, with an average age of 54.1 years old. However, this number is only about two years older than the national average. In general, most small-business owners fall within three to four years of the national average.

Average income of a small-business owner

By industry, as compared with the overall U.S. population

Rank	Industry	Average small-business owner income
1	Finance, insurance, real estate	\$80,500
2	Services	\$75,700
3	Wholesale trade	\$73,200
4	Public administration	\$72,300
5	Manufacturing	\$71,900
6	Retail trade	\$69,500
7	Construction	\$68,300
8	Mining	\$66,200
9	Transportation	\$64,100
10	Agriculture, forestry, fishing	\$57,800
Overall consumer average income		\$59,378

Average age of a small-business owner

By industry, as compared with the overall U.S. population

Rank	Industry	Average age (years)
1	Finance, insurance, real estate	54.1
2	Agriculture, forestry, fishing	53.5
3	Wholesale trade	52.4
4	Mining	51.7
5	Services	50.4
6	Public administration	50.2
7	Manufacturing	50.1
8	Retail trade	49.9
9	Transportation	49.2
10	Construction	48.3

Length of residence

Small-business owners tend to stay at a residence longer than the general population. While the national average length of residence is 8.7 years, it's interesting to note that no small-business owners in the industries examined in this report have a length of residence at or below the national average.

Small-business owners in the agriculture, forestry and fishing and the mining industries tend to stay longest in a residence, possibly because they are more likely to reside in rural areas. For example, those in agriculture, forestry and fishing are 4.2 times more likely to live in rural towns and farms and 57 percent more likely to be located in remote working towns. Small-business owners in the mining industry are 93 percent more likely to live in rural towns and on farms. Those living in rural areas tend to be less transient, as their job is much more dependent on location.

Average length of residency

Average of small-business owner by industry, in years

Rank	Industry	Average length of residence
1	Agriculture, forestry, fishing	12.7 years
2	Mining	10.7 years
3	Wholesale trade	10.3 years
4	Manufacturing	10.2 years
5	Finance, insurance, real estate	9.9 years
6	Construction	9.9 years
7	Services	9.3 years
8	Retail trade	9.2 years
9	Transportation	9.2 years
10	Public administration	8.9 years

Household makeup

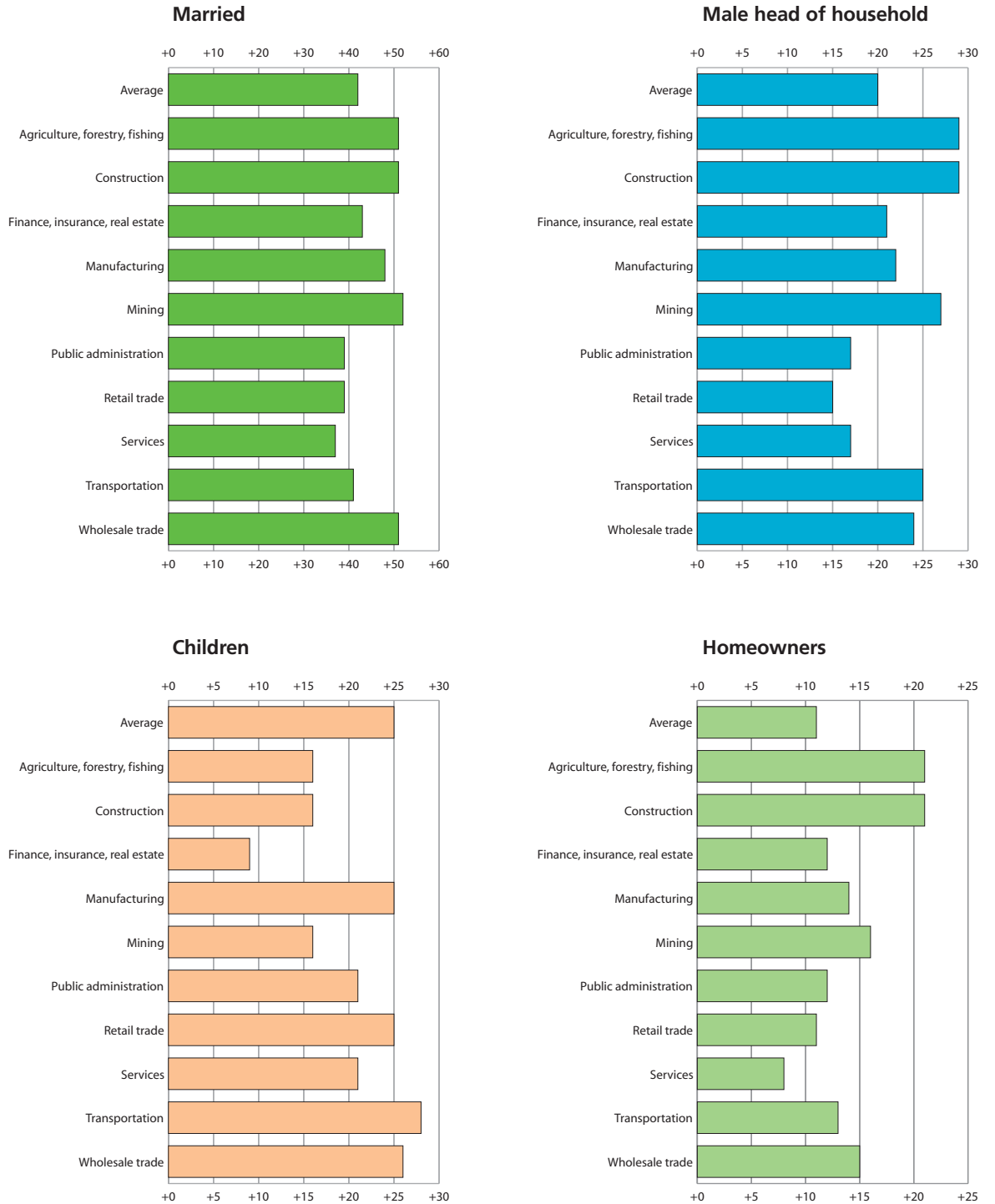
General data shows that small-business owners are more likely than the general population to come from more traditional households, where there is typically a male head of household, married with children and a homeowner.

