

# The small-business owner – an in-depth **B2B** marketing study of owners of multiple small businesses

An Experian study

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# About this study

Too often direct marketers assume that a one-size-fits-all approach to B2B marketing will always yield the desired results. After all, on the surface businesses can look very similar and appear to share identical needs.

Let's take a moment to look at B2C marketing. Consumer behavior and response differ based on consumer demographics, behaviors and attitudes. Often in B2B marketing, the primary segmentation criteria are based on the line of business and the size of the business. This limited segmentation strategy, popular in B2B campaigns, is not typically an effective approach within the small-business and microbusiness segments. We understand that consumers respond more favorably when an offer is tailored directly to them, so it is imperative to remember that behind every business is an owner and that business owner is also a consumer.

Having the complete view of a business owner increases the chance of successful response rates marketers will experience with their campaigns. To maximize ROI, B2B marketers must understand the businesses and business owners they are marketing to in order to reach them with the most effective messages and appropriate offers.

This study examines and compares the unique characteristics of business owners with a single business entity against those with multiple business entities. The study distinguishes their similarities and differences based on business and consumer information about the business owners and compares sole-business and multibusiness owners with the national averages for consumers. This approach provides a deep, blended view of a business owner from the business and consumer perspectives.

This study offers insight into these important questions and more:

- How do business owners look from a consumer demographic view and how do they differ from the average consumer?
- What are the characteristics of a business owner who owns multiple businesses versus one business?
- What are the trends as they relate to length of time a business owner waits to open a second business versus a third or fourth business?
- Do consumer demographics for a business owner change based on how many businesses are owned?
- Are sole-business owners or multibusiness owners more or less likely to be underbanked compared with the consumer average?

# Small-business owner demographic characteristics

## Key findings

Having the complete picture of a sole-business and multibusiness owner compared with the general population provides valuable insight to marketers looking to connect business owners with products and services. Marketers who gain a better understanding of a business owner at the consumer level can increase conversion and profits by communicating more effectively with customers and prospects. A look at small businesses on the surface reveals there are many similarities. But a more in-depth look reveals that these small businesses are unique. Having a complete view of a business owner increases marketers' success with their campaigns.

When compared with the overall population, business owners typically are more likely to:

- Have notably higher household incomes
- Earn incomes greater than \$75,000
- Be married and have children
- Have a college education
- Reside in households where the head of household is 45 to 69 years of age in areas that are more creditworthy
- Live in higher-value homes, especially homes valued at \$300,000 or more
- Donate to environmental and political causes

## Comparing sole-business owners, multibusiness owners and the overall population

A more in-depth look at businesses shows notable differences between sole-business and multibusiness owners and how they compare with the overall population.

When compared with multibusiness owners, sole-business owners are:

- Thirty percent more likely to have incomes below \$35,000; more likely (than multibusiness owners) to reside in lower-wealth, less-metropolitan, less-creditworthy areas; and 22 percent more likely to reside in households where the head of household is younger (25 to 34 years of age)
- Fifty-four percent more likely to be African American and 47 percent more likely to reside in female-headed households
- More likely to have a relatively strong interest in religion, self-improvement, children's products, crafts and automotive work and a relatively strong preference for gospel and country music
- Thirty-two percent more likely to fall into blue-collar and agricultural occupations
- More likely to be price-conscious and buy American-made products

When compared with sole-business owners and the overall population, multibusiness owners are:

- Forty-one percent more likely to have household incomes greater than \$125,000, 47 percent more likely to reside in the highest wealth and creditworthy areas and likely to have higher home purchase loan amounts, especially loan amounts greater than \$200,000, relative to sole-business owners
- Twenty-six percent more likely to have undergraduate and graduate degrees
- More likely to be in the market for a new vehicle within the next five months
- Twenty-two percent more likely to be classified into professional and technical occupations
- Thirty-eight percent more likely to have “work hard, play hard” attitudes; be more refined in their interests and activities; show interest in cultural arts, books, golf, music, skiing, tennis and foreign travel; and 24 percent more likely to favor donating to environmental and political causes

The more businesses an individual owns, the higher his or her income, education level, loan amount and mortgage.

