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Deconstructing the Change in Veteran Business Ownership

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Abstract

The landscape of veteran business ownership has changed in recent years. Overall, veteran ownership declined from 11.0% of businesses in 2014 to 8.1% in 2020. This report shows that business ownership is concentrated among older veterans. As those owners age out of the workforce, the number of veteran firms is decreasing. Meanwhile, the composition of the veteran population is shifting, and some demographic groups have experienced increases in veteran ownership.

Introduction

Every year, about 200,000 active-duty members detach from the military to join the community of American veterans.¹ After detachment, veterans often pursue other careers. Veterans are particularly likely to work in installation, maintenance, and repair occupations and production, transportation, and material moving occupations compared to nonveterans.² In addition, veterans have a high employment rate in the manufacturing industry.³ Veterans are also more likely to work for the government relative to nonveterans.⁴

1. Jennie W. Wenger and Jason M. Ward, “The Role of Education Benefits in Supporting Veterans as They Transition to Civilian Life,” *Veterans’ Issues in Focus*, January 10, 2022, <https://www.rand.org/pubs/perspectives/PEA1363-4.html>.

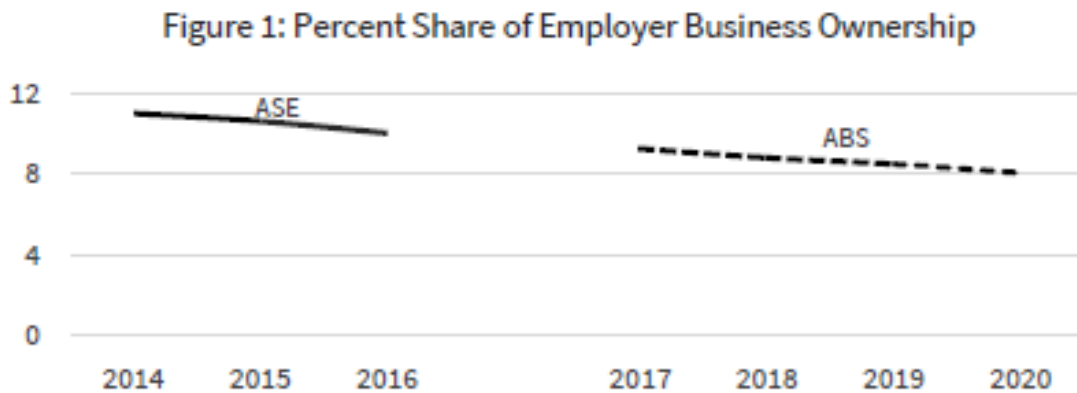
2. U.S. Department of Labor, Bureau of Labor Statistics, New Release, “Employment Situation of Veterans - 2021, Table 4” USDL-22-0675, April 21, 2022, <https://www.bls.gov/news.release/pdf/vet.pdf>.

3. Drew Desilver, *How Veterans and Non-veterans Fare in the U.S. Job Market*, Pew Research Center, September 17, 2019, <https://www.pewresearch.org/fact-tank/2019/09/17/how-veterans-and-non-veterans-fare-in-the-u-s-job-market/>.

4. U.S. Department of Labor, Bureau of Labor Statistics, New Release, “Employment Situation of Veterans - 2021, Table 5”, USDL-22-0675, April 21, 2022, <https://www.bls.gov/news.release/pdf/vet.pdf>.

Many veterans choose business ownership. Veteran businesses accounted for 6.4% of all businesses in 2018.⁵ Past studies have found that veterans are more likely than nonveterans to be self-employed.⁶ Veterans who own a small business have higher net worth on average than veterans without a business.⁷

However, veteran business ownership is falling. Veterans owned one out of every eight businesses in 2014. Only 1 out of every 11 businesses in 2020 were owned by veterans. Figure 1 captures the drop in veteran businesses, from 11% in 2014 (using the Annual Survey of Entrepreneurs) to 8.1% in 2020 (using the Annual Business Survey).



Source: Annual Survey of Entrepreneurs and the Annual Business Survey.

