

SPECIAL KABBAGE REPORT

# Lifestages of a Growing Business





**In a recent survey polling 500 small business owners across America,** Kabbage uncovered lessons from larger, established businesses on the key moments that triggered growth for their business. The research offers firsthand insight from seasoned business owners to better inform rising entrepreneurs about tackling various business factors — from investments to strategies, financing, operating costs, and even the missteps and regrets. The result is actionable knowledge for any business owner, providing a set of yearly milestones and benchmarks to compare their progress today and in the future with those that came before them.

*The 500 small businesses represent businesses more than 20-years-old (24 percent), 10- to 19-years old (29 percent), five- to nine-years-old (29 percent), and one- to four-years-old (15 percent). More than half earned nearly \$1 million to more than \$5 million in revenue in 2017.*

# Key Findings



## The Four-Year Factor

The data shows the first four years are critical, make-or-break years for a business.



## Marketing: Biggest Regret, Smallest Investment

When it comes to growth, small businesses should invest sooner in marketing strategies.



## Myths vs. Reality: The Cost and Credit of Doing Business

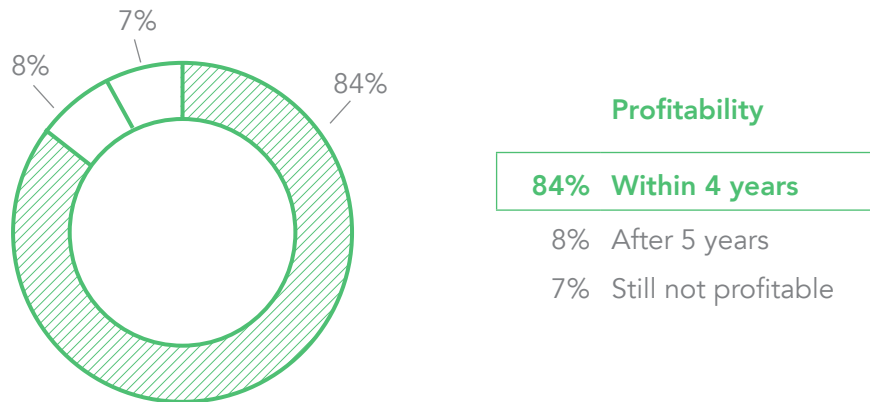
There's a disconnect between business owners' expectations versus real-life examples of the costs—and credit—required to do business.



## The Four-Year Factor

How important are your first four years of business? According to a recent Kabbage survey, small business owners gave a resounding answer: **the first four years can make or break a company**. The study finds that the first four years are the most critical years to prove the business is built to last.

According to the recent Kabbage survey, **84% of respondents stated they achieved profitability within the first 4 years of business**, with a significant portion attaining profitability in the first year. The findings show which industries have more difficulty reaching profitability than others and may give guidance to those either currently or considering building a business in a given field.



Polling companies across 23 of the top industries in America, the following said they have yet to reach profitability:



**Conversely, 100% of these industries cited they eventually reached profitability:**

Advertising / Marketing  
Architect / Engineering  
Automotive  
Banking / Insurance  
Computer Software and Hardware  
IT Services or Consulting  
Education / Training  
Energy / Utilities

Accounting  
Legal  
Manufacturing / Transportation  
Pharmaceutical / Biotech  
Real Estate  
Telecommunications  
Travel / Hospitality  
Wholesale

**Two notable industries — restaurants and retailers— showed more staggered growth to reach profitability, as both industries are highly competitive and seasonal.**



### Restaurants

45% <1 year  
19% 1-4 years  
18% 5-9 years  
18% Still not profitable



### Retailers

67% <1 year  
17% 1-4 years  
6% 5-9 years  
10% Still not profitable

## TAKEAWAY

**Regardless of the industry, the four-year mark is a good time to take stock of the business.** Is it profitable? Is it close? If not, business owners should consider changes to the business model, from finding new ways to acquire and engage with customers, reducing operational expenses, changing products or services, or perhaps hiring more employees to increase revenue. Whatever the solution, there's a four-year factor in entrepreneurship that is helpful to compare against when building a business.



## Marketing: Biggest Regret, Smallest Investment

Marketing expertise and execution is one of the top concerns across all industries. Small business owners rank it as one of their largest costs, top challenges and chief regrets as an investment.

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When asked what is the number one aspect small business owners will focus on to ensure their company continues to grow, two of the top answers are smarter marketing strategies that reach new customers (25%) and outsmarting and out marketing the competition (16%).

