masterplans.com

2019

State of Startups

THIRD ANNUAL REPORT

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Contents

Executive Summary

Founded in 2002, Masterplans is the industry leader in developing business plans with the latest market research, sound financial models, and strategic direction. Our expert team of researchers and financial modelers have created more than 16,700 business plans for entrepreneurs in every industry, from mom-and-pop cafes to major medical SaaS companies.

For our third annual report on the state of startups, we analyzed 462 projects from 2019 to reveal trends in investment, industry, and demographics to paint a comprehensive picture of the startup climate in the U.S. Here's an overview of our findings.

Industries

According to our data, the most common industries were Cannabis (8%) and Retail & Consumer Goods (8%). These were followed by Restaurants (7%), Healthcare (7%) and Manufacturing (6%). Cannabis-related businesses stand out as particularly dynamic, with revenue in the medical and recreational marijuana stores industry predicted to grow by an average of 13.8% per year over the next five years as more states join the ever-growing marketplace.[1]

GEOGRAPHY

The Kauffman Indicators of Entrepreneurship ranks states by the number of new entrepreneurs, or the percent of the population that starts a new business each year. The top 10 states with the highest rate of startup entrepreneurs in 2018 were Florida (0.46%), Wyoming (0.45%), California (0.45%), Texas (0.43%), and Georgia (0.42%).[2] Surprised to see Wyoming on the list? Technology is removing boundaries to entrepreneurs, offering them the ability to set up shop anywhere with an internet connection. Startup founders are realizing they no longer must endure the high cost of living and arduous commutes of New York City or San Francisco.

It should not come as a surprise that Masterplans clients reflect state populations; California (16%), Florida (10%), and Texas (8%) ranked as the most common states for startups of origin for Masterplans clients in 2019. Overall, in 2019, Masterplans clients represented 45 states, the District of Columbia, and four Canadian provinces. The only states not represented in 2019 were Delaware, Kentucky, New Hampshire, South Dakota, and Vermont.

[1] IBISWorld
[2] The Kauffman Foundation

However, when accounting for population, Masterplans' top-five states represented were Maryland, Colorado, Washington, Oregon, and Florida. Georgia, California, Illinois, Oklahoma, and New York round out the top 10 when factoring in population.

FUNDING TYPE

We also analyzed the breakdown of debt and equity funding: 34% of startups sought investment funding while 52% sought institutional lending. Two percent of our projects were not-for-profit organizations seeking donor funding. The remaining 12% of our projects did not seek funding and were split between strategic plans (6%), requests for proposals (3%), and cannabis licenses (3%).

GENDER

About 73% of our loan-seeking business in 2019 were male – or majority male-owned. (For reference, the Census Bureau reports that 80.6% of all U.S. businesses with employees are majority-owned by men, although that includes both startups and existing businesses.[3]), but SBA data shows that 86% of startup loan money ($4.7 billion) and 82% of loans (10,469) went to male-owned businesses in 2018.[4]

Investment-seeking startups were more skewed in our sample data: 85% of businesses in our sample are wholly or majority male-owned, leaving 15% female-owned or majority female-owned. These findings are consistent with a widespread gender imbalance within the overall investment funding realm, and particularly in venture capital. Fortune reports that in 2018 female founders raised $2.88 billion worth of venture capital, only 2.2% of the $130 billion total invested over the year and the exact same percentage as in 2017.[5] In addition to this dollar discrepancy, male-run startups also receive 16 times as many VC deals than those founded by women. This is even though, according to First Round Capital, female-run startups outperform male-run startups by 63% in terms of value creation for investors.[6]

ETHNICITY

In 2019, 22% of Masterplans clients identified as minorities. Like women, ethnic minorities are also underrepresented in startup funding — even though Latinx (Latino and Latina) entrepreneurs have tripled over the past 20 years. Of the $5.4 billion in SBA-backed small business loans issued in Fiscal Year 2018, 53% went to white-owned businesses, 31% went to businesses owned by minorities, and 16% went to business owners whose ethnicity was not determined.[7] This is despite that fact that nearly 40% of Americans are non-white and/or Hispanic.[8] Startups with Black or Latinx owners were also denied loans at higher rates, charged higher interest rates, and as a result fail at a higher rate than white- and Asian-

[3] U.S. Census Bureau
[4] Small Business Administration
[5] Fortune
[6] Forbes
[7] Small Business Administration
[8] U.S. Census Bureau

owned businesses (lacking sufficient capital is one of the top reasons startups fail).[9]

In the investment realm, Asian-owned businesses receive more startup funding than other non-white ethnicities: According to CB Insights, 12% of startups that have received venture capital have had Asian founders, whereas only 1% of startups receiving venture capital have had black founders, and less than 1% of VC-backed startups have Latinx founders.[10] Fast Company reports that “black women are the most educated and entrepreneurial group in the U.S.,” yet they only receive 0.2% of VC funding.[11]

TAKEAWAYS

Successful startups sell something customers want and need, and they take feedback very seriously. They don’t spread themselves too thin or try to do it all. Trends come and go--make sure the heart of your business is aligned with your customers’ and your employees’ best interests, even if they change over time. That is the key to success.

[9] Forbes
[10] CB Insights
[11] Fast Company

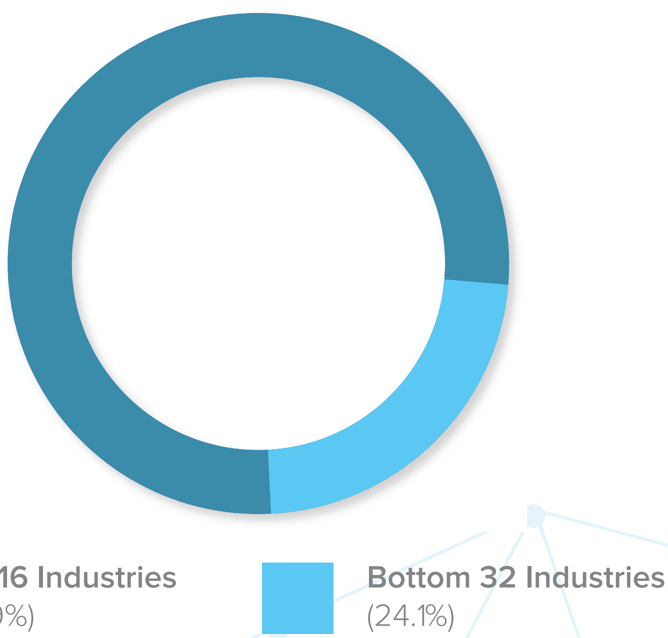
Trending Industries

What were the biggest industries in 2019? According to our U.S. startup projects from last year, the most common industries were Cannabis (8%) and Retail & Consumer Goods (8%), followed by Restaurants (7%) and Healthcare (7%). Masterplans clients represented 48 different industries, and the top 76% of projects were split between 16 industries, with the bottom 24% split between 32 industries.

