

## Microbusinesses and Resource Constraints

A white paper on how we can use Venture Forward survey data to understand differences by financial security.

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Sarah Wakabayashi  
Le Wax Boutique  
LEWAXBOUTIQUE.COM

# Kellen J. Gracey

## Sr. Data Scientist, Venture Forward

In the United States a veritable cottage industry of analysis has developed over the past few years focused on a particular group of resource constrained individuals. Typically, these are households we might think of as living paycheck to paycheck. They are likely to make ends meet, but just barely; a significant economic shock could derail the entire household. Academic disciplines from economics to public health are taking a careful look at how this group differs from peers.<sup>1</sup>

At GoDaddy's Venture Forward initiative, a multiyear research effort to quantify the impact on local economies of the 20 million U.S. online microbusinesses its customers have created. We have reason to believe this group may be turning to online microbusinesses to prevent financial catastrophe or to make things a little bit easier in terms of finances. We know from [previous work](#), for instance, that during the COVID-19 pandemic many [people used stimulus funds](#) to start a new business. From our [2022 nationally representative survey](#) of microbusiness owners, we also know that many microbusinesses begin from a place of necessity, driven by a financial need of some sort. Given these realities, we wanted to know more about the resource constrained group of microbusiness owners and how (if at all) they are different from other types of microbusiness owners.

The US federal minimum wage was set at \$7.25/hr. in July 2009 and has remained unchanged since then. Much debate has focused on whether to raise the minimum wage to keep up with inflation. Over the years, researchers have analyzed cost of living variations by geography to develop an understanding of what it takes for a household to not only 'get by' financially, but to be able to enjoy a quality of life in which their expenses, including any expenses related to raising children, are

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<sup>1</sup> Consider these examples of recently published academic work that focuses at least in part on asset-limited income-constrained employed (ALICE) individuals:

Hoopes, Stephanie, and Dan Treglia. "You Can't Fix What You Don't Measure: How ALICE Can Help Rebuild the Middle Class." *Public Administration Review* 79.5 (2019): 777-783.

Bailey, Susan Morgan. "Financial well-being: An opportunity to have profound impact with solutions that match needs." *American Journal of Health Promotion* 33.1 (2019): 147-151.

Crena, Lucila. "Building the Good Life for All: Transforming Income Inequality in Our Communities by L. Shannon Jung." *Journal of the Society of Christian Ethics* 39.2 (2019): 418-419.

Chandra-Putra, Handi, and Clinton J. Andrews. "An integrated model of real estate market responses to coastal flooding." *Journal of industrial ecology* 24.2 (2020): 424-435.

McCreary, Debra M. Experiences of Asset Limited, Income Constrained, Employed (ALICE) Parents Accessing Children's Behavioral Services. Diss. Capella University, 2021.

covered – and then some.

Rather than taking a stance one way or another on the federal minimum wage, here we attempt to show that at-risk communities are turning to microbusinesses to help them realize a quality of life they may not have been able to previously imagine, by helping to cover some of those costs and perhaps even provide a little extra spending money.

The evidence demonstrating the impact of microbusinesses on community economic outcomes is extensive, as we have [documented on Venture Forward website](#). A lingering question remains: how do microbusinesses impact the individuals who own and operate them? Is there evidence of different groups turning to microbusinesses and the power of the internet to help close financial gaps?

We first turned to state cost of living and median income figures to calculate a wage deficiency gap, or the distance between observed median household income and the required annual household income needed before taxes to be considered above the cost-of-living average for each state.<sup>2</sup> We wanted to determine if, in the aggregate, we could find evidence of disadvantaged communities turning to microbusinesses. For terminology's sake, a microbusiness is a commercial venture with an active online presence and typically 10 or fewer employees. If microbusiness activity is higher in communities with a more pronounced wage deficiency gap, we would then have some preliminary evidence to support the idea that these communities are turning to microbusinesses at higher rates than wealthier communities.

