Promoting Small Business and Entrepreneurship in Your Community

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Chapel Hill, NC
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Today's Presentation

- The Basics: What is a Small Business? Who is an Entrepreneur?
- Entrepreneurial Businesses: Key Trends
- Obstacles/Issues Facing Small Business
- What Do Entrepreneurs Need? What Can You Do to Support Them?
- The Role of the Eco-System
- Building the Eco-System

Our Course Objectives

- Learn about the characteristics of entrepreneurs and small business owners.
- Understand the challenges and opportunities facing local entrepreneurs
- Identify tools that can assist communities in developing a robust entrepreneurial ecosystem

Part I

Entrepreneurs and their Businesses

Who is the Entrepreneur?

- A person who organizes and manages any enterprise, especially a business, usually with considerable initiative and risk
- A key driver in our economy
  - Entrepreneurs and their ventures account for majority of net new jobs and innovations
  - A dynamic force for change

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What are the Characteristics of an Entrepreneur?

Entrepreneurs are:

- Visionaries
- Risk Takers (or Risk Managers)
- Creative
- Ambitious
- Self-confident

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Key Entrepreneurial Skills

- **Opportunity Recognition**: *Identify a market need & meet it profitably*
- **Persistence**: *Gather resources to start and grow and enterprise*
- **Comfortable with Ambiguity**: *Make good decisions based on imperfect information*
- **Risk Management:** *Able to assess and manage marketplace challenges.*

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Entrepreneurial Businesses: Types of Firms

- **Self-Employed**: Account for vast majority of new businesses
- **Lifestyle Business**: Goal is self-employment—often refers to family-owned business ("Mom & Pop")
- **High Growth Entrepreneur**: Seeks fast growth for company

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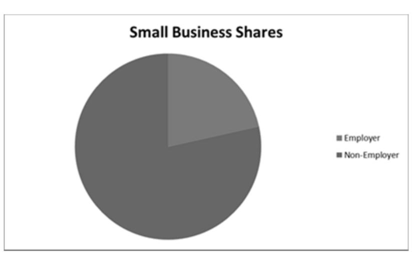
Employers vs. Non-Employers



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Who Creates Prosperity Today?

- **New Companies**
  - Most new jobs in U.S. created by new companies
- **Fast Growing Companies** ("Gazelles")
  - 1% of fast growing firms = 40% net news of jobs
- **Exporting Companies**
  - Exporters grow faster
  - 8.5X less likely to close
- **Successful Existing Companies**
  - Middle Market companies (50-1000 employees)created most jobs and were most resilient in Great Recession

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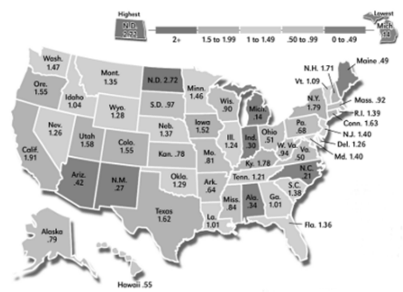
The Landscape of US Entrepreneurs



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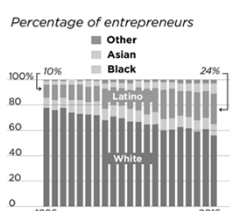
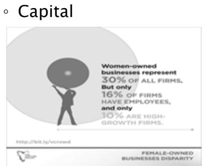
A Quick Snapshot



- Own 1/3 of all US Business
  - But only 10% of fast-growers
- What's Missing?
  - Role Models
  - Capital



- But . . .
  - Few minority firms achieve high-growth
  - Funding remains a challenge
    - Use less capital
    - Use more owner capital

Women Entrepreneurs

Minority Entrepreneurs

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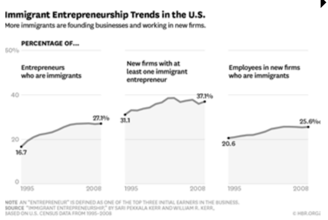
Immigrant Entrepreneurs



- Key Drivers of US Economy
  - 2x more likely to start a biz
  - 28.5% of all new businesses (2015)
  - Helped start 25% of all US tech firms
    - That employ more than 560,000 people, and
    - Generate $64B in sales

