

THEIR NEEDS AND THOUGHTS

RESULTS OF THE FIFTH BIENNIAL SMALL BUSINESS NEEDS ASSESSMENT



a report by DENA R. BECK
and the *CENTER for RURAL AFFAIRS'*
RURAL ENTERPRISE ASSISTANCE PROJECT

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INTRODUCTION

ABOUT

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

Rural Enterprise Assistance Project (REAP) is a Center for Rural Affairs program and is a statewide microenterprise development organization. The program continues to intentionally serve microenterprise (businesses with up to 10 full-time equivalent employees) in Nebraska.

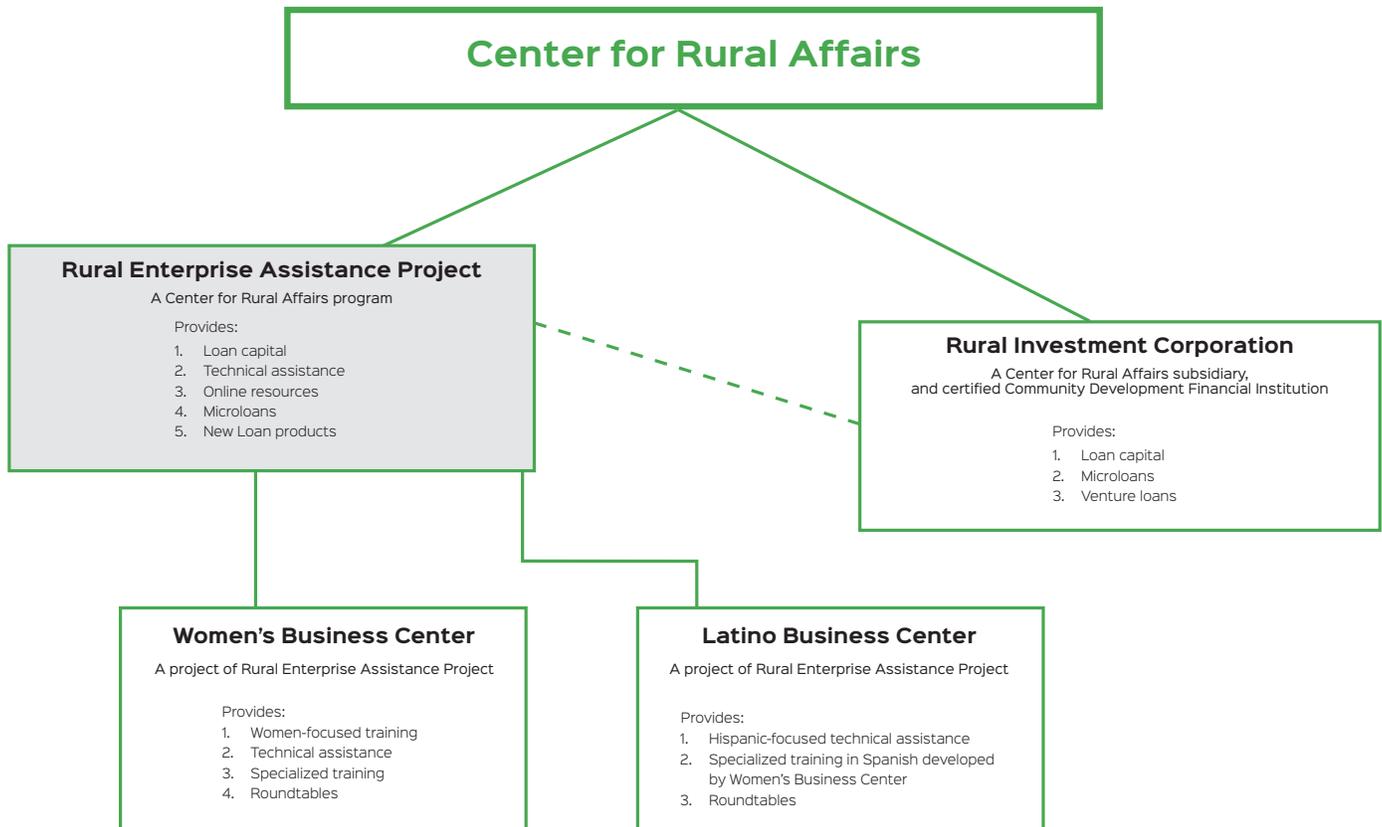
REAP has 10 staff located throughout rural Nebraska and consists of four main elements: credit (loans), technical assistance (business coaching), networking and training.

Working hand-in-hand with REAP, the Rural Investment Corporation is a Center for Rural Affairs subsidiary. The Rural Investment Corporation is a certified Community Development Financial Institution with a mission to provide financing and technical assistance in support of community development, including startup and expansion of small businesses, creation of jobs and other community assets, improving access to services and ownership opportunities especially for low-income or otherwise disadvantaged people.

Community Development Financial Institutions are private financial institutions that are dedicated to delivering responsible, affordable lending. Each institution helps low-income, low-wealth and other disadvantaged people and communities join the economic mainstream.

See Table 1 below for an organizational chart of both REAP and Rural Investment Corporation.

TABLE 1. RURAL ENTERPRISE ASSISTANCE PROJECT AND RURAL INVESTMENT CORPORATION ORGANIZATIONAL CHART



HISTORY

REAP was started by the Center for Rural Affairs in 1990 to meet the needs of the self-employed in the Midwest. Studies in the 1980s showed a high rate of self-employment in rural areas, but no economic development strategies to help this sector. The program followed a Peer Group Model - staff held meetings with groups of business owners to gather input. The first group formed at Cedar Rapids, Neb.

In 1992, REAP was one of 35 programs chosen by the Small Business Administration to pilot programs in the United States. The pilot was designed to use the Grameen Bank model created by 2006 Nobel Peace Prize winner Dr. Muhammad Yunus. (Grameen Bank is a microfinance organization and community development bank.) The Center for Rural Affairs was tasked with addressing challenges to the rural economy.

In 1998, staff started a Direct Lending Program with a maximum loan of \$15,000. It was intended to assist those entrepreneurs who are falling between the cracks where no other lending capital is available and when technical assistance or training are needed.

In 1999, the Direct Loan Program was made a permanent part of REAP, with a maximum loan of \$25,000. In 2002, the Individual Program was officially launched, adding to loan products offered.

The state's only Women's Business Center was established within REAP in 2001, and serves as a training arm of the program, instructing both men and women with a defined focus of assisting female entrepreneurs.

The REAP Latino Business Center was created in 2004 and provides technical assistance and training in Spanish.

Since 2005, REAP has had an innovative online lending system that helps rural entrepreneurs as well as the staff who serve them.

Rural Investment Corporation was created to provide services in coordination with REAP in 2011, and was officially certified as a Community Development Financial Institution in 2013.

In 2015, REAP celebrated 25 years of creating and strengthening vibrant rural communities through small business development.

In 2016, Rural Investment Corporation successfully launched a small business lending product with a maximum loan limit of \$150,000. The need was identified after completion of market research on rural businesses.

