Small Business Owner Needs & Best Practices Study from Rural Nebraska

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Center for Rural Research & Development

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Background & Research Objectives

With the decline in rural populations, the local sales potential for rural Nebraska small business owners has decreased significantly over the last 40 years. This is compounded by increasing operational costs, decreasing labor availability, and increasing competition overseas and through the internet. Many small town businesses are vital to rural communities and the loss of this business is correlated with declines in population.

Figure 1– Nebraska Population Trend 1970-2000
http://www.fhwa.dot.gov/planning/economic_development/maps/edplbcne2.cfm

Figure 2– Nebraska Population Trend 2000-2010
http://www.census.gov/geo/www/maps/2010pop/ne_perchange_2010map.jpg

In late 2011, Dena Beck, Loan Specialist and Senior Project Leader for the Rural Enterprise Assistance Project (REAP), contacted the Center for Rural Research & Development (CRRD) about conducting a practical study with a focus on rural businesses and their service providers in rural Nebraska. After further discussion, it was determined that the general purpose of the research was to understand the current and future needs of the Rural Investment Corporation/RIC (formerly REAP) small business clients and supporting organizations or
resource providers. The needs of start-up businesses were explored, including perceptions related to entrepreneurship training and technology utility.

**Objectives:**

1) Discover the range of challenges faced by rural small businesses in Nebraska
2) Explore the existing gaps and preferred methods of professional development and training for small businesses in rural Nebraska
3) Explore the existing gaps and preferred methods of technology use by small businesses in rural Nebraska
4) Determine the business transition needs and readiness of small businesses in rural Nebraska

**Methodology & Observations**

Most of the recent studies and literature related to rural small business viability are based on secondary analysis and survey data collected from owners/managers. The Center for Rural Affairs has previously conducted a series of three bi-annual, statewide Small Business Needs Assessment Surveys since 2008. To build on their existing research and provide a detailed qualitative analysis of small business needs and service provider outreach strategies, the focus group moderation technique was selected. Only small business owners/managers and resource providers locating the majority of their operations outside a metropolitan area were invited to participate; these small markets typically face greater challenges related to sales potential and access to support services.

**Participant Group Locations and Selection**

Six focus group sessions were held in three centralized geographic locations to cover the maximum area possible and reduce drive time/costs for the participants and moderator. Each community hosted 2 groups: one for small business resource providers/lenders and another for small business owners (the majority being REAP/CFRA clients). Facility locations included the Nebraska Public Power District office in Columbus, the University of Nebraska at Kearney, and the North Platte Public Library.

Businesses owner groups were held separate from those for resource providers/lenders to reduce potential anxiety while reporting experiences and perceptions regarding any relationships between businesses and service providers. ESRI Business Analyst spatial software was used to map, or plot, the location of REAP clients and service providers to determine their optimal group locations. Nearly all participant business locations were 90 miles or less from one of the three focus group locations. About half of all focus group participants remembered completing a small business needs assessment survey for the client (REAP/CFRA) in 2012. One item in the 2012 instrument asked if they would be willing to volunteer and participate in a follow-up focus group session. The resulting database of 100 persons was used to create a sample pool. In cases where this method did not produce enough confirmed attendees, the entire REAP/CFRA client list was randomized based on persons within 90 miles of the focus group location.
This list was cross referenced with current names through local Chambers of Commerce, business associations, and other local economic development offices whenever possible to confirm business and contact information. An invitation letter to participate in the regional focus group sessions was e-mailed in mid-January, 2013 (Appendix). A screening worksheet guided the CRRD Director and Assistant as they called each owner to confirm their ability and willingness to participate (Appendix). All participants were offered a partial reimbursement for their travel. Twenty dollars ($20) was offered if the participant drove 20 miles or less and $40 was offered to those driving 21 or more miles. Eighteen (18) of the participants elected to receive the reimbursement.

The CRRD Director drafted a focus group discussion guide that was reviewed by Mrs. Beck and Ms. Kim Preston (CFRA). The CRRD Director forwarded the research objectives, confidentiality protections, discussion guide, and telephone screener to the UNK Institutional Review Board. All sessions were held during the months of February and March 2013, and each lasted approximately one and a half hours. All group locations were held in publicly-
owned facilities but moderated in closed-door session to protect the confidentiality of comments provided by participants. All sessions were digitally recorded with modern audio-visual equipment for detailed content analysis of the data. The moderator and CRRD Assistant also recorded detailed notes during these sessions.

