

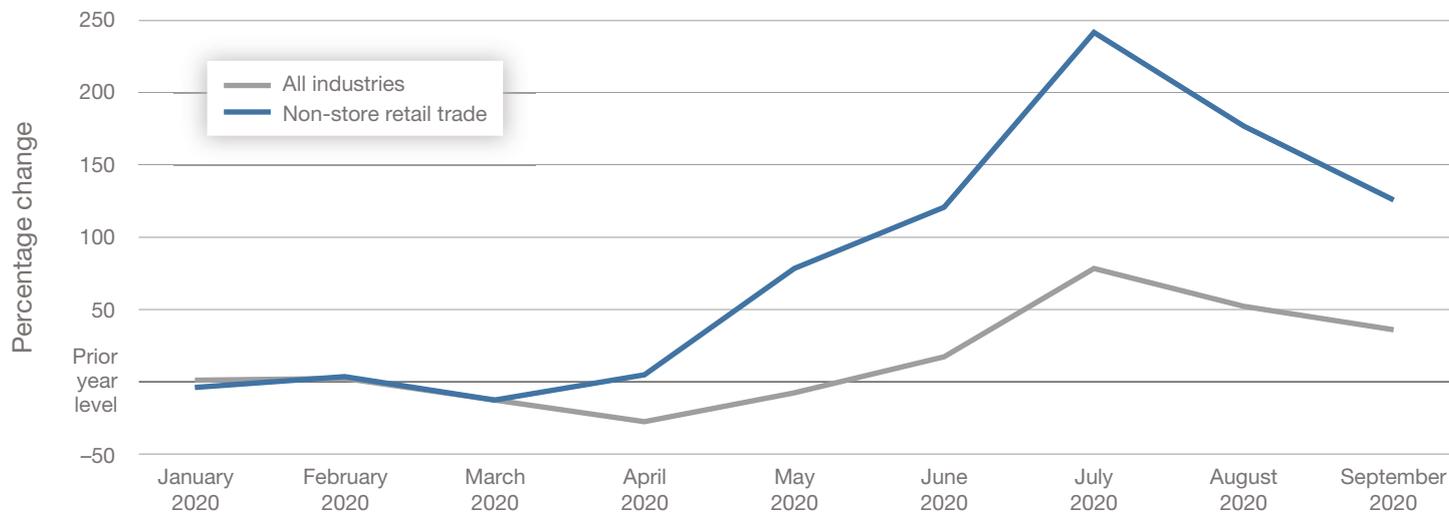
BENJAMIN K. MASTER, LISA ABRAHAM

The Changing Nature of Entrepreneurship

The coronavirus disease 2019 (COVID-19) pandemic has accelerated a long-running shift toward online transactions by both new and existing businesses.¹ Amid an overall boom in new business creation in 2020, the rise of new web-based retail business applications stands out (Figure 1). This increase in entrepreneurial activity contrasts with decades-long trends of flat or decreasing business creation in the United States (not shown) and reflects many more Americans taking their first steps on an entrepreneurial pathway.² But what are their prospects for sustained success? Entrepreneurism and new business formation are an important pathway for households to reach or maintain financial success and a place in the middle class. Even as online innovation has enabled new business creation, trends toward market consolidation have led to challenges to entrepreneurs' independence, increased costs of doing business, and erosion of intellectual property rights that may impair their ability to benefit over the longer term.

FIGURE 1

Year-over-Year Percentage Change in Monthly New Business Applications, for All Industries and for Non-Store Retail Businesses



SOURCE: U.S. Census Bureau, data files on Business Formation Statistics, Special Projects—Weekly Business Formation by Industry Datasets, 2019–2020. Chart shows year-over-year percentage change in the rate of *High Propensity* business applications by month, which are applications classified by the Census Bureau as having a high likelihood of turning into a business with payroll.

On the one hand, the rise of technology-enabled services has made it easier than ever before to start a new business. Companies such as Shopify, Etsy, eBay, and Amazon Seller provide would-be entrepreneurs with a wide range of ready-made systems for inventory, payment processing, and marketing and analytics, fueling “platformed” business creation and expansion.³ Such technology firms as Google, Facebook, and Amazon provide access to centralized online marketplaces and extensive user data to precisely target potential customers anywhere in the world. These and other online platforms have also enabled a substantial increase in independent work,⁴ which itself appears to have fueled entre-

preneurial activity: Recent research suggests that, in part by providing a flexible supplemental source of income, access to web-enabled “gigs” increases the likelihood that individuals will start a business of their own.⁵

But the rise in platform-enabled business has occurred concurrently with the expansion of a small group of increasingly dominant firms, which now exercise substantial control over access to customers and customer data. This has positioned digital giants’ platforms to become gatekeepers to the online marketplace. For example, more than 60 percent of the time,⁶ consumers searching for a product online start at Amazon.com. Google captured 73 percent of all search

advertising dollars in 2019.⁷ Facebook, in addition to providing crucial access to its social network data, has become an essential spot for any digital storefront.