This report investigates changes in business ownership for veteran employer firms. The next section describes the data used for the analysis. The third section looks at the differences in ownership by demographic group. The final section concludes with a discussion of policy implications and resources for veterans pursuing business ownership.

5. U.S. Small Business Administration, Office of Advocacy, 2022 Small Business Profiles for the States, the District of Columbia, and the U.S., 2022 Small Business Profile for the US, <https://cdn.advocacy.sba.gov/wp-content/uploads/2022/08/30121338/Small-Business-Economic-Profile-US.pdf>.

6. John Hope, Brian Oh, and Patrick Mackin, “Factors Affecting Entrepreneurship Among Veterans.” U.S. Small Business Administration, Office of Advocacy 2011, <https://www.sba.gov/sites/default/files/files/rs384tot.pdf>.

7. George Haynes, “Income and Net Worth of Veteran Business Owners over the Business Cycle, 2007-2013.” U.S. Small Business Administration, Office of Advocacy, 2015, <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/05/14144858/Income-and-Net-Worth-of-Veteran-Business-Owners-over-the-Business-Cycle-2007-2013-Report.pdf>.

Data

The data analyzed are obtained from the Annual Business Survey (ABS), which is conducted by the Census Bureau. The ABS is one of the primary data sources for business information on employer firms. The data are compiled by combining data collected on the characteristics of businesses and business owners with data collected using economic census and administrative records.

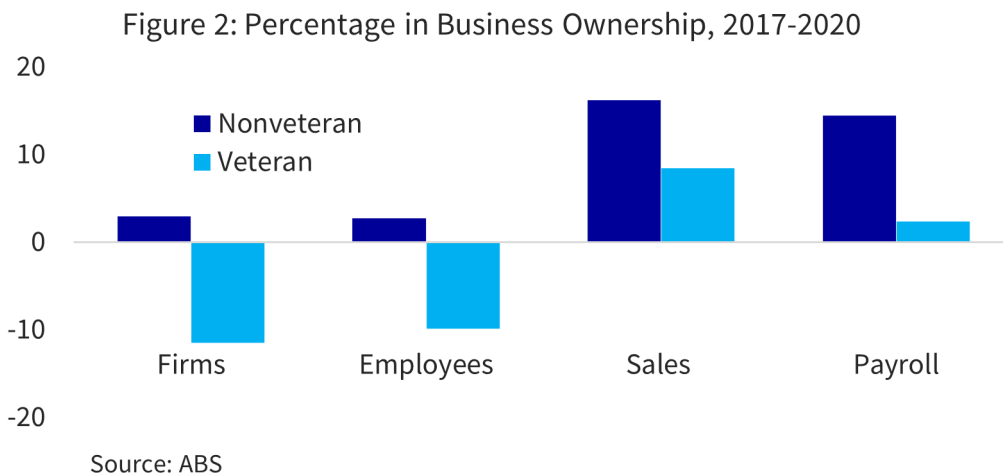
Veterans are defined in the survey as men and women who have previously served on active duty in the U.S. Armed Forces, including Coast Guard, the National Guard or Reservist and who were civilians at the time these data were collected. Veteran owned businesses and equally owned businesses by veterans and nonveterans are combined for the analysis. The ABS includes questions from multiple reference periods. The first cycle of the ABS was published in 2018 referencing year (2017). The ABS information may not be fully comparable with information from previous surveys, such as the Annual Survey of Entrepreneurs (ASE), etc.

When this analysis was performed, 2020 was the most recent survey for which employer data were available, and 2018 for non-employer data. Caution should be used in analyzing and interpreting the ABS estimates, particularly from year to year, because there are standard errors associated with these estimates, and the number of employer firms surveyed has varied for different data collection years.

The ASE predates the ABS. The ASE is a three-year (2014 to 2016) survey conducted by the Census Bureau. The ASE and ABS provide data on employer firms and owner characteristics. The ASE consists of only survey data.

Ownership Analysis

Figure 2 shows changes in business ownership and performance (employment, sales, and payroll) for veterans and nonveterans between 2017 and 2020. Veteran ownership declined by 11.5% and employment by 9.8% while nonveteran ownership saw modest growth. Other business measures such as sales and payroll increased for veterans but increased by double digits for nonveterans.



