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PREFACE:

Embracing the Rewards and Challenges of Career Independence

A large and growing number of Americans are choosing self-employment and small business ownership over traditional full-time jobs with various entitlements, like steady income, health benefits, and 401(k) plans.

For those whose primary goods are their time and expertise (business professionals, designers and creatives, tradespeople, legal and financial advisors, for example) it's never been easier to go it alone. Increasingly powerful and accessible internet-based platforms and tools now enable individuals to create, collaborate, and communicate effectively and with ease.

The benefits of career independence, such as setting one's own hours, earning an uncapped income, or simply pursuing a passion, are obvious. So too are the potential downsides. Despite evolving career preferences, the world is still very much structured for the 9-to-5 employee of a branded Fortune 500 company. From tax codes to political promises, from healthcare to lending to retirement, favor tends to traditional employees over independent professionals.

The obstacles facing small business owners must be managed on top of the demands of actually operating a successful small business which include: carving out a unique value proposition, finding and keeping customers, delivering work profitably and on time, managing money, investing in the future, and balancing the demands of family.

The primary aim of this research is to examine the challenges, trade-offs and solutions small business owners navigate day-to-day, month-to-month, year-to-year. What do small business owners worry and think about? How do they feel about the present and the future? How do they ensure the many promises of career independence are fulfilled?

ABOUT THIS STUDY:

This study was sponsored by FreshBooks and led by Ellen Eastwood – an independent market research professional. More than 1,700 self-employed professionals and small business owners were surveyed online between Dec 1-16, 2016. This group is defined as those with fewer than 10 employees, and only those individuals earning a meaningful portion of their personal income via self-employment. Participants include both FreshBooks customers and non-customers in the United States. Samples have been weighted to reflect various characteristics of the target population (including age, gender and industry) leveraging data from the U.S. Small Business Administration, the NAICS Association and other sources. In aggregate, the study has a margin of error of +/- 2% at 95% confidence.

KEY FINDINGS

SELF-EMPLOYMENT HERE TO STAY.

The large majority of self-employed professionals are satisfied with their present situation and have no ambitions to return to traditional employment. More than 7 in 10 self-employed professionals intend to grow their businesses in terms of staff or revenue.

SALES AND PROSPECTING



HARD TO JUGGLE DELIVERY AND SALES.

Growth-oriented small business owners wrestle with competing priorities to deliver work and find new clients and projects. Most find sales and prospecting to be challenging, and a large minority dislike selling enough to simply put it off. Three in five self-employed professionals have yet to find the right balance between delivery and sales.

DIGITAL-SAVVY MILLENNIALS.

Digital one-to-many sales and marketing practices (e.g., content and email marketing) are effective for small businesses but underutilized. Millennial age entrepreneurs apply digital tactics more effectively than their baby boomer counterparts, but are less adept at leveraging existing client relationships for growth.

VALUE MORE EASILY ARTICULATED THAN PRICED.

Independent professionals can articulate their value propositions with confidence but are less sure about the rates they charge. Half of respondents have either undercharged for work due to pricing uncertainty or lost work because they were perceived as too expensive.

OUTSOURCING



DIY IS A BAND-AID.

The image of the self-employed professional as 'jack of all trades' holds true; from graphic design to social media 30-60 per cent take a do-it-yourself approach to services for which they have no internal expertise. When self-employed professionals outsource, another small business generally gets their business.

FINANCIAL MANAGEMENT



BETTER MONEY MANAGERS.

While the typical small business owner expresses little need for outside financing, the management of ongoing finances is a widespread source of concern. Many small business owners have already made significant financial mistakes or the worry of doing so keeps them up at night. 7 in 10 self-employed professionals say they're better money managers – in business and personal affairs – than they were prior to self-employment.

KEY FINDINGS

FINANCIAL MANAGEMENT



SEEKING FINANCIAL SUPPORT.

The majority of independent professionals are tentative about working with big banks – in part because as many as 1 in 4 have been rejected as borrowers. Just over 1 in 3 self-employed professionals have a business relationship with a bank and while most wish there were more financial options available, alternative lenders and new financial technology products are viewed with equal uncertainty.

