QUICKBRIDGE

How to Solve Cash Flow Problems for Your Millennial-Owned Business

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The State of Millennial-Related Business Ownership

The term millennial is often used to describe the generation that was born after the year 1980 and before 2000. There isn't really a hard and fast cut-off, but that timeline is meant to distinguish between those who went through most of their lives without digital technologies being mainstream and those who were born into a digitally transformed world. Millennials fall between those two groups. The home computer and internet access weren't default parts of everyday life for all millennials growing up, but the technology became prominent enough, fast enough, that millennials have helped usher in an era of digital transformation in the business world. However, up to this point, millennials haven't responded to driving this change by launching lots of new businesses.

The U.S. Small Business Administration found that **5.4% of Gen Xers** and **6.7% of Baby Boomers** report as self-employed, a designation that usually indicates the person owns their own business, even if that business is freelance services. Less than 4% of millennials fit in this category. On the surface, it looks like millennials just don't have the entrepreneurial spirit of other generations. In fact, John Lettieri of the Economic Innovation Group went before the U.S. senate and called millennials the **"least entrepreneurial generation."**

Lack of Motivation Not Driving Down Millennial Business Activity

The signs seem daunting for millennials, but research from the Small Business Development Center (SBDC) found that **62% of millennials have a dream business in mind.** The problem isn’t that millennials lack entrepreneurial spirit. It’s that they don’t have capital. In that same SBDC report, 45% of millennials said that access to capital was the biggest barrier between them and launching a business and 55% said money was a limiting factor for them.

The limitations aren’t hard to see either. A FreddieMac study exploring why millennials are forming households at a slower pace than earlier generations found that while the typical U.S. resident aged 25 to 34 years is more educated than comparable groups from earlier generations, their costs are higher. They have significantly more student debt due to that education. At the same time, real median house prices increased by **29% in the U.S.** from 2000 to 2016. During that same period, real median salaries for individuals aged 25-34 grew by just 1%.

Millennials are facing more student loan debt, housing costs that push many to live with their parents or roommates, and stagnating wage increases. It’s no wonder so many point to issues surrounding capital as a barrier to starting their own businesses.

While these conditions have been created by a fairly unique blend of economic and sociological conditions, the trend is clear: millennials, as a group, lack the consistent cash flow needed to take the leap into entrepreneurship at a large scale. What's more, our research indicates that millennials account for a relatively small share of the people getting approved for small business loans.

It's time for this to change. Emerging lending models make cash flow loans for small businesses more accessible than ever. And as the economy has shown signs of life and more millennials look to start businesses, the right lending partners can go a long way in solving cash flow problems for millennial-owned companies. Before we get into how that happens, let's look at the small business lending data.

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Exploring Small Business Loan Approval at the Generational Level

At QuickBridge, we provide online alternative loans to small businesses in a wide range of industries. We also have a network of organizations offering comparable, but slightly different lending services that we work with. We sourced data from across that network to explore generational borrowing tendencies.

Millennial Business Lending is Rising

Boomers and Gen Xers represent, by far, the dominant market for small business loans. Approximately 80% of all approved loans went to those groups. However, the number of approved business loans to millennials grew by 119% year over year from 2017 to 2018. This was the fastest rate of growth among the generation groups and points to increasing demand among millennials.

Millennials Tend to Have Lower Credit Scores When Approved for Loans

Our study found the average credit score for each generation, across approved loans in 2017 and 2018, came to:

- Boomers - 668
- Gen Xers - 656
- Millennials - 650

Millennial Business Owners are Seeking Smaller Loans

The average loan size for millennial-owned businesses amounted to $21,251. That was 17% lower than Gen X businesses and 21% less than Boomer businesses.

Millennial Business Owners are Looking for Loans Earlier

We dove into data pertaining to the age of the business when a loan was approved. On average, the Boomer business was 11 years old, the Gen X company was 6 years old, and the millennial business was just 3 years old.