The average US household has 2.6 people ([Pew Research Center, 2019](#)). The wage deficiency gap data are available for a variety of geographies, and a variety of household compositions. To prevent bias due to household composition, we considered 3 separate operationalizations of household size when gathering data on required annual income before taxes. These three definitions of the wage deficiency gap mirror the 2.6 people per household national average and allows for the estimated amount of income that's needed to be considered above living wage to vary.

**Gap [A]: 2 adults with 1 child and 1 working adult,**  
**Gap [B]: 2 adults with 1 child and 2 working adults,**  
**Gap [C]: 2 adults with 0 children and 1 working adult.**

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<sup>2</sup> Median household income data are drawn from the 2020 American Community Survey 5-year estimates, U.S. Census Bureau. Required annual income before taxes data are drawn from the Living Wage Calculator housed at the Massachusetts Institute of Technology, from the 'Typical Expenses' table presented on the website (Glasmeier, 2020).

Take, for example, Henry County, IA – a rural community dominated by agriculture and related industries. Table 1 illustrates how the assumption of household size can change the estimated required annual income before taxes. The assumption is that a working adult adds marginal cost to the overall household, primarily in transportation needs to/from their place of employment. Gap A places the income threshold lower than Gap C – meaning Gap C is defined in a way that includes more households, since you need to earn more money to not be included. This allows us a bit more confidence that any relationship we might find is not a function of bias due to how we’ve defined households.

**Table 1. Sample of Required Annual Income Data**

Henry County, IA Estimated Living Wage Required	
Household Composition	Estimated required annual income before taxes
2 adults with 0 children 1 working adult [A]	\$53,140
2 adults with 1 child 1 working adult [B]	\$64,435
2 adults with 1 child Both adults working [C]	\$74,800

74,800Equipped with wage deficiency gap data for each of the 50 U.S. States we wanted to see if there was any correlation between the [Microbusiness Activity Index \(MAI\)](#) and this gap. MAI is a composite score developed in partnership with UCLA economists, generated for every county that assesses a community across three dimensions: engagement, participation, and infrastructure. Engagement speaks to how active each individual microbusiness is, and includes measures such as online commerce levels, frequency of website updates, traffic, and others. Participation provides a snapshot into how many microbusinesses and their owners/entrepreneurs are present in each community. Infrastructure describes how well-prepared a community is to support a microbusiness ecosystem, measuring things like high-speed internet access and education rates. Table 2 below presents preliminary correlation coefficients between state MAI composite scores and each of the three operationalizations of the wage deficiency gap.

**Read more about the Microbusiness Activity Index (MAI) by [clicking here.](#)**

**Table 2. Correlations Between Microbusiness Activity and Wage Deficiency Gaps**

Pearson’s R Correlation Matrix	Gap A	Gap B	Gap C
Gap B	.99***		
Gap C	.89***	.93***	
MAI Composite	-.77***	-.73***	-.59***

\*\*\* P-value < .001

As we can see from the Pearson’s R coefficient ranging from -.59 to -.77, regardless of how the wage deficiency gap is defined, there is a strong and substantial correlation between how active a state’s microbusiness community is and how far the gap is between that state’s average household income and the estimated cost-of-living. The more active states tend to be those where the wage deficiency gap is negative: in places where the distance between median household income and the cost-of-living threshold is greatest. Where the gap is positive are those places where observed income exceeds estimated cost of living.

In other words, where people are struggling more to make ends meet, because the cost of living outpaces household income, MAI is higher. Communities where the cost of living is higher than average income are adopting microbusinesses and turning to internet commerce at higher levels, than in areas where average income is higher than the cost of living. These preliminary correlations suggest it’s worth exploring further populations of folks struggling to make ends meet.