**Participant Group Characteristics**

Table 1 highlights key characteristics of the participating businesses and their respective communities. Only two of the 21 participating business owners claimed primary residence in a metropolitan area, but the majority of their sales were derived from small town customers or visitors. While all the focus groups for service providers had representatives working with Hispanic clients, no Hispanic owners attended the focus groups for business owners. Persistent efforts to include them consisted of several calls to the list of Hispanic clients on the REAP/CFRA list and asking for suggested Hispanic owner contacts from local resource providers. This additional list of Hispanic business owner was also exhausted. Most group participants had a family history of experience in the industry. Over 500 years of business experience was represented by the participating owners.

**Table 1 - Business/Participant Profile**

<table>
<thead>
<tr>
<th>Regional Focus Group Location</th>
<th>Number of Participating Businesses*</th>
<th>Average Annual Gross Sales per Business</th>
<th>Number of Female &amp; Hispanic</th>
<th>Full Time Equivalent Labor (est) Range/Avg</th>
<th>Owner Experience Range (est)/Total years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Columbus</td>
<td>9</td>
<td>$80,333</td>
<td>7 Female &amp; No Hispanic</td>
<td>0.5-5</td>
<td>1-40 / 118</td>
</tr>
<tr>
<td>Kearney</td>
<td>7</td>
<td>$1,262,143</td>
<td>4 Female &amp; No Hispanic</td>
<td>.5-17</td>
<td>10-40 / 125</td>
</tr>
<tr>
<td>North Platte</td>
<td>5</td>
<td>$179,200</td>
<td>5 Female &amp; No Hispanic</td>
<td>1-8</td>
<td>4-40 / 121</td>
</tr>
<tr>
<td>All Groups</td>
<td>21 Total</td>
<td>Average $497,810</td>
<td>72% Female No Hispanic</td>
<td>21 2-avg</td>
<td>547</td>
</tr>
</tbody>
</table>

Observations - The majority of owners participating in the groups cited the biggest reasons for starting the business were a desire to stay in the area or wanting a better working environment, including less stress. Slightly less than half of participating owners were aware of RIC/REAP, and were appreciative of the micro-loan program, because they expressed frustration when denied for a loan at their local bank. Two owners mentioned using credit cards to start their business. RIC/REAP was mentioned as one of the few service providers who worked with them through the majority of the business planning and financing process. Several experienced business owners referenced using their local service professionals such as an accountant or business coach to assist them on the most efficient operational strategies.
Table 2 shows key characteristics of the resource providers who attended the groups. Of the 24 resource providers, about 15-20% mentioned the majority of their “typical clients” were Hispanic, Female, and/or low-to-moderate income. More than half of the provider organizations represented offered some type of lending option for their clients. Over half of the providers primarily classified their role as an economic development or chamber of commerce director. At least one private loan officer was represented at each group location. Other service providers represented included community colleges outreach centers, tourism associations, and community action non-profit organizations. Nearly all counties in Nebraska are served by at least one service organization represented in one of the groups (Figure 5).

Table 2 – Resource Provider/Lender Participant Profile

<table>
<thead>
<tr>
<th>Regional Focus Group Location</th>
<th>Number of Participating Resource Providers</th>
<th>Number of Participating organizations offering loan resources</th>
<th>Number representing a majority of Low to Moderate Income clients</th>
<th>Number of Providers serving Hispanic clients</th>
<th>Category of Service: EconDev-ED Bank-B Chamber-C Other-O</th>
</tr>
</thead>
<tbody>
<tr>
<td>Columbus</td>
<td>9</td>
<td>8</td>
<td>1</td>
<td>3</td>
<td>ED-4, B-2, Ch-1, O-2</td>
</tr>
<tr>
<td>Kearney</td>
<td>7</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>ED-1, B-1, Ch-1, O-4</td>
</tr>
<tr>
<td>North Platte</td>
<td>8</td>
<td>7</td>
<td>1</td>
<td>2</td>
<td>ED-6, B-1, Ch-1</td>
</tr>
<tr>
<td>Total or Average</td>
<td>24</td>
<td>19</td>
<td>6</td>
<td>7</td>
<td>ED-11, B-4, Ch-3, O-6</td>
</tr>
</tbody>
</table>
Observations - Of the providers whose clients completed business plan training, 80% followed through with starting a business. Of their prospective clients considered as “not loan ready” and/or lacked a business plan, 20-50% of these individuals tried to start anyway but the majority of these ventures were reportedly unsuccessful. A few providers serving a majority of Hispanic and low-income populations from the Columbus and Kearney groups mentioned an increasing number of clients from these socio-economic segments and a corresponding need for more bilingual service providers. They reported that low-income and Hispanic clients prefer one-on-one direct consultation methods vs. group workshop or online technology. The providers serving these low-income and minority clients were more often unaware of RIC/REAP services.