TABLE 2. SURVEY RESPONSES BY YEAR

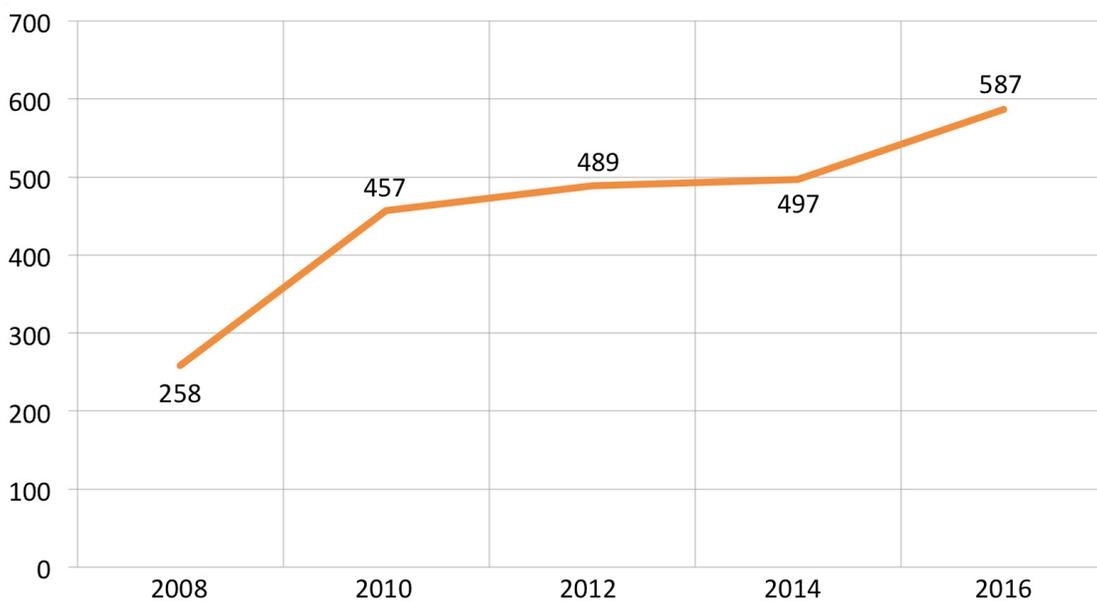
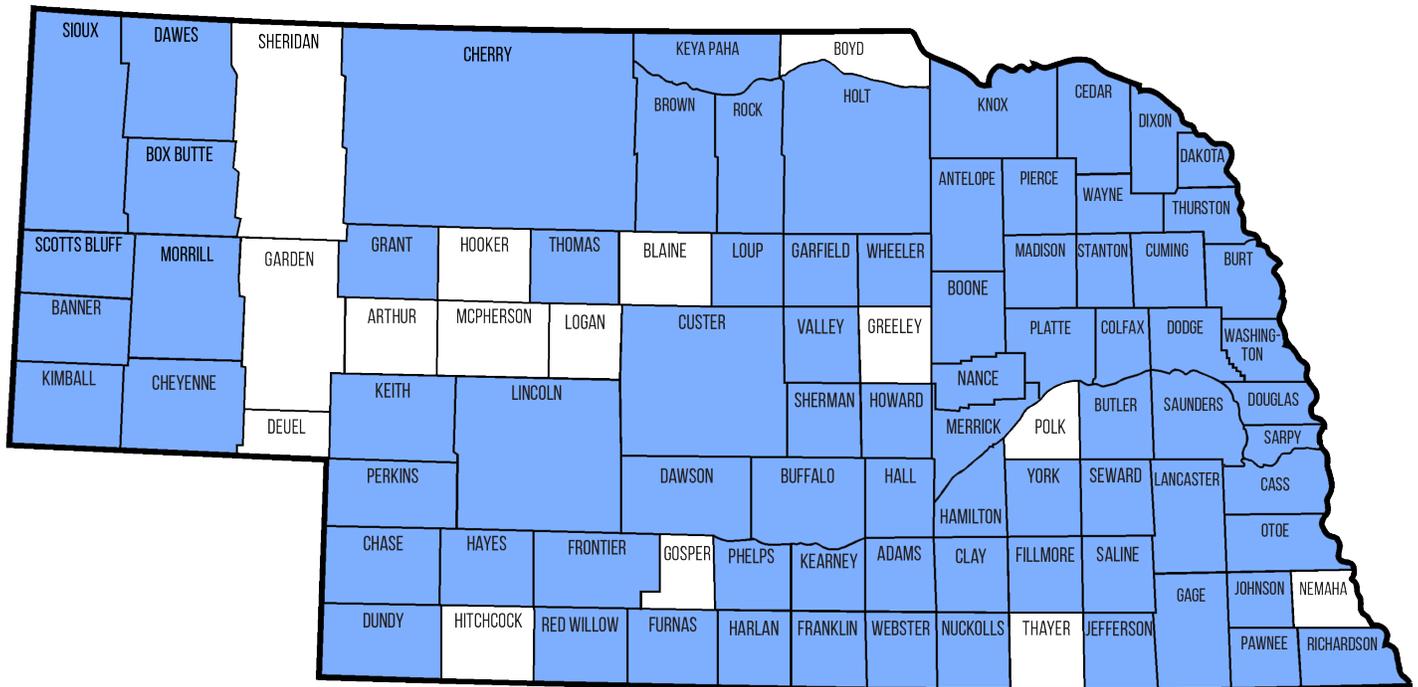


TABLE 3. SURVEY RESPONDENTS ARE FROM 78 OF 93 COUNTIES IN NEBRASKA



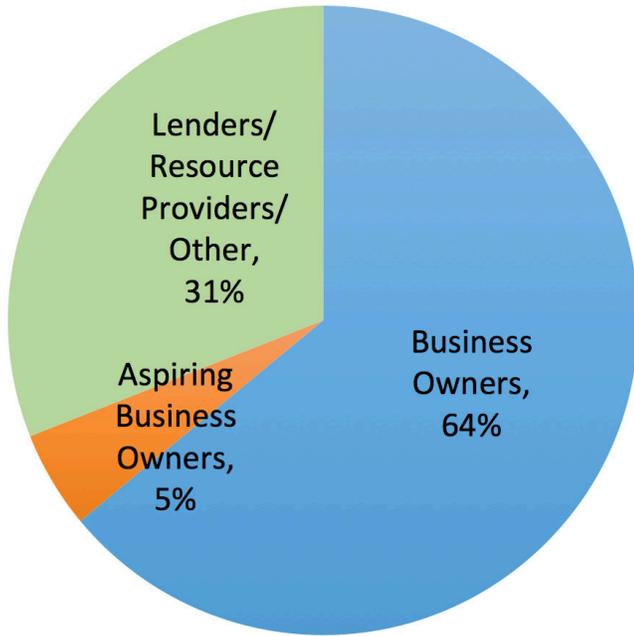
LENDING STATISTICS

- In fiscal year 2016, staff placed 123 loans totaling more than \$1.7 million.
- In fiscal year 2015, Center for Rural Affairs' REAP program ranked seventh in the nation in the number of loans using Small Business Administration dollars (the only exclusively rural program in the top 10).
- In fiscal year 2016, the program was ranked ninth in the number of loans using Small Business Administration dollars (again, the only exclusively rural program in the top 10).
- Also in fiscal year 2015, the lending program ranked 21st in the nation in the amount loaned using Small Business Association dollars.
- Historically (1990 to June 30, 2016), REAP has provided 1,241 loans totaling over \$13.7 million to Nebraska microenterprise businesses.
- Of the clients served in fiscal year 2016, 66 percent were female, 36 percent were Latino, and 82 percent were within or below the low-to-moderate income range.
- Historical default rate on loans is 2.92 percent.