FINANCIAL MANAGEMENT EDUCATION WORTHWHILE.

Financial management acumen varies significantly among self-employed professionals and small business owners; 1 in 4 are financial management leaders who utilize many best practices available to them. Financial management leaders tend to be more successful and more satisfied.

SAFETY NET



RISKY BUSINESS.

Many self-employed professionals are rolling the dice with regards to a range of potential business risks – e.g., large client defaults, lawsuits, or business interruption from illness or injury. Even the most conservative independent workers are vulnerable.

NOT RETIREMENT READY.

An alarming proportion (42%) of self-employed professionals are doing nothing about their retirement despite a median age close to 50 years old.

POLITICS



DIVIDED ON GOVERNMENT AND TAXES.

Independent professionals are not necessarily calling for governments to step in and offer them more safeguards and supports. A solid majority of self-employed professionals would prefer governments lower taxes and get out the way as opposed to raise taxes in exchange for specific small business programs.

FAMILY BALANCE



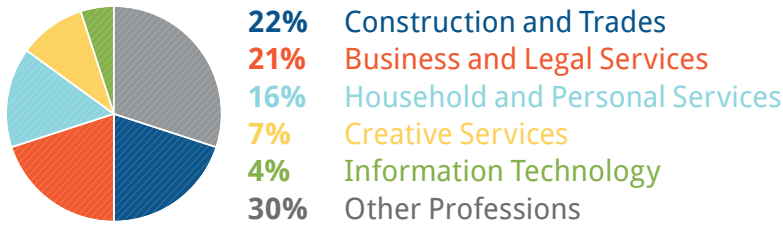
FAMILY FIRST.

For many self-employed professionals, career independence has been a means to improved work and family balance. Most self-employed professionals who are married (or the equivalent) involve their partners directly in their small business affairs, and say their business success has been incumbent on having a supportive partner.