Knowledge/awareness of support programs, general business education, and lack of capital were the most commonly referenced challenges to starting a business across all groups and populations. The most common reasons cited in all groups for difficulty obtaining start-up capital was tied to lack of personal equity, collateral, and/or poor credit rating necessary to obtain a loan. The RIC/REAP loan offering and maximum amount allocations were generally well received by the owners who used program statewide. Language/cultural differences, lack of experience, financial literacy, and confidence were mentioned more frequently by the resource providers that serve minority population groups. For established businesses, time and/or expertise related to book-keeping, pricing, and accounts receivable were mentioned as the biggest challenges. The most commonly reported barriers to hiring additional employees were related to increasing benefit costs, federal reporting regulations, and lack of quality-reliable labor. For larger and professional businesses, labor recruiting efforts were reportedly challenged by a lack of quality affordable housing and flexible daycare options.

Limitations
An initial analysis was primarily based on detailed notes taken “in-session” by the facilitator and administrative assistant. Further review of the audio-visual recordings using content
analysis techniques revealed additional key themes that are represented in the Appendix. However, this method is subject to typical human error and therefore may not have retained every insight expressed by participants.

As with many public sessions conducted in rural areas and among industry peers in nearby communities, participants may not be comfortable enough to completely share all of their perceptions about a discussion topic or concept. This is a typical concern of small communities because rumors or community perceptions, both true and unfounded, can lead to a lack of support for other initiatives that the individual may be pursuing.
Key Findings & Recommendations

(1) Discover the range of challenges faced by rural small businesses in Nebraska

a. Startup/business education and financing/collateral were the most commonly reported barriers by both owners and resource providers statewide. Several RIC/REAP clients mentioned their consultation model is a good education format for most small businesses to start ventures in a sustainable manner. According resource providers in all groups, one-on-one visits at least once a month during planning was especially important for the low-income and Hispanic populations. Resource providers in all groups mentioned that Hispanic owners need to trust their provider before sharing information. Hispanic owned businesses are more likely to be owner operated and food service based. This creates scheduling challenges for consultation with a resource provider. Lack of time was also a primary reason cited by several Hispanic owners that were invited, but declined, to attend the focus groups for this project. Regularly scheduled informal education opportunities were mentioned as one strategy to engage business owners and resource providers. Networking groups where like-minded owners (organic/value added agricultural producers, trucking companies, bed and breakfast owners) in a region could share experiences and lessons learned was cited in two groups as a suggestion. Incorporating a social component as a source of fun, in addition to the mentoring between the older and younger owners, were two positive benefits mentioned by one owner with unanimous group approval. One owner was quoted as saying, “nothing beats a quality mentor for keeping your business on track for success”.

Another example included holding a RIC/REAP topic in a chamber lunch & learn type session. Recommended topics for informal training sessions include workforce issues such as using 1099 or contract labor, healthcare regulations, internships, housing and daycare solutions. One group had a considerable amount of interest in one owner’s expertise and experience using 1099, versus employee labor, to avoid the uncertainty and risk anticipated with pending healthcare reform regulations.

Other recommended professional development topics included accounts receivable management, pricing strategies, advertising return on investment, and incentive programs for start-up or expansion. Several owners and providers recommended using bookkeeping agencies, such as Efficiency Counts of Hastings Nebraska, so owners could focus on the pieces of the business that provide the most profit. Many owners preferred an explanation of their start-up or expansion feasibility in terms of financial scenarios, or if-then situations. A couple resource providers and
business owners mentioned that business coaches, such as those in McCook and Dawson County, did an effective job of using scenarios to help them understand the impact of their decisions.

b. The most successful financing methods referenced for, and by, small businesses included boot strapping, family support, and personal saving. These strategies were also correlated with the least of amount of risk for both service providers and owners. For larger projects, leveraging a combination of private loans and public local and state incentives increased the potential for success and created positive public awareness. Examples included using a bank loan with a local/non-profit revolving, RIC/REAP, or LB840 loan. While multi-loan packaging was mentioned by several resource providers as a successful method to complete projects, owners perception about multi-loan package deals was tied to a negative perception about additional oversight, control and regulation with the many parties involved.