SURVEY METHODOLOGY

- This survey is fifth in a series of biennial surveys that started with one question in 2007 - *How do we know we are offering the products and services that businesses need?*
- The self-administered survey was available January through April 2016 and delivered in the following ways: posted on www.cfra.org/reap, e-mailed to clients, and sent to partnering organizations to share with business owners and those who serve them (lenders, resource providers, etc.).
- Questions have stayed fairly constant since the first survey in 2008 while responses have more than doubled. See Table 2 on the previous page. This survey is unique because it asks businesses as well as those who serve them what the businesses need.
- Though the survey currently only focuses on Nebraska, staff hope to soon implement the survey in Kansas, Iowa and South Dakota. Data will be used to compare the four states which have very similar demographics and economies.
- The survey was created in Survey Monkey and contained both multiple choice questions and open-ended questions. Due to rounding, percentage totals may not equal 100 percent.

TABLE 4. SURVEY RESPONSES BY TYPE



WHO ANSWERED THE SURVEY?

The majority of respondents were business owners, with 376 responding. There were 74 resource providers who are not business owners and who assist businesses and entrepreneurs; 30 aspiring business owners; 30 lenders who are not business owners; and 77 non business owners that listed themselves as other. See Table 4 above.

The location of responding businesses and those who serve them included 78 of Nebraska’s 93 counties. See Table 3 on the previous page.

BUSINESS OWNERS AND ASPIRING BUSINESS OWNERS

To see the differences and correlations between businesses and those who serve them, the questions were divided into two categories. The first part of this report focuses on business owner responses.

DEMOGRAPHIC

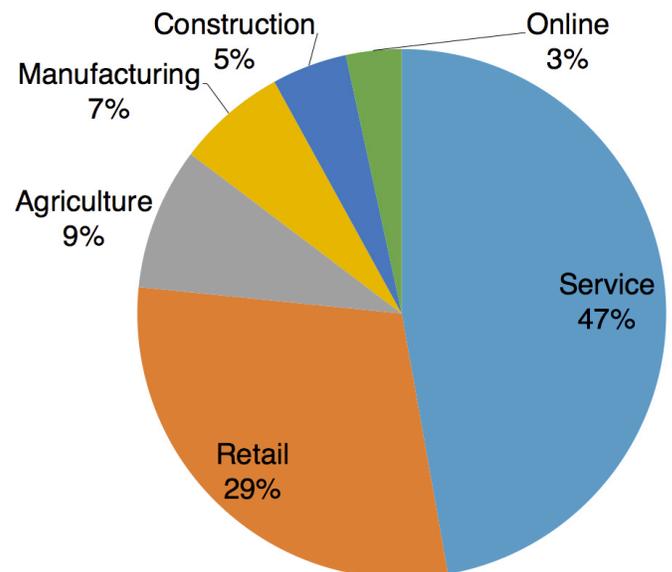
Business owners who responded were:

- 248 existing (at the business for more than one year)
- 45 new (within the first year of business)
- 47 transitioning (within 10 years of exiting the business)

The average age of the business owner and aspiring business owner respondent was 48 years old. In prior surveys, respondents averaged 53 years old in 2014, and in 2012 they averaged 51 years of age.

In previous surveys, the gender of business owner respondents was typically split nearly 50:50. The 2016 survey was no different, with respondents that were 53 percent female and 47 percent male.

TABLE 5. CATEGORY OF BUSINESSES REPORTING



CATEGORIES OF BUSINESSES

Typically in past surveys, service and retail have been the top two categories of business and have ranked closely together. The 2016 data suggests an increase in service businesses, coming in at 47.2 percent (up from 39.1 percent in 2014 and 35.8 percent in 2012). See Table 5 on the previous page.

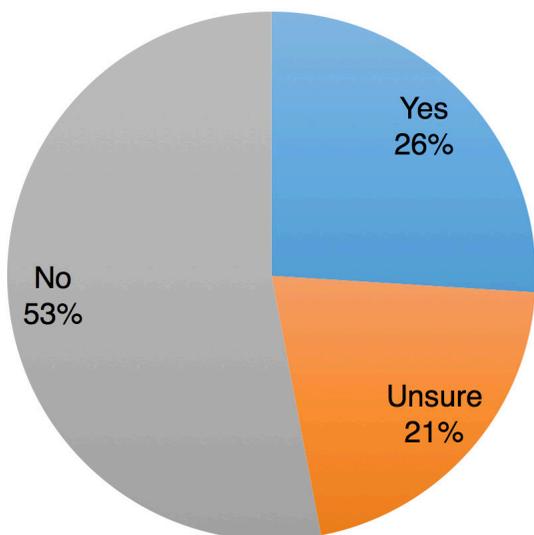
FINANCING NEEDS OF BUSINESSES OR ASPIRING BUSINESSES

The survey asked if the business had a current financing need within the next six months. Nearly half of them indicated *yes* or *unsure*. See Table 6 below.

If they answered *yes* or *unsure* to the previous question, the *anticipated dollar amounts needed in the next six months* was then captured.

Over 80 percent of respondents stated they need \$150,000 and less (the maximum amount of money REAP and Rural Investment Corporation lends) which is in line with our research prior to offering a \$150,000 small business loan product. The bulk of those dollar amounts, 62.1 percent, still fit into the microloan range of \$50,000 and less.

TABLE 6. FINANCING NEED WITHIN SIX MONTHS



Anticipated dollar amounts needed in the next six months:

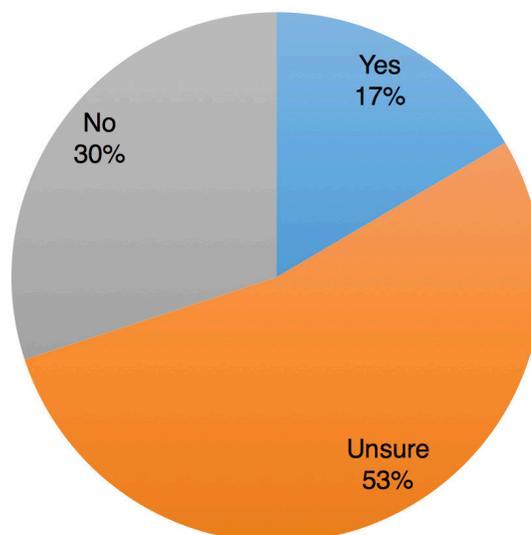
Less than \$10,000	20.7%
\$10,001 - \$25,000	26.9%
\$25,001 - \$50,000	14.5%
\$50,001 - \$75,000	2.8%
\$75,001 - \$100,000	9.7%
\$100,001 - \$150,000	6.2%
\$150,001 - \$200,000	3.4%
\$200,001 - \$250,000	1.4%
\$250,001 - \$300,000	4.8%
\$300,001+	9.7%

Next, the survey asked, *Do you anticipate a financing need in the next 6 to 12 months for your business?*

Not surprisingly, the *unsure* option increases in projecting a need 6 to 12 months away. See Table 7 below. Approximately 76 percent of respondents fit within REAP and Rural Investment Corporation's lending parameters (\$150,000 and less).

Answers of *yes* or *unsure* to the previous question then answered how much they anticipate needing in the next 6 to 12 months.