## Where do small-business owners reside?

Sole-business and multibusiness owners are more likely to reside in the South Atlantic region than any other area in the United States.

### Geographic overview

Region of residence	Multibusiness owners	Sole-business owners	Total U.S. businesses by region
East North Central	11.7%	12.9%	14%
East South Central	4.5%	4.4%	5%
Middle Atlantic	10.0%	11.2%	11%
Mountain	7.6%	7.4%	7%
New England	4.7%	4.8%	5%
Pacific	13.3%	17.5%	17%
South Atlantic	26.8%	20.3%	21%
West North Central	5.1%	7.0%	7%
West South Central	15.2%	13.3%	12%

## Small-business demographics

### Multibusiness owners and Standard Industrial Classification (SIC) information

Contrary to standard perception, business owners with more than one business are not just expanding within their current industry. Multibusiness owners are not solely operating within one industry and appear willing to expand across broad industry categories.

The more businesses an owner has, the greater the number of industries in which those businesses can be categorized.

	Two businesses	Three businesses	Four businesses	Five businesses
Same SIC category	46.00%	21.54%	10.06%	6.43%
Different SIC category	54.00%	78.46%	89.94%	93.57%
Same two-digit SIC category	27.70%	8.67%	3.29%	2.24%
Different two-digit SIC category	72.30%	91.33%	96.71%	97.76%
Same four-digit SIC category	17.29%	4.14%	1.19%	0.70%
Different four-digit SIC category	82.71%	95.86%	98.81%	99.30%

The above graph accounts for businesses with valid, nonmissing SIC information.

## Years in business

When does a sole-business owner become a multibusiness owner? How long after a business owner opens a second business does he or she open a third or fourth business? Business owners with two businesses are, on average, likely to have established the second business 8.66 years after the first business. Owners with three businesses established their most recent business 3.15 years after the second business.

Age differences in years relative to the oldest business	Two businesses	Three businesses	Four businesses	Five businesses
Mean — second business	8.66	8.27	8.19	8.17
Mean — third business		11.42	10.56	10.30
Mean — fourth business			11.61	10.33
Mean — fifth business				11.50

## Home-based businesses/Cottage industry

Roughly 30 percent to 35 percent of businesses are operated out of the home. Sole-business owners are 2.89 times more likely to own a home-based business than multibusiness owners.

Among multibusiness owners, the likelihood of owning at least one home-based business declines as the number of businesses owned increases. For multibusiness owners operating home-based businesses, the first two businesses started remain home-based, while additional businesses tend to be outside of the home.

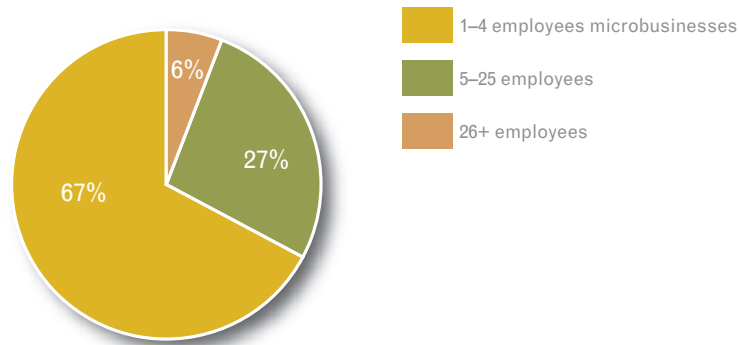
Number of home-based businesses owned	Two businesses	Three businesses	Four businesses	Five businesses
0	88.67%	95.55%	98.98%	99.82%
1	7.13%	2.51%	0.63%	0.09%
2	4.20%	1.36%	0.28%	—
3	—	0.68%	0.07%	—
4	—	—	0.05%	0.09%

## Small businesses and employee size

The number of employees a business has is one of the best indicators of a business's size. The vast majority of all U.S. businesses are small, with fewer than 25 employees. A larger percentage of those businesses are microbusinesses having fewer than five employees.

