SMALL BUSINESS
RESEARCH SUMMARY

Office of Advocacy

No. 232
November 2003

Expected Costs of Startup Ventures

by Blade Consulting Corporation, 2003
[46] pages. Vienna, VA 22182
under contract no. SBAHQ-02-M-0510

New businesses are the life blood of our evolving economy. They bring new techniques and vigor to the production process. A major barrier to starting a business is amassing the funds to cover initial startup costs and cash flow needs. Data has been available to show how much financing occurs but little has focused upon how much is needed. The authors of this report used a two-year survey of nascent entrepreneurs—individuals who are planning to start a business or who are in the process of starting one—which asked them what they expected the costs of starting a venture would be.

Overall Findings

Nascent entrepreneurs felt that they needed little in the way of startup funds to begin a venture, on average $6,000 for solo ventures. Their income expectations were in line with the equivalent of high wages, on average $90,000 by the fifth year of existence for solo ventures. Team ventures, by contrast, had higher expectations in terms of initial funds needed, fifth-year wages, and fifth-year income projections. This makes team ventures more likely to develop into employer firms. Policies that encourage team-owned businesses or networking among entrepreneurs might help foster “growth startups.”

Highlights

The authors compared the expectations of solo and team-based nascent entrepreneurs.

• The median amount of funds that solo entrepreneurs thought they needed to launch a venture was $6,000. The median amount that team ventures expected to need was $20,000.

• About half of solo entrepreneurs felt that they needed $5,000 or less to make the business self-sustaining. For team entrepreneurs this figure was $10,000.

• Nascent solo entrepreneurs’ median expected fifth-year income was $90,000; this figure was $125,000 for a team venture. There were a few nascent businesses with much higher expectations, as the mean was much higher: $935,000 for solo entrepreneurs and $2.4 million for teams.

• Although the median amount that solo entrepreneurs had saved was relatively low ($2,000), the mean was high ($8,026).

• About 5 percent of nascent entrepreneurs believed they were finished saving money to invest in their businesses.

• Eight percent of solo nascent entrepreneurs and 16.4 percent of team nascent entrepreneurs planned on seeking bank loans.

• Most individuals were starting slowly; only a third of nascent entrepreneurs were devoting 35 hours a week or more to their venture.

• For solo ventures, the activity’s primary goal appeared to be providing income for the entrepreneur.

• Twenty-seven percent of team ventures expected to generate receipts of $500,000 or more after five years versus 13 percent of solo entrepreneurs.

This *Small Business Research Summary* (ISSN 1076-8904) summarizes one of a series of research papers prepared under contracts issued by the U.S. Small Business Administration’s Office of Advocacy. The opinions and recommendations of the authors of this study do not necessarily reflect official policies of the SBA or other agencies of the U.S. government. For more information, write to the Office of Advocacy at 409 Third Street S.W., Washington, DC 20416, or visit the office’s Internet site at *www.sba.gov/advo.*

Scope and Methodology

This study relied upon data from the Panel Study of Entrepreneurial Dynamics (PSED). A consortium of researchers developed the PSED and in 1998, 31,261 random individuals were surveyed to identify emerging entrepreneurs. The PSED identified 830 nascent entrepreneurs who were studied over a two-year period. The authors used this group to conduct frequency and variance statistics for solo and team nascent entrepreneurs. One limitation of the data was its focus on entrepreneurs that planned to open a business, when in fact some of these individuals may not have actually opened businesses.

The Office of Advocacy was one of many original funders of the precursor to the PSED, the Entrepreneurial Research Consortium. Financial support for the PSED came from the National Science Foundation and the E.M. Kauffman Foundation.

Ordering Information

The full text of this report and summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy are available on the Internet at *www.sba.gov/advo/research.* Printed copies are available for purchase from:

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