

Elizabeth Dougert  
Director of Communications  
SCORE

Statement to the Committee on Small Business  
United States House of Representatives  
“Millennials and the Gig Economy”  
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**What is the Gig Economy?**

The face of U.S. employment is changing. In recent decades, there has been a marked increase in participation in the gig economy, on both the business side – as businesses increasingly hire contractors and part-time workers to fill key roles within businesses, and the worker side – as increasing numbers of people enter the independent workforce.

There are many different terms commonly used to describe gig economy workers, from “independent workers,” “freelance workers,” and “contractors,” who may or may not own their own businesses, to “nonemployer firms,” and “solopreneurs” who own their own businesses, but have zero employees. Despite this linguistic ambiguity, all share a common defining set of characteristics. Workers in the gig economy are their own bosses, as opposed to working for someone else. They have a high degree of autonomy and receive payment by task, assignment, or sales (as opposed to salary). Moreover, their work is often characterized by short-term client relationships. According to the U.S. Census, gig workers can be defined as, “small, unincorporated businesses, which may or may not be the owner’s principal source of income.”<sup>1</sup>

A 2016 McKinsey Global Institute analysis of published sources that analyzed independent workers as a percentage of the total U.S. working-age population estimated that there are between 54 and 68 million independent workers in the U.S.<sup>2</sup> In the U.S. and EU-15, independent workers constitute an estimated 20-30% of the working age population.<sup>3</sup>

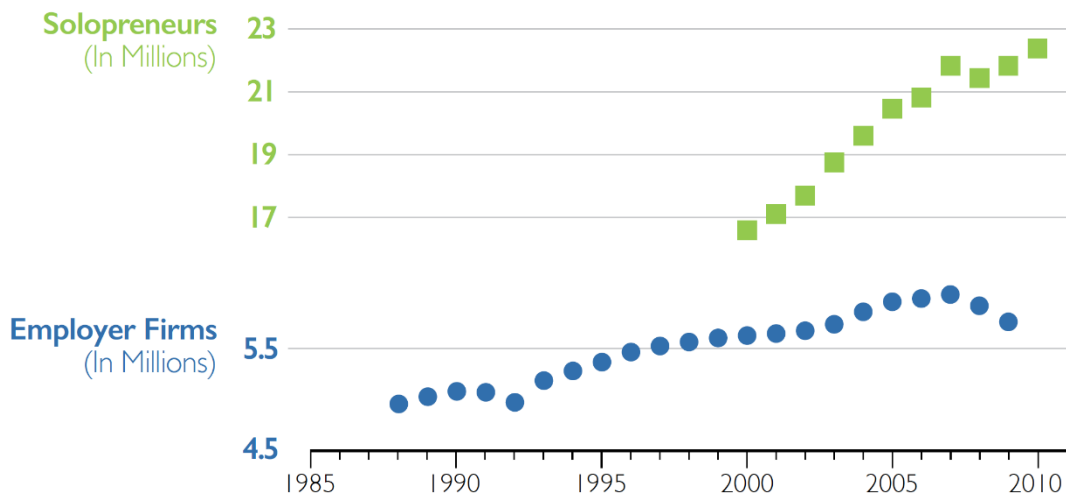
Given these large numbers, gig workers have a significant – and steadily increasing – impact on the U.S. economy, these independent workers been increasing in number, even when other sectors of employment have been lagging:

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<sup>1</sup> <https://www.census.gov/epcd/nonemployer/view/define.html>

<sup>2</sup> <https://www.mckinsey.com/~media/McKinsey/Global%20Themes/Employment%20and%20Growth/Independent%20work%20Choice%20necessity%20and%20the%20gig%20economy/Independent-Work-Choice-necessity-and-the-gig-economy-Executive-Summary.ashx>

<sup>3</sup>*Id.*



Source: U.S. Census Bureau, SUAB and Nonemployer Statistics.<sup>3</sup>

A study by Upwork (the world's largest freelancing website) and the Freelancers Union found that freelancers contributed \$1.4 trillion of economic activity to the U.S. economy in 2017, an increase of 30% over the previous year.<sup>4</sup> The same study found that the population of freelancers grew three times faster than the general U.S. workforce from 2014-2017.<sup>5</sup>

### Who Are Gig Economy Workers?

It is important to note that not all gig economy workers share the same reasons for working in the independent workforce, and they do not always achieve comparable earnings.