CANNABIS

Cannabis-related businesses again stood out. Cannabis website Leafly recently released a study showing that the United States added 33,700 full-time legal cannabis jobs in 2019 making cannabis the fastest-growing job sector in the U.S. — and it's not even legal in all 50 states yet![12] (At the time of this writing, medical cannabis was legal in 33 states and 11 of those had also legalized adult use, along with Wash-

Top 16 Industries, Share of Projects



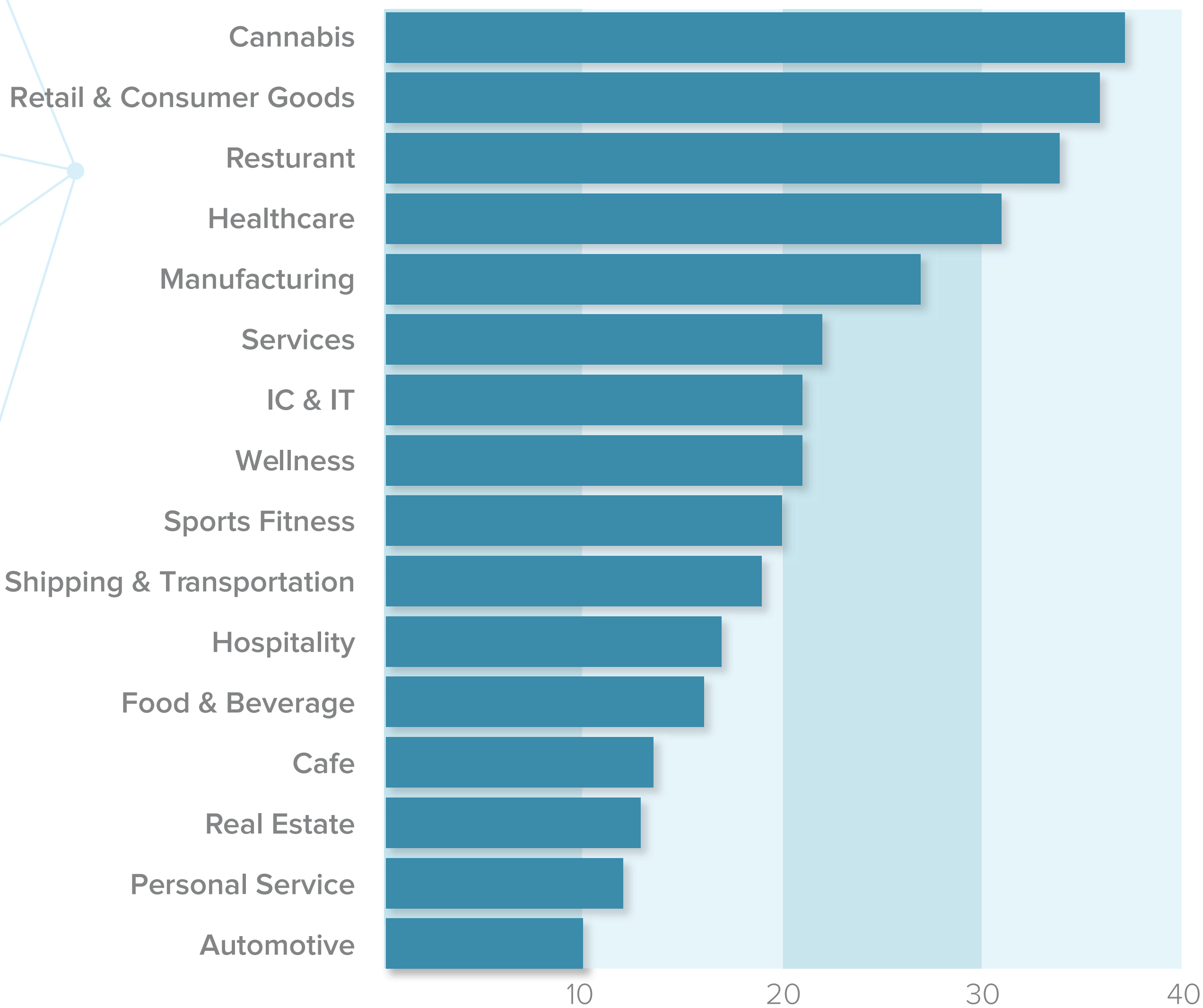
[12] Leafly and Whitney Economics

ington, D.C. and Canada.) As new cannabis markets emerge a nd existing ones mature, market research firm IBISWorld predicts revenue in the retail sector will grow by an average of almost 14% per year over the next five years.[13] But growth does not stop there; cannabis legalization has created a broad industry and startups are hardly limited to dispensaries and grow operations. Many entrepreneurs that sought our assistance last year did so to start businesses to provide ancillary services to the cannabis industry. These included businesses dedicated to security, logistics, and testing.

RETAIL AND CONSUMER GOODS

In recent years, as the U.S. economy has con-

Top 16 Industries, Project Count



[13] IBISWorld

tinued performing well, consumer spending has increased and both the retail and wholesale sectors have experienced widespread growth. According to the latest data from the U.S. Census Bureau, wholesale trade revenues in the U.S. increased by 5.9% in 2017 to $5.68 trillion, the first year-over-year increase since 2013-2014.[14] According to IBISWorld, Retail Trade industry was expected to surpass $5.5 trillion in 2019 and grow at an annual rate of 1.3% over the next five years.[15] Popular retail niches included pet supplies, clothing, toys & games, and convenience stores.

RESTAURANTS

Restaurants continue to reign supreme. Food trucks, fast casual, and brewpubs remained popular, echoing larger national trends that have continued for several years. The billion-dollar food truck industry in the U.S. saw average annual growth upwards of 7% over the past five years, and the country is now home to more than 23,000 food truck businesses in the U.S., up from less than 5,000 in 2015.[16] Generating over $270 billion in revenue in 2018, the Fast Food Restaurants industry is expected to grow at a rate of 1.2% over the next five years. Key trends in this industry include shifts towards healthier fare, and Masterplans clients included several smoothie/juice bars. Brewpubs grew at an annual rate of nearly 12% in 2013 to 2018 and comprised a nearly $7 billion industry in 2018.[17] Of Masterplans' 34 restaurant clients in 2019, 5 were brewpubs.

HEALTHCARE

Medical Technology continued to drive innovation in the healthcare industry. The Telehealth industry grew at nearly 35% per year in 2014 to 2019 and is expected to continue growing in the next five years at over 9%.[18] Of the 31 healthcare projects Masterplans partnered on in 2019, 11 involved a mobile app or internet-integrated device.

Clinics were also popular in 2019, and Masterplans projects included multiple veterinary clinics, surgical centers, behavioral health clinics, and drug & alcohol Treatment centers, in addition to dental and medical clinics.