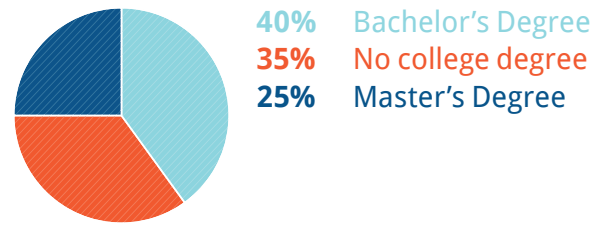
PARTICIPANT PROFILE

Self-Employed Professionals and Small Business Owners

PROFESSION



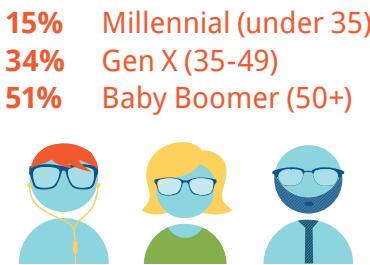
EDUCATION



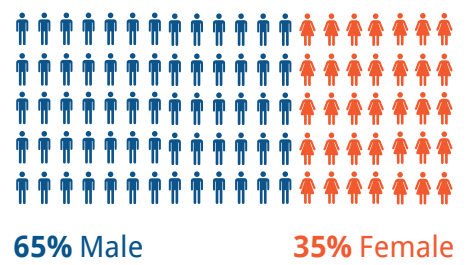
SELF-IDENTIFICATION



AGE



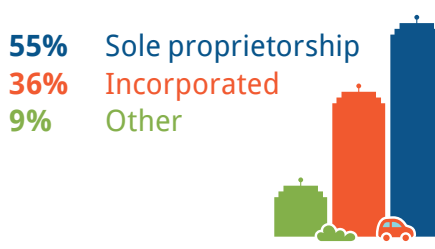
GENDER



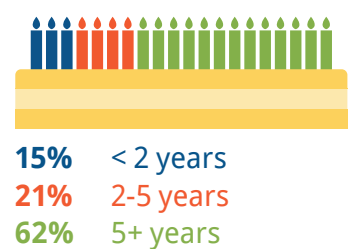
SELF-EMPLOYMENT ORIENTATION



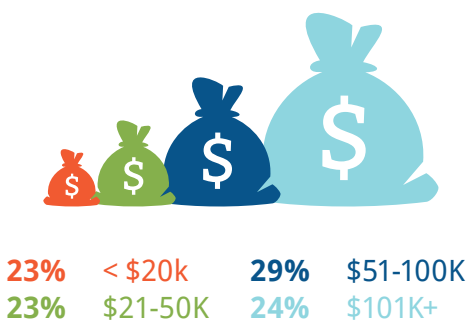
BUSINESS STRUCTURE



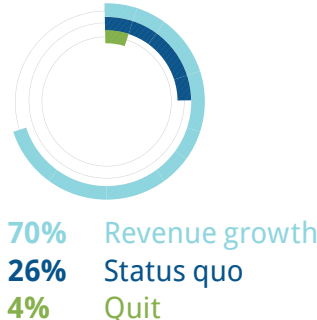
BUSINESS AGE



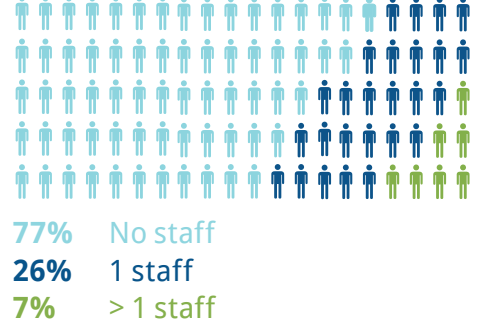
BUSINESS INCOME



BUSINESS GOAL



BUSINESS SIZE



SALES AND PROSPECTING

Entrepreneurs Work Today, Sell Tomorrow

No business, no matter how small, survives long without a steady stream of paying customers. This study finds that selling and prospecting are among the most challenging aspects of operating a small business. The majority of small business owners acknowledge they need new clients but they also say that finding and securing them is tough.

FINDING NEW CLIENTS

Self-employed professionals spend relatively little time seeking new clients. Roughly 40% say they put one-tenth or less of their time into sales and prospecting. 75% are investing less than one quarter of their time in these areas.

So what's the optimal level of investment in business development for a small business? Just under half say they're doing the right amount of selling. This study observed considerable variation across industries. Just over 1 in 4 creative professionals, for example, have found the right balance in selling versus practicing their crafts, compared with half of those in construction and trades.

“ **2/3** of independent professionals say they need to find new clients

COMMON BARRIERS TO FINDING NEW CLIENTS

“ **85%** say “business development is a challenge”

“ **51%** say “too busy getting work done to sell”

“ **37%** say “I dislike selling enough that I put it off”

SELF-EMPLOYED PROFESSION	% of time spent on sales	Those who want to sell more	Those who feel they are selling the right amount	Those who want to sell less
Construction and Trades	22%	33%	49%	18%
Accounting and Finance	21%	34%	49%	18%
Creatives	19%	37%	28%	35%
Marketing and Advertising	19%	38%	33%	29%
Business and Management Consulting	19%	28%	46%	26%
Legal	16%	39%	42%	19%
Information Technology	16%	34%	31%	35%

Independent Professionals Underutilize Some of the Most Effective Prospecting Approaches

Given the scarcity of time and resources available to locate and win new clients, it's essential that self-employed professionals invest wisely in business development. This study examined the rates of adoption and relative effectiveness of a range of sales and prospecting activities.

Small business owners consistently prioritize highly effective tactics, but there are clear opportunities to improve the small business marketing portfolio. Small business owners might consider shifting investments to content marketing, new referral partnerships, or teaching, training and speaking.

MILLENNIALS VS. BOOMER MARKETING

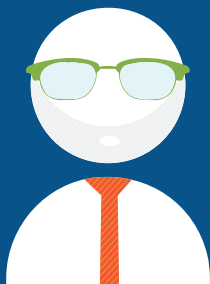
Millennial-aged entrepreneurs (those under 35 years old) are no more likely than other generations to have tried social media and content marketing, but are more likely to have experienced success. Baby boomers, conversely, are significantly more effective at leveraging existing client relationships to find new work.