	Primary Income	Supplemental Income
Preferred Choice	“Free Agents” 32%	“Casual earners” 40%
Out of Necessity	“Reluctants” 14%	“Financially strapped” 14%

A study by the McKinsey Global Institute separated gig economy workers into four distinct categories. The first category consisted of gig economy workers who had chosen to enter the gig economy because of the freedom it afforded them. The first group in this category, called “free agents,” made up 32% of respondents, and depended on their gig work to constitute their primary source of income. The second group in this category, described as “casual earners,” had also voluntarily chosen to enter the gig economy, but only used their gig work to produce supplemental income. This was the largest segment of respondents, at 40%.<sup>6</sup>

The second major category of gig economy workers had entered the gig economy out of necessity – due to the shifting nature of their full-time employment. This group may have

<sup>4</sup> <https://www.slideshare.net/upwork/freelancing-in-america-2017/1>

<sup>5</sup> *Id.*

<sup>6</sup> <https://www.mckinsey.com/~/media/McKinsey/Global%20Themes/Employment%20and%20Growth/Independent%20work%20Choice%20necessity%20and%20the%20gig%20economy/Independent-Work-Choice-necessity-and-the-gig-economy-Executive-Summary.ashx>

experienced lay-offs or underemployment. 14% of respondents were characterized as the “reluctants,” who entered the gig economy out of necessity and relied on their gig work as their primary source of income. Another 14%, defined as the “financially strapped,” had also entered the gig economy out of necessity, but were only relying on their gig work to produce supplemental income.<sup>7</sup>

Gig economy workers are found in all industries, with the largest concentration (39%) found in “other services,” a category of miscellaneous personal services that includes businesses such as beauty shops, laundry and cleaning services, and various repair shops. Following behind this number, 35.2% were in construction, and 33.9% were in agriculture/mining. After these top three categories came financial activities (22%), professional and business services (22%) and transportation and utilities (19.9%).<sup>8</sup>

Occupation <sup>9</sup>	% of Gig Economy Workers 2014
Other Services - personal services including beauty shops, laundry and cleaning services, repair shops, etc.	39.0%
Construction	35.2%
Agriculture & Mining	33.9%
Financial Activities	22.0%
Professional & Business Services	22.0%
Transportation & Utilities	19.9%
Information	15.1%
Wholesale & Retail Trade	8.5%

<sup>7</sup><https://www.mckinsey.com/~/media/McKinsey/Global%20Themes/Employment%20and%20Growth/Independent%20work%20Choice%20necessity%20and%20the%20gig%20economy/Independent-Work-Choice-necessity-and-the-gig-economy-Executive-Summary.ashx>

<sup>8</sup> <http://gss.norc.berkeley.edu/get-the-data>

<sup>9</sup> *Id.*

Education & Health Services	7.2%
Leisure & Hospitality	6.5%
Manufacturing	4.5%

### **Why This Rise in the Gig Economy?**

How can we explain the upswing in gig or freelance work? A few key trend drivers include technological change, economic shifts and changing expectations around the nature of work.

First, the evolution of technology has made it easier and cheaper than ever for gig workers to start their own businesses (if they choose to do so), find clients, and conduct business from anywhere in the world. Examples include video conference, virtual assisting and online banking tools.

Next, structural shifts in the economy since the year 2000 have led to unemployment and underemployment levels that cannot provide enough high-quality jobs to meet the demands of new workers entering the U.S. workforce.

Finally, today's workers are interested in steering their personal and professional lives. They want to feel passionate about what they do for a living, and they value flexible scheduling, and decision-making power on what types of clients they engage.