Many healthcare startups sought to cater to America's aging Baby Boomer generation, the youngest of which recently turned 55. Not only is America's population older than ever before, it is expected to continue aging for some time — the number of Americans aged 65 and older is projected to more than double to nearly 100 million by 2060, at which point individuals aged 65+ will comprise 24% of the U.S. population, up from 15% today.[19]

MANUFACTURING

Manufacturing in the U.S. was stagnant in 2019, in part due to tariffs on steel and aluminum imports. However, as automation has improved, lower labor costs has allowed for increased profit in the industry.[20] Masterplans manufac-

[14] U.S. Census Bureau
[15] IBISWorld
[16] IBISWorld
[17] IBISWorld
[18] IBISWorld
[19] U.S. Census Bureau
[20] IBISWorld

turing projects included several distilleries and breweries, apparel manufactures, and fabrication facilities, amongst others.

SERVICES

Technically, service is one of the three sectors of the economy, as opposed to an industry. A $15.5 trillion dollar sector of the economy in 2018, nearly any company that offers an intangible good can be categorized here. Primarily, Masterplans clients in this sector provide consulting and professional services, pet grooming and boarding, behavioral group homes, and not-for-profits.

INFORMATION COMMUNICATIONS AND TECHNOLOGY (IC/IT)

Another entrepreneurial trend that crosses many industries is technology. Our sample contained manufacturing, service, and retail businesses devoted to creating and disseminating technology. Worldwide spending on the Internet-of-Things is expected to reach $795 billion this year. In addition to manufacturing connected devices themselves, many startups are seeking to capitalize on the proliferation of connected devices by creating software and computer platforms that allow the Internet-of-Things to function. Of the 21 IC/IT projects in 2019, nine were developed as SaaS for business (B2B) customers.

WELLNESS

Americans are more concerned with their well-being than ever before and many startups are seeking to cater to this with new, innovative, and natural wellness. Last year we worked with health and wellness related startups across many categories including retail, health care & social services, and other services. These holistic wellness-related startups included a cryotherapy lounge, a business that places infrared therapy machines in health clubs, wellness-oriented spas, and fitness clubs and gyms.

Of the 462 startups we worked with, 86% planned to use their business plan to seek outside funding. Of the 399 plans for funding, 61% were looking for institutional lending while 39% sought angel or venture capital investment. Of the 63 plans that were not seeking funding, the majority of those projects were for strategic planning, request for proposals, or cannabis licensing

Funding Type

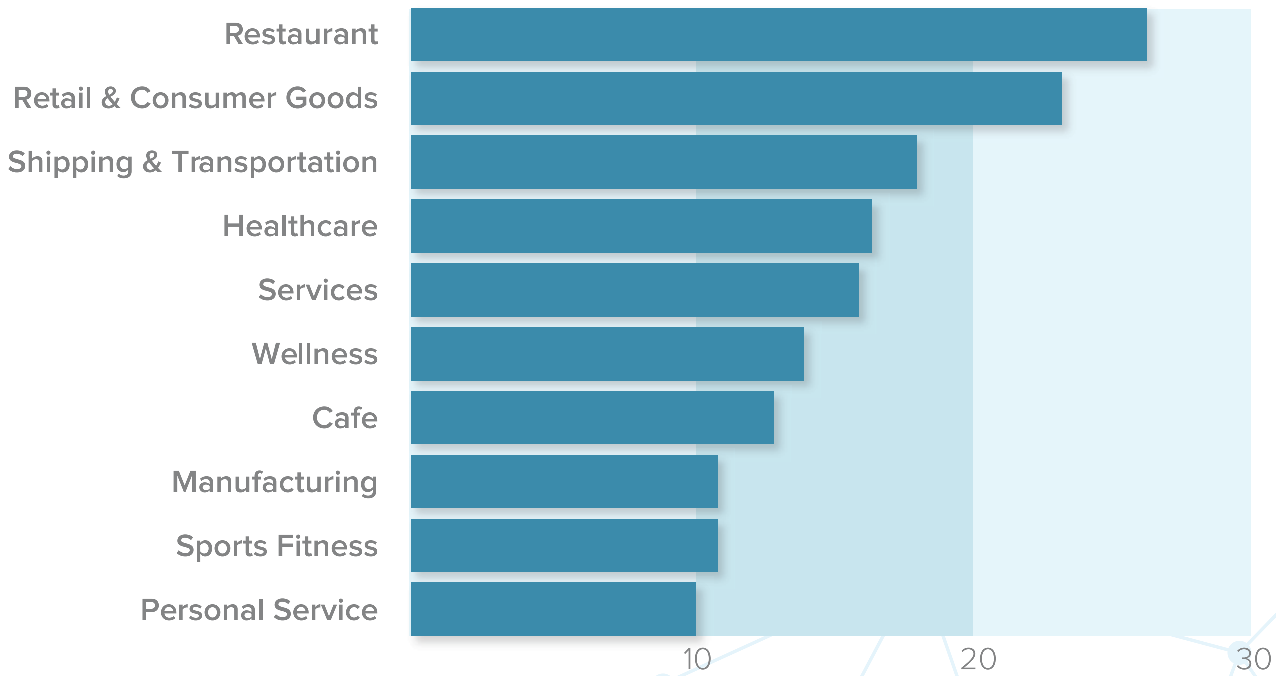
Choosing the best funding source for a startup requires evaluating numerous factors, including which industry you're operating in, how much control you want to maintain, the importance of a low interest rate, whether you can afford a down payment and have access to collateral, and whether your company would benefit from strategic partners.

DEBT FUNDING

In 2019, the most common industry for loan-seeking businesses was Restaurants (11%), followed by followed by Retail & Consumer Goods (10%). Together, they encompassed 20% of all loan-seeking startups. Overall, Masterplans clients comprising 38 different industries sought lending in 2019.

In 2019, the SBA approved 51,907 loans through its 7(a) loan program, totaling $23.2

Top Lending Industries



billion, down from 60,353 and $24.5 billion respectively in 2018. The average loan approval amount for SBA 7(a) loans was $446,487.[21]