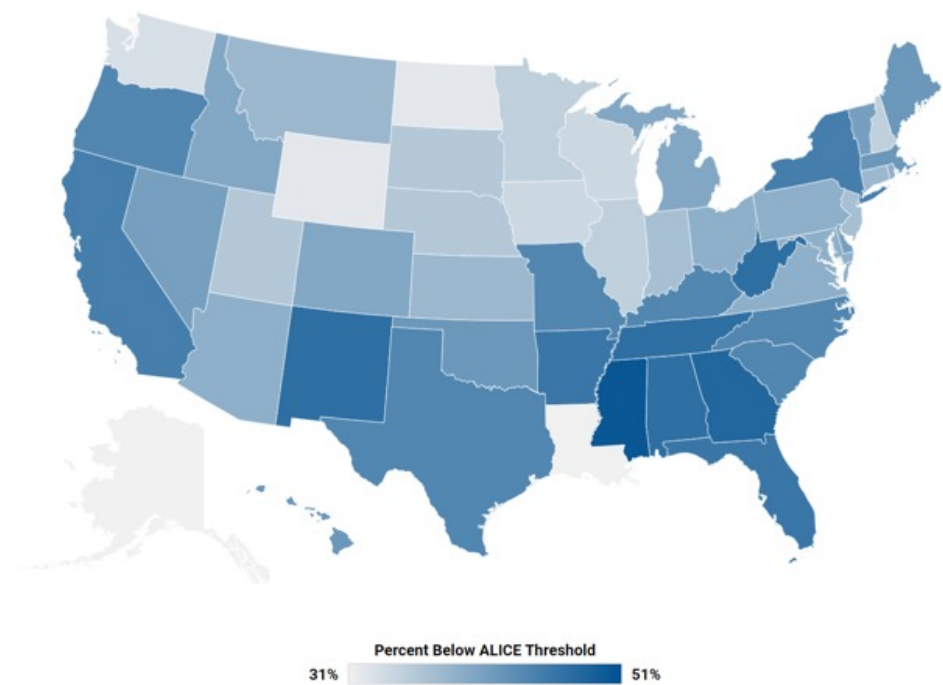
**Microbusiness Survey Respondents**

To dig a little deeper, we next turned to our [national survey database](#). Microbusinesses are categorized as resource constrained depending on the owner’s housing status, number of dependents in the household, and self-reported annual household income. Those not classified into that category are simply referred to here as resource comfortable. We wanted to see if we could find demographic, firmographic, or psychographic differences between resource constrained and resource comfortable microbusiness owners.

The [United for ALICE](#) organization (an arm of United Way) estimates in their most recent analysis that approximately 42% of households are what they consider to be asset-limited, income-constrained and employed (ALICE) or below the poverty

line and cannot afford necessities. Those below the ALICE threshold roughly mirror the population we are interested in learning more about. These folks can be found in every state across the US, though at varying rates depending on the region, as Figure 1 illustrates below. While there is a heavy presence in the south, there are also concentrations on the coasts, in the Mountain West, and in the Midwest.

**Figure 1. Percent of Households Below ALICE Threshold by State, Source: United for ALICE (2020)**



So, who are the resource constrained? There are four ways for a respondent to be included in this category: (1) If a respondent lives in their home free and clear with any number of dependents, a respondent is resource constrained if their annual household income is below \$35k. (2) If they live in a home with a mortgage and dependents, a respondent is resource constrained if their annual household income is below \$50k. (3) If they are a renter with dependents, a respondent is resource constrained if their annual household income is below \$75k. (4) Finally, a respondent is resource constrained if they have 4 or more dependents, are in any living situation (rent, own, or mortgage), and have an annual income below \$75k. A dependent is an individual under the age of 18 or over the age of 65 living in the home with the respondent.

Using these definitions, we revisited our survey data to see if we could learn anything about these entrepreneurs. In many ways the resource constrained group looks like the resource comfortable group: similar rates of business registration,



operation style, employee counts, source of startup funds, and startup capital needed, for example.