Use Trends for Business Loans Among Millennial-Owned Companies

Businesses owned by millennials seek funding for diverse reasons. Here's a look at the breakdown:

- Working Capital - 74%
- Business Expansion - 11%
- Equipment Purchase - 8%
- Inventory - 5%
- Marketing - 2%
- Debt Consolidation - 1%

California, Texas Among Most Prominent States for Lending to Millennial-Owned Businesses

The top-five states for millennial-owned business lending, ranked in order of the number of loan approvals in the state, were:

- California
- Texas
- Florida
- New York
- Georgia

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Hurdles Facing Millennials Seeking Small Business Loans

Our data echoes much of the narrative surrounding millennial entrepreneurship in the country today. While millennials are still seeking or being approved for loans less than other generations, the numbers are gradually rising as economic recovery opens new opportunities for the generation. That said, barriers remain.

In John Lettieri's Senate testimony that we cited earlier, he pointed out that banking industry consolidation has reduced the number of small and mid-sized community banks that tended to focus on the kinds of local small business loans that budding entrepreneurs need. To add to the problem, the Federal Reserve Bank of New York found that the number of student borrowers increased by **89% from 2004 to 2014.**

Of course, we already touched on the housing problem. But beyond creating high costs for millennials, the fact that so many members of the generation group can't afford homes in today's market means that they also don't have collateral to get the start-up funding they need or obtain capital from some more traditional lenders.

These hurdles can be dealt with though. The key is to rethink lending options in light of the current financial services industry climate and put in the work to maximize one's credit.

Tips for Securing Small Business Loans

Millennial business owners don't have to let their companies stagnate just because traditional loan sources are harder to work with. And hopeful entrepreneurs may not need to keep their dreams on hold just because cash flow challenges prevent them from getting their company off the ground. Here are some tips that can help millennials who own small businesses improve their chances of getting the funding they need, whether their company has a few years under its belt or is just getting started:

Think About Credit Health and Formalization Early

It can be tempting to work a side gig without going through the formalities of declaring your efforts as a business. But if you don't have a Federal Tax ID, a business bank account, or simply exist as a dedicated business entity, then you can't start building a credit profile. That lack of credit history for your business can end up making you almost impossible to assess from a financial risk perspective, limiting your access to loans. This is problematic if your side hustle suddenly becomes a real opportunity to turn into a legitimate business that needs capital to grow.

Focus on Your Cash Flow

While getting some credit history is key, you don't have to build years of records to get a loan. Most lenders, particularly alternative lenders, will understand that your business is too young to have much of a credit history. Instead of focusing on that, they'll take a closer look at your business' cash flow, making that the more important role in choosing whether or not to offer you a loan and determining any terms.

Don't Neglect Your Bank Account

If you've recently started a new business, you know the first few years can be incredibly busy. You may not have time to focus on every detail, like dealing with nagging receivables you haven't collected or eliminating unnecessary expenses. Sometimes, those inefficiencies feel inevitable. Because cash flow is more important in determining if you're ready for a loan, you need to keep your bank account healthy in order to maximize your opportunity.

A few other small tips to consider, include:

- Being upfront about student loans and other personal debt.
- Checking your personal FICO score and taking action to improve it by reporting mistakes.
- Looking at alternative lenders who may be more flexible in the types of companies they'll offer loans to.

Taking Advantage of Alternative Lenders

Lenders like QuickBridge will use more varied data sources to analyze loan applications. We also offer small, short-term loans that minimize risk for all parties. Strategies like this let us lend money to people who traditional banks may consider too risky. For millennial business owners trying to improve cash flow, we could be the answer. If you experience a seasonal decline, we can give you a boost so your business doesn't stagnate. If you lose a big client, a small loan can get you through a few weeks until you're getting back on your feet. At QuickBridge, we can work with you to keep your cash flow even so you can grow your business consistently and build long-term financial health.

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