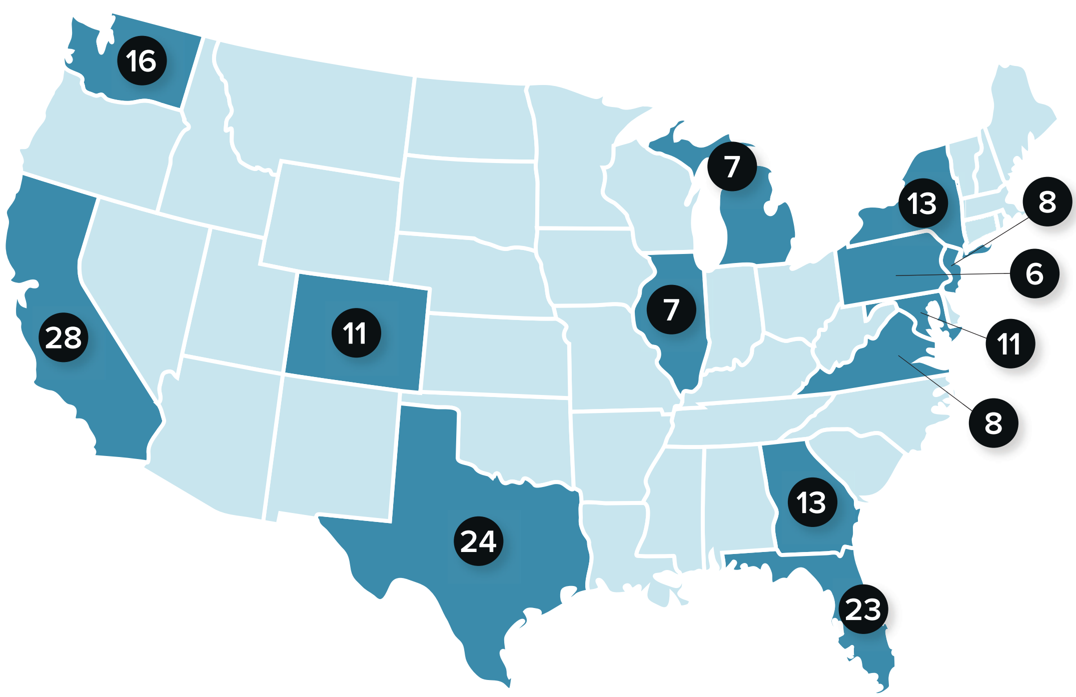
In a geographic breakdown of loan-seeking startups, it's no surprise that high-population California was first on our list followed by two high population states in Texas and Florida. Washington ranked fourth, and for the third year in a row, Georgia ranked in our top five, likely due to the state offering small business incentives such as the Entrepreneurial and Small Business Development Loan Guarantee Program, which funds small businesses in rural Georgia counties. In fact, Georgia ranked 8th on Kauffman's 2017 Startup Activity Index (the latest available) up from 11th in 2016.[22]

Overall, Masterplans lending clients represented 42 states and Washington, D.C., in 2019 The states unrepresented were Alaska, Delaware, Kentucky, Montana, New Hampshire, South Dakota, Tennessee, and Vermont.

EQUITY FUNDING

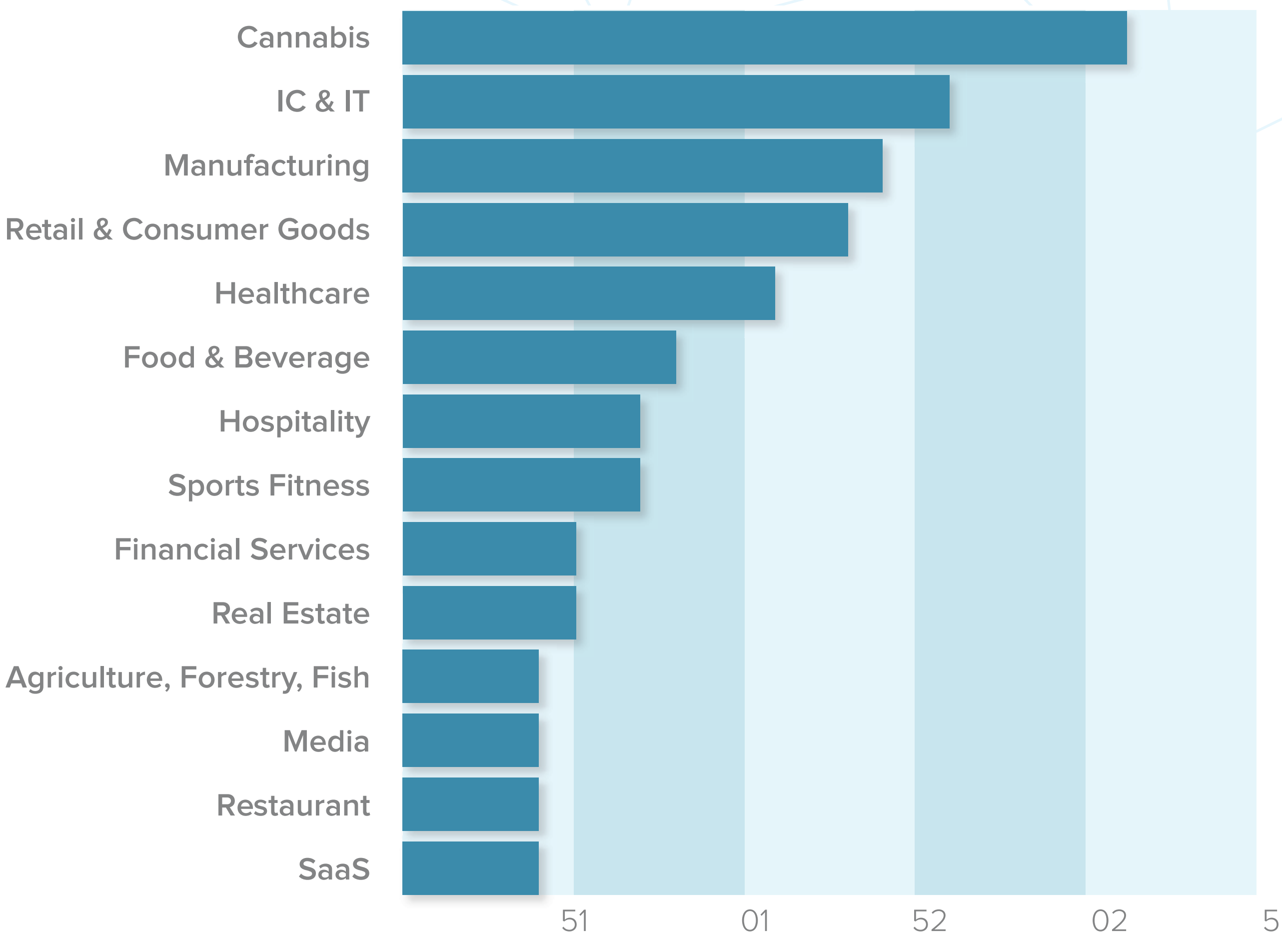
In the U.S., venture capital investment in 2019

