Since the coronavirus disease 2019 pandemic, rates of business creation in the United States have increased dramatically, evidenced by a surge of new business applications that has persisted into 2024 (see Figure 1). There has been more business creation activity in the past four years than at any point in the previous decade. A key contributor to this trend has been the proliferation of new online retail businesses and business owners. However, although the pandemic may have spurred new online entrepreneurial activity, the trend of increased business creation activity has continued since then.

To better understand the characteristics and experiences of this emerging class of online entrepreneurs in the United States, RAND partnered with Shopify, a major platform for online businesses that represents

### KEY FINDINGS

- **Shopify’s entrepreneurs are from traditionally underrepresented groups**—especially female, Black, and younger individuals—suggesting that reduced barriers associated with the online platform may have encouraged new entrants.

- **Entrepreneurs report a heavy reliance on online tools, marketing channels, and information resources, highlighting the multifaceted role of online platforms.**

- **Many of the entrepreneurs were able to achieve early growth in their businesses.**

- **Most of the entrepreneurs self-financed or relied on credit card lending to finance their businesses; however, respondents also reported that securing sufficient capital was a challenge. Improving data and analytics around business lending could be an opportunity for innovation to help address this issue.**

- **The data examined reinforce the importance of an entrepreneur’s access to essential tools, as well as the affordability of those tools in the online marketplace.**
Platforms Are Facilitating New Business Models and Opportunities

Businesses that use Shopify are predominantly new and small retail- or wholesale-sector businesses. Although firms using the platform vary greatly in size and age, the median firm that was surveyed had annual revenues of around $11,000 via the platform and had been in business for around three years. As shown in Figure 2, 73 percent of these businesses operate entirely online, without physical storefronts, and 28 percent have W-2 employees. For many owners, their online business is a
full-time job, but for others it is a part-time gig. Around half of owners (53 percent) work less than 30 hours per week on their businesses.

Lower Barriers to Entry Are Opening Doors for First-Time, Traditionally Underrepresented Entrepreneurs

Business owners who use Shopify look quite different from business owners nationally, including those in similar industries and of similar size. As illustrated in Figure 3, business owners who use Shopify are more likely to be Black (15 percent), female (66 percent), and younger (40 percent) than other entrepreneurs in similar retail and wholesale industries nationwide.

Most of the owners who were surveyed are not serial entrepreneurs. Sixty-nine percent reported that their most-recent jobs prior to owning their current businesses were regular full- or part-time jobs, while only one-quarter described owning other businesses immediately prior to starting their current businesses.

As shown in Figure 4, most owners started their businesses with relatively small amounts of start-up
capital; more than half (53 percent) reported needing less than $5,000 in start-up capital to establish their businesses. Business owners frequently reported drawing from their personal savings (82 percent) and/or personal or business credit cards (39 percent) to initially finance their businesses; most did not rely on business loans or investments.

Entrepreneurs Cited Platforms, Prior Entrepreneurial Experience, and Personal and Professional Networks as Their Most Important Supports

Around 70 percent of the entrepreneurs reported that their sales come either directly through their Shopify online store channels or indirectly through other online e-commerce channels. In line with this finding, entrepreneurs most frequently cited online platforms as “very important” supports for their businesses, especially for reaching potential customers (64 percent) and for managing their businesses (43 percent), as shown in Figure 5. Other resources that business owners frequently cited as very important to their businesses were their personal and professional networks (42 percent) and their prior entrepreneurial experiences (37 percent). Other online resources and training were also frequently cited as very important (30 percent).

Entrepreneurs Cited Attracting Customers, the Unpredictability of Business Conditions, and Securing Capital as Key Challenges

By far the biggest challenge reported by the entrepreneurs pertained to attracting customers (both domestically and internationally); 37 percent cited this aspect as “very challenging,” as shown in Figure 6. The next biggest challenges that the entrepreneurs reported were the unpredictability of current business conditions (26 percent) and securing sufficient capital to run their businesses (21 percent). Losing access to other sources of income (19 percent) and, separately, managing taxes and regulations (16 percent) were also cited by a subset of these business owners as very challenging.

FIGURE 5
Percentage of Business Owners Who Identified Resource as “Very Important” for Running Business

![Bar chart showing the percentage of business owners who identified various resources as “very important” for running their businesses. The most important resources were online platforms for reaching customers (64%), followed by platforms for managing business (43%), personal or professional networks (42%), prior entrepreneurial experience (37%), and online resources or training (30%).]

SOURCE: Authors’ analysis of data from RAND’s survey of 4,000 businesses active on Shopify.
NOTE: Owners rated each resource on a scale from 1 to 5, where 1 was “not important” and 5 was “very important.”
In terms of challenges specifically related to attracting customers, business owners most frequently cited the high costs of tools or marketing channels for reaching potential customers as “very challenging” (33 percent), as shown in Figure 7. Finding the right tools (26 percent), understanding how best to use those tools (24 percent), and finding personal or professional networks to promote their businesses (22 percent) were also significant challenges for many owners.

The Earnings Trajectories of Online Businesses Vary, Though a Sizable Share Experience Growth

The trajectories of online businesses vary, but many of these businesses experienced substantial growth in revenues between their first and second years on the platform. For the analysis, the researchers studied all businesses that first began operating on the platform anytime between 2017 and 2021 and examined their revenues between their first and second years on the platform. As shown in Figure 8, around 50 percent of the businesses had higher annualized sales, 46 percent
Among the firms whose sales on the platform grew, average inflation-adjusted revenue growth was more than 600 percent and median inflation-adjusted revenue growth was 116 percent between their first and second years. The rate of departure from the platform, 4 percent, is low relative to typical rates at which new businesses tend to close after their first year. Overall, our analyses highlight that many entrepreneurs are successfully using the Shopify platform to help found and grow their businesses, even as they are also contending with key challenges, including reaching customers and securing capital. Analyzing data from Shopify’s sample of emerging entrepreneurs is a first step in understanding the health of online businesses, which can help inform the policies that could support new entrants in the e-commerce space.

**Notes**


2. This number (Shopify’s market share of the U.S. e-commerce market) is based on the company’s calculation of its 2022 U.S. gross merchandise value (excluding merchant sales made through offline channels).


4. Self-reported revenues representing all sales (not just sales through Shopify) were higher (a median of $30,000 annually).


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