% WHO FIND TACTIC EFFECTIVE

- 30% Social Media
- 42% Content Marketing
- 30% Soliciting Client Referrals

MILLENNIALS



% WHO FIND TACTIC EFFECTIVE

- 22% Social Media
- 26% Content Marketing
- 47% Soliciting Client Referrals

BABY BOOMERS

ADOPTION RATES AND EFFECTIVENESS OF SMALL BUSINESS MARKETING TACTICS

HIGHLY EFFECTIVE

- 67% Solicit personal/client referrals
- 47% Establish referral partners
- 39% Teach, train or speak
- 22% Use content marketing

SOMEWHAT EFFECTIVE

- 51% Attend industry events
- 48% Join association
- 44% Entertain prospects
- 44% Use social media marketing
- 25% Send clients gifts
- 24% Use email marketing
- 23% Use blogs or newsletters

LESS EFFECTIVE

- 32% Use paid advertising
- 19% Post on industry forums

Small Business Owners Sell Themselves Short

Many self-employed and small business owners are unsure how much to charge for their services. This is not to say they're unable to articulate what they do in a compelling way – almost 3 out of 4 say they can. Yet, almost half find it a challenge to justify the rates or prices they would like to charge. This uncertainty manifests in very real ways for independent professionals and small business owners.

By and large, most small business owners are taking positive steps to close this uncertainty gap. Almost 9 in 10 engage in one or more activities to help inform pricing decisions. As with selling and prospecting, self-employed professionals rely on their network for input. A significant number have tried raising rates to see what happens. A small – though likely growing – number have discovered online tools or apps that help them approach pricing with additional rigor.

% WHO EMPLOY ACTIVITY TO INFORM PRICING DECISIONS

49%	Tap professional network for advice	36%	Raise rates	26%	Consult family or friends
43%	Conduct competitive intelligence	32%	Search online	25%	Calculate based on prior salary and benefits
40%	Talk with clients and prospects	29%	Check with industry associations	13%	None of these – don't need help pricing



40%

Turned down work that would have paid less than perceived value



26%

Lost jobs because the client perceived their rates to be too high



27%

Have deliberately undercharged to ensure they're perceived as good value

OUTSOURCING

Few self-employed professionals outsource for business support services, despite a lack of in-house expertise

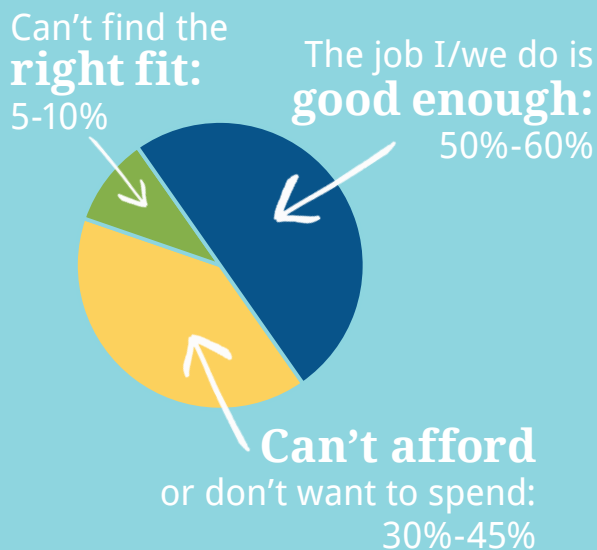
Where do independent professionals and small business owners turn for key business support services like IT help, financial advice and graphic design? Anywhere from one-third to more than half of entrepreneurs engage in such business activities on a do-it-yourself (DIY) basis despite a lack of internal expertise.

Why do so many choose DIY? While the vast majority of self-employed are motivated by a passion for their craft, a sizable proportion (6 in 10) enjoy the aspects of small business management that fall outside of their core competencies.

In fact, the majority who choose DIY for business services are satisfied with the job(s) they are doing. This comes with a certain amount of angst, however, as a full third agree with “I feel like I am winging it a little too often”.