### U.S. businesses by employee size

Small businesses make up more than 94 percent of all U.S. businesses (67 percent of which are microbusinesses).



Multibusiness owners are more likely than sole-business owners to have at least one business with employee size ranging from 10 to 19. However, when a multibusiness owner has five businesses, the average size of the businesses begins to decline, and the owner is more likely to have a business in the microemployee category of one to four employees (76 percent) than sole-business owners (73 percent).

Elements	Sole business	Two businesses	Three businesses	Four businesses	Five businesses
Total — average employees	4.67	10.52	15.67	19.42	22.64
Total — maximum employees	6.09	13.65	20.34	25.28	29.55
Total — minimum employees	2.45	5.85	8.65	10.32	11.54

A = 1-4 employees, B = 5-9 employees, C = 10-19 employees

Employee Group	Sole business	Two businesses	Three businesses	Four businesses	Five businesses
Employee group A	73.0%	65.5%	67.0%	72.0%	76.6%
Employee group B	20.0%	23.0%	21.7%	18.8%	16.0%
Employee group C	7.0%	11.0%	11.3%	9.25%	7.4%

### **Small-business credit**

An in-depth look at how small businesses are financed reveals that the lines between consumer and business owner finances are blurred. Small businesses use a variety of financing sources, including the owner's savings, business-retained earnings, "informal" external sources such as friends and business associates, financial intermediaries (banks, finance companies), business investment companies and public markets.

Many small businesses do not separate business and personal expenses. Small-business owners are increasingly using different types of credit, including mortgages, credit lines and credit cards. Forty-five percent of microbusinesses (employee size of one to four) have limited or no business credit data on a business credit file.

Knowing how a 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 financial decisions.

Furthermore, when looking at a business, knowing the full spectrum of risk associated with the owner (how many businesses he or she has, the other businesses' credit scores, etc.) can further assist with risk-based decisions. A closer look at the multibusiness owner provides a better understanding of how all businesses owned by that person are financed.



## Underbanked small businesses

As previously mentioned, it is helpful to remember that behind every business is an owner and that business owner is also a consumer. One of the fastest-growing consumer segments is underbanked, or unbanked, consumers. An underbanked consumer is defined as having one trade or less on his or her consumer credit report.

Seventy-seven million consumers (33 percent of the U.S. population) fall into the underbanked consumer category. This population comprises recent immigrants, recent college graduates, generation bias against credit, and military or other transitory lifestyles.

Owning a business reduces the likelihood of a consumer's being underbanked. Approximately 11 percent of sole-business owners have little or no personal credit established as a consumer; their business is most likely funded and operated with cash.

Total U.S. consumers	100% (230 million)
Total underbanked consumers	33%
Total underbanked sole-business owners	11%
Total underbanked multibusiness owners	8%

- Business owners are more likely to be “banked” as a consumer than the overall consumer population
- Hispanic (16.5 percent) and African-American (10.2 percent) sole-business owners are strongly overpenetrated regarding their likelihood of being underbanked relative to the overall percentage of Hispanic and African-American sole-business owners

Number of businesses owned	Underbanked
1	10.7%
2	8.03%
3	7.36%
4	6.58%
5	6.11%

- The number of businesses owned generally reduces the likelihood of being underbanked; this is especially true for owners who own three to five businesses
- Multibusiness owners are 35 percent less likely to be underbanked than a sole-business owner
- Hispanic and African-American multibusiness owners are strongly overpenetrated regarding their likelihood of being underbanked

## Derogatory indicators — sole-business versus multibusiness owners

A derogatory indicator is a presence of a commercial lien, bankruptcy or judgment against the business. Does the number of businesses owned increase the likelihood of a business owner's having a derogatory indicator on one or many of his or her businesses?