TABLE 7. FINANCING NEED IN 6 TO 12 MONTHS



Anticipated dollar amounts needed in the next 6 to 12 months:

Less than \$10,000	30.4%
\$10,001 - \$25,000	24.8%
\$25,001 - \$50,000	14.4%
\$50,001 - \$75,000	0.0%
\$75,001 - \$100,000	0.0%
\$100,001 - \$150,000	6.4%
\$150,001 - \$200,000	1.6%
\$200,001 - \$250,000	3.2%
\$250,001 - \$300,000	0.0%
\$300,001+	19.2%*

*Note a big jump between a microloan (\$50,000 and lower) and \$300,000+

An important question to accompany the potential financing need is *Do you have financing secured in relation to your business needs?* See Table 8 below.

Here lies an opportunity to help secure financing either through a traditional lender, an alternative or a combination.

TABLE 8. COMPARISON OF PERCENTAGES OF SECURED FINANCES FOR BUSINESS NEEDS

FINANCING NEED WITHIN 6 MONTHS		FINANCING NEED 6 TO 12 MONTHS	
YES	26.4%	YES	16.5%
UNSURE	21.0%	UNSURE	53.4%
NO	52.6%	NO	30.0%

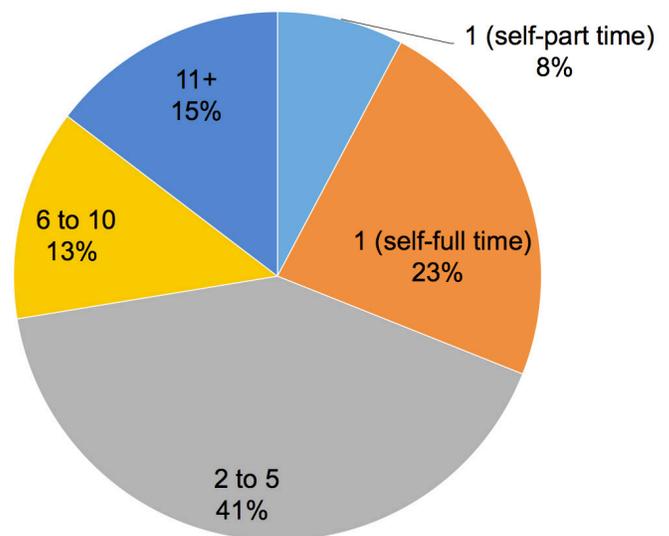
NUMBER OF EMPLOYEES

The number of employees is important to remember when thinking about financing need, gross revenue, etc., of the respondents. We asked, *How many employees does your business employ, including yourself? Please include ALL employees, even if they are part-time or seasonal.*

Over 85 percent of responses are in REAP's target market of microenterprise (again, 10 and fewer full-time employees). According to the Association for Enterprise Opportunity "The Voice of Microenterprise," the percentage of microenterprise businesses in Nebraska averages 86 percent. In rural areas of Nebraska, microenterprise businesses number closer to 90 percent.¹

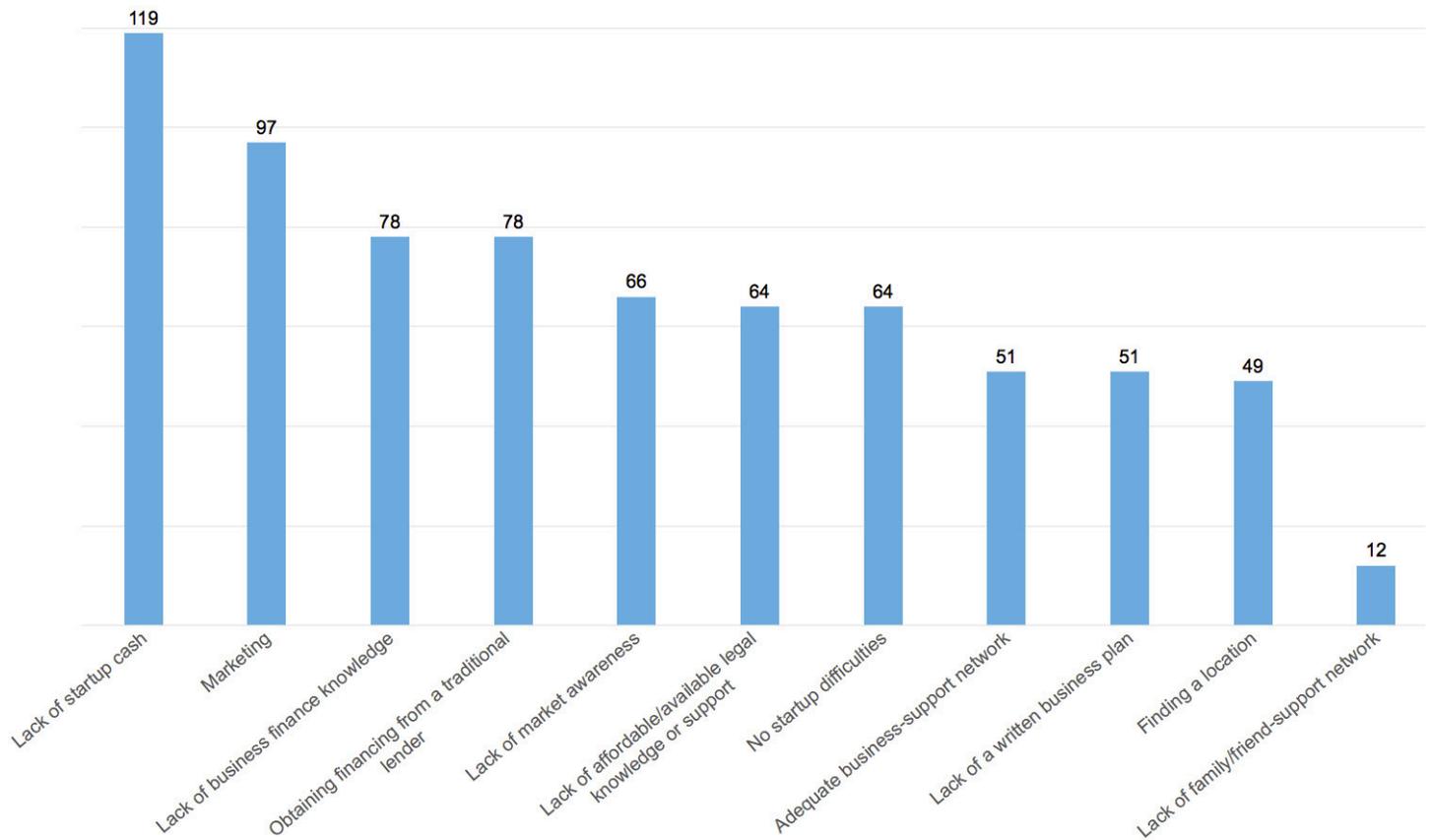
Comparing results of one employee self, full-time to one employee self, part-time, from 2014 to 2016, shows a reversal of survey results. The percentage of businesses with one employee self, part-time was 7.8 percent in 2016 and 24.9 percent in 2014. The percentage of businesses with one employee self, full-time was 23.3 percent in 2016 and 5.6 percent in 2014. For 2016 results, see Table 9.

TABLE 9. NUMBER OF EMPLOYEES



¹ Association for Enterprise Opportunity. Washington, DC. www.aeoworks.org.

TABLE 10. STARTUP NEEDS



BUSINESS NEEDS

All business owners, whether a startup or a seasoned business, were asked what their greatest need was while starting up. Respondents could mark all that applied.