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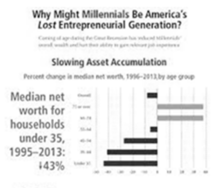
Millennials

- Challenges Ahead
  - A Lost Generation??
- The Good News
  - Best Educated Generation
  - Most IT Savvy
  - Most Biz Savvy



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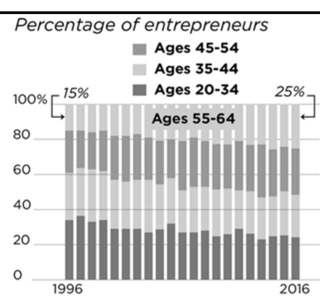
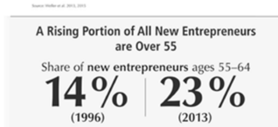
Boomers

- Fastest growing group of entrepreneurs
  - 2015: 25.8% of new businesses started by those aged 55– 64
  - 2x more likely to start than Millennials
- 8 in 10 start for lifestyle reasons





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1099ers

- Growing share of independent workers/freelancers
- 2016: Includes 41 million Americans
  - 31% of US private workforce

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Role of Entrepreneurs in your Community

- Diversified Regional Economic Base
- Sticky Business
- Localized Decision Making
- Local Wealth Generation
- Clusters of Innovators
- Civic Leaders

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Why Do Entrepreneurs Matter? Local and Small is Good!

1) **Local is Good**: Counties with higher local entrepreneurship rates have higher per capita incomes and job growth <u>and</u> lower poverty rates.
2) **Smaller is Good**: Smaller local businesses have a more positive impact than medium or large sized local businesses.

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Entrepreneurs vs. Small Business

- **All firms start small, most remain small**
  - Most start with limited capital
- **Few Firms enter the high-growth entrepreneurial phase**
  - 3-5% of all firms depending on definition
- **As firm grows, needs and goals evolve**
  - Transition from desire for independence/economic well-being to building a world-class company

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Entrepreneurs vs. Small Business (2)

- **As firms grow, needs change**
  - Equity vs. Debt Capital
  - Intense need for Talent
  - New Business Models Emerge
  - Sophisticated Coaching/Mentoring
- **Fast-growth firms exist in all sectors**
- **Small Businesses tend to concentrate in service and retail**

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Small Business vs. Entrepreneur Policy

- Quantity
- Firms
- Self-Employment/ SMEs
- Support

- Quality
- Individuals
- High Growth Firms
- Enable

Small Business Policy	Entrepreneur Policy

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Growth Entrepreneurs: Key Trends

- Most gazelles are in non-tech sectors
- Entrepreneurial "Hot Spots" Account for Large Portion of Gazelles and New Innovations
  - E.G. Five states get 70% of venture capital
- But, gazelle firms exist everywhere

- **We can't predict where the next great entrepreneur will come from!**

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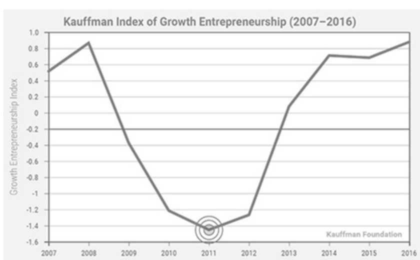
Things are Looking Up!



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Obstacles to Small Business Growth

- Weak Management Skills
- Limited Access to Capital
- Weak Access to Markets

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Weak Management Skills

- Although many small business owners are skilled in their craft or service, they often lack prior management experience
- In most instances, small business owners lack experience in:
  - Managing Personnel
  - Financial Management
  - Day-to-Day Operations of a Business
  - Legal Issues
  - Government Licensing
- Sirolli's Trinity of Management: Doing, Marketing, and Accounting

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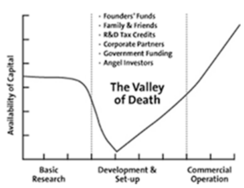
Securing Capital

- Identifying start-up capital is a challenge for many small businesses
- But, real challenge is not at start-up!
- **"The Valley of Death"**
- Why?
  - Traditional lenders find start-up and rapidly expanding businesses to risky
  - Small firms need small amounts of money
  - Venture capitalists like firms with high rates of return



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Securing Capital

- Small business owners develop poor credit as a result of pouring their personal funds into their business
- Lack of personal collateral for the business
- Must link financial literacy to other ED programs