Top Lending States



[21] Congressional Research Service
[22] The Kauffman Institute

Top Investment Industries



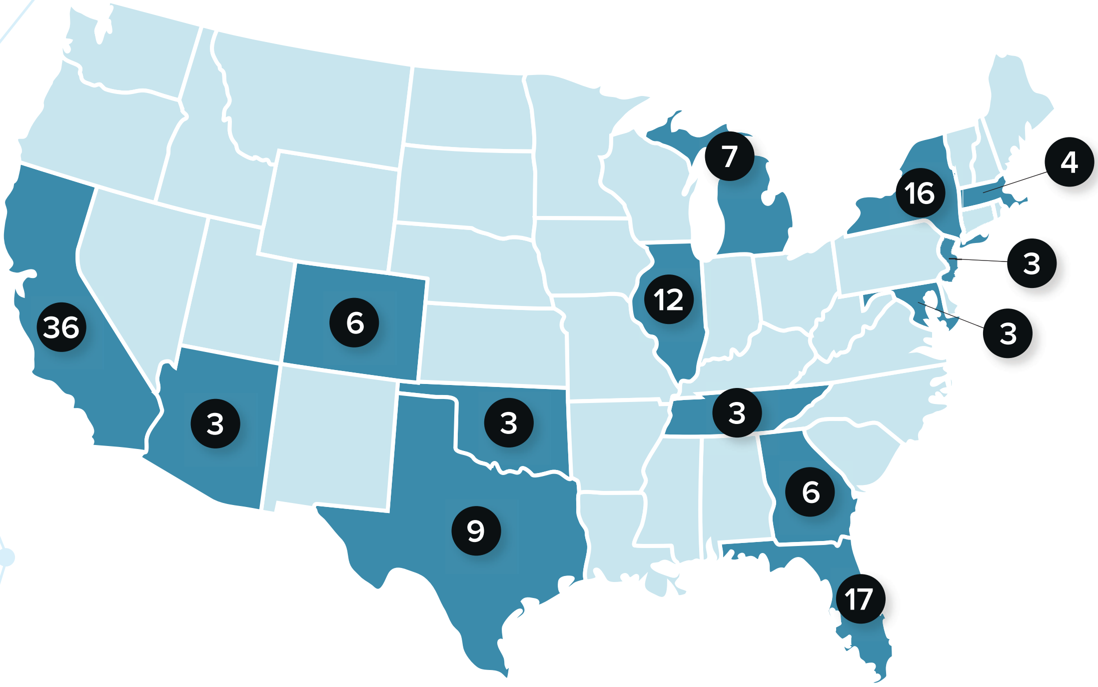
totaled $136.5 billion to U.S.-based startups, the second consecutive year above the $130 billion mark. Angel and seed deal value in 2018 reached a decade-high $9.1 billion.[24]

Cannabis (13%) was the most common industry amongst 2019 clients who sought investor funding. This was followed by Information Communications & Technology (10%), Manufacturing (9%), and Retail & Consumer Goods (8%). Other industries with high representation were Healthcare, Food & Beverage, Hospitality, and Sports Fitness. Overall, Masterplans investment-seeking clients represented 38 different industries.

California, Florida, and New York were the top three states for investment-seeking startups in 2019. Illinois, the fourth most popular state, ranked much higher in the investment space thanks to introduction of adult-use cannabis. The following chart illustrates the most popular states for our investment-seeking clients.

Top Investment States

[23] Pitchbook Data, Inc.
[24] Pitchbook Data, Inc.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Demographics

GENDER

In 2018, the number of women-owned businesses that applied for SBA funding rose by 13%, but still received loans that were 31% less than those for male-owned businesses.[25] "Women start companies at twice the rate of men," according to *Fast Company*,[26] but SBA data shows that startup loans still primarily are received by men (71%, or $2.42 billion). Fourteen percent of SBA loans go to businesses with majority female ownership and 15% go to businesses with 50% or less female ownership.[27]

Women also receive less investment funding. Startups launched by women receive only 13% of angel investment dollars and even less venture capital.[28] The Columbia Business School and London Business School reported that women-led businesses are 63% less likely to obtain venture capital funding versus businesses led by men.[29] In 2018, startups led by all women received only 2.2% of venture capital dollars, compared to mixed gender-led startups (which received 12%) and all-male teams, which received nearly 76%. (Gender of the remaining share wasundetermined.) The average size of the VC deal was also much smaller for women than men in 2018 – $5.9 million compared to over $17.3 million.[30]

Despite receiving less funding, female-run startups outperform male-run startups by 63% in terms of creating value for investors, according to First Round Capital,[31] and the SBA concurs.[32] Meanwhile, the Kauffman Foundation found that women-led teams generate a 35% higher return on investment than all-male teams.[33]

ETHNICITY

The current racial and ethnic breakdown of the U.S. population (about 327 million people) is as follows. (Note that percentages exceed 100% because Hispanics may be of any race, so also are included in applicable race categories.)[34]

- White, non-Hispanic: 63.7%
- Hispanic or Latino: 18.1%
- Black or African American: 13.4%
- Asian: 5.8%
- Two or more races: 2.7%
- American Indian and Alaska Native: 1.3%
- Native Hawaiian/Pacific Islander: 0.2%

Of the SBA's small business loans in 2018, 53% ($3.78 billion) went to white-owned business-

[25] CNBC
[26] Fast Company
[27] SBA
[28] Inc.
[29] CMB
[30] Fortune
[31] First Round Capital
[32] SBA
[33] Forbes
[34] U.S. Census Bureau

es. One-third ($2.2 billion) went to businesses owned by minorities, and 16% of loans went to business owners whose ethnicity was undetermined. The SBA anticipates it will increase its lending to minority business owners to 35% in 2019, an increase over 2018's 31%.[35] According to Stanford University's 2018 State of Latino Entrepreneurship report, 18.4% of white-owned businesses get bank loans, 15.3% of Asian-owned businesses, 14.2% of Black-owned businesses, and 12% of Latinx-owned businesses.[36] This is even though the share of Latinx entrepreneurs has tripled over the past two decades:[37]

Racial and ethnic minorities are also under-represented in investment funding. Within the venture capital industry, 22% of workers are non-white, with 14% Asian or Pacific Islander, and only 4% Latinx and 3% African American.[38] This underrepresentation trickles down to investment funding for startups. Interestingly, Asian-owned businesses receive more startup funding than other non-white ethnicities,[39] with 12% of startups that receive venture capital having Asian founders.[40] Only 1% of startups receiving venture capital have black founders,[41] and less than 1% of VC-backed startups have Latinx founders.[42]

VETERANS

Veterans are the majority owners of more than 2.5 million businesses in the U.S., representing 9.1% of U.S. businesses. About 4.2% of startups are veteran-run.[43] According to the latest report from the SBA, the top industry sectors for veteran-owned businesses are as follows:[44]

- Professional, scientific, and technical services (16.6% of all veteran-owned firms)
- Construction (13.2%)
- Other services (11.8%)
- Real estate (8.6%)
- Retail (8.1%)
- Administrative and support services (8%)

The SBA reports the following about veteran business owner demographics: "The majority ownership of veteran-owned firms was overwhelmingly male (84.3%), non-Hispanic (92.9%) and white (85.1%). Women owned 15.2% of all veteran-owned businesses, and self-identified minorities owned 20.6%. Majority ownership shares by ethnicity and race were:[45]

- African American (10.7%)
- Hispanic (7.0%)
- Asian American (2.1%)
- American Indian or Alaska Native (1.3%)
- Native Hawaiian or other Pacific Islander (0.3%)
- Other race (2.2%)

[35] SBA
[36] Silicon Valley Business Journal
[37] Kauffman Foundation
[38] National Venture Capital Association
[39] Kauffman Index
[40] Detroit Free Press
[41] Detroit Free Press
[42] Forbes
[43] Kauffman Index
[44] SBA
[45] SBA

A total of 7.8% of veteran-owned businesses obtained business loans in 2018, and 4% of the SBA's 7(a) loans went to veterans in 2018, or $270 million. Most veteran-owned companies relied on savings to fund their startups: 59.4%, higher than the average of 57%. Veteran and non-veteran entrepreneurs rely on credit cards to fuel their startups at similar levels: 7.5% and 7.6%, respectively.[46]

Little data is available about venture capital and angel investment to veteran-owned start-ups. "Veteran founders are building startups across the United States but don't have stream-lined access to Silicon Valley resources and investors," former U.S. Army Captain Ian Faison told the Silicon Valley Business Journal. Thank-fully, Faison and others have launched Vetcon, a Silicon Valley conference to connect veteran entrepreneurs with funding, held for the first time in 2017.[47]

[45] SBA
[46] Silicon Valley Business Journal
[47] Kauffman Index

State Profiles

The Kauffman Index of Entrepreneurship ranks U.S. states by their rate of startup entrepreneurs, or the percent of residents starting a new business each month on average.