Examining veteran employer business by demographics like gender, industry, race, ethnicity, and age provides further insight into veteran business ownership. Even though the number of veteran businesses are declining, the decline has varied by group. Some groups have even grown. Examining variations across groups will be helpful for understanding the source of the overall decline and knowing what to expect in the future.

Industry

Veteran owners engaged in all industry sectors but are concentrated in three industry groups with the largest number of businesses. As a group, these three industries (professional, scientific & technical services; construction; and retail trade) accounted for 40% of veteran-owned businesses. Table 1 provides the top five industries by veteran firm count. While these industries had the most firms, they experienced declines in growth ranging from 4.6% to 13.8%. Veterans' industry share ranged from a high of 10.6% in utilities to a low of 5.3% in accommodations and food services industry. Industries that experienced share increase between 2017 and 2020 were utilities and information.

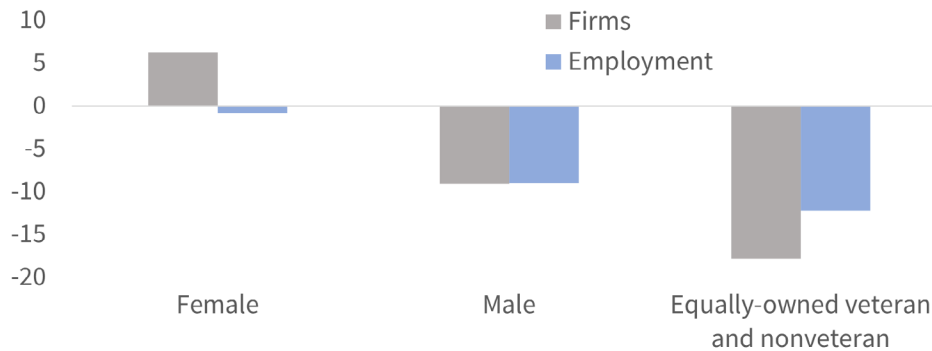
Table 1. Industry Concentration and Growth of Firms, 2020			
	Veteran		Non-veteran
Industry	Industry share	Growth, 2017-2020	Growth, 2017-2020
Total	8.1	-11.5	3.0
Professional, scientific, & technical services	8.5	-10.4	4.2
Construction	8.7	-8.0	4.7
Retail trade	7.5	-13.8	-1.8
Health care & social assistance	7.8	-13.7	1.9
Administrative, support, and waste management	8.9	-4.6	2.9
Source: ABS			

Ownership by Gender

Male veteran businesses made up 94.9% of all employer veteran businesses in 2020. Female veteran businesses made up 4.4% in 2020, up from 3.8% in 2017. Studies of gender and ownership often include a separate category for equal ownership of businesses. Equal ownership by veterans and nonveterans fell from 30.6% in 2017 to 28.4% in 2020. All three firm groups experienced declines in employment (Figure 3).

Women make up a small percentage of veteran-owned firms. However, as the share of women veterans has been growing, the number of women-owned firms has increased. Of the total number of veterans who served during the Gulf Wars and post-9/11, about 16% were women compared with about 4% from prior wars.⁸

Figure 3. Percentage Change in Veteran Firms, 2017-2020

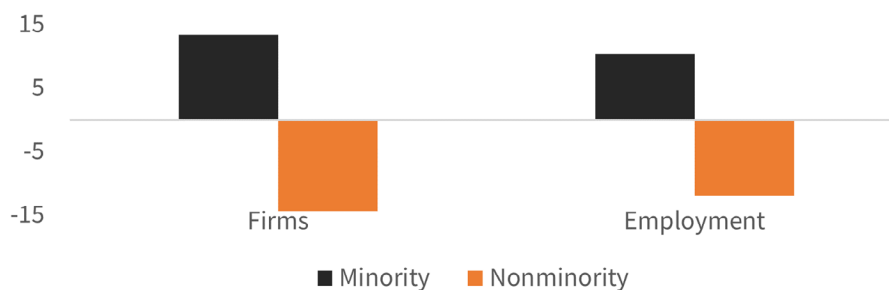


Source: ABS

Ownership by Race and Ethnicity

The change in the military population is directly correlated to the veteran population. Both the share of racial and ethnic minorities in the military and the number of veteran-owned businesses have grown steadily in recent decades.⁹ In 2017, racial and ethnic minorities made up 43% of active-duty military compared with 36% in 2004, while the share of non-Hispanic whites declined.¹⁰ Minority ownership increased from 10.4% of veteran businesses in 2017 to 13.3% in 2020, and that group experienced growth in both firms and employment (Figure 4).