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Access to Markets

- Many small business owners underestimate the importance of market studies to their success
- They have difficulty:
  - Researching their market or competitors
  - Identifying and marketing to potential consumers
  - Identifying buyers
- Must look outside of home market to generate strong growth

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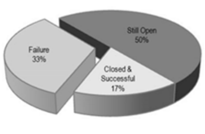
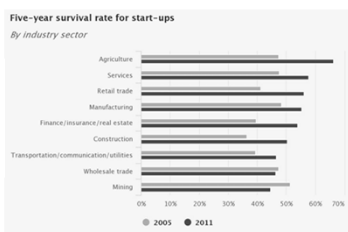
Rethinking Small Business Failure





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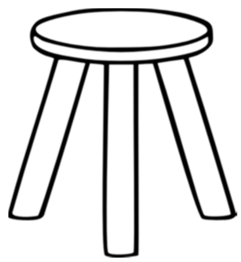
Part II: Assisting Growth Companies

What Do Entrepreneurs Want?
What do They Need?

Rethinking ED's Three-Legged Stool



- Business Attraction ("The Buffalo Hunt")
  - Traditional ED Role
- Business Retention
  - Traditional Main St Role
- Business Growth
  - Our Topic Today!!

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Creating Jobs: What are We Trying to Do?

START: Spur New E's → INFORM: Train "Better" E's → GROW: Build "Better" Businesses → PROSPER: Create Wealth & Jobs

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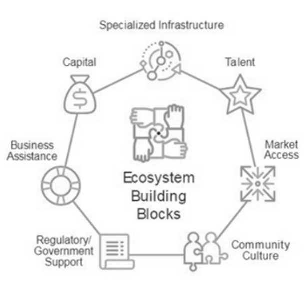
What's the Goal? Innovation Ecosystems: Pick A Model. . .



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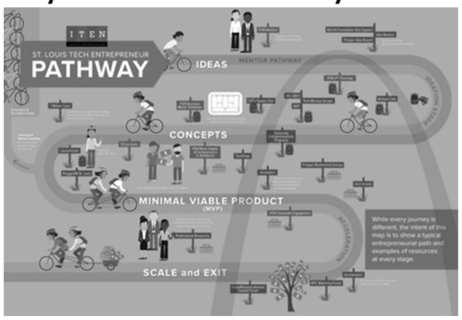
Ecosystems as Pathways



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The Big Picture

- **Entrepreneur Focused**: Meeting entrepreneurs where they are; responsive to their demand
- **Pipeline Approach**: Wide and deep mouth of the pipeline; Process for moving through the pipeline
- **Not Another Program**: Holistic; interconnected•
- **Collaboration** among Resource Providers: Offers "no wrong door" and leads to "hard referrals"
- **Hub**: Someone making Connections; "Network Weaver"
- **Regionally Asset-Based**: Connected to Community and Regional Assets

(Source: Deborah Markley, RUPRI Center for Rural Entrepreneurship)

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Inside the Ecosystem: What Do Entrepreneurs Need?

- Supportive Community Culture
- Easy Access to Technical Assistance & Training
- Capital
- Access to Talent
- Access to Networks

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Moving Ahead: What is Needed to Support Growth Entrepreneurs?

- Creation of New Service Models: From Incubation to Acceleration
  - From Start-Up to Scale-Up
- Better Engagement of Education and Workforce Systems
  - More Innovative & Entrepreneurial Workforce
- Better Coordination of Existing Resources and Service Providers

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How to Get There . . . .

- Effective entrepreneurship support helps:
  - **INVEST**: Provide diverse sources of capital
  - **SPUR AMBITION**: Grow More Ambitious Entrepreneurs
  - **LINK:** Provide Networks and Linkages to Growth Opportunities
  - **GROOM**: Develop more local talent—as entrepreneurs and as employees.