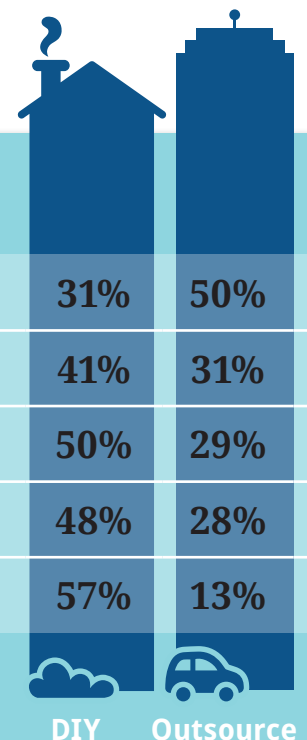
Smaller, yet significant, proportions of small business owners can't afford or would prefer not to pay for expert help. Between 5 and 10% have sought outside help but failed to find the right fit.

WHY DIY?



Approach for non-core services

Graphic Design	31%	50%
Accounting and Finance	41%	31%
Digital Marketing	50%	29%
Information Technology	48%	28%
Social Media	57%	13%



Independent Professionals Hire Other Independent Professionals to Boost Independent Work Economy

When self-employed professionals and small business owners outsource, they do their part to help sustain the growing independent work economy. About 2 out of 3 self-employed professionals prefer outsourcing to small or independent providers. Of the business functions we tracked, 50% to almost 90% of those who outsource are using a small business or an independent professional.

The majority of small business owners believe traditional service providers cater more to the needs of large businesses. Indeed, 30% agree they often struggle to find the right fit when outsourcing. For them, smaller service providers are more likely to offer a better mix of value, fit and a willingness to focus on the needs of even the smallest accounts.

There may be an additional factor at play when it comes to small businesses working with small businesses. This survey finds almost 1 in 3 are working to set up an informal network of consultants to help each other out. Just over half agree they “sometimes get out of paying for professional services by finding ‘other’ solutions” that might include deep mutual discounting or even pure barter exchange.



66%
Simply prefer
working with other
small businesses



30%
Have struggled in
the past to find the
right outsourcing fit

OUTSOURCING

% who choose outsourcing to another small business over a large service provider

85%



Graphic Design

56%



Social Media

76%



Accounting and Finance

53%



Digital Marketing

65%



Information Technology

FINANCIAL MANAGEMENT

Access to Capital and Business Banking Not a Barrier For Many Self-Employed Professionals

Most independent professionals and small business owners are able to self-finance their operations. Just 1 in 5 independent professionals required any financial capital to get started. Fewer still rely on outside capital to run their businesses day-to-day.

The most common source of start-up capital is a small business owner's personal savings. It seems millions of Americans are staking their nest eggs against small business success.

It may be the case that many small business owners and self-employed professionals would prefer not to deal with big banks. The majority believe big banks aren't designed to service their needs and wish there were more alternatives. As a result, almost 1 in 2 do not have a business relationship with a bank.

Yet, only 1 in 10 small business owners has ever worked with a non-bank alternative. Almost 75% say they are uncomfortable, or just not sure about, working with alternative lenders or "fintech" services in the future. An exception may be Millennials, who are significantly more interested in non-bank alternatives.



A third of those requiring start-up cash lean on credit cards. Half of those requiring support for ongoing cash flow do the same

“ Just 1 in 5 self-employed professionals and small business owners surveyed required any financial capital at start up, and fewer still rely on outside financing on a day-to-day basis”

“ 52% agree
“Big banks aren't designed to serve the needs of small business”

“ 54% agree
“When it comes to financing, I wish there were alternatives to big banks”

“ 47% agree
“Do not have a business relationship with a bank”

SMALL BUSINESS SOURCES OF CAPITAL	For 20% who require start-up financing	For 15% who require ongoing financing
Personal savings	61%	56%
Credit card	32%	54%
Bank loan	31%	19%
Family/network loan	26%	15%
Line of credit	8%	31%
Customers (advance payment)	7%	21%

Self-Employed Professionals Learn the Financial Ropes as They Go

While most self-employed professionals and small business owners didn't have issues obtaining outside financing, a somewhat different story emerges regarding the management of their financial affairs. Consider this:

