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**2007 URBAN INITIATIVE
LOAN PROGRAM
SMALL BUSINESS LENDING
SURVEY RESULTS**

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Prepared by:

Edwin Hodder
Economic Analyst
Analysis and Evaluation Office/CARD
Minnesota Department of Employment
and Economic Development
1st National Bank Building, Suite E-200
332 Minnesota Street
Saint Paul, Minnesota 55101

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2007 URBAN INITIATIVE LOAN PROGRAM SMALL BUSINESS LENDING SURVEY RESULTS

INTRODUCTION

The success of minority-owned businesses is critical to the nation's long-term economic prosperity. According to the U.S. Census Bureau, by the year 2030 the minority population is projected to account for 40 percent of the national population, so it is critical that minority entrepreneurs have the tools needed for business growth and national competitiveness. The same is true for Minnesota, where, over the next two decades, minorities are projected to account for more than half of the state's population growth.

In 1993, the Minnesota Legislature enacted a law to help strengthen minority-owned business development in the Twin Cities metropolitan area. The law aims at creating jobs in low-income areas, supporting the development of minority entrepreneurs, encouraging private investment, and promoting economic development for the area. The geographic area includes Minneapolis, St. Paul, and eight inner-ring suburbs including Columbia Heights, Hilltop, Hopkins, Lauderdale, Mendota, South St. Paul, St. Anthony and West St. Paul. To achieve these goals, the program provides fixed asset and working capital financing, through certified partners, to new and expanding minority-owned (including women-owned) businesses in those cities.

To provide the Department of Employment and Economic Development (DEED) with a snapshot of how the entrepreneurs who received loans have progressed since they repaid their loans, a survey was conducted of these participants. DEED receives information annually about the borrowers, while they are repaying their loans, however, this data reporting stops after the loan is repaid. In light of the short average life of a micro-business, DEED wanted to know if the businesses that had repaid their loans, were still in operation, had grown, or had closed. DEED also wanted to determine the approximate number of entrepreneurs who switched to a new venture and what the experience of starting a business meant to them and their family. Using a mailed survey method, DEED attempted to find answers to these questions.

The report of the survey findings is organized in five main sections: (1) Introduction, (2) Key Findings, (3) Summary, (4) Detailed Results and (5) Methodology. The survey instrument is attached as an appendix.

KEY FINDINGS

Based on the results of the analysis, key findings are summarized as follows:

- Of the 158 surveys mailed, 33 responses were usable, representing a response rate of 20.9 percent. The survey findings were encouraging, but caution should be exercised when interpreting the results since the sample size was small.
- The majority (64.7 percent) of Urban Initiative Loan Program respondents are still in operation since they repaid their loan. When including those participants who either started a new business or became self-employed since their loan was repaid, the result increases to 78.8 percent.
- The majority (58.3 percent) of the respondents employed between one and five employees. The 24 businesses that responded to the survey employed a total of 508 employees. The average was 21.2 employees per business and the median was five employees.
- The average wage paid by Urban Initiative Loan Program respondents was \$13.47 per hour excluding benefits.
- A majority (66.7 percent) of business owners reported that they expanded their business in terms of sales since they repaid their loan. Survey respondents (79.2 percent) also reported that they had expanded their net worth.
- Respondents attributed much of their success to hard work, close day-to-day management and the financial and customer support of the local community. These owners also pointed out that owning and operating a small business is very stressful, requires long hours and is subject to a variety of external events and costs.

SUMMARY

Of the 158 surveys mailed, 33 responses were usable, representing a response rate of 20.9 percent. The survey findings were encouraging, but caution should be exercised when interpreting the results since the sample size was small.

The Urban Initiative Small Business Lending Survey found that 22 businesses, or 64.7 percent of responding firms who received a loan through the program, were still in operation. Another nine respondents (26.5 percent) reported that they are no longer in business and three respondents (8.8 percent) did not answer this question. Of the nine that closed the original business, four (44.4 percent) had started a new business or became self-employed, and four others (44.4 percent) had taken a job with another business.

A number of respondents still in business emphasized the need to devote time and effort to the business. In response to the question asking what lessons the business owner had learned (see question 10), one respondent wrote that, "working hard is the only way you can make your business better;" while another respondent emphasized that "it takes much time and commitment to keep it running." One of the more interesting responses from a sales and marketing business was that "...sales and local support are critical." What made this comment poignant is that the original owner of the business died in 2001, about the same time the Urban Initiative loan was repaid. This business, unlike many other small businesses in a similar situation, continued its operations and has grown in size.

By comparison, of the four respondents that closed the original business and went to work for another employer since the loan was repaid, one did so because, "I'm a better doctor than a business manager" and "I didn't like being self-employed." Another one of the four respondents, who either started a new business or became self-employed, remarked, "I would advise against going into business alone." One respondent did not indicate on the survey what they did since the loan was repaid but mentioned they still owned several other companies.