### **Small Businesses and the Gig Economy**

Small businesses have a powerful impact on U.S. employment, employing almost half of all workers in the U.S. Much of the economic recovery since the 2008 recession can be attributed to employment opportunities provided by small businesses.<sup>10</sup> Over the past year, hiring activity has been on an upward trend for small businesses, with plans to add workers hitting the highest level since 1999.<sup>11</sup>

Interestingly, there is a growing shift in the types of jobs generated by small businesses. While the number of firms that employ full-time workers has remained relatively flat, nonemployer businesses (also called solopreneurs) have been increasing. There has also been a marked increase in the use of gig economy workers, with businesses using contractors and part-time workers to fill key business roles.

SCORE's Client Engagement Survey shows that SCORE clients started 54,506 new businesses in FY2017. 26.5% of SCORE's mentored clients were nonemployers/solopreneurs, a number

<sup>10</sup> [https://www.sba.gov/sites/default/files/FAQ\\_Sept\\_2012.pdf](https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf)

<sup>11</sup> <https://www.wsj.com/articles/small-business-hiring-rises-in-july-1501770668>

that climbed even higher when taking into account national webinar and local workshop attendees.

Also in 2017, SCORE clients who were operating small businesses hired 122,000 independent contractors, which is much higher than the 61,534 full-time employees (not counting the owner) they hired. This also constitutes a 288% increase from the 31,424 independent contractors SCORE clients hired in FY2016.

*The Megaphone of Main Street: Small Business Jobs Report* released by SCORE in 2017 showed that business owners were increasingly relying on gig economy workers to help them in business operations. While the small businesses surveyed were increasing hiring across the board, the greatest growth was found in gig economy positions. There was a 37% increase among small business owners in hiring gig workers over the past six months, compared to smaller increases of 13% for full-time employees, 22% for part-time employees, and 12% for part-time independent contractors.<sup>12</sup>

19.8% of small businesses surveyed reported replacing employees (both full-time and part-time) with contractors over the period of the previous six months. Small business owners preferred to hire contractors when the job demanded specialized knowledge (50.8% of respondents) or when they had temporary needs, including seasonal work (41% of respondents). More than a third of respondents (35.1%) would have liked to hire an employee instead of a contractor, but did not have the cash reserves to comfortably make payroll, leading them to hire a contractor instead.

Stemming from the top reason for hiring a contractor (specialized expertise), the top three business functions that business owners outsourced to contractors were technology (with 42% of respondents having hired a technology-related contractor), accounting (41% of respondents) and marketing (38% of respondents).

In contrast, business owners declined choosing contractors – instead choosing to hire employees – for reasons relating to consistency of work (57% of respondents) and commitment to the company, vision and brand (53% of respondents).

One particularly interesting finding was that 47% of nonemployer/solopreneur firms reported hiring other people part-time to help run the business, for an average of 3.2 workers, including the owner. This dispels common assumptions that solopreneurs are running their businesses solely by themselves, and shows that employment statistics that only count traditional employees may be underestimating the full economic impact of solopreneurs.

## **Millennials and the Gig Economy**

Millennials represent the biggest share of the U.S. workforce, according to Pew research taken from U.S. Census figures<sup>13</sup>. More than one-third of workers in the U.S. (35%) were between the

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<sup>12</sup> [https://s3.amazonaws.com/mentoring.redesign/s3fs-public/SCORE-Megaphone-Main-Street-Small-Business-Jobs-Report-Fall-2017\\_2.pdf](https://s3.amazonaws.com/mentoring.redesign/s3fs-public/SCORE-Megaphone-Main-Street-Small-Business-Jobs-Report-Fall-2017_2.pdf)

<sup>13</sup> <http://www.pewresearch.org/fact-tank/2015/05/11/millennials-surpass-gen-xers-as-the-largest-generation-in-u-s-labor-force/>

ages of 18 and 35 in 2017. Millennials represent a larger group than Generation X, and a larger group than Baby Boomers, who are increasingly retiring.