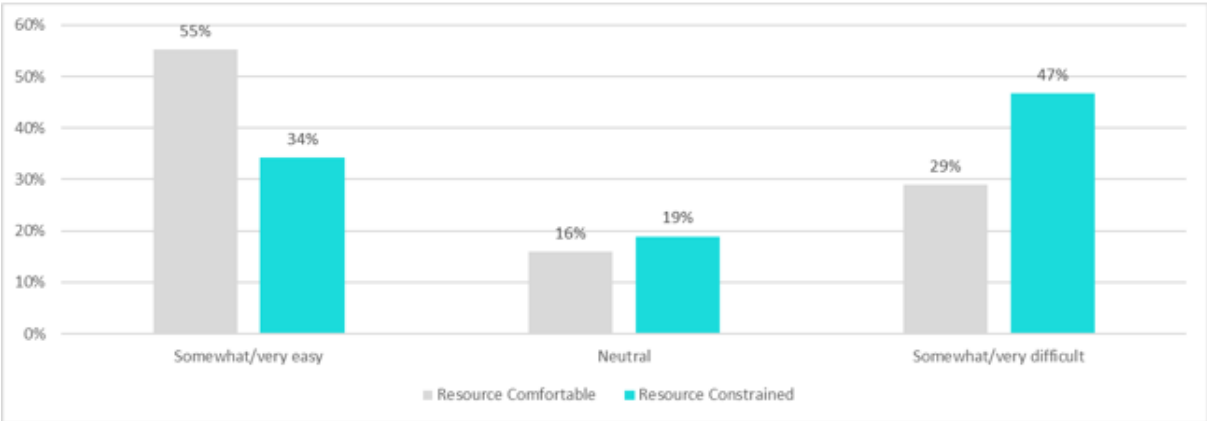
However, they differ in some very important ways. 55% of resource constrained microbusiness owners are BIPOC (Black, Indigenous, and people of color), while 69% of the resource comfortable are not, meaning the resource constrained is a majority non-white group while resource comfortable is a majority white group. Among the resource constrained 36% are Black, 6% are Asian American or Pacific Islander, and 12% are mixed/another race. They are also more likely to have ethnic differences, as 16% report a Hispanic background, vs 10% of the resource comfortable.

Beyond demographics there are some key differences across these two groups, though, that may be useful in learning how to support and encourage them. Drawing from the firmographic and psychographic elements of our survey data we've highlighted some of the key takeaways below:

### Access to capital

Over time, Venture Forward has learned that access to capital is a common challenge microbusiness owners face when first starting their business. Among the resource constrained, perhaps unsurprisingly, access to capital was reported more often as a challenge when first starting (37%) vs the resource comfortable (25%). Taking this a step further, we asked owners how easy it was to access the funds ultimately used to start their business. Again 34% of the resource constrained said it was somewhat or very easy to access startup funds, while 55% of the resource comfortable said the same.

**Figure 2. Ease of Accessing Start Up Capital**



Original question wording: On a scale of 1 (very easy) to 7 (very hard), how easy or hard was it for you to access the capital you

needed to start your business? 1-3 are grouped into “somewhat/very easy”, 4 is “neutral”, and 5-7 are grouped into “somewhat/very difficult”.

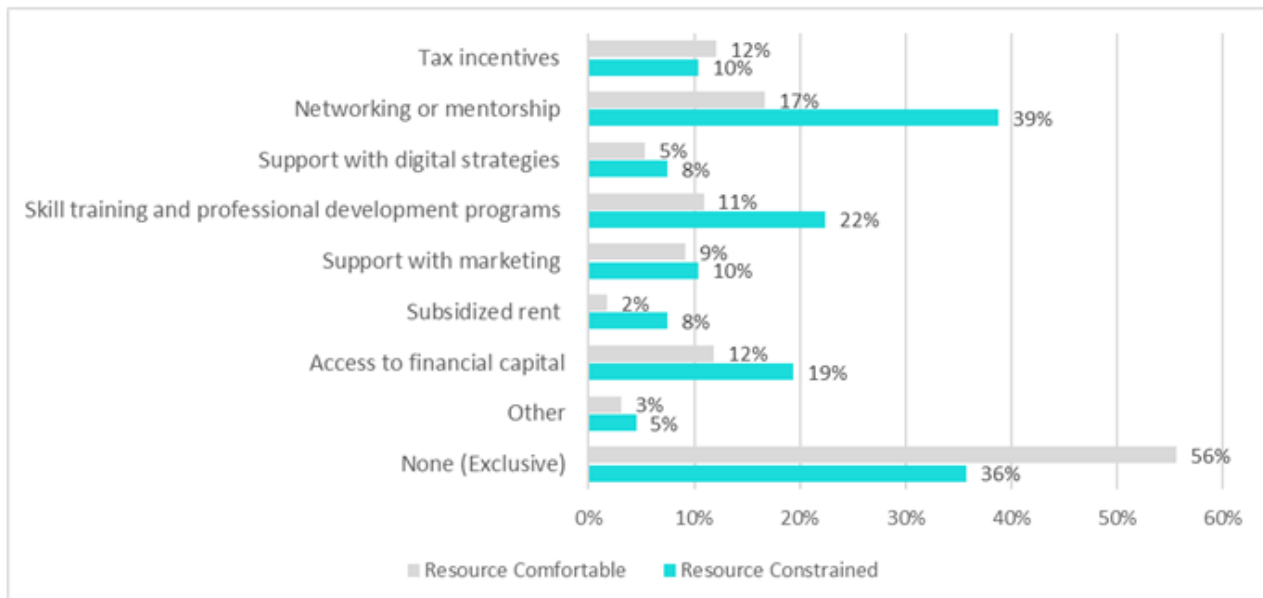
While we already knew, by definition, that the resource constrained have fewer financial resources available to them, these data reinforce the fact that difficulty also applies when seeking to start a business.