Approximately 10 percent of sole-business owners and multibusiness owners have a derogatory indicator on at least one of their businesses.

Multibusiness owners with three or more businesses are more likely than owners with only two businesses to have at least one derogatory legal indicator.

Derogatory indicators	Two businesses	Three businesses	Four businesses	Five businesses
0	82.65%	76.18%	72.74%	73.40%
1	13.15%	16.51%	17.91%	17.78%
2	4.20%	5.89%	6.66%	7.04%
3	—	1.42%	2.29%	2.08%
4	—	—	0.40%	0.5%
5	—	—	—	0.2%

Among multibusiness owners, derogatory events are more likely to occur among the older businesses. This is most likely due to the amount of time that business has had to experience events that typically result in a derogatory legal indicator.

Business	Derogatory indicator
1 (oldest)	13.41%
2	8.48%
3	6.81%
4	5.86%
5	4.88%
6	4.41%

### Multibusiness owners and trade balances

Combined tradelines are the sum of all the balances across all commercial trades for that business. A comparison of the total balances across all commercial tradelines for a business shows that multibusiness owners have larger combined trade balances and a greater number of combined tradelines. Multibusiness owners are more likely to have current trade balances than sole-business owners.

Elements	Sole-business owner	Multibusiness owner
Combined trade balance	\$2,253	\$6,515
Combined tradelines	0.99	1.99
Combined trade balance current	18.24%	35.92%
Trade balance 31 to 60 days <b>past due</b>	0.45%	0.94%

The percentage of current trade balances increases as the number of businesses owned increases, while the percentage of the trade balance 31 to 60 days past due also increases.

Elements	Number of businesses owned by multiowners			
	Two	Three	Four	Five
Combined trade balance	\$6,150	\$9,413	\$12,681	\$28,470
Combined tradelines	1.95	2.62	2.93	3.00
Combined trade balance current	35.15%	46.36%	52.15%	53.15%
Trade balance 31 to 60 days <b>past due</b>	0.91%	1.29%	1.52%	1.85%

# Commercial risk scores — sole-business versus multibusiness owners

In this section, we compared sole-business owners and multibusiness owners by commercial risk score to identify potential patterns. A combined score was created, with first priority given to the commercial score. When this was not available for a business, the market score was used to populate the new “credit rating” field.

- A high-risk credit rating for the oldest business does not necessarily translate into a high-risk credit rating for the other businesses
- A low-risk credit rating for the oldest business does appear to carry over to the other businesses

## Owners with two businesses

First (oldest) business	Second business	Percentage of occurrence
High risk	High risk	27%
Low risk	Low risk	61%
No score	No score	25%
No score	Low risk	36%

## Owners with three businesses

First (oldest) business	Second business	Percentage of occurrence
High risk	High risk	19%
Low risk	Low risk	54%
No score	No score	28%
No score	Low risk	33%

*Note: Similar risk patterns were observed on the third business.*

## Owners with four businesses

First (oldest) business	Second business	Percentage of occurrence
High risk	High risk	10%
Low risk	Low risk	48%
No score	No score	32%
No score	Low risk	31%

*Note: Similar risk patterns were observed on the fourth business.*

# Conclusion

Marketing to small businesses can be a lucrative and influential investment when done with a deep understanding of the business owner. A look at small businesses on the surface reveals that there are many similarities. But a more in-depth look shows that these small businesses are unique and it is critical to uncover distinguishing information about them to communicate effectively.

The practice of looking at a small-business owner provides a deep, blended view of a business owner from the business and consumer perspectives. Marketers gain a better understanding of a business owner at the consumer level and market products and services accordingly.

Having the full view of the multibusiness owner provides marketers with a more comprehensive and holistic view of a business's creditworthiness and risk, helping them make important lending and financial decisions. Having the complete view of a business owner increases the chance of success marketers will experience with their marketing campaigns.