Yet, responses from the 500 companies shows that **marketing, on average, is the smallest expense category every year a company is in business**, outweighed by:



Inventory/Supplies



Payroll



Technology

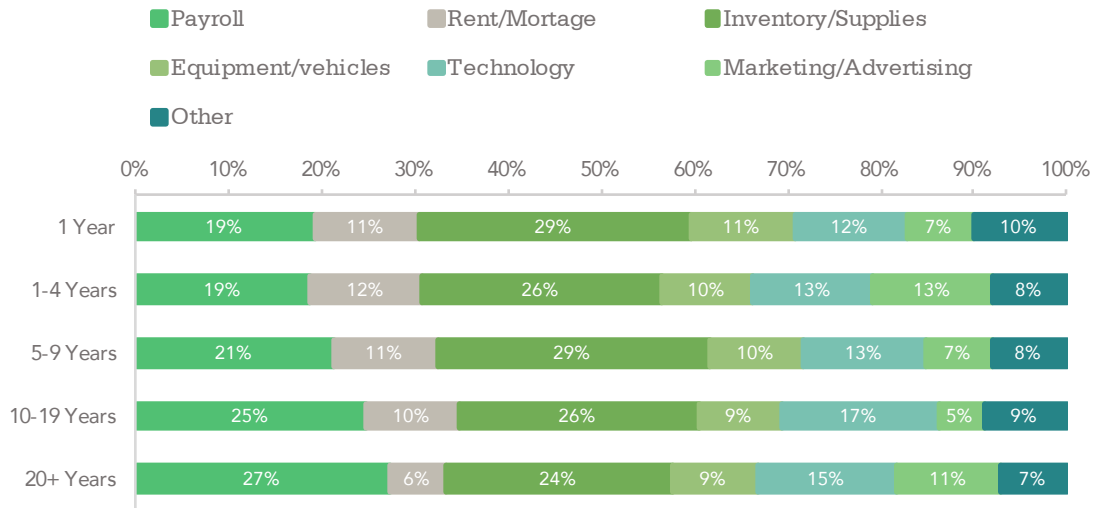


Mortgage/Rent

Marketing reached its highest percentage of total operational expenses between years one and four, but largely stayed sub 10 percent throughout the lifecycle of a business.

Customer retention is also a concern. As businesses age, the survey finds retaining existing customers becomes more difficult. Retention issues steadily climb from 5% in the first year to 18% after 20 years in business, suggesting as businesses age, staying relevant and maintaining a healthy and happy list of customers is a challenge. To solve for this, business owners could consider building a feedback system into customer relationships to maintain high quality services and products as expectations, technology and culture change over time.