### Age of business and use of programs

The resource constrained group appears to be relatively new to adopting an online microbusiness approach. 57% started their microbusiness in 2019 or earlier, versus 70% of the resource comfortable, while 43% started since 2020 versus 30% among the resource comfortable. Thought of differently, 9% of microbusinesses started in 2019 or earlier were started by someone in the resource constrained category, while that number grew to 14% from 2020-2022.

While being relatively new, the resource constrained are also more likely to have utilized local business assistance funding or training programs to help develop/grow their microbusiness. This includes programs connecting owners to financial lenders, subsidized rent programs, skills training/professional development programs, as well as networking and/or mentorship programs.

**Figure 3. Use of Local Programs**



Original question wording: Which types of local business assistance funding or programs have you used for your business? Select all that apply.

The resource constrained are newer to the online entrepreneurial space but are

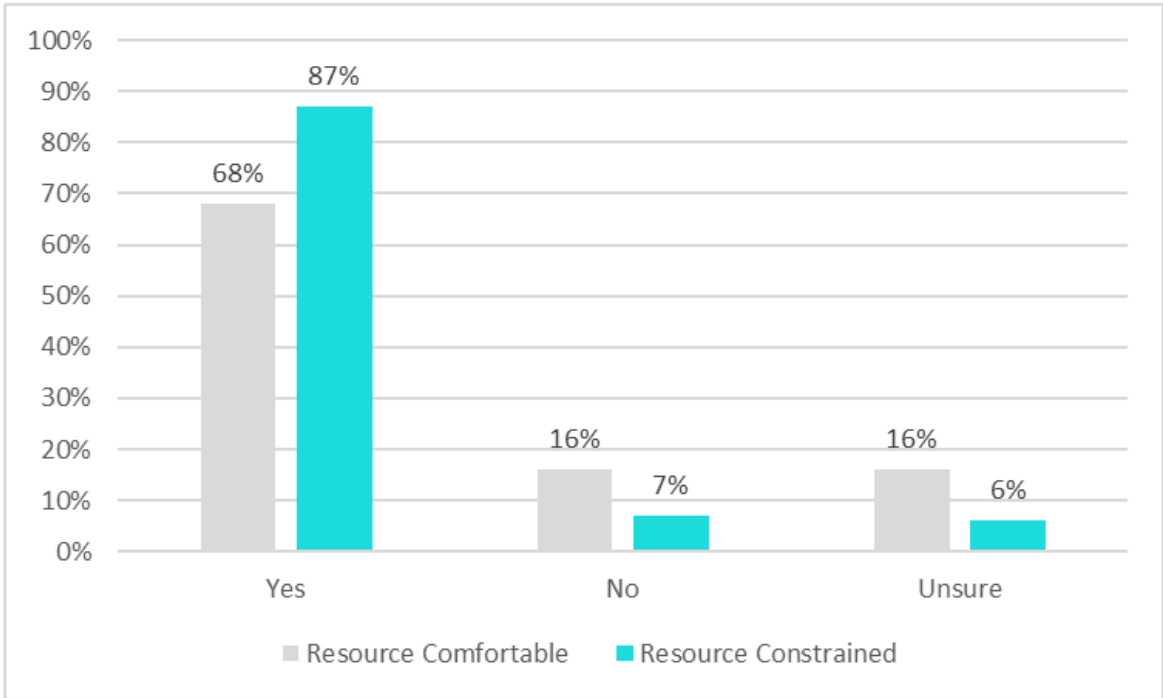


committed and dedicated to their microbusiness as evidenced by their eagerness to engage with local programs.

### Future goals and anticipated growth

While the resource constrained and resource comfortable report their microbusinesses as supplemental income sources at similar rates (43% vs 40%, respectively), the desire to turn that supplemental income into a main source of income differs quite a bit (87% vs 68%). There is a stronger desire to turn something viewed as a side-hustle into a full-time job, among the resource constrained. Similarly, 67% of the resource constrained reported they believed the time they spend on their microbusiness will increase soon, vs 53% of the resource comfortable. These differences do not appear to be a function of employment status as the two groups are employed outside of their microbusiness at similar rates.

Figure 4. Desire to Turn Supplemental Income into Main Income



Original question wording: If your business is only for supplemental income, do you hope it turns into your primary source of income?

Microbusiness owners who find it more difficult to access resources are also those owners who are more optimistic about their future and intend to expand the work and effort they're already putting into their business.

## Physical products, retail, and online transactions

The resource constrained microbusiness owners are less likely to be a service-oriented business (27% vs 42%) while being more likely to offer only physical products (29% vs 20%) or both physical products and services (42% vs 32%). The resource constrained is also more likely support online transactions at all (78% vs 63%), while being far less likely to not support them and not intend to do so in the future (5% vs 14%). Additionally, and perhaps relatedly, they are also twice as likely to be in the retail space, versus other industries (24% vs 11%).