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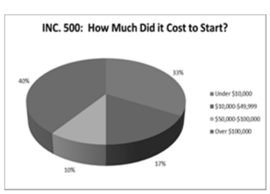
INVEST: A Quick Reality Check from the INC. 500

- 77% founded firms with personal savings
- Nearly 72% funded growth with “all” or “mostly” internal funds



- ***OFTEN, the problem is not capital!!***

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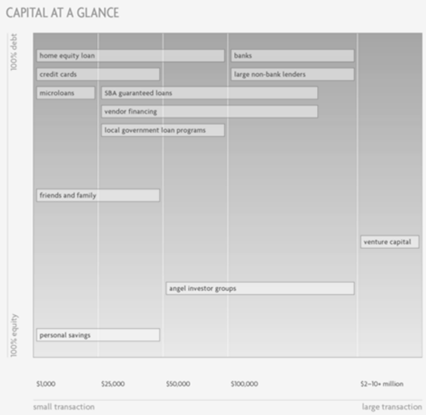

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INVEST: Rethink Local Capital Needs

- New Tools are Good
  - Angel funds
  - CDFIs (Community Development Financial Institutions)
  - Crowdfunding
- But so are Old Tools like:
  - Revolving Loan Funds (EDA, USDA)
  - SBA 504 and 7a Loans

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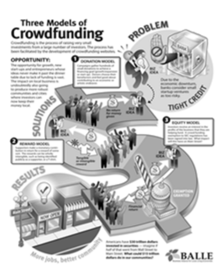
The Power of Angels: Two Models

Angel Networks	Local Crowdfunding

- Small groups of individuals who invest together
  - About 300,000 angels in US
  - 385 organized groups
- In 2012, they backed
  - 67,000 companies
  - With $22.9 billion
- They Live in Your Town!!



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The Power of Local Angels: LION and HATCH

- Local investors targeting local needs
  - Local Foods
  - Infrastructure
  - And much more!
- Crowdfunding network in ten OR locations
- Invested more than $150K in local firms since January 2015

LION (East Jefferson County)

HATCH Oregon

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SPUR AMBITION: How to Think Bigger

- Many entrepreneurs lack. . .
  - In-house business development capacity
  - Capacity to follow-up & capture new opportunities from new markets, technologies or customers.
  - Access to outside business development or consulting services.

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Rethinking How to Support Entrepreneurs

- Need a new model for supporting new and growing businesses
  - "No Wrong Door" Replaces "One Stop Shop"
- Peer Networks as Primary Support Tool
- ED organizations serve as "Resource Brokers" who link entrepreneurs to:
  - Industry Expertise
  - Needed Services
  - Money!!

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Business TA and Training: Policy

- Need a comprehensive array of services
  - Meet the needs of all entrepreneurs
  - Plus Specialization too
- Entrepreneurship Education at all Levels
  - Building the Pipeline
- Customized Delivery
- On-Site and Online

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From Incubation to Acceleration

What We Do Now: Incubate!

- Typical Start-Up Services:
  - Coach Start-Ups
  - Develop Biz Plans
  - Make Traditional Loans
  - Help Lower Costs
    - Incubators
    - Tax Credits
    - Training Subsidies

What We Should Do: Accelerate!

- Potental Scale-Up Services:
  - Expand Markets (e.g. exports)
  - Stimulate growth sectors (e.g. clusters)
  - Link to Global Networks (e.g. accelerators)
  - Coaching/Mentoring
  - Provide equity finance (e.g. CDFIs, angels, etc.)
  - Business Model Innovation
  - Talent Development

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Examples: Economic Gardening

- Accelerator Program
- Peer Network
- Mentor/Consultant Connections
- Alumni Network
- Funding

GROWFL

LED LOUISIANA ECONOMIC DEVELOPMENT

ADVANCE MARYLAND

A program for second-stage entrepreneurs

Sponsored By: EAGB MARYLAND

NATIONAL CENTER FOR ECONOMIC GARDENING

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LINK: The Power of Networks

- Hub of the Ecosystem
- Peer Learning as Key Function
- Activities:
  - Training
  - Coaching
  - Investment Screening & Matching
  - Networking

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Invest in Support Services: Examples

- KC Sourcelink (www.kcsourcelink.com)
- Network Kansas (www.networkkansas.com)
- Jumpstart, Inc. (Northeast Ohio) (www.jumpstartinc.org)
- CONNECT (San Diego): www.connect.org
- Iowa Pappajohn Centers (http://www.isupjcenter.org/)
- Council for Entrepreneurial Development (NC) (www.cednc.org)

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GROOM: Embed Entrepreneurship in the Community. . .