Figure 4. Percentage Change in Veteran Firms and Employment, 2017-2020



Source: ABS

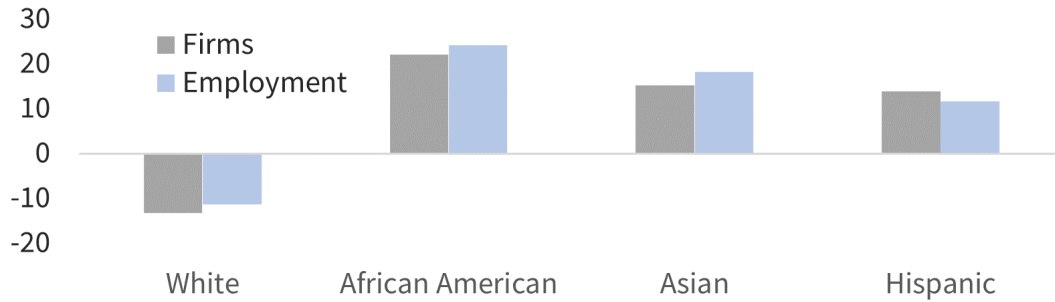
8. U.S. Department of Labor, Bureau of Labor Statistics, New Release, “Employment Situation of Veterans - 2021, Table 1”, USDL-22-0675, April 21, 2022, <https://www.bls.gov/news.release/pdf/vet.pdf>; Vespa, Jonathan E. “Those Who Served: America’s Veterans From World War II to the War on Terror,” ACS-43, American Community Survey Reports, U.S. Census Bureau, Washington, DC, 2020, <https://www.census.gov/content/dam/Census/library/publications/2020/demo/acs-43.pdf>.

9. Amanda Barroso, A Look at the Changing Profile of the U.S. Military, Pew Research Center, September 2019, <https://www.pewresearch.org/fact-tank/2019/09/10/the-changing-profile-of-the-u-s-military/>.

10. Ibid

Changes in business count and employment for racial minorities and Hispanics are shown in Figure 5. Black, Asian, and Hispanic firm counts grew by 22.0%, 15.2%, and 13.9% respectively. Black owned employment growth rate was twice that of Hispanic employment growth- 24.2% compared with 11.6% respectively.

Figure 5: Changes in Veteran Firms and Employment by Race and Ethnicity, 2017-2020

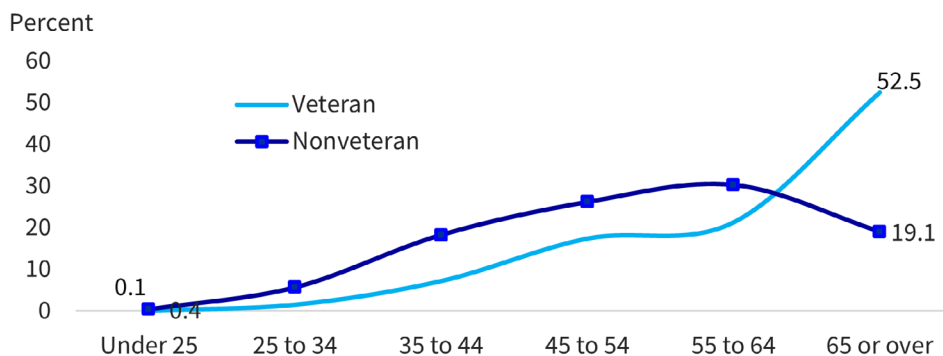


Source: ABS

Age of Owner

Business ownership varied by veteran age, and veteran-owned businesses were more likely to have an older owner than nonveteran-owned firms. Figure 6 shows the distribution of business ownership by age amongst veteran and nonveteran owners. Less than 10% of veteran owners were under age 45, 38.7% were between the ages of 45 and 64, and more than half were 65 years and older.