# Methodology

To develop this study, Experian® analyzed proprietary data from its INSOURCE<sup>SM</sup> consumer demographic database, which contains information on approximately 230 million consumers and 113 million living units, and a specialized segment of Experian's National Business Database known as Business Owner Link, which provides information on more than 3 million small-business owners. Additionally, multibusiness and sole-business owners were compared by SIC codes. By utilizing both business and consumer information, Experian is able to provide the most comprehensive view of today's sole-business and multibusiness owners.

Two files provided from Experian's Business Owner Link database were matched and appended with data from the INSOURCE consumer database. The multiowner file contained 761,064 records, with 81.6 percent of these records matched to the INSOURCE Database. The random sample of 500,470 sole-business owners had a match rate of 83.3 percent against the INSOURCE Database.

In addition to the demographic and geodemographic information available from the INSOURCE Database, the following business-specific elements were incorporated into the analysis: SIC code, number of employees, annual sales, years in business, Market Intelliscore<sup>SM</sup> and Commercial Intelliscore<sup>SM</sup>.

### **About INSOURCE<sup>SM</sup>**

INSOURCE<sup>SM</sup> is Experian's consumer marketing database that contains information on approximately 230 million consumers and 113 million living units. INSOURCE is updated continually from thousands of public and proprietary sources. The database contains more than 1,000 different selection elements on consumers, such as age, gender, education level, mortgage amount, income and ethnicity. The primary use for INSOURCE is direct marketing. 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 National Business Database**

The National Business Database contains information on more than 18 million U.S. businesses. It is updated monthly utilizing numerous public and proprietary sources and from Experian's own televerification process. The database contains business demographic information such as years in business, line of business, number of employees, annual sales and contact names. The National Business Database also contains summarized credit information on businesses (average days beyond terms, liens, judgments, high balances, etc.) and highly predictive risk scores that forecast the likelihood of businesses' going significantly delinquent in the future.

### **About Business Owner Link**

The Business Owner Link file contains a proprietary process that links business owners at their home address to their business address. Business Owner Link provides information on more than 3 million small-business owners, enabling marketers to identify the business owners in their consumer portfolio for cross-selling and up-selling and providing two points of contact for direct marketers. Business Owner Link allows direct marketers to get a complete view of a small-business owner by linking their business demographic information (National Business Database) to his or her consumer demographic information (INSOURCE Database).

### **About Multibusiness Owner Link<sup>SM</sup>**

Multibusiness Owner Link<sup>SM</sup> is a patented process Experian developed to link a single business owner to the different businesses he or she owns. Multibusiness Owner Link connects more than 370,000 business owners to more than 780,000 businesses they own. Multibusiness Owner Link allows direct marketers to get an even more complete picture of all the businesses associated with a business owner to make more appropriate marketing offers. Multibusiness Owner Link contains multiple points of contact — at the business owner's home and at the business addresses of all the various businesses he or she owns.

# About Experian

Experian is a global leader in providing information, analytical and marketing services to organizations and consumers to help manage the risk and reward of commercial and financial decisions.

Combining its unique information tools and deep understanding of individuals, markets and economies, Experian partners with organizations around the world to establish and strengthen customer relationships and provide their businesses with competitive advantage.

For consumers, Experian delivers critical information that enables them to make financial and purchasing decisions with greater control and confidence.

Clients include organizations from financial services, retail and catalog, telecommunications, utilities, media, insurance, automotive, leisure, e-commerce, manufacturing, property and government sectors.

Experian Group Limited is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. It has corporate headquarters in Dublin, Ireland, and operational headquarters in Costa Mesa, Calif., and Nottingham, UK. Experian employs approximately 15,500 people in 36 countries worldwide, supporting clients in more than 65 countries. Annual sales are in excess of \$3.8 billion.

For more information, visit the Group's Web site on [www.experiangroup.com](http://www.experiangroup.com).

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