

Missouri Small Business Insights Series – Cheetah Businesses

Growth in Flexible Labor Firms

A variety of Missouri economic sectors have high-growth small businesses called Cheetahs, and many of these businesses share a common theme; they rely on a flexible labor pool that typically includes a large share of independent contractors. One in 10 new jobs from Missouri Cheetahs between 2014 and 2019 came from three contractor-dependent, smaller industries that have promising growth prospects: Specialty Trade Contractors, Home Health Care Services and Computer Systems & Data Processing Services.

The Agile Cheetah Business

Cheetah is a term used to describe businesses that have rapidly increased their employment (see sidebar). Missouri had more than 3,900 Stage Two Cheetah businesses in 2019, and between 2014 and 2019, these businesses created 66,000 jobs.

This Small Business Insights series brief focuses on a few Cheetah industries that are particularly agile as they can expand or contract quickly to meet changing customer demands. These industries rely heavily on flexible labor pools, often independent contractors who receive income reported on IRS Form 1099-MISC, to increase their access to timely, specialized skills, while lowering administrative costs. The use of independent contractors in lieu of employees is becoming a more common workforce arrangement and may represent a structural shift in the labor market, particularly for women, according to recent research.¹

Three high-growth Missouri Cheetah industries are explored in this brief. Two industries, *Home Health Care Services* and *Specialty Trade Contractors*, had high-growth firms in metro and nonmetro areas. *Computer Systems & Data Processing Services* Cheetahs were found in metro areas. These industries collectively represented just more than 9% of Missouri Cheetah firms and nearly 10% of Cheetah jobs gained from 2014 to 2019. These industries are also expected to have above-average Missouri job growth from 2018 to 2028, according to the Missouri Economic Research and Information Center's [long-term industry projections](#).

Defining Stage Two Cheetahs

Stage Two companies are small businesses with 10 to 99 employees that are past the startup phase.

Cheetahs are businesses with at least two employees that increased employment by 75% or more in a five-year period.

Missouri Cheetah Industries with Higher Shares of Independent Contractors, 2019

Industry Description	Cheetah Businesses	5-Year Total Job Gains	5-Year Growth Rate	Areas
Specialty Trade Contractors (NAICS 238)	193	3,121	236%	Statewide
Home Health Care Services (NAICS 6216)	119	2,238	212%	Statewide
Computer Systems & Data Processing Svcs. (NAICS 5415/5182)	52	988	362%	Metro Areas

Home Health Care Services

Business Basics

Home health care services hire employees and independent contractors to provide in-home skilled nursing, hospice, therapy or other care to customers. Traditional care with rehabilitation (30%), hospice (23%) and nursing care (21%) services generate nearly three out of four revenue dollars for these firms. Staff will have specialized health care training and certifications.

In the U.S., home health care service businesses average 64 employees and generate \$61K in revenue per worker. Nearly 75% of revenue comes from Medicare and Medicaid payments, and net profits average 5%. Businesses are more likely to be women- (80%) and minority-owned (60%).

A larger home health care firm will likely employ or contract with many specialized health professionals. Smaller firms may focus on one or two types of services. Some businesses specialize in routine health care — often for senior citizens — and employ home health aides instead of more costly nurses or therapists. Home health care services face lower business exit rates than most industries — health care is more recession-proof than other sectors — but that security comes with higher regulatory and administrative burdens.

Scaling Up

An independent contractor will have a health care specialty and develop a client base over time. Transitioning to a larger business, with additional employees or contractors, is challenging because of labor competition with hospitals and needed administrative functions to handle insurance, human resources and a complex financial payment system. Higher administrative costs mean more employees are needed to reduce average costs per worker. Continued reductions in government reimbursement rates are also expected. They further increase the need to lower labor costs.