Statistics also point to millennials making up a bigger share of the gig economy than other generations of workers. For example, the Upwork/Freelancers Union 2017 survey finds that more millennials freelance (either full time or part time) than the average population. 47% of working millennials freelance, compared to 36% of the overall U.S. working population.<sup>14</sup>

### **Millennial Small Business Owners**

While owning a small business will always be a challenge, results from SCORE's 2017 Client Engagement Survey, in which 1,342 millennial small business owners shared their experiences, paint a fairly optimistic picture of millennial small business ownership. In this section, all performance data on millennial small business owners was comparable to the general population of small business owners from other generations, except when specifically noted.

Data shows that more than two-thirds (67%) of millennial respondents depended (or expected to depend) on their business as their primary source of income.

In terms of business success, the largest share of millennial respondents (38%) reported expanding or aggressively expanding their size or revenues in the previous year. Just behind them at 34% were those millennial respondents who reported maintaining their current business size. 27% reported struggling to maintain size or revenues.

Looking to the year ahead, 60% of millennial business owners predicted an increase in revenues. Of the 40% of millennial business owners who did not foresee a revenue increase, three-quarters of them (74%) predicted that business revenues would most likely stay the same in the year ahead, while 26% of them expected to see revenues decrease.

47% of millennial business owners reported no change in the number of people they employed over the previous year, while 26% increased the number of people they employed (both employees and contractors) and 4% reported a decrease. 20% answered NA, most likely due to not employing anyone at all.

Similar to the general population of small business owners, financing remains a significant challenge reported by millennial entrepreneurs. Just 29% of millennial business owners sought loans or financing for their small business, and only a third (33%) of those who sought financing successfully obtained it.

Given that such a small percentage of millennial business owners even tried to seek financing, much less successfully obtained it, this raises a question of whether millennial-owned small businesses might see even greater growth with better financing.

That being said, 2014 research from Intuit shows that 64% of U.S. small business owners start

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<sup>14</sup> <https://www.upwork.com/press/2017/10/17/freelancing-in-america-2017/>

their business with \$10,000 or less, and that these entrepreneurs are primarily self-funded.<sup>15</sup> This relatively low barrier to entry allows many entrepreneurs to start businesses without traditional financing.

When asked why they had sought financing for their small business, the largest share of millennial business owners (63%) sought financing to grow their business, per SCORE's 2017 Client Engagement Survey:

- To grow the business 63%
- Purchase new equipment 46%
- Help with cash flow 42%
- Launch new marketing campaign 32%
- Hire new employee/contractor 3%
- Purchase inventories 30%
- Launch new product 28%
- Open new location 21%
- Refinance existing debt 8%

Like many small business owners, millennials wish they had better financing options, but they are an optimistic group overall. The same SCORE survey showed higher levels of optimism in millennial small business owners, compared to the general population of small business owners. 82% of business owners ages 18-35 reported feeling very or somewhat optimistic about their business growth over the next six months, compared to 69% among all business owners.<sup>16</sup>

When asked what most concerned them about the year ahead, millennial business owners reported they were concerned about the ability to find and keep qualified workers (41%), above any other issue.

On average, compared to the general population of small business owners, millennial business owners were less concerned about policies that favor large businesses, (26% of millennials, compared to 48% of all business owners), and less concerned about proposed changes in healthcare (29% of millennials, compared to 36% of all business owners).

## Looking Ahead

Future discussions about U.S. jobs, employment and the economy will need to take into account the many workers who participate in the gig economy full time or part time, in order to tell the whole story. The 30 million small businesses across the U.S. already employ almost half of all American workers, and 80% of those (23.8 million) are technically nonemployer firms.<sup>17</sup>

The term “nonemployer,” which refers to a business not having any paid full-time employees, fails to tell the whole story of the powerful impact these types of small businesses have on employment. As shown above, data from SCORE reveals that nearly half (47%) of nonemployer

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<sup>15</sup> <https://fitsmallbusiness.com/small-business-statistics/>