## What was your largest expense category at each age of your business?

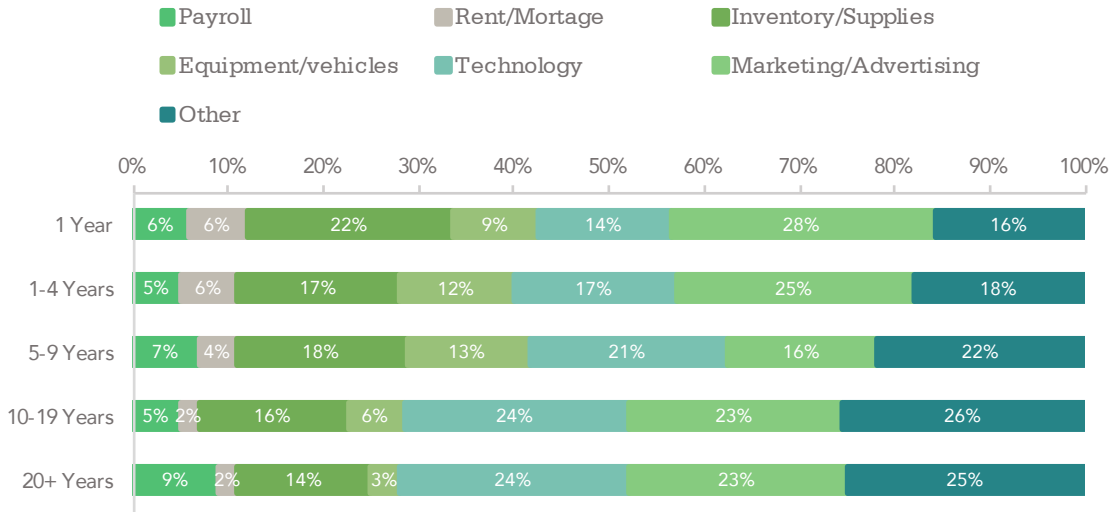


### GROWTH TIP

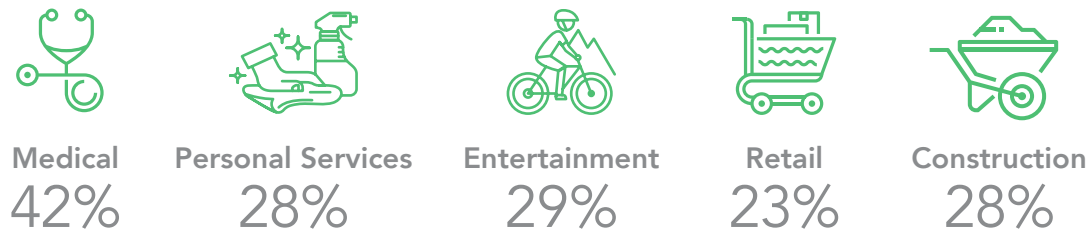
Business expenses remain flat across all categories every year a company is in business. While the total dollar amount of expenses may increase, the overall percentage of spend in each category stays consistent every year. Payroll is the only category that sees incremental growth as older companies may either increase their headcount or salaries for loyal, tenured employees.

Not investing in marketing sooner is a top regret among business owners. When asked what they wished they had invested in more throughout their business marketing and advertising – alongside more technology investments – tops the list.

**Which part of your business do you wish you'd invested in more at each stage?**



The top five industries that say a greater investment in marketing and advertising would be wise during the high-growth period between one and four years are:

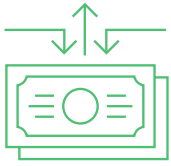


**TAKEAWAY**

Marketing and advertising don't have to be difficult, but they do require time and commitment. There are increasingly more services available today that equip business owners with the ability to better target audiences, attract new customers, hire experienced freelancers, automate customer communication, nurture new leads and keep you and your business top of mind with existing customers.

For more marketing support, small business owners can read this exhaustive [Marketing Guide](#) to help boost growth.





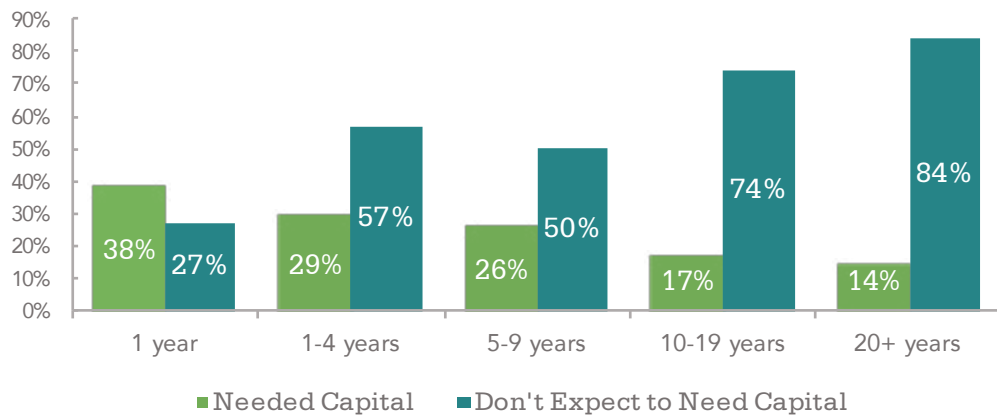
# Myth vs. Reality: The Cost and Credit of Doing Business

According to the survey, **20% of all business owners said the number one aspect needed to grow their business is capital.** They stated, "I know exactly what my company needs to do, I just need more money to properly execute."

Capital is the oxygen of business and a required tool for businesses focused on growth. Even though 84% of respondents reached profitability in the first four years of business, unique opportunities or challenges still arise that require extra capital to bridge cash-flow gaps, make strategic purchases, increase marketing spend, or open new locations.

The below illustrates the percentage of established businesses that actually borrowed as much as \$500,000, versus the percentage of businesses today that anticipate using capital in the future:

While the need for capital declines over time, a sizeable percentage of businesses still require access at every age of the business. Yet, **there is a misconception of how much money business owners believe they'll need in order to build a long-lasting company.** As high as 67% say they will not need to borrow capital in the remaining years they expect to be in business and 84% expect to be in business for more than 5 years.



## TAKEAWAY

To reach high growth, capital is a vital tool to help scale and take advantage of unique business opportunities. While reaching profitability is an applaudable achievement for any business, owners may find extra capital is a great help, perhaps even to marketing initiatives if they find acquiring new customers and retaining existing ones is slowing.

## Want more SMB insights?

Whether you're interested in learning about new topics, strengthening your skillset or exploring loan options, we're here to help you keep your business growing. Visit [The Greenhouse](#) for more small business resources.