



## Main Street 2012: The Year of Living With Uncertainty

SMALL BUSINESS, Groupon INC, SQUAWK BOX U.S., ENTREPRENEURS, STARTUPS, SMALL BUSINESS: MANAGEMENT, SMALL BUSINESS: FINANCING, CAREERS, BUSINESS NEWS

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As we look back on 2012, many small-business owners operated under uncertainty.

From potential new tax hikes in 2013 to rising health-care costs beginning in 2014, many entrepreneurs postponed key hiring and spending decisions on big-ticket items. Main Street—a traditional driver of new jobs and economic recovery—was at a standstill, and in some cases deteriorated.

Even after the November presidential race, anxiety about tax hikes and government spending cuts left many small companies paralyzed and wondering, "So what's actually *changed*?" So far not much. **Congress remained locked in a stalemate** about the pending "fiscal cliff."

"Since October, my business has dropped off 80 percent and I attribute that directly to the 'fiscal cliff' discussion and the economy," said Charlie Arnold a month ago. He has been running a power-washing business in Lewes, Delaware for 13 years. (*Read more: **Amid 'Fiscal Cliff' Stalemate, Main Street Deteriorates***)

As the government deadlock drags on, we look back at some of the key issues faced by small-business owners, entrepreneurs and younger workers. Lending remained tight in 2012, while technology—from the proliferation of social media to questions about online deal websites such as **Groupon**—continued to transform upstarts.

(*Read more: **Five Key Issues Facing Small Business in 2013***)

### Taxes and Health-Care Costs

No other topic loomed larger over entrepreneurs this year than higher taxes and costs associated with health-care changes. Many of the provisions the Patient Protection and Affordable Care Act, also known as Obamacare, go into effect in 2014. Small companies face penalties if they don't provide health insurance to full-time employees. (*Read more: **Small Employers Weigh Impact of Providing Health Insurance***)

A more pressing issue is higher taxes if Congress and President Barack Obama can't reach a debt deal by year's end. Small companies including franchisees want certainty—not a "fiscal cliff."

"They're the ones on the front lines hiring employees, making decisions about whether they'll buy new equipment or build another location," said Bob Wright, chief executive of Charley's Grilled Subs last month on **CNBC's Squawk Box**. "They'd like to know what environment they're operating in." These **small-business owners** "absolutely care" about the potential for higher taxes on those making over \$250,000 a year, Wright said. (*Read more: **Franchisees Want Certainty, Not 'Fiscal Cliff': Restaurant CEO***)

Another important tax provision for small businesses is the Section 179 deduction, which could shrink to \$25,000 next year from \$125,000 in 2012. The deduction, which applies to equipment purchases, was \$500,000 in 2011, the AP reported.

### American Entrepreneurship Rising

But for all the gloom and doom, there were bright spots. Feeling upbeat about their economic prospects, more people were running or starting new businesses in 2011—the highest level since 2005, according to a report issued in November by Babson College and Baruch College. (*Read more: **Feeling Hopeful, More Americans Embrace Entrepreneurship: Report***)

And more Americans leaped into entrepreneurship based on their perception of promising opportunities

ahead, a group sometimes called opportunity entrepreneurs. In contrast, during the depths of the recession, more people had started businesses because they couldn't find jobs—a trend known as necessity entrepreneurship.

Speaking of entrepreneurship, immigrant share of U.S. small-business ownership rose to 18 percent from 12 percent two decades ago, according to a Fiscal Policy Institute study. (*Read more: [How Immigrants Are Changing US Businesses](#)*) Specifically in Silicon Valley, 52 percent of startups were founded by immigrants, according to the [Kauffman Foundation](#).

### **Alternative Sources of Cash: Can You Say Pawn Shop?**

While entrepreneurship is alive and kicking, Main Street in part isn't creating jobs because small-company owners can't get loans to jump start their businesses. Frustrated by banks' stingy lending policies, some companies turned to a new crop of alternative lenders that are upending banks' conservative standards. (*Read more: [Small Businesses Turn to Alternative Lenders](#)*)

Other small-business owners turned to pawn shops for a cash infusion. Once regarded as the last resort of the destitute, the shops have become more socially acceptable for everyone to raise loans against personal valuables. "Small business owners form 65 percent of our business, though within that bracket we include people from ... sole proprietorship to over 200 employees," Paul Aitken, chief executive of online pawnbroker Borro, told the FT. (*Read more: [Pawn Shops Emerge From the Shadows](#)*)

### **Young and Broke Workforce**

With long-term unemployment near historic highs, many workers—especially younger workers—morphed into free agents. In fact, more college graduates are ingeniously crafting a collection of part-time, freelance jobs to create the equivalent of a full-time paycheck. They're known as permanent freelancers or "permalancers." (*Read more: [Why More Millennials Go Part Time for Full Time Pay](#)*)

Other so-called millennials—those between 18 and 34—are pessimistic about their future and think they'll be worse off than their parents. Buckling under debt and weak job prospects, they're delaying big life decisions such as buying a home and starting a family. (*Read more: [Economy Stinks for Many, but It's Crushing Millennials](#)*)

### **Technology Disruption**

But any good entrepreneur knows, challenges breed opportunity. For nimble newcomers, re-imagining the online marketplace was priority one. More tech savvy consumers, for example, are mining the Internet to find the best deals—sometimes at the expense of loyalty to retailers. "There will be a lot less retailers on this planet in another decade than there is today," said Michael Rubin, chief executive of **Kynetic**, which owns three websites—Fanatics, Rue La La and ShopRunner. Rubin made the comments last week on **CNBC's "Squawk Box."**

For some startups, innovation came with questions. Founded in August 2008, Airbnb (*pronounced air-bee-n-bee*) allows individual home and apartment owners to rent properties as holiday accommodations—sometimes for hundreds of dollars less than local hotel rooms. The startup encountered some criticism about whether the site keeps tabs on users. The company pointed to its many site safeguards. (*Read more: [Rental Startup Airbnb Goes Hyper Local, but Is It Safe?](#)*)

Entrepreneurs continued to mine crowd-funding websites such as Kickstarter. But some including the creators of the smartphone watch Pebble realized the new funding model isn't an easy fix for raising money. (*Read more: [How Trendy Funding Puts Pressure on Startups](#)*)

Then there's **Groupon**. Once a tech darling, Groupon shares are under \$5, down roughly 85 percent since it went public in November 2011. One franchisee's experience was unusually rocky, and offered a cautionary tale about the effectiveness of digital discounts. (*Read more: [One Franchisee's Cautionary Tale About Groupon's Pitfalls](#)*)

*The Associated Press contributed to this report.*

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