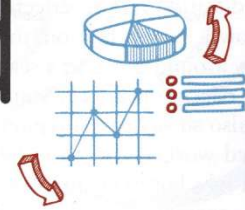


# ScoreBoard

BY JAMES TRUTKO



## Emerging Entrepreneurs

Charting growth in individual proprietorships.

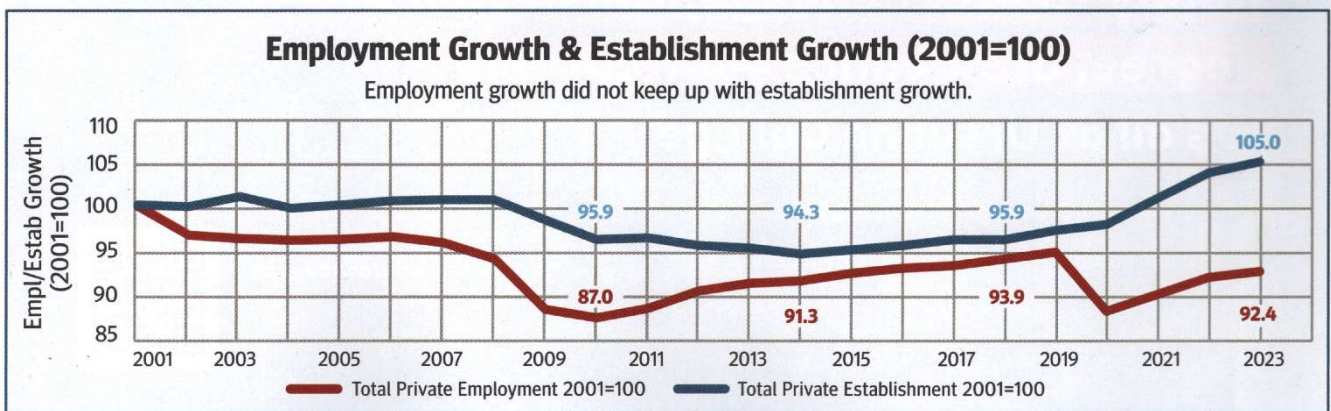
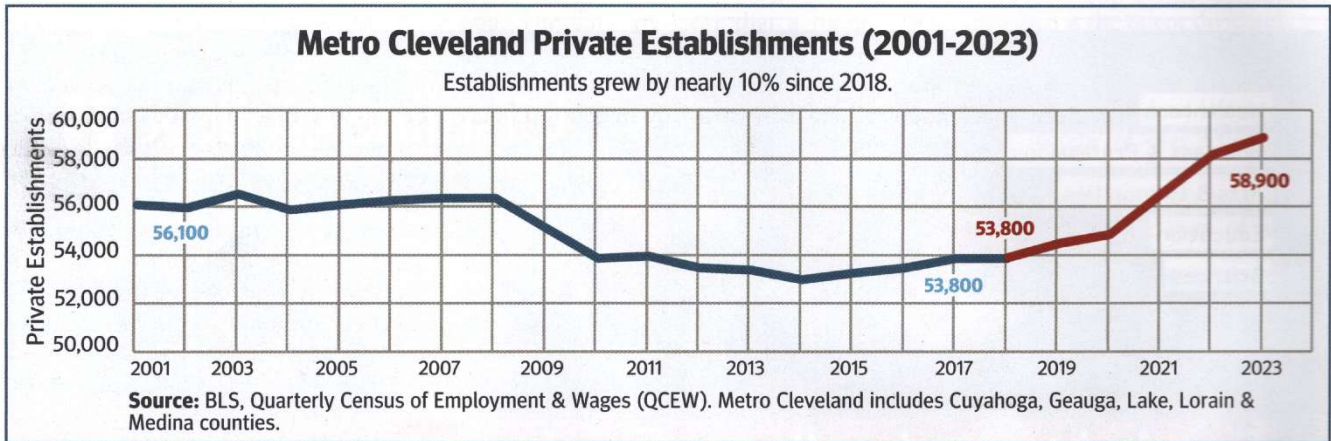
Since 2018, there's been a significant, but largely unnoticed, growth in the number of private businesses established in Metro Cleveland. This growth has been in individual proprietorships rather than the types of businesses that have a high propensity to hire and pay employees. A better understanding of these entrepreneurial dynamics could arguably

lead not only to the overall growth of new businesses, but to an increase in the segment that has the potential to grow and create jobs beyond the owner/proprietor model.

Data from the Bureau of Labor Statistics (BLS) in the Quarterly Census of Employment and Wages (QCEW) shows that the number of private business establishments with employees grew

from 53,800 in 2018 to 58,900 in 2023, an increase of 5,100 (9.4%). This is a significant improvement over the period from 2001 to 2018 when the total number of businesses shrank by 2,400 (4%).

While the local growth of business establishments is a positive sign and often a precursor of job growth, it hasn't worked out that way in Metro Cleveland. From 2018 to 2023, the number of jobs dropped by 14,400, from 886,100 to 871,700. It's worth examining the establishment trends in detail to understand what happened and to see what policies might encourage stronger job creation.



