

5 Hot Start-Up Sectors

By Lindsay Holloway

Our experts identify the top industries with big growth potential and characteristics fit for the entrepreneurial-minded

Many industries, from the well-known to the obscure, are booming with prospects for start-ups

Most people know that small businesses are the backbone of the US economy. Small businesses are the creators of most new jobs and the employers of about half of the nation's private-sector work force. The leaders behind these companies are also responsible for many of the innovations Americans know today.

Despite their significant contributions to the economy, the recession took a big hit on small businesses. According to research by the Small Business Administration, in the first three quarters of 2009, small businesses (those with fewer than 500 employees) accounted for nearly 60.0% of net job losses. Over the year, 60,800 filed for bankruptcy.

However, by the third quarter of 2009, the National Bureau of Economic Research recorded signs of economic recovery and that entrepreneurs were again looking ahead toward new start-up and business growth opportunities. That optimism continues to grow today. Fortunately, some industries, from the well-known to the obscure, are booming with prospects for start-ups. By analyzing revenue figures, growth trends and profitability levels of more than 700 industries, IBISWorld identified five sectors that have start-up

potential. From drywall contractors to datamining consultants, the industries in these sectors are well-positioned for the next five years.

Education and Employment

Naturally, as the economy recovers, people will return to the work force. While this trend is forecast to happen during the next five years, with the national unemployment rate falling 3.5 percentage points, the number of jobless Americans is expected to remain high over the next year. Not only will people still be looking for jobs, but students will likely prolong or expand their studies until the job market strengthens and unemployed individuals will look to improve their chances of obtaining a job. Those anticipated trends mean Americans will look to the providers of different skills training, educational and certification courses.

During the recession, the Testing and Educational Support industry (IBISWorld report 61171) did especially well as high school graduates continued on to college and laid-off employees went back to school. In fact, IBISWorld estimates that industry revenue grew at an average annual rate of 6.2% to \$15.4 billion over the five years to 2011. This

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Education and employment

Industries	Annualized Revenue Growth 2011-16 (%)	Life Cycle Stage	Barriers to Entry	Capital Intensity	Competition
Business Coaching	5.3	Growth	Low	Low	Medium
Employment & Recruiting Agencies	4.9	Mature	Low	Low	High
Financial Planning & Advice	5.1	Mature	Medium	Low	High
Test Development & Education Support Services	5.2	Growth	Medium	Low	Medium
Trade & Technical Schools	3.8	Growth	Low	Low	Low

SOURCE: WWW.IBISWORLD.COM

level of growth is forecast to continue over the next five years, with revenue increasing 5.5% per year on average to \$19.1 billion in 2016.

Clearly the industry is in its growth phase, but that's not the only reason it's a good one for start-ups. Barriers to entry are generally low, and like the overall education sector, the industry has a low level of capital intensity and start-up costs because of its high labor intensity. Wages make up about 34.0% of operational costs as a share of revenue. Additionally, industry concentration and regulation are low.

Because of these low barriers, however, a medium level of competition exists. So setting yourself apart is essential, said IBISWorld industry analyst Kevin Culbert. "You need to consider which professions are growing and which are peaking. If a downstream market is drying up, there isn't going to be demand for its relative testing course." He referenced the reduced number of students that took the LSAT this year, compared to immediately following the recession when people made more money right out of law school.

A focus on downstream markets is important for the other education and employment industries where start-up opportunities exist. Trade and Technical Schools (61151), Business Coaching

(61143) and Employment Recruiting Agencies (56131) are all industries with growth dependent on downstream markets. These industries also have low barriers to entry, low start-up costs and, thus, moderate competition. "Niche businesses are a great way to set yourself apart from the herd," Culbert said, suggesting an IT or medical staffing firm as an example. "If a niche downstream industry is growing, you can be sure that its staffing counterpart will be too."

Internet and Technology

While reduced consumer spending during the recession slowed down most economic activity, many internet and tech industries managed to continue growing (albeit at a slower rate than in prior years). Since 1999, the number of broadband internet connections has skyrocketed, jumping 50.0% in some years. From 2005 to 2010, the number grew 22.4% per year on average. Also, as fast as companies pump out innovative gadgets and the next must-have technologies, consumers eat them up, especially as price points steadily drop.