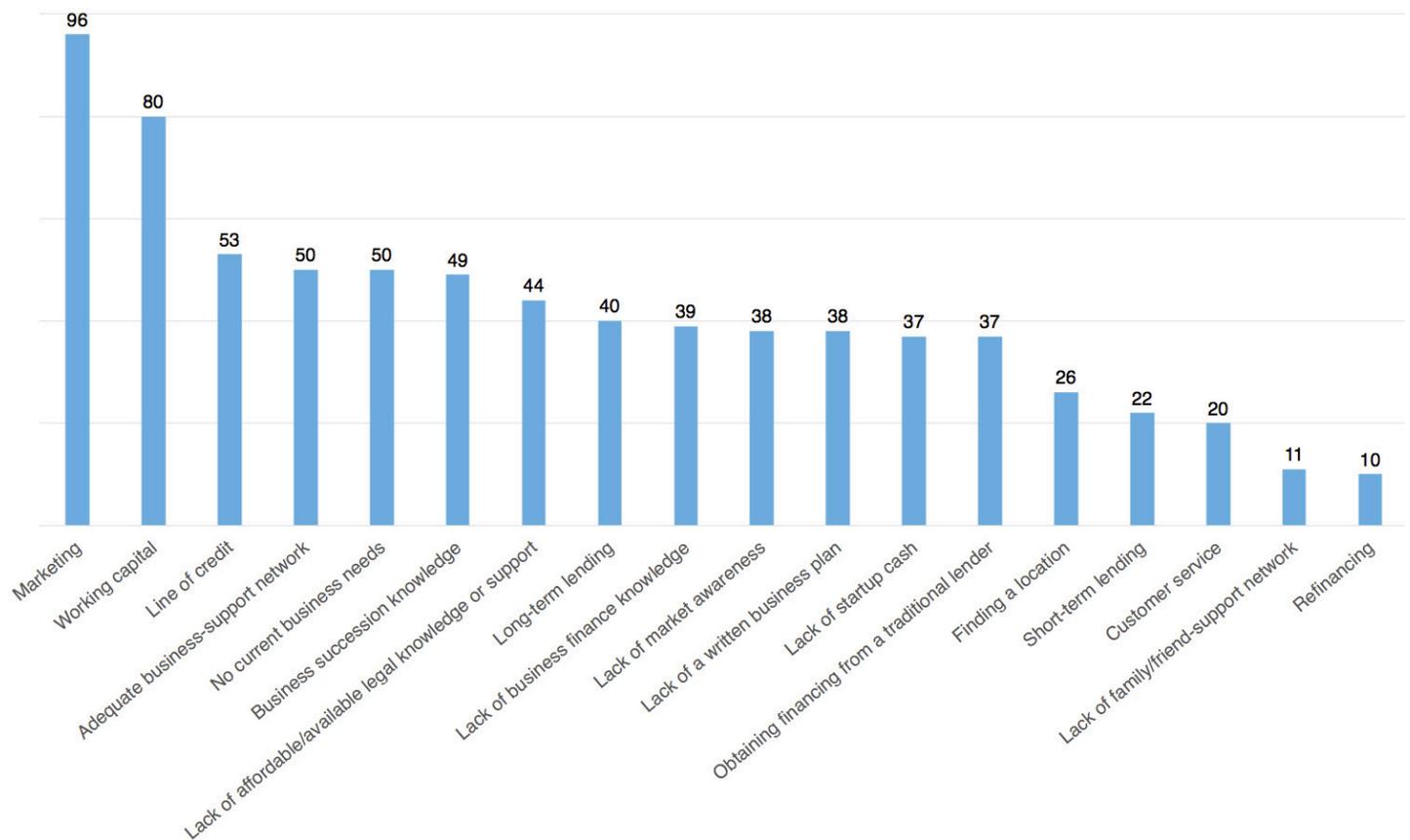
As in surveys past, the top two responses were *lack of startup cash* and *marketing*. *Lack of business finance knowledge* and *obtaining financing from a traditional lender* came in with equal responses. Then respondents ranked *lack of market awareness* and *lack of affordable/available legal knowledge or support*. 64 business owners said they had *no startup difficulties*. Rounding out the responses were *adequate business-support network*, *lack of a written business plan*, *finding a location* and *lack of family/friend-support network*.

In addition to the responses shown in Table 10 above, *construction delays*, *employee quantity and quality*, *finding information in Spanish*, *lack of a business mentor* and *lack of a contingency plan* were listed as other difficulties when starting out.

GREATEST NEED
FOR STARTING A BUSINESS
IS STARTUP CASH

GREATEST NEED
FOR CURRENT BUSINESSES
IS MARKETING

TABLE 11. CURRENT BUSINESS NEEDS



IN A STUDY OF
RURAL BUSINESSES,
MARKETING
ASSISTANCE
WAS A TOP CONCERN

Respondents were asked the greatest current needs of their existing/aspiring business. Again, they could mark all that applied and had a few more options as seasoned business owners. Note that *marketing* and *lack of cash/working capital* are still king. See Table 11 above.

A study of rural businesses done by Becky McCray, publisher of SmallBizSurvival.com, came up with similar results with *marketing assistance* coming in second for the area people want help in for their rural small businesses.²

² McCray, Becky (June 2015). Survey of Rural Challenges 2015. Retrieved from <http://smallbizsurvival.com/survey-of-rural-challenges.html>