When examined by industry, small-business owners in the construction, mining, wholesale trade and agriculture, forestry and fishing industries are most likely to be married. Also, construction business owners are the most likely to have children — almost doubling the national average. Those in finance, insurance and real estate are least likely to have children.

Small-business owners in agriculture, forestry and fishing are the most likely to be homeowners, while those in the services industry are the least likely of small-business owners to be a homeowner.

Household makeup

Small-business owners are more likely to come from traditional households



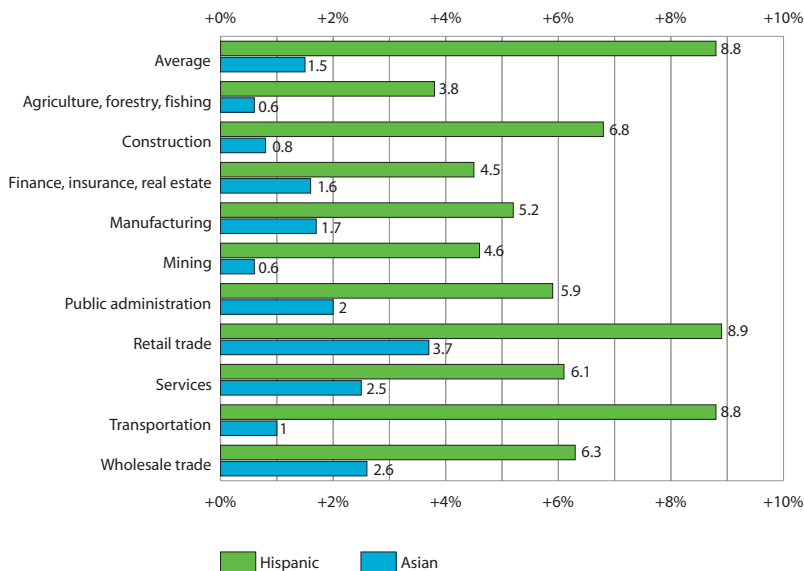
Numbers represented in the above graphs are the percent more likely than the overall population.

Minority representation

The following is a breakdown of Hispanic and Asian ethnic groups as represented by small-business owners within the various Standard Industrial Classification codes compared with the overall consumer population.