The top 10 states with the highest rate of start-up entrepreneurship in 2018 are as follows:[48]

1. Florida: 0.46%
2. Wyoming: 0.45%
3. California: 0.45%
4. Texas: 0.43%
5. Georgia: 0.42%
6. Alaska: 0.41%
7. Montana: 0.40%
8. Oklahoma: 0.39%
9. Arizona: 0.39%
10. North Dakota: 0.39%

The list may seem surprising, with states such as Wyoming, Oklahoma, Alaska, and Montana mixed in among expected states like California, Texas, and Florida. However, technology is removing boundaries to entrepreneurs, offering them the ability to set up shop anywhere with an internet connection. Startup founders are realizing they no longer must endure the high cost of living and arduous commutes of New York City or San Francisco.

Even well-established big names like Google are getting on board, with its CEO saying recently, “Last year [2017] in the U.S., we grew faster outside the Bay Area than in the Bay Area. To support this growth, we will be making significant investments in offices across nine states, including Colorado and Michigan.”[49] Eager to rejuvenate and diversify their economies, overlooked states are luring startups (and businesses seeking to expand) with tax incentives, affordable housing, high quality of life, and proximity to nature.

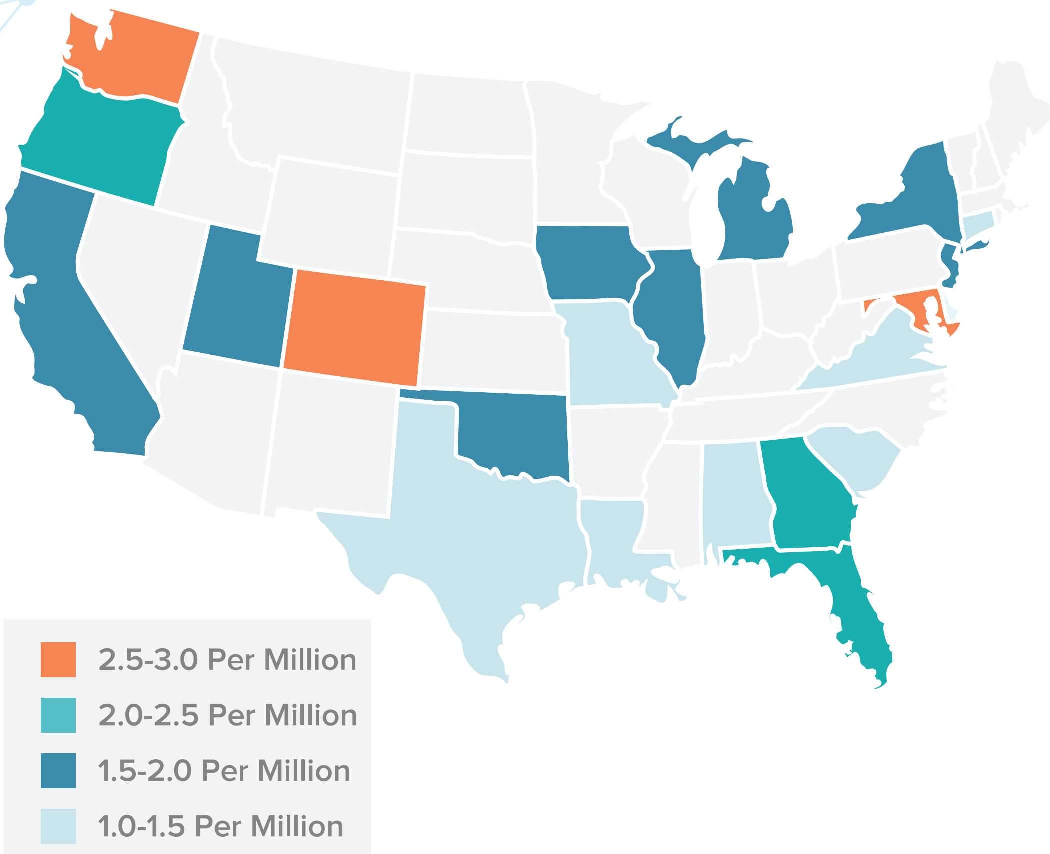
MASTERPLANS MOST COMMON STATES

Like The Kauffman Index, Florida and Texas ranked among the most common states for startups in our sample, likely due in part to their large populations. Other populated states including California and New York were among our most popular states.

However, when factoring in population, a different trend emerges. The following map shows the number of clients in each state per million people:

[48] VentureBeat
[49] Enterprise Florida

Top States, Masterplans Clients Per 1M People



A look at each of The Kauffman Index's top 10 states follows.

Florida

A highly livable state, with year-round warm temperatures, Florida has attracted numerous businesses and residents alike. Florida is known for its business-friendly climate, which is one of the best in the country. Florida's highly favorable tax climate provides ample advantages that make the state a profitable location for nearly any type of business venture, and progressive legislation ensures that Florida continues to be an innovative, worldwide hub for new and established businesses. Florida affords the following benefits to businesses based in the state:[50]

- No state personal income tax guaranteed by constitutional provision
- Limited corporate taxes
- Streamlined regulatory environment
- No state-level property tax assessed
- No property tax on business inventory

According to the Kauffman Index, Florida ranks first in the nation for Early-Stage Entrepreneurship, which considers factors like the rate of new entrepreneurs, the opportunity share of new entrepreneurs, startup early job creation,

[50] Enterprise Florida

and startup early survival rate. Florid a's GDP is comparable to Mexico's, and the state's economy grew faster than Saudi Arabia's, Switzerland's, and Argentina's economy.[51] Florida has also become one of the top destinations for travelers within the United States. Approximately 126 million visitors traveled to the state in 2018 alone, a record-setting number.[52] Florida is well known for being an amazing vacation destination, with its ample beaches and pristine natural landscape. Spending on the part of out-of-state visitors has long been a core part of the state's economy. Since 2011, this spending has consistently grown.[53] Inc.'s Surge Cities ranking noted Orlando, Miami, Jacksonville, and Tampa as prime candidates for opening a business.

Our 2019 clients included 44 startups based in Florida. Per capita, it was our fifth most common state. Restaurants was the most represented industry, with other areas of concentration that included insurance, healthcare, and real estate.