While 16 respondents, or 66.7 percent of the businesses, have expanded in terms of sales since repaying their loan and 19 respondents (79.2 percent) have improved their net worth, it is not possible to determine how these respondents are doing financially, because the survey did not ask for specific sales and net worth.

Generally the respondents appear to have grown in their capacity to operate their businesses. Again, a number of the respondents emphasized the time and effort needed to keep the business operating. Other respondents indicated that they had learned to stay focused, be prepared for change, and look for support from customers and other resources.

DETAILED RESULTS

1. Currently is the business for which you received a loan still in operation?

Currently Operating	Number of Respondents	Percent of Total Respondents
Yes	22	64.7%
No	9	26.5%
No Response	3	8.8%
Total	34	100.0%

- Twenty two of the 34 respondents (64.7 percent) reported that they are still in business in 2007. Nine (26.5 percent) reported that since they repaid the loan, they are no longer operating the original business for which they received the loan. Three respondents (8.8 percent) did not answer this question; however, they completed the rest of the survey and were included in the results of the rest of the questions.

2. If no, what have you done since you repaid your loan?

Activity if not in business	Number of Respondents	Percent of Total Respondents
Started a new business	2	22.2%
Found employment with another employer	4	44.4%
Became self-employed	2	22.2%
No response	1	11.1%
Total	9	100.0%

- Of the nine respondents whose business is no longer in operation, four (44.4 percent) are working for another employer. Two (22.2 percent) of those reported that they started a new business and two (22.2 percent) became self-employed. One respondent (11.1 percent) did not respond to the question.

3. Which of the following industries best describes your business?

Type of Industry	Number of Respondents	Percentage of Total Respondents
Service	10	41.6%
Retail	8	33.3%
Wholesale	2	8.3%
Manufacturing	2	8.3%
Construction	1	4.2%
Other	1	4.2%
Total	24	100.0%

- The service industry was the most prevalent type of business for respondents, accounting for 41.6 percent of the respondents. The second most prevalent type of business was retail, with 33.3 percent of the respondents.

4. Currently, which of the following sizes best describes your business?

Business Size	Number of Respondents	Percentage of Total Respondents
Small: 1-5 employees	14	58.3%
Medium: 6-20 employees	5	20.8%
Large: 20+ employees	5	20.8%
Total	24	100.0%

- Of the 24 respondents whose business is still in operation, 14 respondents (58.3 percent) reported that they employed between one and five employees. Five (20.8 percent) reported that they employed between six and 20 employees and five (20.8 percent) reported that they employed 20 or more employees in 2007.
- A total of 508 employees worked for the 24 businesses that responded to the survey. The average was 21.2 employees per business and the median was five. The largest employer accounted for 240 employees or 47.2 percent of all employees reported.

5. Since the loan was repaid, have you increased the number of employees working for your business?

Increased Employees	Number of Respondents	Percentage of Total Respondents
Yes	14	58.3%
No	10	41.7%
Total	24	100.0%

- Of the 24 respondents that had repaid their loans, 14 (58.3 percent) reported they had increased the number of employees, while 10 (41.7 percent) had not increased the number of employees.
- Of the 14 respondents who increased the number of employees, 12 (85.7 percent) also expanded their business sales and improved their net worth.

6. Currently, what is the total number of employees in your business?

Total Employees	Number of Respondents	Percentage of Total Respondents
5 or less	14	58.3%
6-15	3	12.5%
16-25	1	4.2%
26-35	3	12.5%
36 or more	3	12.5%
Total	24	100.0%

- Businesses that participated in the Urban Initiative Program were generally small in size. Fourteen respondents (58.3 percent) reported five or less employees, followed by seven respondents (29.2 percent) who had between six and 35 employees.

7. Currently, what is the average wage your business pays to employees per hour?

Average Wage Per Hour (excluding benefits)	Number of Respondents	Percentage of Total Respondents
\$7-\$10	8	33.3%
\$11-\$15	8	33.3%
\$16-\$20	2	8.3%
\$21 and over	4	16.7%
No Response	2	8.3%
Total	24	100.0%

- Sixteen respondents (66.6 percent) paid an average wage between \$7 and \$15 per hour. Six respondents (25 percent) paid an average wage of more than \$16 dollars per hour. The average wage for all respondents who answered the question was \$13.47 excluding benefits.

8. Since the loan was repaid, has your business expanded in terms of sales?

Sales Expanded	Number of Respondents	Percentage of Total Respondents
Yes	16	66.7%
No	8	33.3%
Total	24	100.0%

- Of the 24 respondents who reported, 16 (66.7 percent) reported that their business expanded in terms of sales since the loan was repaid compared to eight (33.3 percent) whose business had not expanded.