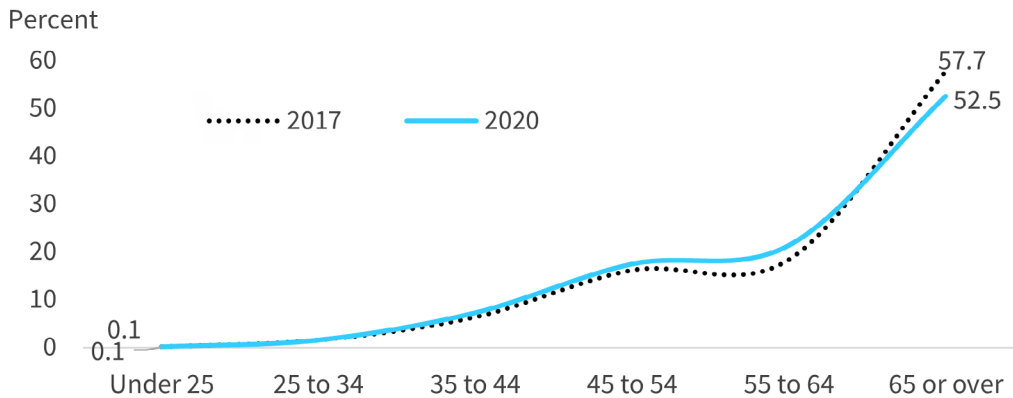
Figure 6. Distribution of Owners by Age, 2020



Source: ABS

High rates of veteran business ownership are concentrated in an older generation that is retiring. Figure 7 shows the age distributions of veteran owners in 2017 and 2020. It shows veterans aged 65 or over is the only segment of the age distribution that had a lower share in 2020 compared to 2017. The share of veteran owners in this age segment fell by 5.2 percentage points during this period.

Figure 7. Veteran ownership age, 2017 and 2020



As older veteran owners retire, the overall ownership rates for veterans are falling. As veterans age out of ownership, veteran ownership rates will be that of subsequent generations, which are lower than the general population. Only 4.5 percent of veterans who served since 9/11 have started a business.¹¹ These trends contribute to lower rates of veteran business ownership as they squeeze both ends of the spectrum. These low rates impact the employment pool of veterans since veteran employer firms are more likely than other employers to hire veterans.¹²

Discussion

Veteran business owners and entrepreneurs make enormous contributions to U.S. economic growth. Entrepreneurship is an important source of jobs and innovation.¹³ Veterans have historically owned businesses at higher rates than nonveterans.

11. Kimberly Weisul, “Where Are All the Missing Veteran-Owned Businesses?” Inc Magazine, October 2016, <https://www.inc.com/magazine/201610/kimberly-weisul/missing-veteran-owned-businesses.html>.

12. Ibid.

13. Zoltan J. Acs and Pamela Mueller, “Employment effects of business dynamics: Mice, gazelles, and elephants,” *Small Business Economics* 30 (2008): 85-100.

However, the population of veteran business owners is changing.¹⁴ Military size impacts the number of veterans and the pool of future veteran entrepreneurs. Today's military force is smaller and more diverse than in the past. The larger, older cohorts of veterans that have owned businesses at unusually high rates are reaching retirement age. In 2020, 37.1% of the veteran population was 65 or older.¹⁵

Gulf War veterans and post-9/11 veterans are the next group of business owners. With 96% of millennial veterans having served in the post-9/11 era, understanding this veteran population is important to policymakers and the small business community in supporting the next set of entrepreneurs.¹⁶ This cohort of veterans are more diverse and likely to be women, Hispanic, and racial minorities,¹⁷ and their need to start a business may be different from prior veterans. Unlike prior veteran entrepreneurs, post 9/11 veteran entrepreneurs are more geographically mobile; and are more likely to have a service-connected disability than veterans of previous generations.¹⁸