Hispanic and Asian small-business owners

Compared with the overall consumer population

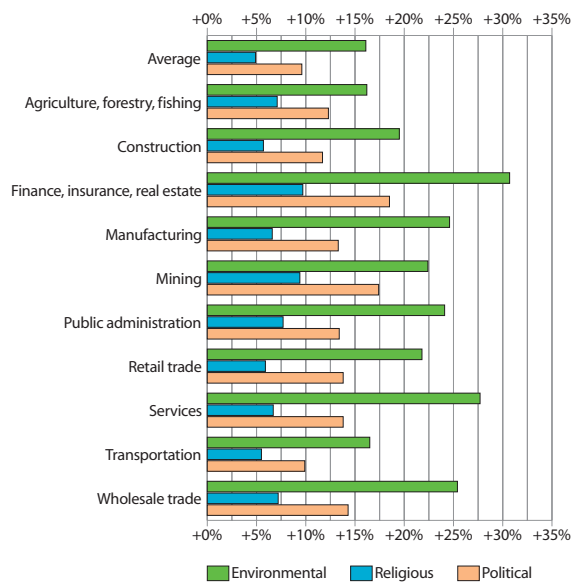


Civic-minded activities/Charitable giving

As noted, small-business owners are more likely to make charitable donations than those who do not own a business. This study examined small-business charitable trends for environmental, religious, political and health causes.

Charitable causes

Percentage of small-business owners who donate to causes compared with the overall consumer population.



- Small-business owners in the finance, insurance and real-estate industries have the highest religious and political contribution rates of all industries researched in this report.
- Small-business owners in the transportation and construction trades have the lowest charitable donation rates. In fact, transportation is the only industry where business owners are less likely than the overall population to be donors.
- The wholesale trade industry boasts the second-highest donation rates in environmental and political causes.
- Small-business owners in finance, insurance and real estate are more than 90 percent more likely to donate to religious and political causes. This trend is likely a result of this group's having the highest average income of any of the industries studied.

Consumer behavior

Mail-order buyers

As noted in Section I, small-business owners are prime consumers to target via mail order, as they are 20 percent more likely to be mail-order buyers than the overall population.

When analyzed by industry, small-business owners in finance, insurance and real estate are the most likely to be consumers of mail-order products and services. In fact, business owners in this industry account for the highest buy rates of news and financial products and business supply items.

Those in the transportation industry are least likely to be mail-order purchasers. A close second to last are business owners in the retail trade industry, as by nature they are loyal to retail shopping because it is their business.

Industry	More likely to be mail-order buyer	Mail-order buy rate	Categories
Finance, insurance, real estate	32	77.6	50 percent or more likely to purchase upscale products, male products, do-it-yourself items, news and financial, food and vitamins, business supplies and gift items; highest buy rates of news and financial and business supplies
Agriculture, forestry, fishing	29	82.5	50 percent or more likely to purchase male products, do-it-yourself items, children's products, crafts and hobby products, athletic equipment, furnishings and linens, and gardening supplies
Mining	27	81.8	50 percent or more likely to purchase upscale products, male products, sweepstakes/contests, do-it-yourself items, news and financial, crafts and hobby products, gardening supplies, and food and vitamins
Wholesale trade	25	79	50 percent or more likely to purchase upscale, male products, do-it-yourself items, news and financial, crafts and hobby products, and business supplies; second-highest buy rates via mail order for news and financial and business supplies
Manufacturing	25	80	50 percent or more likely to purchase upscale products, male products, do-it-yourself items, news and financial products, crafts and hobby products, food and vitamins, and business supplies
Services	24	80.7	50 percent or more likely to purchase upscale, news and financial, food and vitamins, and business supplies
Construction	23	78.7	50 percent or more likely to purchase do-it-yourself items; not overly intensive mail-order purchasers
Public administration	20	77.6	50 percent or more likely to purchase upscale products, male products, do-it-yourself items, news and financial, children's products, crafts and hobby products, athletic equipment, furnishings and linens, food and vitamins, and business supplies
Retail trade	20	77.6	Appear to be loyal to retail shopping
Transportation	16	67.3	Least likely to be mail-order buyers among business owners

E-mail receptivity

Small-business owners in the agriculture, forestry and fishing industry have the lowest e-mail receptive rates and are 24 percent less likely than the general population to be receptive to e-mail marketing. But this trend is not the norm. In general, small-business owners are 54 percent more likely to be receptive to e-mail than the general population, and the most e-mail receptive audiences include those in services, finance, insurance and real estate and public administration.

E-mail receptivity

Percentage of small-business owners by industry who are more likely to be receptive to e-mail

Rank	Industry	Percent more likely
1	Services	73
2	Finance, insurance, real estate	69
3	Public administration	68
4	Wholesale trade	56
5	Manufacturing	53
6	Retail trade	53
7	Construction	41
8	Mining	33
9	Transportation	15
10	Agriculture, forestry, fishing	-24

Section III: Analyzing the credit score of a business and business owner

Industry research suggests that small-business owners often blur the lines of their business and personal expenses,¹ using their personal and commercial credit cards and bank accounts interchangeably. Such information strongly suggests there could be a correlation between a small-business owner's and a business's credit risk.