COVID-19 Era

Home health care services have grown substantially in the past decade, due in part to changes implemented in the 2010 Affordable Care Act and aging baby boomers.² COVID-19 only increased demand for these services and accelerated changes already occurring in the industry:

- A rapidly shifting preference for home health services in 2020 may have longer-lasting impacts for nursing care facilities, where occupancy levels dropped by 15% from 2019 and are not expected to rebound.³
- Firms will increasingly rely on technology, such as telehealth and movement sensors, to lower costs and maintain service levels as competition for skilled health care professionals remains high. Firms will need to continuously gain skills related to using these newer systems and devices.
- Demand for in-home patient care has grown as the population has aged, but more competition is coming. Medicare policies implemented in the past year — one such policy allows hospitals to be reimbursed for home health care — will increase the competition if they continue in the years ahead.

Home Health Care Services

U. S. Business & Ownership Figures

Home Health Care Services	
Business Basics	
Average Employees	64
Revenue per Emp.	\$61K
Business Exit Rate (9.0% All Industries, 2017-18)	6.0%
After-tax Net Profit	5%
Ownership Details	
Indiv. Proprietorships	14%
Minority-Owned	60%
Female-Owned	80%

Source: VerticalIQ, 2019

Specialty Trade Contractors

Business Basics

Construction firms hire specialty trade contractors for foundation, exterior or interior finishing, plumbing, electrical or other construction work. A trade contractor will have skills developed through experience, apprenticeship or technical school training. Most trade contractors will need industry certification.

Specialty trade contractors typically employ five to 15 workers, and firms often generate between \$175K and \$215K in revenue per employee. After-tax net profit margins are between 5% and 6% on average.

Specialty trade contractors have slightly above-average business exit rates and generally incur lower initial capital costs. Competition varies by the trade, but generally, smaller firms compete within the same region for work unless they have highly specialized businesses.

Scaling Up

A sole proprietor trade contractor often has the project bidding experience and good construction firm relationships needed to grow a business. An individual contractor who transitions into an employer has added responsibilities such as finding and retaining workers, improving project scheduling skills and providing more detailed accounting to access credit.

COVID-19 Era

Specialty trade contractors depend on a healthy economy and construction sector. The COVID-19 pandemic negatively impacted the economy and temporarily halted or postponed much construction.⁴ Here are a few trends that will impact this industry in 2021 and beyond:

- Commercial construction, which slowed considerably in 2020, still faces uncertainties in 2021 as telework and less in-store shopping continue to dampen demand. The American Institute of Architects' January 2021 Consensus Construction Forecast estimated a 5.7% decline in nonresidential construction for the year.⁵ Remodeling, however, may be a bright spot as office spaces are renovated with improved HVAC systems, other equipment and floor plans to better accommodate returning workers.
- Residential construction will continue to benefit from remodeling projects and new housing demand as remote work — at higher sustained levels — impacts home and location decisions. Housing building permits and prices rose in 2020 compared to 2019. These data offer broader evidence that the residential housing sector is relatively healthy.
- Older adults will increasingly prefer to live in existing single-family or active lifestyle communities where they can avoid crowded environments. Existing homes will often need some remodeling to accommodate aging adults.

Specialty Trade Contractors U.S. Business & Ownership Figures

	HVAC & Plumbing Contractors	Electrical Contractors	Concrete & Masonry Contractors
Business Basics			
Average Employees	11	13	8
Revenue per Emp.	\$181K	\$177K	\$182K
Business Exit Rate (9.0% All Industries, 2017-18)	9.5%	9.5%	9.7%
After-tax Net Profit	5%	5%-6%	5%-6%
Ownership Details			
Indiv. Proprietorships	14%	13%	20%
Minority-Owned	20%	21%	28%
Female-Owned	8%	8%	8%

Source: VerticalIQ, 2019

Computer Systems & Data Processing Services

Business Basics

Information technology (IT) firms employ a range of skilled computer programmers, software engineers, web designers and other technology professionals to develop customized solutions and support for their clients. Firms in this industry may hire independent contractors who offer greater flexibility when firms need very specialized skills on a temporary basis. Contractors have specialized technology training and often are certified in different software systems and standards.

Computer programming businesses and data processing service companies are two common types of IT firms. These types of firms average 15 and 31 employees in the U.S., respectively. Revenue per employee ranges from nearly \$200K for computer programming to \$268K for data processing. Both services have above-average business exit rates, and after-tax net profits range from 5% to 6% on average. One in four firms are minority-owned.