46%
say "I should be managing money better"

28%
say "I've already made significant financial mistakes"

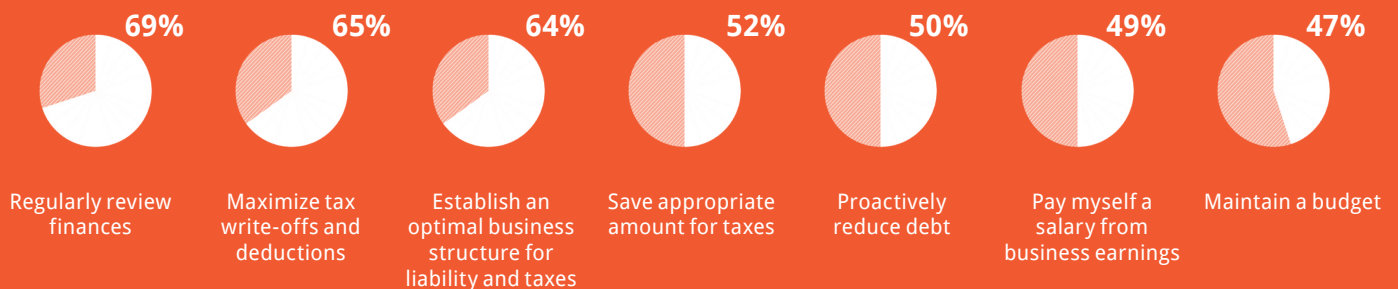
28%
say "Managing business finances keeps me up at night"

These worries persist despite the fact many of the independent professionals engage in a wide range of financial management best practices.

Moreover, 7 in 10 independent professionals claim they're more financially savvy now than before they were self-employed. Those improvements cut across a number of areas, including more responsible personal spending.

The lingering financial angst reported on earlier most likely relates to the future. Like their traditionally employed counterparts, it seems not enough are adequately prepared financially for the long term. Despite a median age close to 50 years old, an alarming number are doing nothing to prepare for retirement.

FINANCIAL MANAGEMENT BEST PRACTICES



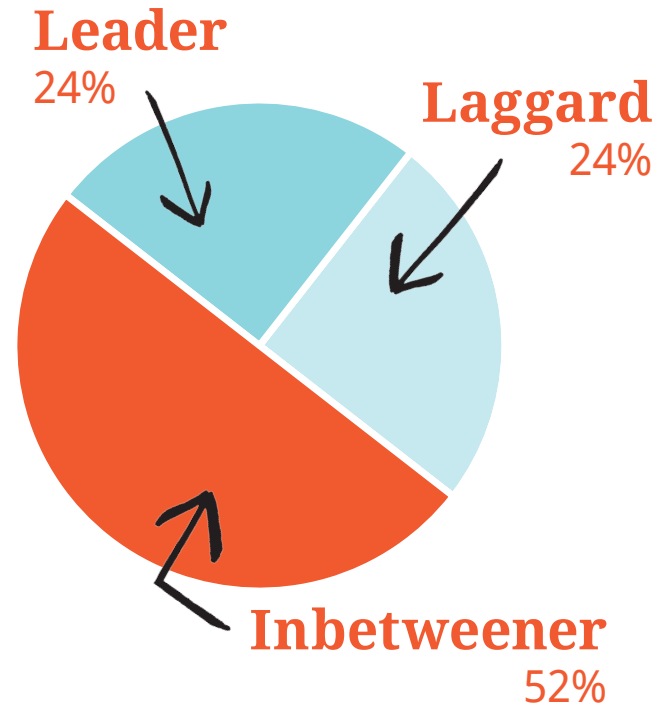
FACT: 42% OF SELF-EMPLOYED PROFESSIONALS AND SMALL BUSINESS OWNERS ARE NOT PREPARING AT ALL FOR RETIREMENT.

Setting Small Businesses Apart: Financial Leaders and Laggards

Sound financial management is a key ingredient to success for commercial endeavours of all sizes, and perhaps especially so for the self-employed professional and small business owner.