9. Since the loan was repaid, has the business owner(s)'s net worth improved?

Improved Net Worth	Number of Respondents	Percentage of Total Respondents
Yes	19	79.2%
No	5	20.8%
Total	24	100.0%

- Nineteen respondents (79.2 percent) reported that their net worth as owner(s) had improved since their loan was repaid compared to five respondents (20.8 percent) whose net worth did not improve.

10. What is the most valuable lesson you learned as a result of operating your business?

- Of the 24 respondents that are still in operation, a majority of their comments were positive. For a few respondents it was important to stay local and give back to the community. Other critical success factors cited included being prepared for changes in the industry, being honest, never quitting and local support.

- However, a majority of those 24 respondents did comment that it is hard work operating their own business. Other challenges cited by respondents included long hours and difficulty with health insurance.

- Of the nine respondents that are no longer in business, four respondents (44.4 percent) reported they found work with another employer. Four respondents (44.4 percent) either started a new business or became self-employed and one respondent (11.1 percent) did not indicate what transpired since their loan was repaid but mentioned that they still own several other companies.

METHODOLOGY

The population of the study consisted of 158 participants of the Urban Initiative Loan Program who had repaid their loans. A one-page survey questionnaire was developed to gather data to determine the progress of program participants and how their businesses have evolved since they repaid their loan. The survey instrument was mailed twice to all 158 participants and returns with new forwarding addresses were sent a new survey.

Of the 158 surveys mailed, 33 responses were usable, representing a response rate of 20.9 percent. Since the majority (79.1 percent) of those surveyed did not respond, the extent which the respondents represent the population were examined. The following table provides a comparison of the respondent group and the metro-area population in regard to the type of industry that best describes the participant's business:

Industry	Percent (Metro-Area Population)	Percent (Respondent)
Service	47.3%	41.6%
Manufacturing	13.1%	8.3%
Retail	12.0%	33.3%
Finance/Insurance/Real Estate	9.7%	0.0%
Transportation/Communication	6.6%	4.2%
Wholesale	5.9%	8.3%
Construction	5.1%	4.2%
Agriculture	0.2%	0.0%
Total	100.0%	100.0%

- The respondent group (the sample) was over-represented by those who were in the retail and wholesale businesses and was under-represented by those in the service, manufacturing, finance/insurance/real estate, transportation/communication and construction businesses. Since the sample was small, some percentage deviations from the population were expected. When interpreting the results, caution should be exercised, taking into consideration those deviations in the table that limits extrapolation of results.

APPENDIX A

September 5, 2007

Name
Company Name
Address
City, State, Zip Code

Dear Mr. Name:

Re: Small Business Lending Survey

We need your help. Some time ago you received a business loan from the Metropolitan Economic Development Association, which used our agency's Urban Initiative Program as a source for the loan. We appreciate your payment of that loan and congratulate you on your business endeavor.

Enclosed is a brief survey that will help us gauge the progress our customers are making and how their businesses have evolved since they repaid their loans.

Some questions include:

- Is Company Name still operating?
- Has your business grown?
- Have you discontinued that operation and switched to a new venture?
- What has the experience of starting your business meant to you and your family? [If applicable and it's a new business.]

Please take a few minutes to complete the survey and drop it in the mail. Your responses will be kept completely confidential.

If you have any questions concerning the survey, please contact me at (651) 259-7424.

Thank you for your assistance in this matter.

Sincerely,

Bart Bevins
Loan Officer Senior

Enclosure

APPENDIX B

Small Business Lending Survey

1. Currently, is the business for which you received a loan still in operation?

Yes [Answer Q3 - Q10]

No [Answer Q2 & Q10 only]

2. Since your loan was repaid, have you: (Choose ALL that apply)
[An individual might have done more than one during that time]

Started a new business

Found employment with another employer

Become self employed?

[SKIP TO Q10]

3. Which of the following industries best describes your business? (Choose ONE)

Retail

Service

Wholesale

Manufacturing

Construction

Other (please specify) _____

4. Currently, which of the following sizes best describes your business? (Choose ONE)

Small company (1 – 5 employees)

Medium company (6 - 20 employees)

Large company (more than 20 employees)

5. Since the loan was repaid, have you increased the number of employees working for your business?

Yes

No

6. Currently, what is the total number of employees in your business? _____

7. Currently, what is the average wage your business pays to employees per hour? \$_____

8. Since the loan was repaid, has your business expanded in terms of sales?

Yes

No

9. Since the loan was repaid, has the business owner(s)'s net worth improved?

Yes

No

10. What is the most valuable lesson you learned as a result of operating your business? _____