Post 9/11 veterans were more transient during active duty, which can inhibit their ability to form geographical networks. Thus, programs targeting geographically disparate veterans can be helpful to enable them to build connections, fostering mentorship and entrepreneurship. Also, post 9/11 veteran entrepreneurs have transient lifestyles, which may impact their access to capital as they may lack the regional networks needed to cultivate and establish relationship banking lending activities. Veterans often submit more applications when seeking funds for their business ventures, and face more acute financing shortfalls and lower approval rates than nonveteran peers.¹⁹ One of the efforts taken to address this issue is the Post-9/11 Veteran Business Acceleration Act bill, which requires a pilot program to provide financial assistance (in lieu of educational assistance) to eligible individuals under the Post-9/11 Educational Assistance Program for the purpose of establishing and operating a new qualified business enterprise, or operating an existing qualified business enterprise.²⁰

14. U.S. SBA, Office of Advocacy, "Profile of Veteran Business Owners." Issue Brief No. 7, 2015, <https://cdn.advocacy.sba.gov/wp-content/uploads/2015/05/07140057/Issue-brief-7-profile-of-veteran-business-owners.pdf>; George Haynes, 2015, "Income and Net Worth of Business Cycle, 2007-2013," U.S. Small Business Administration, Office of Advocacy. https://www.sba.gov/sites/default/files/rs430tot-income-and-net-worth-of-veteran-business-owners-2007-2013_0.pdf."

15. The Veteran Population, <https://www.va.gov/VETDATA/docs/SurveysAndStudies/VETPOP.pdf>

16. Millennial Veteran Entrepreneurship: Research On The Next Generation Of Veteran Entrepreneurs, Research Summary, <https://cdn.advocacy.sba.gov/wp-content/uploads/2021/06/29110325/Millennial-Veteran-Entrepreneurship-Research-Summary.pdf>.

17. Montgomery, S., Jacobson, Z., Wakar, B., and Cody, S., 2021, "Millennial Veteran Entrepreneurship: Research on the Next Generation of Veteran Entrepreneurs," U.S. Small Business Administration, Office of Advocacy, <https://cdn.advocacy.sba.gov/wp-content/uploads/2021/06/29110328/Millennial-Veteran-Entrepreneurship-Research-On-The-Next-Generation-Of-Veteran-Entrepreneurs.pdf>; Vespa, Jonathan E. "Those Who Served; America's Veterans From World War II to the War on Terror," ACS-43, American Community Survey Reports, U.S. Census Bureau, Washington, DC, 2020, <https://www.census.gov/content/dam/Census/library/publications/2020/demo/acs-43.pdf>.

18. Ibid

19. Sid Sankaran and Jessica Battisto, "Financing Their Future: Veteran Entrepreneurs and Capital Access, Federal Reserve Bank of New York, 2018. <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/Report-on-Veteran-Entrepreneurs-and-Capital-Access.pdf>

20. H.R.8660 - 117th Congress (2021-2022): Post-9/11 Veteran Business Acceleration Act; <https://www.congress.gov/bill/117th-congress/house-bill/8660?s=1&r=4>

Policies targeting more specific veteran groups could enable additional younger veterans to seek business ownership. The Small Business Administration (SBA) has several programs to encourage veteran entrepreneurship. Some of these programs could be revised or expanded to target this new wave of veteran potential entrepreneurs. SBA's Office of Veterans Business Development offers a variety of resources and training programs specifically for veteran entrepreneurs and those aspiring to start their own businesses through a wide network of resource partners. "Boots to Business" is an entrepreneurial education and training program that provides participants with an overview of business ownership and is open to transitioning service members and their spouses. SBA is also working in collaboration with Syracuse University and other partners to provide various training programs such as Veteran Women Igniting the Spirit of Entrepreneurship (V-WISE); Lift Fund – San Antonio, and IVMF Entrepreneurship Bootcamp for Veterans with Disabilities.²¹

21. Veteran-owned businesses, <https://www.sba.gov/business-guide/grow-your-business/veteran-owned-businesses>
See also V-Wise (<https://ivmf.syracuse.edu/programs/entrepreneurship/start-up/v-wise/>), Lift Fund (<https://www.liftfund.com/wvet/>), and IVMF's bootcamp (<https://sha.cornell.edu/corporations-recruiters/events/ebv/>).