This highly centralized setup has allowed these digital giants to increase costs for entrepreneurs dependent on these platforms. For example, through fee increases and by making paid advertising essential for reaching customers, Amazon has increased the revenue it extracts from third-party sales from 19 percent in 2014 to 30 percent in 2019.⁸ Google, likewise, has steadily increased business reliance on paid ads while also increasing prices in U.S. markets.⁹

Businesses in this space also face challenges to their intellectual property from peer competitors as well as from platform providers themselves. For example, Amazon explicitly competes with third-party sellers on its marketplace and has used its proprietary data to copy products and out-compete successful startups,¹⁰ and Google scrapes and aggregates content created by other businesses to enhance its own website and specialized search services.¹¹ These types of practices can create an uneven playing field for online business, which some merchant groups have begun to push back on.¹²

Why is it important to examine these challenges as well as the benefits of platform-enabled entrepreneurship? These entrepreneurs represent an increasingly important intermediate group, distinct from platform providers or the end customers who may benefit from price competition online. Policymakers and regulators must be cognizant of not only the rates of new business creation but also businesses' trajectories and sustainability to ensure that online entrepreneurship serves as a viable pathway to the middle class. To monitor these outcomes, they will need systematic information about the experiences and outcomes of business owners, and how the scale and quality of opportunities may be affected as

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the entrepreneurial ecosystem, including efforts to regulate platform providers, continues to evolve. It is also important to understand what knowledge, personal characteristics, or social and professional networks mediate individuals' entry into this space. Analyzing disparities in which types of individuals are well-positioned to engage in entrepreneurial activity has the potential to help close gaps across socioeconomic and demographic groups in entrepreneurial participation and success.¹³

New business creation has long been seen as a critical indicator for the degree of economic opportunity and innovation. As more entrepreneurs take advantage of opportunities in the online marketplace, it will be critically important to comprehensively understand their experiences. Doing so would support a vibrant entrepreneurial ecosystem and strengthen pathways to success for both business owners and their employees, thereby benefiting the economy as a whole.

Notes

- ¹ DeFranco, Kshetri, and Voas, 2021; U.S. Census Bureau, 2019–2020; O’Donnell, Newman, and Fikri, 2021.
- ² Abraham and Master, 2020.
- ³ Nambisan, Siegel, and Kenney, 2018.
- ⁴ Jackson, 2020.
- ⁵ Barrios, Hochberg, and Yi, 2020.
- ⁶ Wunderman Thompson Commerce, 2020.
- ⁷ Lipsman, 2019.
- ⁸ Mitchell, Knox, and Freed, 2020.
- ⁹ Nadler and Cicilline, 2020.
- ¹⁰ Mattioli, 2020.
- ¹¹ Nadler and Cicilline, 2020.
- ¹² Tracy, 2020.
- ¹³ Dillahunt et al., 2018; Dy, 2019; Harper-Anderson and Gooden, 2016.

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About the Authors

Benjamin K. Master is a policy researcher at the RAND Corporation. His research focuses on the area of human capital development and management, primarily in K–12 education settings. He also has prior professional experience in the financial services sector and received his Ph.D. in education policy and organization studies.

Lisa Abraham is an associate economist at the RAND Corporation. Her research examines the causes and consequences of labor market inefficiencies, with a particular focus on minorities and underrepresented groups. She has examined barriers to the recruitment, retention, and earnings equality of women in high-skill jobs and has a Ph.D. in economics.

About This Perspective

Technology-enabled platforms and services have helped facilitate an expansion of online business activity, contributing to increased rates of entrepreneurship in the United States. However, concentration in the online marketplace has also increased, with implications for the costs that entrepreneurs must pay to access potential customers and for their ability to compete on a level playing field. In assessing the evolving benefits and costs of the online marketplace, as well as the potential impacts of future regulatory activity, it will be essential to more systematically monitor the trajectories and experiences of entrepreneurs in this space. Doing so can help to ensure that entrepreneurship remains a viable pathway to sustainable financial success for business owners and their employees.

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RAND Lowy Family Middle-Class Pathways Center

This research was conducted within the RAND Lowy Family Middle-Class Pathways Center. The center aims to identify ways to create and sustain middle-class employment in the face of rapidly changing labor-market conditions. The center is part of RAND Education and Labor, a division of the RAND Corporation that conducts research on early childhood through postsecondary education programs, workforce development, and programs and policies affecting workers, entrepreneurship, and financial literacy and decisionmaking.

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