Scaling Up

A self-employed IT professional often has the technical skills and experience needed to grow his or her work into a business. Subcontract computer systems work also depends on good relationships with larger IT firms and bidding knowledge that comes with experience. Strong planning and communication skills are needed to manage larger projects with multiple subcontractors. Because revenue depends largely on the professional's knowledge, initial capital investments are low. Competition, however, can be strong in this industry as project bidders can work from other states and countries.

COVID-19 Era

The COVID-19 era has bolstered the need for technology investments, especially those related to collaborative technologies, automation and cybersecurity.⁶ Other notable trends include the following:

- Off-premise, cloud service data centers are growing in popularity as firms gain confidence in security and responsiveness measures. Amazon, Microsoft and Google offer cloud services that will increasingly compete with smaller data processing services. Smaller businesses that offer other computer systems services or specialized industry knowledge may be better positioned to compete.
- Remote work for technology professionals has gained more acceptance in industries unrelated to IT. Most IT staff actually work in other sectors, such as health care and government. New appreciation for remote workers benefits other businesses — because they can cast a wider net for IT talent — and IT workers who can work from distant locations. Communities that offer high-speed broadband and attractive local amenities may be poised to attract these high-income workers and the businesses they start.

Computer Systems & Data Processing Services U.S. Business & Ownership Figures

	Computer Programming Services	Data Processing Services
Business Basics		
Average Employees	15	31
Revenue per Emp.	\$197K	\$268K
Business Exit Rate (9.0% All Industries, 2017-18)	11.4%	9.6%
After-tax Net Profit	5%	6%
Ownership Details		
Indiv. Proprietorships	3%	3%
Minority-Owned	25%	26%
Female-Owned	14%	39%

Source: VerticalIQ, 2019

Endnotes

1. Lim, K., Miller, A., Risch, M., and Wilking, E. Independent Contractors in the U.S.: New Trends from 15 years of Administrative Tax Data. (2019). Accessed at <https://www.irs.gov/pub/irs-soi/19rpindcontractorinus.pdf>
2. Landers et al. The Future of Home Health Care: A Strategic Framework for Optimizing Value. (2016). The Home Health Care Management Practice, 28(4): 262–278. Accessed at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5052697/>
3. Mathews, A. and McGinty, T. (2020, December 21). Covid spurs families to shun nursing homes, a shift that appears long lasting. Wall Street Journal. Accessed at: <https://www.wsj.com/articles/covid-spurs-families-to-shun-nursing-homes-a-shift-that-appears-long-lasting-11608565170>
4. March 2021 Associated General Contractors of America Survey. Accessed at: <https://www.agc.org/news/2021/03/11/march-2021-agc-coronavirus-survey-results>
5. Consensus Construction Forecast (2021, January) American Institute of Architects. Accessed at: http://info.aia.org/aiarchitect/2021/charts/Jan%202021/ccf_011521.html
6. Harsh Nash/KPMG CIO 2020 Survey. Accessed at: <https://www.hnkpmgciosurvey.com/>

About This Series: This brief is the third in the *Small Business Insights Series – Cheetah Businesses*, which explores fast-growing companies during the past business cycle. Summarizing past Cheetah business trends may suggest which small businesses are poised for future growth. Because 2020 jolted the economy, however, entrepreneurs will also want to know how their respective industries are adapting to survive and thrive in the COVID-19 era. This series will share insights into emerging industry trends to answer some of these questions.

The [first brief](#) in this series described past Missouri Cheetah research and analyzed statewide Cheetah trends from 2014 to 2019. The [second brief](#) examined high-growth business trends in Missouri’s metropolitan and nonmetropolitan areas.

The Missouri Small Business Development Centers funded this research. Business counselors, their customers and community leaders can use the timely information to help businesses and the economy rebound.

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Data Sources and Notes:

- Business data are from the InfoUSA Reference Solutions longitudinal establishment employment database developed by the Center for Regional Economic Competitiveness, Council for Community and Economic Research unit.
- Business and ownership figures are from VerticalIQ, an industry intelligence company.



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