GROSS REVENUES

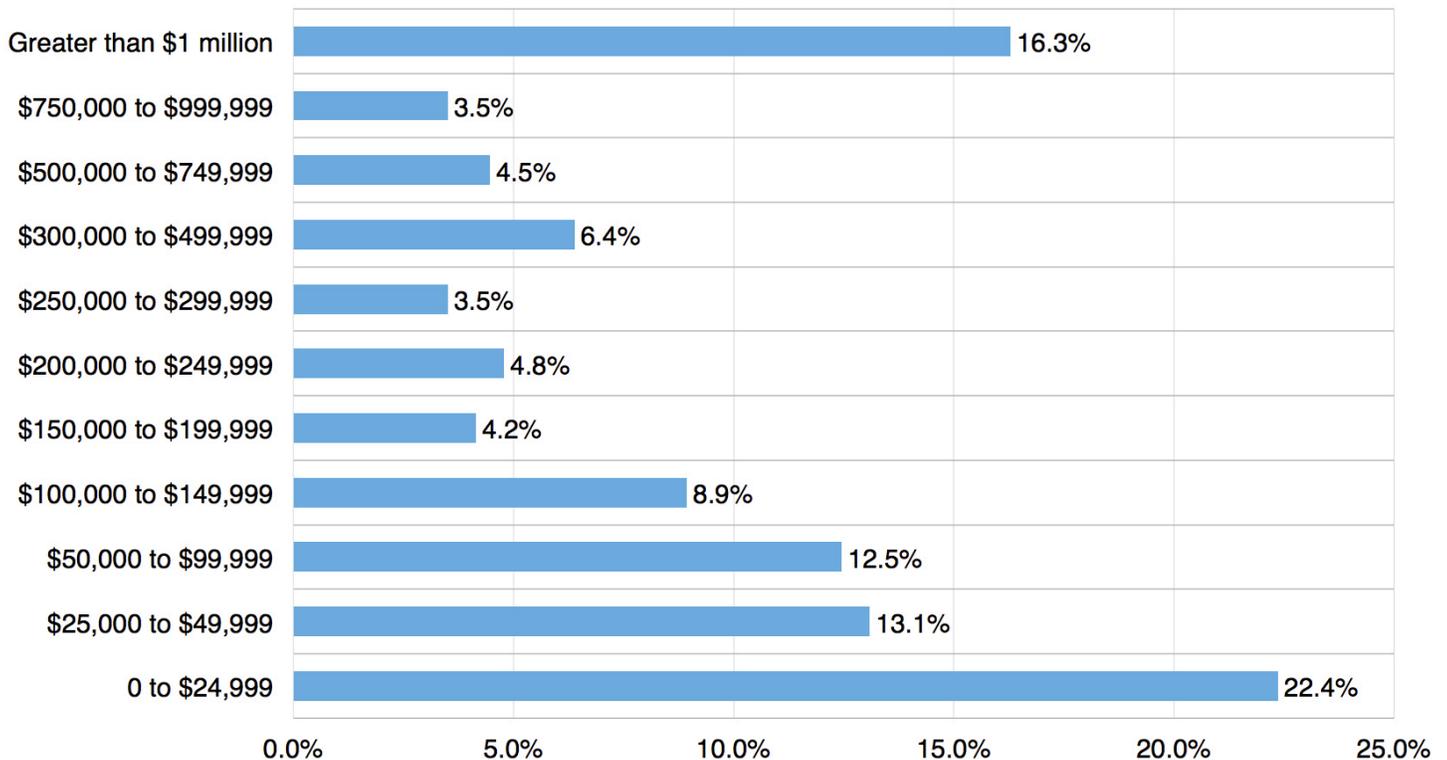
A range of annual gross revenue options was given. When reading the results in Table 12 below, keep in mind that 31.1 percent of business owners employ only themselves part- or full-time, and 85.5 percent (including those self-employed) are microenterprise businesses (10 and fewer full-time equivalent employees).

Businesses with an income of \$0 to \$24,999 per year averaged 22.4 percent in the gross revenue category, the highest percentage of gross revenues.

THE HIGHEST PERCENTAGE OF GROSS REVENUE WAS **22.4%** IN BUSINESSES WITH AN INCOME OF **\$0 TO \$24,999 PER YEAR***

**KEEP IN MIND 31.1% OF RESPONDING BUSINESS OWNERS EMPLOY ONLY THEMSELVES PART- OR FULL-TIME*

TABLE 12. GROSS REVENUE OF CURRENT BUSINESSES



COST OF HIRING AN EMPLOYEE WAS THE TOP BUSINESS GROWTH INHIBITOR IDENTIFIED BY RESPONDENTS

BUSINESS GROWTH INHIBITORS

A new question to the 2016 survey was driven by input heard by REAP staff. Businesses sometimes say they want and need to grow, yet were not growing. The question was, *Oftentimes, we see businesses that want to grow, but for some reason do not. If you are one of those businesses, please offer some insight. Please mark all that apply.*

Cost of hiring an employee, including FICA and unemployment insurance, was the top response, with employee quality issues in second. Employee quantity issues, or not enough applicants, had 67 responses. See Table 13 below.

Issues with 25 responses or fewer and not included on the table are intellectual property (protecting your brand, your idea and your processes), knowledge of hiring an employee vs. contract labor, legal entity formation questions/concerns, contract drafting and service agreements, lack of family support and lack of passion for the business.

TABLE 13. BUSINESS GROWTH INHIBITORS

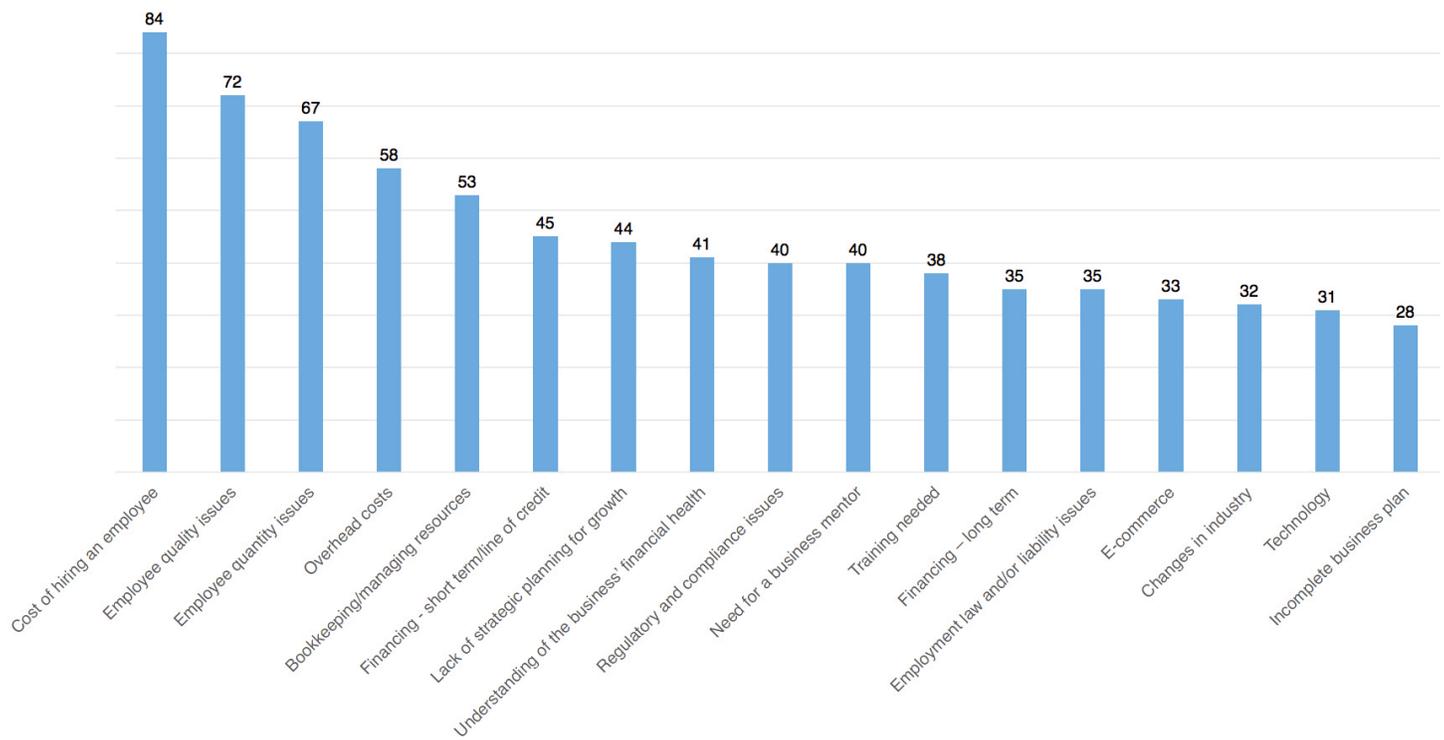
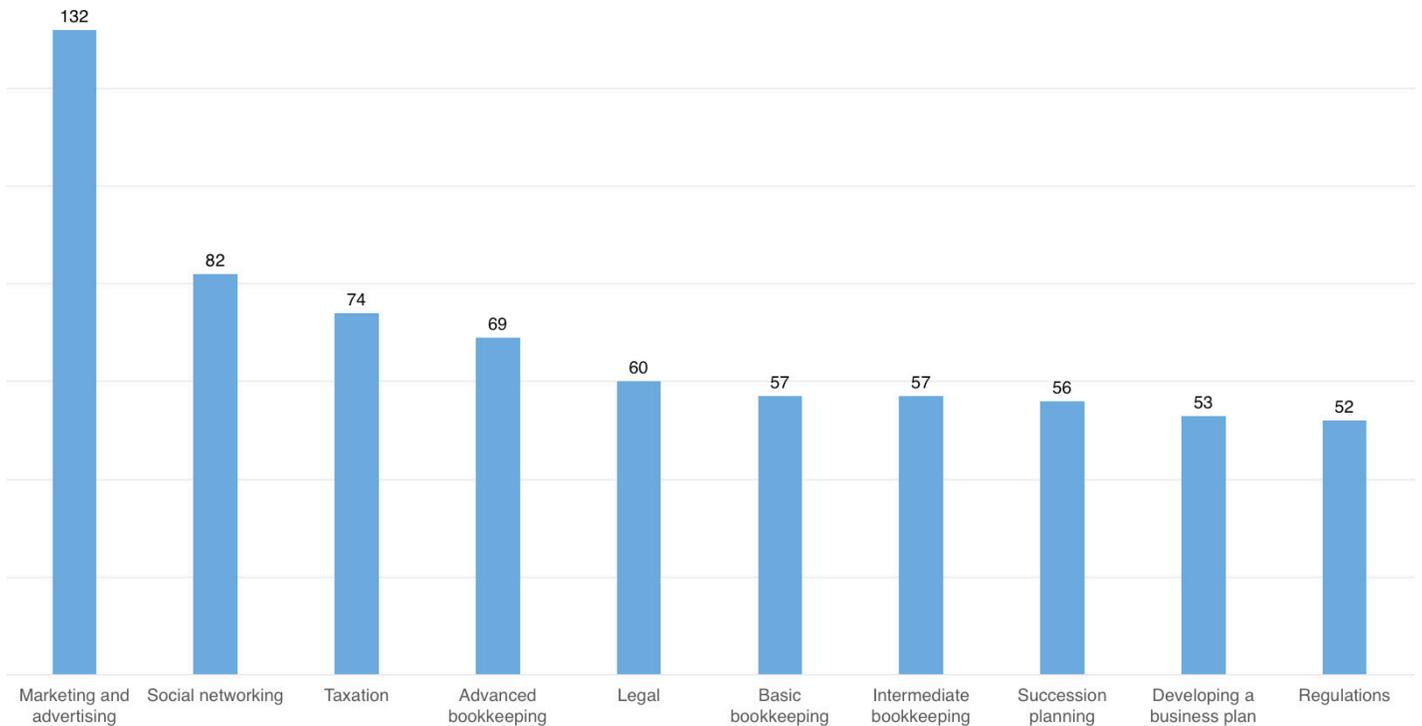