Wyoming

Wyoming is home to Yellowstone and the oil and gas industry, but the state is making a new name for itself as a great place for cryptocurrency startups. The state recently passed legislation that exempts cryptocurrency transfer and sale from some of the rules governing traditional money, making it more appealing for companies focused on blockchain technology. This follows Wyoming Gov. Mead creating the ENDOW Initiative in late 2016, or "Economically Needed Diversity Options for Wyoming," to help establish technology as a leading industry in the state. Additionally, Array School, a private tech and design school, opened in Cheyenne in 2016 to teach coding skills.

"Wyoming is one of the best places in the U.S. to do business," Scott Burke, CEO of a blockchain startup, told Public CIO magazine recently. "Between low startup costs, the most business-friendly tax system in the country, and lawmakers who are focused on supporting and fostering the growth of innovative fintech business and technology, Wyoming just makes sense." Indeed, Wyoming is the No. 1 state for best business tax climate, according to the Tax Foundation. The state has no corporate income tax, individual income tax, inventory tax, franchise tax, occupation tax, or value-added tax.

California

California may have a reputation for being unfriendly to businesses, due to a high state sales tax, but the opportunities it presents to businesses more than makes up for the high tax rates, and businesses of many types still view it as the place to be in order to succeed. California is the most populous state in the nation, with nearly 40 million residents, and the state has the sixth largest economy in the world. California's diverse economy is one of the main reasons it continues to prosper.[54] The state is leading America in terms of job creation and patents filed. According to U.S. News, California ranks first for business environment, with the fourth-highest ranking for entrepreneur-

[51] Orlando Sentinel
[52] VLRN
[53] Visit Florida
[54] IBISWorld.com

ship, the top position for patent creation, and the most venture-capital funding per capita.[55]

While California is known for the Silicon Valley, that's hardly the only area in the state for start-up innovation. Nationally, if the Los Angeles County and Orange County economy was its own state, its annual output would rank behind California, New York, and Texas and just ahead of Florida.[56] The most recent forecast from the Los Angeles County Economic Development Corporation indicates that both L.A. County and California as a whole, which already accounts for 14.1% of U.S. GDP, will continue to outpace the nation in economic growth.[57] Inc. Magazine's ranking of Surge Cities, which analyzes metropolitan areas on seven business-related indicators, "from early-stage funding metrics to job creation" to determine which cities' commercial sectors are growing fastest.[58] The list of 50 metro areas includes six California cities, with the expected San Francisco and San Jose to the less easy to anticipate Riverside.

Our 2019 clients included 72 California startups, including nine in the cannabis industry, as well as businesses operating in the manufacturing, alcoholic beverages, and transportation industries. When adjusted for population, it came in as our seventh most common state.

Texas

Texas rates highly for its startup business climate. In 2018, CNBC ranked Texas as the number one state for business in the country, and Texas added 350,000 jobs between 2017 and 2018.[59] Based on the volume and value of venture capital deals in the first three quarters of 2017, it's the fourth-best state for startups. WalletHub ranks it No. 1 for "Business Environment," No. 4 for highest average growth in the number of small businesses, and No. 5 for highest total spending on business incentives as a percent of GDP for 2018.[60] The state also has favorable business taxes. U.S. News ranks Texas 11th nationwide for "Low Tax Burden,"[61] while Forbes ranks Texas third for "Business Costs."[62] Four Texas metro areas made Inc. Magazine's Surge Cities list: Austin (the top-ranking city nationwide), Dallas, San Antonio, and Houston. A combination of factors makes it a startup mecca: quality of life, the business tax favorability, abundant coworking facilities, and lower cost of living than Silicon Valley.

Our clients from 2019 included 37 Texas, and when population was factored in, it was 18th most popular state. Healthcare and Manufacturing were the most popular industries for Masterplans' Texan clients in 2019.

[55] U.S. News & World Report
[56] Orange County Register
[57] Los Angeles County Economic Development Corporation.
[58] Inc. Magazine
[59] CNBC
[60] Wallet Hub
[61] U.S. News & World Report
[62] Forbes

Georgia

Home to the 11th largest metro area in the nation, Atlanta is the third-largest metro area in the Southeast region, behind Dallas and Miami. But Atlanta is much more centrally located throughout the region and therefore draws in talent from across states like Alabama, Mississippi, South Carolina, and Tennessee. Georgia's economy is strong, and it has a pro-business climate. Atlanta is home to major company headquarters like Home Depot, Coca-Cola, UPS, and Southern Company, and its unemployment rate is fourth-lowest nationwide. The state has much to offer a business, with Forbes ranking it sixth overall for the Best States for Business, and placing it fifth place for economic climate, seventh place for regulatory environment, and ninth for growth prospects.[63] Meanwhile, U.S. News gave Georgia ninth place for its entrepreneurship rate and WalletHub labeled it the third best state to start a business.[64] Part of the state's recent growth can be attributed to its courting of the film industry, which produced numerous major motion pictures there thanks to the generous tax credits the state offered. But Atlanta's business sector is much more than just the film industry. The Atlanta metro area is sprawling and traffic-clogged, but vibrant, having been dubbed the "capital" of many things: Capital of the South, Capital of Hip Hop, and Capital of Black America. The last point is a testament to Atlanta's strength of diversity, which has helped it cultivate the strongest community of black entrepreneurs nationwide. Atlanta has made strong efforts to be a highly desired destination for people of color, with many of its colleges and universities specifically targeting this population segment with top engineering and computer science programs. Atlanta is home to tech incubators and co-working spaces all devoted to strengthening Georgia's position as a leader in the nation's business sector.

Twenty-one Georgia-based companies worked with Masterplans in 2019, and when adjusted for population, it was the sixth most represented state in our client list. Of note, Wellness and Personal Services were strong industries from the Peach State.

Alaska

Alaska's remote, chilly climate has led to several recent startup success stories, including well-funded Heather's Choice, a backpacking food company, and Tundra Tape, an ice-melting technology. In the past few years, University of Alaska Anchorage has taken steps to help university research translate to successful business developments and patents. While Forbes ranks Alaska 50th nationwide for business because of the cost of doing business and the quality of life factor, which sends many of the state's residents packing during the winter months, Alaska's energy economy has other analysts feeling bullish about the state's prospects. U.S. News ranks the state 33rd nationwide, but this source places it firmly in first place in the category of low tax burden. For entrepreneurship, U.S. News ranks Alaska 21st and the factors that negatively affected the state's overall score are its lack of venture

[63] Forbes
[64] U.S. News & World Report

capital and the relatively few large companies headquartered there.

Alaska is the second-best state for small business owners in terms of taxes, according to Fundera and the Tax Foundation, with no state sales tax or individual income tax.[65] Additionally, businesses, investors, and economic development organizations have partnered to create Innovate Alaska, a statewide effort to make Alaska's economy more diverse, spur innovation, and embrace technology. Startups also benefit from Launch Alaska, a nonprofit accelerator that will help four clean-energy startups grow and scale in 2018.[66]

Two Masterplans clients were based in Alaska, one in Export & Import and one in Education industries.