<sup>16</sup> [https://s3.amazonaws.com/mentoring.redesign/s3fs-public/SCORE-Megaphone-Main-Street-Small-Business-Jobs-Report-Fall-2017\\_2.pdf](https://s3.amazonaws.com/mentoring.redesign/s3fs-public/SCORE-Megaphone-Main-Street-Small-Business-Jobs-Report-Fall-2017_2.pdf)

<sup>17</sup> <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf>

firms (or solopreneurs) pay or employ other workers, for an average of 3.2 workers, including the owner and any contractors, part-time workers and/or temporary help. This finding builds upon past research in the previous *Megaphone of Main Street* data report, which suggested that micro-businesses (0-4 employees) contributed more total jobs to the American economy than any other type of small business, when taking into account part-time workers.<sup>18</sup>

Steady increases in job creation and hiring activity bode well for American workers, but these jobs will not look like the full-time jobs of the past. Almost 20% of businesses surveyed reported replacing employees with contractors over the past six months, and, as previously stated in greater detail, business owners reported a 37% increase in hiring gig workers over the past six months, out-pacing any other category of worker.<sup>19</sup>

As the U.S. labor force increasingly participates in this new mobile, gig-based economy, and businesses continue to increase their employment of gig economy workers, solopreneurs will most likely continue to rise at rates that outpace other types of small businesses. Data cited above suggests that there are likely many gig workers who are not yet defined as sole proprietors or even small business owners, but who are using gig work as their primary or supplemental source of income, and are, in fact, running businesses. Going forward, these entrepreneurs will need guidance on best business practices that help them to successfully plan, grow and run their businesses.

SCORE's 10,000 experienced business mentors stand ready to support millennials, and all gig workers, through free mentoring and educational workshops designed to help them achieve their business goals.

Mentoring matters because it greatly increases the likelihood of a small business success. Entrepreneurs with access to a mentor are five times more likely to start a business than those who do not have a mentor.<sup>20</sup> SCORE's data also shows that mentored businesses are 12% more likely to remain in business during their critical first year of operations, compared to the national average.<sup>21</sup>

Working with a mentor at least five times greatly increases an entrepreneur's likelihood of business success. 30% of business owners (both men and women) who had just one interaction with a mentor reported business growth, a number that increased with subsequent interactions and peaked at 43% of business owners who had five or more mentoring interactions and reported growth.<sup>22</sup>

SCORE looks forward to continuing to serve the growing independent workforce, just as we serve all American entrepreneurs who dream of starting or growing a business. SCORE will

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<sup>18</sup> [https://s3.amazonaws.com/mentoring.redesign/s3fs-public/Megaphone-main-street-volume-1-data-report-Apr-2017\\_0.pdf](https://s3.amazonaws.com/mentoring.redesign/s3fs-public/Megaphone-main-street-volume-1-data-report-Apr-2017_0.pdf)

<sup>19</sup> [https://s3.amazonaws.com/mentoring.redesign/s3fs-public/SCORE-Megaphone-Main-Street-Small-Business-Jobs-Report-Fall-2017\\_2.pdf](https://s3.amazonaws.com/mentoring.redesign/s3fs-public/SCORE-Megaphone-Main-Street-Small-Business-Jobs-Report-Fall-2017_2.pdf)

<sup>20</sup> <http://news.gallup.com/poll/150974/mentor-%20support-key-%20starting-business.aspx>

<sup>21</sup> [https://s3.amazonaws.com/mentoring.redesign/s3fs-public/SCORE-Megaphone-of-Main-Street-Women%E2%80%99s-Entrepreneurship-Spring-2018\\_1.pdf](https://s3.amazonaws.com/mentoring.redesign/s3fs-public/SCORE-Megaphone-of-Main-Street-Women%E2%80%99s-Entrepreneurship-Spring-2018_1.pdf)

<sup>22</sup> *Id.*



continue to provide guidance and education to business owners who choose to hire independent workers to support them in critical business functions, while offering the same help to the independent workers who are themselves running solopreneur firms. In this way, SCORE will continue to pursue its mission of fostering vibrant small business communities through mentoring and education, and will contribute to the economic recovery and job creation that small businesses deliver, in turn bolstering the American economy.