This survey sought to understand the range and diversity of approaches to financial management across this group. What proportion of small business owners practice the strategies and tactics associated with sound financial management? How many have adopted very few of them?

The analysis demonstrated roughly 1 in 4 self-employed professionals and small business owners can be considered financial leaders given their propensity to engage in a wide variety of financial management best practices. A similar proportion are financial laggards given they've adopted few to none of the same practices. The balance – about 50 per cent – fall somewhere in the middle. Other than financial acumen, what do we know about leaders? For starters, they tend to be more successful and satisfied with self-employment. Half of financial leaders earn more than \$100,000 in annual revenue.



WHO ARE FINANCIAL LEADERS

Financial Leaders more likely...



Male
(69% versus 58%)



Married
(78% versus 55%)



Obtained start-up capital
(27% versus 15%)



Earning higher revenue
(54% versus 14%)



Hiring employees
(42% versus 13%)



College Educated
(76% versus 59%)



Passionate about craft/service
(79% versus 49%)



Satisfied with self-employment
(62% versus 45%)

SAFETY NET

Small Business Owners Unprepared Should Disasters Strike

The overwhelming majority of participants in this study work independently because they want to and not because they have to. For those choosing their destiny, the benefits of independent work outweigh the costs. However, the findings suggest many small business owners and independent professionals are somewhat or wholly unprepared for one or more business or personal emergencies that might befall them. Consider that:

51%
are “unprepared
should a large
invoice not get paid”

48%
are “unprepared
should the business
get sued”

39%
are “unprepared
should they suffer a
disability/can’t run
their business”

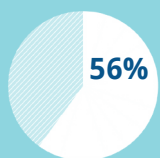
Over 40% of all entrepreneurs feel “very unprepared” for at least one of the above-mentioned situations. While one might attribute this lack of preparedness with the risk-taking attitude often associated with entrepreneurship, this is not a full story. 1 in 3 respondents who self-identify as very risk averse are at the same time unprepared for one or more potential business or personal emergencies.

Risk exposure is not evenly distributed across professions, age, and income level. Smaller businesses operated by younger owners in more creative or hands-on vocations are most at risk versus businesses with higher revenues or advisory-focused operations.

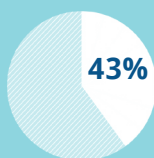
HIGHEST EXPOSURE TO PROFESSIONAL RISK

Those who are very unprepared for at least one business disaster:

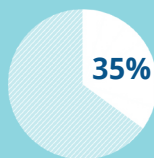
Age



Millennial

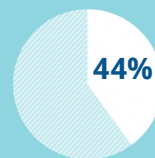


Gen X

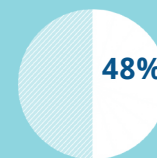


Baby Boomer

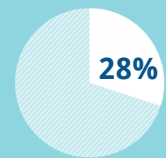
Annual Revenue



Less than
\$20,000



\$20,000-
\$100,000



More than
\$100,000

POLITICS

Governments Not Adequately Representing the Interests of Small Business Owners Who are Engaged but Divided

Self-employed professionals and small business owners are largely split down party lines: 31% Democrat, 29% Republican, 29% Non-Affiliated, and 11% Other.

4 in 10 (44 per cent) would classify themselves as “very engaged politically”. More than 80% of self-employed professionals vote in federal elections (and 2 out of 3 vote in state elections).

Despite higher voter turnout, this study finds little evidence small business owners have exercised their potential political clout, or would consider doing so.

Perhaps an exercise in political clout is required. Very few independent professionals agree any branch of government adequately represents their business interests.

Many more feel government(s) are actually impediments to business success. This study finds that the federal government is viewed less favorably than state and municipal governments.

“Primary voting consideration is a candidate’s small business platform”

24% say

“Would change affiliation for a party more supportive of small business”

22% say

“Have changed party affiliations since becoming an entrepreneur”

<10% say

22% AGREE

“

Government represents my business needs well”

39% AGREE

“

Government makes it more challenging to reach my business goals”

Independent Professionals and Small Business Owners Constitute a Large Voting Block That Has yet to Exert Its Influence

As a group, self-employed professionals demonstrate a tension between a desire for social supports and a need for a competitive business environment.