(2) Explore the existing gaps and preferred methods of professional development and training for small businesses in rural Nebraska

a. Just under half of all owners were familiar with RIC/REAP services in all groups. About three-quarters of resource providers knew about the core RIC/REAP programs. Only a couple of recent RIC/REAP clients were aware of the new, higher lending capabilities. Owners familiar with the RIC/REAP model were very satisfied, IF they were able to spend at least a couple of hours (personal contact) with RIC/REAP staff. Beyond RIC/REAP, many participants mentioned that their local public business service providers lacked enough technical knowledge or even the correct contact information to refer them to an agency that could move them forward with their needs. Even if owners felt comfortable visiting with the local economic development director, they expressed apprehension about visiting the office due to the perception that local townspeople would inquire about the reason for such as visit. Frustration was expressed by some businesses who attempted to contact RIC/REAP and were dissatisfied with the level of follow up and direction for referral. Staff transition was one explanation cited as the source of this issue. Educational topics desired by owners included informal transition planning strategies, relationships/customer service training, and protecting intellectual property. New clinics at the UNL and Creighton law schools provide free or low cost assistance to businesses that require intellectual property protection and consultation on legal structure. The UNK Business College also plans to hire an Entrepreneur-in-Residence that will be available to serve the needs of central Nebraska beginning in late summer of 2013. NuTech Ventures, a technology
transfer non-profit organization in Lincoln NE, continues to offer related services statewide.

(3) Explore the existing gaps and preferred methods of technology use by small businesses in rural Nebraska

a. Experienced business owners use accountants and financial software to track fiscal performance. While owners admitted to a need for and lack of financial training, they also lacked the time to spend in a formal class to do so. They preferred face-to-face consultation on this topic (paid-accountant or unpaid-public provider). Technology use was less of a concern for owners than setting a regularly scheduled time to keep up with the books and learn about the new software many of them already possessed. E-commerce, or online marketing strategies, was mentioned as an increasingly important sales platform for most rural retailers, but many owners and resource providers mentioned that owners were uncomfortable implementing these tactics due to a general lack of time and confidence with the technology.

(4) Determine the business transition/succession needs and readiness of small businesses in rural Nebraska

a) Business transition and succession services are poorly understood and seriously needed. For example, only one of the owners statewide was aware of the succession training offered by RIC/REAP and the Nebraska Business Development Center in Kearney (UNK). Of the less than half of owners with a business plan (in all groups), most has some language outlining the processes for dissolution or the dispersal of assets. Questions remain as to the best methods of exposing entrepreneurs to these services and effectively delivering this education across large rural areas, especially in small communities without formal local business organizations (i.e. Chambers of Commerce or Economic Development).

b) While most business owners mentioned that the best advertising for public programs such as RIC/REAP and other local incentives was still word-of-mouth, resource providers rely heavily on media such as local newspapers and social media.

Conclusions & Additional Research Suggestions

Regional and state-wide economic development service organizations should coordinate with local lenders if no formal business organizations (chamber or economic development office) exist in a community perceived to be in need of assistance. Further, regional service providers could establish relationships with local private service providers (lenders,
accountants, and attorneys) to inform them about the support available to their clients. Regularly scheduled RIC/REAP program updates to members of the Nebraska Banking Association, State Chamber Association, and Nebraska Economic Developers Association maybe one strategy to expose other private and public providers about new service offering or other program changes.

A couple of resource providers mentioned that rural businesses relying on disposable goods and services such as tourism or recreation were riskier than need-based ventures such as auto repair and medical services. The leadership in many local economic development or chamber organizations should be aggressive in seeking creative solutions and providing incentives to ventures with the highest likelihood of success in addition to the requirements of a business plan in some form.

RIC/REAP may consider conducting additional research and the needs of the growing Hispanic Small Business Owner population. Informal venues that accommodate food-service based owner-manager schedules moderated by bilingual staff will likely increase participation rates for additional sessions with Hispanic owners. Quantitative data from past REAP needs assessment surveys can be used to cross-reference Hispanic and Low-income needs related start-up and expansion financing.

Avoid “a narrow-minded vision of the community” was one recommendation for local leadership. The paid professional service providers in Chase County were complimented by a few owners and service providers in the North Platte focus group. Many of the accountants, lenders, and investment professionals in this region were aware of many of the statewide incentives and programs for assisting businesses. These paid professionals were mentioned as using a mentoring approach with their small business clients in the greater Imperial area.

Another suggestion mentioned in all the groups related to the development of a statewide resource directory for local business service professionals, both public and private. Existing examples need a more systematic method of following up with clients. While resources such as the NPPD calling card, regional development Networks groups, www.nebraskaentrepreneurship.com/resources/, and higher education institutions are valuable, additional integration is required to make the startup and expansion process less complicated for entrepreneurs.
Appendix