TABLE 14. DESIRED TRAINING



TRAINING AND TECHNOLOGY

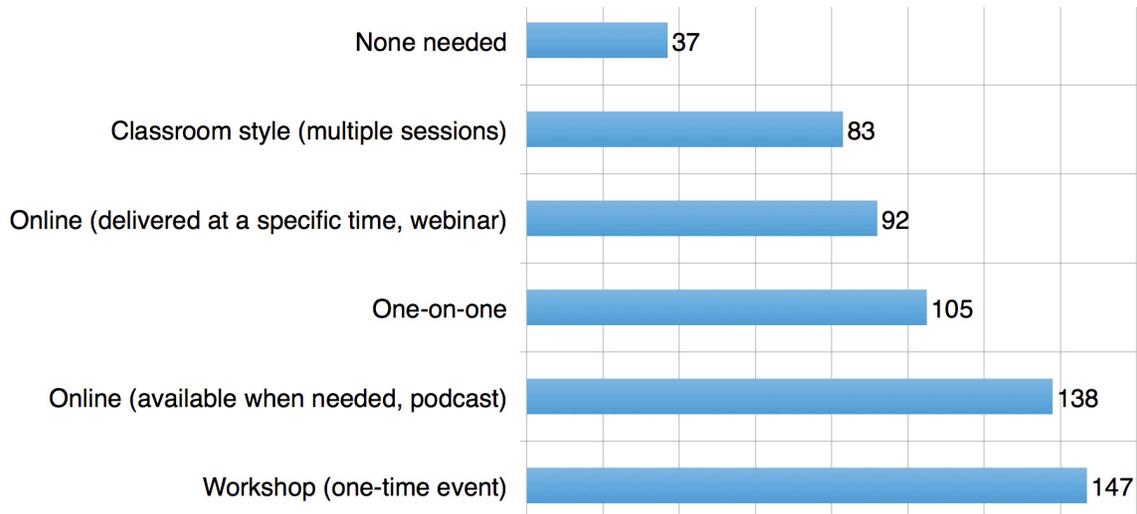
Training and technology results are helpful as we continue to make programmatic changes and changes to services based on survey results.

When asked what types of training and/or assistance they would like to have, business owners were able to mark all that applied. See Table 14 above. Listed under *other* and not included on the table were: *employee training, grants available for businesses, human resources and time management.*

Marketing and advertising historically continues to be the number one response over the five surveys conducted, while *social networking, bookkeeping* and *succession planning* have seen a rise.

GREATEST
TRAINING NEED
IDENTIFIED BY
BUSINESS OWNERS IS
MARKETING
AND ADVERTISING

TABLE 15. PREFERRED TRAINING DELIVERY MODES



Related to the training topics desired, the survey asked the preferred delivery modes. See Table 15 above for results. Listed under *other* and not included on the table were *email back and forth, on paper - like in newsletter form or Quickbooks one-on-one*.

While the one-time workshop has been a top pick over the years, *Online - available when needed* has come up significantly in the rankings.

In relation to business technology usage, some opportunities still exist to get businesses on the web and help them use e-commerce. Businesses identified *personal email* as their biggest technology usage, with *social media (including Facebook, Twitter, etc.)* and *customer email* close behind. See results in Table 16 below.

TABLE 16. TECHNOLOGY USAGE



LENDER AND RESOURCE PROVIDER RESPONSES

The study looked into what lenders, resource providers and others who serve Nebraska business believe business owners need.

Similar to the business owner responses, the gender split for responding lender and resource providers was nearly 50:50, with 51 percent female and 49 percent male respondents.

GREATEST STARTUP NEED IDENTIFIED BY LENDERS AND RESOURCE PROVIDERS IS STARTUP CASH

BUSINESS NEEDS

When considering startup needs, lender and resource providers agreed with business owners that the number one need was *more startup cash*. The number two response was *lack of business finance knowledge*, compared to the number two response of business owners: *marketing*. See Table 17 below.

While *lack of working capital/startup cash* is ranked high, people who serve businesses believe that business owners need *more knowledge of business finance* as well as a *written business plan*. This group had a lot of suggestions when it came to offering input under *other*: *finding/hiring qualified employees, hiring employees, no housing available = nobody available to work, lack of a quality labor pool to choose employees from, high cost of insurance and impact of government regulation, lack of desire to understand all of the above, staying on top of ever-changing technology, work ethic to get the business off the ground and resources to get through difficult times*.