These usage trends are the driving forces behind the expanding internet and tech sectors, which are pushing businesses, retailers and advertisers to adapt. Businesses can operate and reach their customers more efficiently,

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Internet and technology

Industries	Annualized Revenue		Life Cycle Stage	Barriers to Entry	Capital Intensity	Competition
	Growth 2011-16 (%)					
IT Consulting	3.0		Mature	Low	Low	High
E-Commerce & Online Auctions	9.4		Growth	Low	Medium	High
Online Dating	2.8		Growth	Medium	Low	High
Freight Packing & Logistics Services	3.0		Mature	Low	Medium	Medium

SOURCE: WWW.IBISWORLD.COM

retailers can pass on discounts to their shoppers and advertisers can get a greater return on investment.

“There is enormous growth potential in the web and tech sectors,” said IBISWorld industry analyst Casey Thormahlen, pointing out two opposite paths of opportunity: a highly innovative start-up that has a big idea and sufficient capital, or a start-up that services these growing sectors (which generally has lower barriers to entry and start-up costs). For example, because so many businesses and households have moved online, the need for IT services and experts is high. As such, IBISWorld projects the IT Consulting industry (IBISWorld report 54151) to grow an average of 3.0% per year to \$275.2 billion in 2016. Other internet and tech service companies with start-up potential include: logistics and order fulfillment, online lead generation, datamining consulting and online payment processing.

Increasing numbers of internet users and shoppers are supporting the Online Dating (81299a) and E-Commerce and Online Auctions (45411a) industries, with revenue growth of 2.8% per year and 9.4% per year on average, respectively. Like the education and employment sectors, Thormahlen said the opportunity is in the niches; current examples include SeniorMatch.com, a dating site for people aged 50 and older, and art and craft e-tailer Etsy.com.

Green

Global warming and humans’ impact on the environment have been top of mind for a lot of consumers and businesses over the past decade, especially following Al Gore’s related film and campaign in 2006. As awareness of and concern for environmental issues grow, shoppers are demanding more locally grown food, retailers are selling more sustainable products and businesses are implementing more eco-friendly practices. As such, the green vein runs through many of IBISWorld’s more than 700 industries.

In the consumer products sector, many new companies with eco-friendly products have surfaced, while existing companies have altered current product lines or launched new ones. Examples run the gamut, from household cleaning sprays to cotton T-shirts to cereal packaging.

The solar and wind power generation industries are in line with and have benefited from the green movement. Revenue for related industries has grown significantly over the past five years—Solar Panel Manufacturing (IBISWorld report 33441c) revenue jumped an average 34.8% per year. Although the astronomical growth of these industries makes them great candidates for business, IBISWorld industry analyst Justin Molavi warns of their significant capital requirements,

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Green

Industries	Annualized Revenue				
	Growth 2011-16 (%)	Life Cycle Stage	Barriers to Entry	Capital Intensity	Competition
Environmental Consulting	9.4	Growth	Low	Low	Medium
Remediation & Environmental Cleanup Services	4.8	Mature	High	Low	High

SOURCE: WWW.IBISWORLD.COM

making them better opportunities for entrepreneurs or small businesses with access to substantial start-up funds. Also, overall barriers to entry are high. Where a small business could tap into the popularity of renewable energies would be consulting or installation services, such as installing solar panels on homes and businesses.

In addition, as organizations and individuals strive to lower their carbon footprints, the demand for experts and consultants who can identify and help execute ways is growing. New legislation to curb emissions and the recent BP oil spill have also stimulated demand for these businesses over the past five years. The Energy Independence and Security Act and the Energy Policy Act aim to increase the production of renewable fuels; raise investment in the sustainability of products, buildings and vehicles; and promote research on renewable technologies and US energy security. As such, the high demand for expert insight will push revenue for the Environmental Consulting industry (54162) up 9.4% per year to \$30.0 billion by 2016.

The Remediation and Environmental Cleanup Services industry (56291), which cleans up contaminated sites, performs wastewater treatment and disposes of hazardous materials, is forecast to grow as well, with revenue increasing 4.8% per year to \$22.9 billion by 2016.