In other words, microbusinesses owned by resource constrained individuals are more likely to sell physical products online in a retail environment. When thinking about how to target resource constrained microbusinesses and their owners, policymakers would be wise to understand these differences – they have different operating models and product/service offerings that could be helpful in determining how best to help them.

## Conclusion

This research note showed how, in the aggregate, states have important differences in their microbusiness ecosystems based on the wage deficiency gap, or the distance between a state's estimated cost of living and their average household income. This evidence suggests that resource constraints could potentially be driving important differences in whether, and how, people leverage the internet for commerce.

Then, turning to a nationally representative sample of microbusiness owners, we classified each respondent with valid responses on key questions into resource comfortable or resource constrained, and looked at how these two groups differed. We found that the resource constrained community struggles to find capital to start their business and tends to be newer to the online commerce space. However, they use local programs at higher rates, are generally looking to expand their side-hustle into a full-time source of income and are more likely to operate online and sell physical products versus service-only businesses. **These key differences can help policymakers identify solutions for closing gaps and micro-targeting services and programs to the people who need it most and are also most likely to utilize them.**

At the time of writing, the global economy is facing significant inflationary pressures. Inflation tends to harm lower-income households more than higher-income households, as greater resources mean greater adaptability to changing economic conditions. These pressures will only push more households under the cost-of-living threshold, forcing more and more people to find ways to close

financial gaps as the cost-of-living increases while income remains relatively stagnant. In communities with high proportions of resource constrained households who are already living on a knife's edge, community leaders must target their efforts to the places and people it's needed most. This research note begins the work of identifying places of opportunity for policymakers to have the greatest impact.

We know microbusinesses have significant effects on the economics of the communities they're in. We are just beginning to understand the individual-level effects on the business owners themselves, and how microbusinesses have the power to change for good. More work is needed to peel back some of these differences and to analyze more direct outcomes and impacts of microbusinesses on individuals and their families. This is a potentially fruitful line of research for those working in this space.

**Interested in learning more about the specific microbusiness ecosystem present in your community? [Visit the Explore the Data page online.](#) For questions related to this paper [contact the Venture Forward team directly.](#)**