TABLE 17. PERCEIVED STARTUP NEEDS IDENTIFIED BY LENDERS AND RESOURCE PROVIDERS

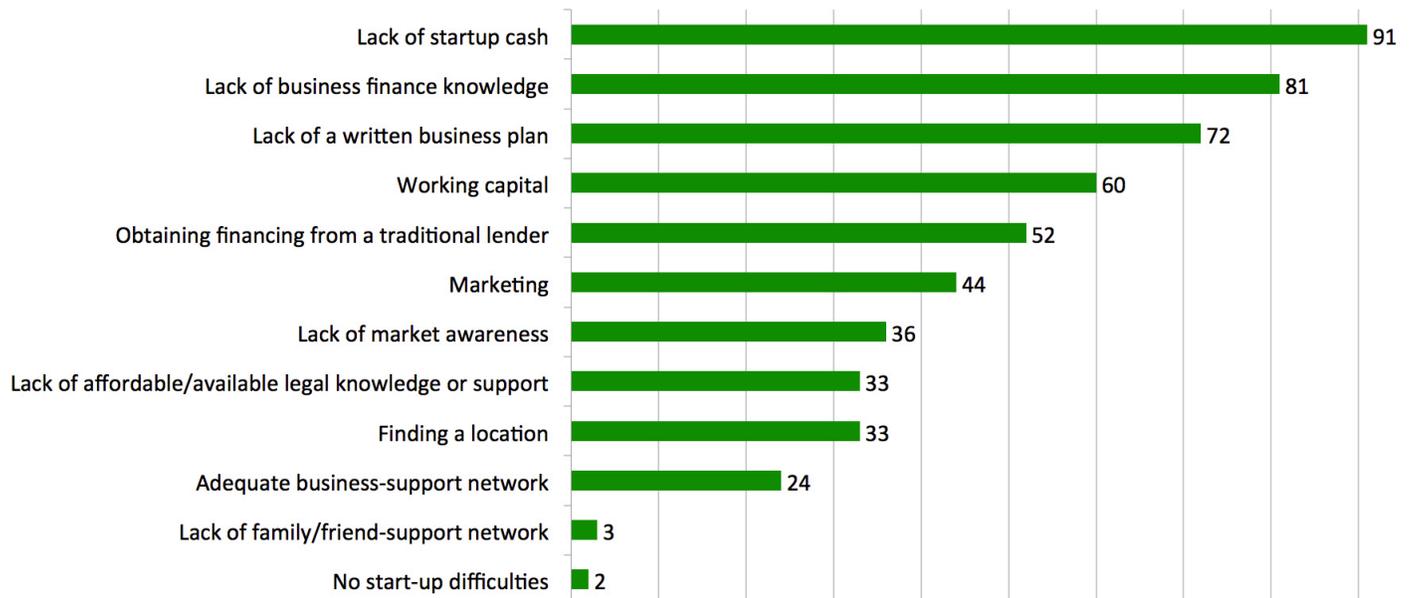
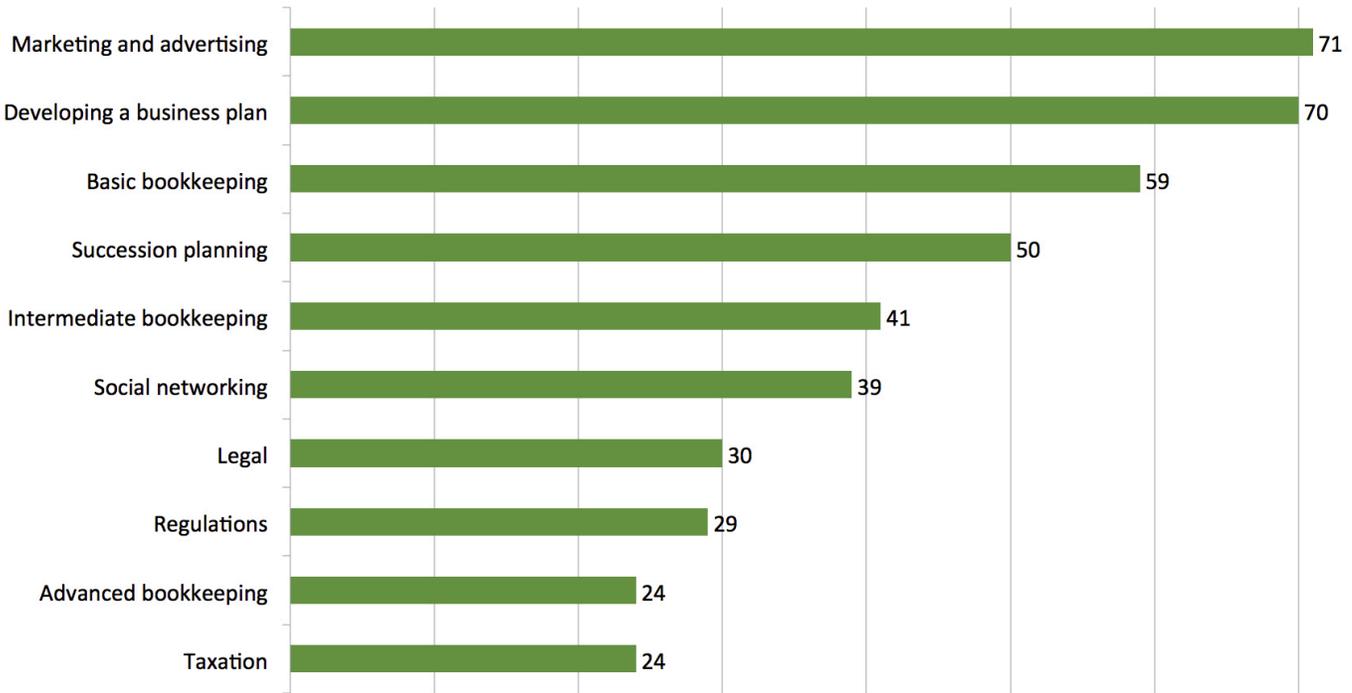


TABLE 18. PERCEIVED TRAINING NEEDS IDENTIFIED BY LENDERS AND RESOURCE PROVIDERS



GREATEST TRAINING NEED IDENTIFIED BY LENDERS AND RESOURCE PROVIDERS IS MARKETING AND ADVERTISING

TRAINING NEEDS

Lenders and resource providers were lastly asked what types of training and/or assistance they felt was needed for the businesses with which they worked. See Table 18 above.

The answers of *business finance knowledge* and *working capital/startup cash* were consistent with the business owners' answers regarding to startup and current needs. However, the lenders and resource providers also ranked *marketing and advertising* as the number one suggested training followed very closely by *developing a written business plan* (by one response).



ACKNOWLEDGEMENTS

The author and staff of the Center for Rural Affairs' REAP program are very thankful for all the businesses and those who serve them who took the time to complete the fifth biennial survey. Also, thanks to the many organizations that passed the survey along to their contacts, customers and members.

In 2017, we will release another report on the compilation of data from Small Business Needs Assessment statewide surveys from 2008 to 2016.

If you would like a program delivered to your community or organization, please contact Dena Beck at 308.528.0060 or denab@cfra.org.

The Women's Business Center is funded in part through a cooperative agreement with the U.S. Small Business Administration. All opinions, conclusions or recommendations expressed are those of the author(s) and do not necessarily reflect the views of the Small Business Association. All Small Business Association funded programs and services are extended to the public on a nondiscriminatory basis.

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