Residential and Commercial Construction

Residential construction came to a screeching halt in the wake of the subprime mortgage crisis and housing bubble burst, with commercial building construction taking the hit shortly after. Still, after five years of decline, contractors in both industries are projected to experience substantial growth. Housing demand is expected to improve given stronger consumer confidence, higher growth in disposable income, subsiding fears about buying into a falling market and sustained low interest rates. Similar improvements in the commercial markets are expected as corporate spending and employment begin to recover from recessionary lows. As such, IBISWorld estimates the value of residential construction will rise 12.5% annually in the five years to 2016 and the value of private non-residential construction will increase about 13.0% per year.

As the number of construction projects increases, so too will the need for contractors, which is where the start-up opportunities lie. This growth will create demand for specialty contractors and services that are subcontracted by larger residential and commercial contractors, said IBISWorld industry analyst Kathleen Ripley; examples include drywall and glass contractors or architectural and building inspection services. "These specialty or subcontractor industries

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Residential and commercial construction

Industries	Annualized Revenue		Life Cycle Stage	Barriers to Entry	Capital Intensity	Competition
	Growth 2011-16 (%)					
Home Builders	16.0		Mature	Low	Low	High
Glass & Glazing Contractors	6.8		Mature	Low	Low	High
Real Estate Asset Management & Consulting	6.8		Mature	Low	Low	Medium
Drywall Contractors	6.7		Mature	Low	Low	High
Real Estate Appraisal	5.2		Mature	Low	Low	Medium
Building Inspection Services	5.6		Mature	Medium	Low	Medium
Architectural Services	4.8		Mature	Low	Low	Medium

SOURCE: WWW.IBISWORLD.COM

generally have very little barriers to entry, with typically limited license requirements and low capital costs.” Most of these industries are labor intensive and contractors can lease equipment on a per-project basis.

Over the five years to 2016, IBISWorld estimates Home Builders industry (IBISWorld report 23321) revenue will grow 16.0% per year to \$394.1 billion. The Glass and Glazing Contractors (23592) and Real Estate Asset Management and Consulting (53139) industries are forecast to each grow 6.8% per year, to about \$11.1 billion and \$54.9 billion, respectively.

Health

Healthcare reform may be shaking things up, but some related industries are benefiting from it. One in particular is Alternative Healthcare Providers (IBISWorld report 62139b). The landmark 2010 Patient Protection and Affordable Health Care Act includes several provisions that support alternative healthcare, with the goal of educating Americans about preventive care. The bill includes plans for community wellness programs and a provision that prohibits exclusion of licensed alternative healthcare

providers, such as acupuncturists, masseuses and yoga instructors.

“[The reform] is a major step toward recognition of the industry at the national level,” said IBISWorld industry analyst Sophia Snyder, which will be aided by “increasingly favorable attitudes and beliefs toward its services.” She expects the aging population, mounting incidence of disability and rising disposable income to significantly contribute to revenue growth over the coming years. By 2016, the Alternative Healthcare Providers industry’s revenue is forecast to reach \$14.4 billion, representing average annual growth of 4.3%.

Other industries that will be affected by healthcare reform and that offer start-up opportunities include Home Care Providers (62161), Elderly and Disabled Services (62412) and Physical Therapists (62134).

As hospital stays get shorter and the government increases restrictions on home-care services while reducing related funds, nutritional, social, companion and skilled nursing services will increasingly be based out of the home. In line with growing demand, Home Care Providers industry revenue will grow an estimated 5.5% per year to \$95.3 billion over the next five years.

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Health

Industries	Annualized Revenue				
	Growth 2011-16 (%)	Life Cycle Stage	Barriers to Entry	Capital Intensity	Competition
Alternative Healthcare Providers	4.3	Growth	Low	Low	Medium
Home Care Providers	5.5	Growth	Low	Low	High
Elderly & Disabled Services	6.2	Growth	Low	Low	Low
Physical Therapists	4.8	Growth	Low	Low	High

SOURCE: WWW.IBISWORLD.COM

Elderly and Disabled Services will grow at a similar rate of 6.2% per year to \$38.0 billion as the US population ages and disposable incomes grow as the economy recovers. Snyder also said

that “data shows how important these types of services are to the elderly. They are more aware of the benefits, so start-ups can provide that benefit for their customers.”

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