- Engage Students
  - Startup Weekend (http://startupweekend.org/)
  - Awards and Competitions
  - Community Colleges (NACCE President's Commitments)
    - www.nacce.com
- Engage the 1099 Workforce
- Engage Educators and the Workforce System

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Changing Mindsets: What do Innovators Want?

***Diversity**: They want all kinds of people around them. People with different ideas, philosophies, religion, experiences. A lot of creativity results from the cross pollination of cultures and ideas.*	***Education systems** that turn out innovators rather than recipe followers. They want cradle-to cradle opportunities to learn, to keep developing their own minds and skills, and they minds and skills of their families*	***Attitudes that allow failure**, that recognize failure as part of the process of succeeding.*	***Social scenes** enlivened by music, art, dance, literary scenes, and plenty of places where they blur the lines between work and play.*	***Access to fast, reasonably priced internet**, so they can work in home offices at any time of day or night.*

Source: CREATE WV EMAIL CAMPAIGN October 25, 2016. "Buy Your State a Beer"

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Building the Pipeline: Some Models

- K-12: Network for Teaching Entrepreneurship (www.nfte.com)
- Natl. Assoc. for Community College Entrepreneurship (www.nacce.com)
- Higher Ed: Entrepreneurship programs in Engineering Schools
  - Stanford Technology Ventures (stvp.stanford.edu)
  - Career Services (www.thelaunchpad.org)

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Honoring Entrepreneurs: Models and Ideas

- Ernst & Young Entrepreneur of the Year
- MASS Challenge (www.masschallenge.org)
- Springboard: Women Entrepreneurs (www.springboardenterprises.org)
- Reynolds Cup (AR, OK, NV) (http://crc.arcapital.com/governors_award/business_plan_competition/)
- Indiana Innovate WithIN (https://innovatewithin.org/)

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A Recap

- Entrepreneurs thrive within systems, networks, and interconnected webs
  - But, these systems don't happen overnight
  - And they are regional, national, and global in scope: THINK BIG!!
- Capacity building begins at home
  - But, it can't stop at home!

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Closing Thoughts

- Embrace Entrepreneurs
  - Make Everyone an Innovator!
  - Honor & Support Entrepreneurs
  - Develop New Support Tools & Resources
- Build a Balanced Economic Development Portfolio
  - Helping Entrepreneurs helps Everyone!

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The Need for Holistic Solutions

- **Must Serve the "Whole" Market**
  - Avoid targeting if you can
- **Community transformation does not occur through government programs**
- **But, comprehensive solutions are hard**

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Moving Forward

- Learn from the experience in other regions
- Build on existing assets
  - Link to Current Existing Business Retention and Expansion Programs
- Create a focus on entrepreneurs
- Move forward with a systems approach to entrepreneurship development
  - Policy Emphasis Shifting toward Innovation

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Potential Roles for Economic Developers

- **Become an Information Resource**
  - Expert on your Small Business Sector
- **Catalyze the Local Support Network**
- **Provide a Safe Meeting Space**
  - Pay for Coffee and Doughnuts!
- **Broker Services**
  - Link Support Providers to Local Businesses

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More Potential Roles

- **Screen Deals**
  - Help review business plans for awards or new investments
- **Engage Educators**
  - Partner with Local Schools
- **Introduce New Programs**
  - Targeting Special Markets (e.g Latinos)
  - Targeting New Issues (e.g. 1099 workers)
  - Sector Strategies

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Additional Reading

- David Audretsch: *Everything in its Place: Entrepreneurship and the Strategic Management of Cities, Regions and States* (2015)
- Steve Blank and Bob Dorf, *The Start-Up Owner's Manual*, 2012.
- Brad Feld, *Start-Up Communities*, 2012.
- Victor Hwang and Greg Horowitt, *The Rain Forest: The Secret to Building the Next Silicon Valley*, 2013.
- Kauffman Foundation, *Ecosystem Playbook*, 2017.
- Maria Meyers/Kate Hodel, *Beyond Collisions: How to Build your Entrepreneurial Infrastructure*, 2018.
- Eric Ries, *The Lean Start-Up*, 2012.
- Center for Rural Entrepreneurship, *Energizing Entrepreneurial Communities*, 2014.
- Michael Shuman, *The Small-Mart Revolution* (2009).

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Thanks!!

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