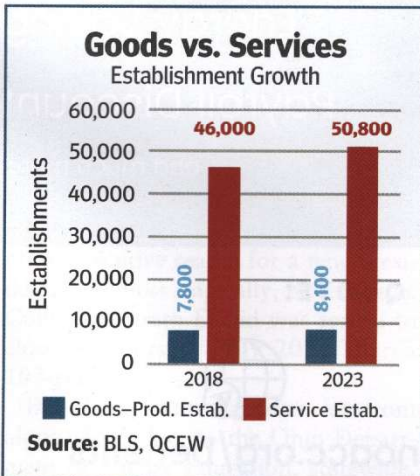
# Cleveland Magazine Community Leader (Feb 2025)

The growth in local businesses was part of a national trend brought about by technological, cultural and economic factors. The growth of online platforms and digital tools made it easier to start and operate a business. Culturally, many younger employees grew more dissatisfied with traditional work environments and were attracted to the flexibility and autonomy offered by owning a business. Changes in the regulatory climate affected many traditional employers and led to the rise of gig work and freelancing. These experiences led individuals to formalize their independent work by starting small businesses.

These trends were supercharged by the 2020 COVID-19 pandemic, which caused widespread disruptions in existing businesses and radically changed consumer buying patterns and behavior. The layoffs and home-work conditions reshaped the economy, leading many individuals to reevaluate their career paths. Health care, which was already growing rapidly, became much more prominent in public discourse.

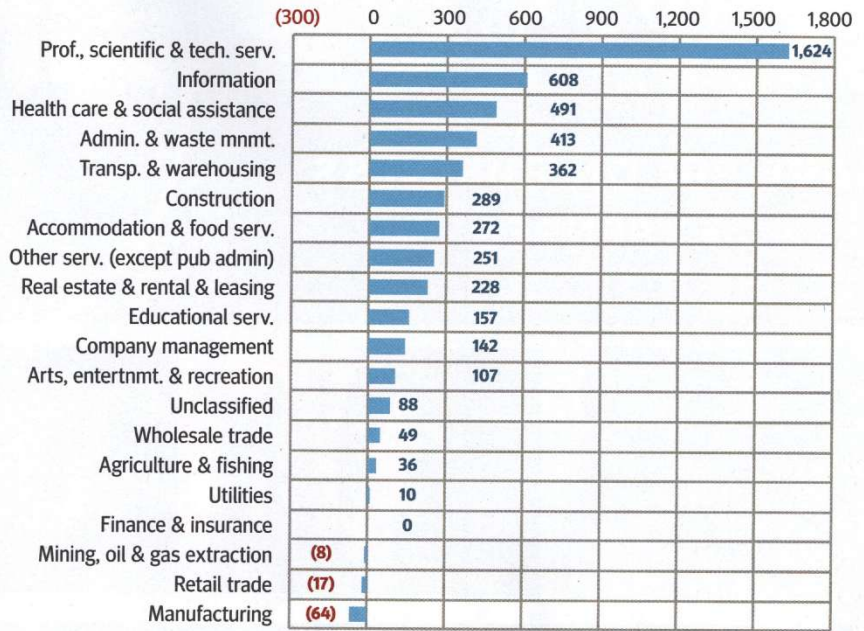
Government assistance and grants gave many people an opportunity to reexamine their career goals and means to change direction. A significant number of people opted for entrepreneurship as a way to gain greater control over their lives and livelihoods.

Perhaps not surprisingly, the surge in total private business establishments occurred largely in service providers rather than goods producers. Between



## 2018-23 Change in Establishments

Strong growth in office-based industries.



Source: BLS, QCEW

2018 and 2023, the number of private service industry establishments in Metro Cleveland grew by 4,800, compared to a mere increase of 300 in goods-producing businesses.

National data confirm the surge in businesses nationally, but also show that the percentage of “high-propensity business applications” (HBA) in new startups is shrinking. HBAs are defined as those newly created businesses that have a higher likelihood of becoming businesses with employees and a payroll. They typically have a well-defined business format and a plan to hire employees with a specific date for providing first wages and planned wages.

While the number of these high-propensity applications has increased over time, they have decreased as a share of all business applications every year since 2005, with the largest relative decreases following periods of recessions. Since 2005, all business applications in the accommodation and food services sector have been classified as high-propensity entities. The sector with the largest non-100% rate is health care and social assistance, with

70% of those businesses classified as high-propensity entities in 2023.

The good news is that the same kind of support that helps businesses with individual proprietors grow also supports the growth of HBAs. One key factor that improves business survival and increases job creation is encouraging the development of formal business plans that can realistically be executed. In addition to written business plans, HBA growth depends on improving access to capital, streamlining regulations, providing workforce development programs, improving digital access, offering shared workspaces to reduce startup costs, supporting local procurement and assisting with exporting opportunities.

In short, having robust small business assistance programs in place will allow local entrepreneurs to build their businesses, with a greater likelihood that some will develop into the high-propensity businesses that fuel local job creation. ■

James M. Trutko is an economist, market research professional and public policy analyst.