Montana

Historically, Montana has attracted little venture capital, but that began to change in 2015 when the state's first venture capital fund launched: Next Frontier Capital, a tech-focused fund that has invested in 12 companies to date and manages nearly $60 million. Additional VC funds are in the works. Now there are nearly 550 high-tech and manufacturing companies in Montana, and "the state's high-tech and manufacturing firms are growing seven times the overall Montana economy," according to the Missoula Current.[67] The Kauffman Foundation's KESE Index ranks Montana seventh nationwide. The Tax Foundation ranks Montana fifth nationwide, while US News gives it 10th place for Low Tax Burden. WalletHub gave the state fourth place overall on its list of "Best States to Start a Business."

Montana has no sales tax and business loans are affordable and easy to access. Forbes ranks the state 17th for Labor Supply and Growth Prospects indicators. And the state's natural beauty, outdoor recreation options, and wilderness (such as Glacier National Park) serve as a secret weapon. "While Montana doesn't have a long history of creating tech startups," writes Venture Beat, "it does have one advantage over other emerging ecosystems: It's a popular place for investors, entrepreneurs, and other individuals who have made their money in tech to retire to or buy a vacation home in."

Just two Masterplans clients came from Montana, one restaurant and one in consulting.

Oklahoma

There was a big jump in the percentage of Oklahomans starting a new business each month in 2017, according to the Kauffman Index. And the state is certainly welcoming to startups: cost of doing business, cost of living, and energy costs are all low, and there are many startup incentives. "Companies with 90 or fewer employees can receive up to 5% cash back on payroll for up to seven years to locate or expand in Oklahoma. They can also earn cash back for creating jobs that pay better than the county's average," reports CNBC.

Oklahoma is also home to i2E, a nonprofit tech startup incubator/accelerator that has invested

[65] State Business Tax Climate Index
[66] CIO
[67] Missoula Current

more than $50 million into local businesses over the past 20 years. The nonprofit hosts a statewide collegiate startup contest that awards thousands of dollars to entrepreneurial college students. Oklahoma City ranked 31st on Inc.'s list of top cities for business, based on its high rate of entrepreneurship, net business creation, job creation, and wage growth.[68]

Only six Masterplans clients hailed from Oklahoma, and two of those were Cannabis businesses; however, when adjusting for the state's 3.6 million people, Oklahoma was number nine state.

Arizona

Both Arizona as a whole and greater Phoenix saw more people start new ventures each month in 2017 on average compared to the year before. The Kauffman Index ranked the state eighth overall on the KESE Index. Forbes gave Arizona 17th place nationwide but awarded it fifth place for Growth Prospects and 10th for Labor Supply. Meanwhile, U.S. News awarded Arizona sixth place on its Entrepreneurship rating and noted its number of top company headquarters and its patent creation.[69] Indeed, Phoenix and Chandler are now home to a flurry of tech startup activity, and Phoenix was ranked in the top 25 U.S. cities for fostering entrepreneurial growth and innovation. Inc. gave Phoenix 11th place in the Surge Cities ranking, where its best indicators were job creation, net business creation, and population growth.[70] Inc. also noted that the number of tech companies in Phoenix has been growing rapidly, "from 67 in 2012 to more than 300 today." Exports are also fueling Phoenix's startup growth, with the mayor starting an export boot camp in 2017 to teach international export best practices to small- and medium-sized startups.

In addition to sunny weather and low cost of living, Arizona entrepreneurs will enjoy a lowered corporate income tax rate of 4.9% in 2018. The state also passed a bill in 2017 that will give angel investors up to 30-35% of a tax break on qualifying investments, up to $2.5 million per year from 2018 to 2022. Investing in rural startups and bioscience companies has the highest tax break (35%).

In 2019, Masterplans worked with six Arizona-based clients, with three of them being in the Sports Fitness industry. It was our 21st most popular state when adjusted for population.

North Dakota

North Dakota has received a major boost from the energy industry and the development of the Bakken oil shale fields. Though this makes North Dakota's industry as easily influenced by oil prices as Alaska's, the state has some key differences that have helped it rank highly on the Kauffman Index and other rankings. While factors such as Top Company Headquarters and Venture Capital investment are low, others give businesses a good reason to think about placing their operations in North Dakota. For example, the state ranks 11th in Business Costs and eighth in Labor Supply, according to Forbes.[71] Meanwhile, WalletHub ranks North

[68] Inc.
[69] U.S. News & World Report
[70] Inc.
[71] Forbes

Dakota seventh overall nationwide on its Best States to Start a Business ranking, owing in large part to its business environment.[72] The Tax Foundation gives the state 20th place nationwide for its favorable tax policies, up seven points between 2016 and 2017, indicating that North Dakota's commitment to being a business-friendly state is paying off. Cities are working hard to make themselves attractive to new business headquarters, with West Fargo offering a five-year corporate tax exemption for new or expanding primary sector businesses and investment tax credits for business investors. The city is also offering sales tax and use tax exemptions on eligible services and utilities are not taxed statewide. Additional benefits to businesses are a Research Expense Credit, Seed Capital Investment Tax Credit, Angel Fund Investment Credits, Funding for Workforce Training, and grants for conducting research and development in partnership with North Dakota universities.

Of the two North Dakotan clients Masterplans worked with in 2019, both were Healthcare companies.

[72] Wallet Hub

Conclusion

> Anyone can start a company, but not everyone can make it succeed.

Yes, we've highlighted startup trends in this report, but being a successful startup is about more than choosing a hot industry, a state with tax favorability, or the "right" type of funding. Our CEO, Brent Butler, offers 10 tips for startup success:

1. Understand your customer on a deep level, and speak to their needs, character traits, pain points, and goals.
2. Create a workplace that retains talented people. Turnover is a killer for most skilled labor-based businesses.
3. Manage your cash flow properly. Lack of working capital is a leading killer of small businesses; you never know when a bad season, unforeseen event, or economic downturn will hit.
4. Make sure your marketing efforts set you apart while speaking to the cultural moment and the audience's wants and needs.
5. Create good habits and lead by example. Corporate culture is everything and it starts with you. It's better to build a great workplace right the first time rather than trying to detox it years later.
6. Don't be distracted by shiny objects, launch parties, or expensive furniture. Get by with the basics and save for a rainy day.
7. Thoroughly evaluate apps and tech before purchasing. Make sure there's value in the tech you put in place to solve a problem — carefully weigh that value against not making a change or using a simple alternative.
8. Listen carefully to customer feedback and make changes to your product or service when trends emerge. Create an inviting feedback loop and ask the hard questions. Set your ego aside.
9. Make sure you comply with federal, state, and municipal regulations. An experienced corporate attorney can point out hazards, establish protections, and save your bacon.
10. Be incredibly humble. Being an entrepreneur is not about what you want; it's about what your customer wants and creating jobs and security for your team.

Launching your startup in a state with great business tax incentives is no replacement for truly meeting your customers' needs and bringing together the best team. Trends and incentives come and go — make sure the heart of your business is aligned with your customers' and your employees' best interests, even if they change over time.

That is the key to success.

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