Almost two-thirds would rather governments cut taxes while providing minimal public supports specifically for independent workers. But a sizable minority want the opposite – higher taxes in exchange for supports similar to those offered traditional full time employees.

While affordable health care is a top priority, so is a simplified tax code.

Other potential supports – like a system analogous to unemployment insurance for the self-employed – fall much further down the list of priorities.

With respect to a solution for health care, self-employed professionals are divided. Unsurprisingly, support for Obamacare breaks along party lines (42% in favor versus 43% opposed).

PROPOSED POLICIES	Top Ranked	Rank #1 or #2
More affordable health care or extended health care options	34%	54%
Simplified tax code to reduce the effort and expense of filing	31%	50%
Social security program that treats self-employed equally for contributions and benefits	13%	39%
Unemployment insurance or another program to support self-employed professionals	9%	26%
More government sponsored loans or financial resources for small businesses	6%	17%

40% WANT

“

Somewhat higher taxes and getting similar public supports that employees have (e.g., employment insurance, extended health benefits)”

60% WANT

“

Minimal taxes with minimal support from public programs for their business or self-employment”

THE BOTTOM LINE:

Independent professionals and small business owners constitute a large and growing voting block that has yet to exert its influence in a meaningful way. While this may be an opportunity for future administrations to curry favor, determining the right mix of policies to satisfy all will be a significant challenge.

FAMILY BENEFITS

Independent Professionals Seek and Find Work-Life Balance

Roughly two-thirds of participants in this study are part of a traditional family structure – i.e. in committed personal relationships or guardians of dependent children. This study explored the degree to which career independence has helped or hindered their pursuit of work and family balance.

To some degree the pursuit of work-life balance is mitigated by the fact most married (or equivalent) independent professionals involve their significant others in their business, most commonly as business partners or trusted advisors. In other words, small business is often a family affair. A full two-thirds of small business owners admit “self-employment would be tough without a supportive partner.”

The majority of independent professionals do not dispute balancing self-employment and family needs is a serious challenge. Most (two-thirds of participants) report managing family finances and career stress is the same or worse as it was prior to going out on their own.

However, it appears for many, self-employment has afforded them more flexibility to spend quality time with their family.

While the women in this study are more likely than their male counterparts to choose independent work as a means to better family balance, they are no different when it comes to choosing self-employment, being passionate about their craft, being satisfied running their own business, and wanting to increase revenue.



Most married (or equivalent) self-employed pros involve their significant others in the business



2 out of 3 of those in committed relationships agree self-employment would be tough without a supportive partner”

STICE BECOMING SELF-EMPLOYED...



52% say
more flexibility for family needs



46% say
better work hours



43% say
more quality time with family



42% say
improved quality child care



ABOUT FRESHBOOKS

FreshBooks is the #1 accounting software in the cloud designed exclusively for service-based small business owners and independent professionals. The company has helped more than 10 million people worldwide process billions of dollars with its ridiculously easy-to-use invoicing, time-tracking, expense management and online payments features.

Recognized with eight Stevie Awards for best customer service in the world, the company's mantra is to "execute extraordinary experiences every day." Based in Toronto, Canada, FreshBooks serves paying customers in 160 countries.

www.FreshBooks.com

ABOUT ELLEN EASTWOOD Research and Insights Consultant

Ellen is a self-employed professional with 18 years of market research experience. She is a research generalist with a background in areas as diverse as branding and new product development. For three years, Ellen conducted research exclusively among small and medium-sized business owners, speaking with hundreds of entrepreneurs about their wants, needs, concerns and priorities. Ellen is a FreshBooks customer and opened her own practice in 2013.

ABOUT PITCH GRAPHIC DESIGN

This document was designed by Pitch Graphic Design, a freelance design business owned by Lesley Luce. Pitch Graphic Design has been a FreshBooks user since 2013.

MORE INFORMATION

To request more information, please contact research@freshbooks.com