Knowing how a small-business owner's personal credit score correlates with the credit score of his or her business offers financial institutions looking to market to this target audience a more comprehensive and holistic view of a business's creditworthiness and risk, helping them make important lending and financing decisions.

The following research offers a trend² analysis between a business owner's business credit score and his or her personal credit score.

Methodology

Experian examined a random sample of 1,000 records from Scorex PLUSSM, a high-performance credit scoring model that provides individuals with a personal credit score, and Commercial IntelliscoreSM, an advanced credit scoring model that provides credit scores for more than 18 million U.S. businesses, to determine if there are any significant correlations between the two scores.

Key findings

- Sixty-one percent of the records had a stable consumer credit score versus 53 percent for the commercial credit score. These findings suggest that a business's credit score is more dynamic and may fluctuate depending on business ebbs and flows, while a personal credit score exhibits more stability over time.
- Twenty-four percent of commercial credit scores declined over time versus 16 percent of the consumer credit scores. This finding supports the fact that a business's credit score is again more dynamic and changes as a business evolves. Most importantly, these findings mean that marketers should take both scores into account when determining a business's creditworthiness and risk.
- There is a significant positive correlation between the consumer credit score and the commercial credit score. Thus, positive changes in one score frequently are associated with positive changes in the other score. Conversely, negative changes in one score frequently are associated with negative changes in the other score.
- The correlation between the consumer credit score and the commercial credit score increases directionally over time.

While there is a definite correlation between how a small-business owner meets personal obligations and business obligations, it is always a good idea to blend together consumer and commercial scores. In blending together these scores, you can elevate predictiveness and get a much better picture of the credit quality of a particular small business.

¹MasterCard Small Business Economic and Spend Outlook Survey, May 2004

²Trend designations were based upon a comparison of credit data from Quarter 8 and Quarter 1 of sample set.

Conclusion

With small businesses dominating the B2B market, it is clear that they are a lucrative and influential segment to market to. The characteristics of these small businesses are unique, so it is critical to uncover distinguishing information on them when planning a marketing campaign.

This report shed light on the fact that small-business owners come from higher income levels, are more civic-minded than the general population, are more likely to be computer/online users and are more receptive to e-mail marketing efforts than the general population. The report also spotlighted the true distinctions of small-business owners across various industries.

In addition to understanding the demographic makeup of today's small-business owners, this study showed that there is a correlation between a business owner's personal credit score and his or her business's credit score. This factor can help marketers better determine whom they should and shouldn't target for financial products and services — enabling them to make better, faster and more successful marketing decisions.

Savvy marketers realize that a 360-degree view of today's small-business owner can make or break their marketing campaign. The more information marketers know about their target audience, the greater chance of success they will experience in their future marketing endeavors.

About Commercial IntelliscoreSM

Using a commercial database of more than 18 million U.S. businesses combined with advanced technology and enhanced algorithms, Experian's Commercial IntelliscoreSM enables customers to process a greater number of transactions more accurately and cost-effectively.

About Scorex PLUSSM

Scorex PLUSSM is a high-performance scoring alternative for lenders who are seeking the latest in advanced scoring technology. It provides a greater level of detail, offers custom scalability for easier adoption and can be applied in a tri-bureau environment.

About INSOURCESM

INSOURCESM Database, which comprises approximately 250 million individuals and 110 million living units, is updated continually from thousands of public and proprietary sources. INSOURCE records are coded for mailing and telemarketing use. The database also provides information on households experiencing important life events, such as new homeowners and parents, who are likely to make purchases to support their new situation.

About Business Owner Link

Business Owner Link provides information on more than 3 million small-business owners, enabling marketers to make reliable marketing decisions. Business Owner Link intelligence includes the business owner's name and personal address and the demographic profile of the business.

About Experian

Experian is a global leader in providing information solutions to organizations and consumers. It helps organizations find, develop and manage profitable customer relationships by providing information, decision-making solutions and processing services. It empowers consumers to understand, manage and protect their personal information and assets. Experian works with more than 50,000 clients across diverse industries, including financial services, telecommunications, health care, insurance, retail and catalog, automotive, manufacturing, leisure, utilities, e-commerce, property and government. Experian is a subsidiary of GUS plc and has headquarters in Nottingham, UK, and Costa Mesa, Calif. Its 12,000 people in 26 countries support clients in more than 60 countries. Annual sales exceed \$2.5 billion.

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