

MAINE STATE LEGISLATURE

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**SUMMARY OF RECENT REPORTS AND RECOMMENDATIONS FOR IMPROVING
SMALL BUSINESS AND ENTREPRENEURSHIP PROGRAMS ACROSS THE STATE**

Presented to

**BUSINESS, RESEARCH AND ECONOMIC DEVELOPMENT COMMITTEE
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On behalf of

MAINE SMALL BUSINESS & ENTREPRENEURSHIP COMMISSION

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INTRODUCTION

This report is in response to a letter from the 122nd Maine Legislature's Business, Research and Economic Development Committee to the commissioner of the Department of Economic and Community Development (DECD) requesting that the Maine Small Business and Entrepreneurship Commission come before the BRED Committee in January 2006 to present recent reports and recommendations on improving small business and entrepreneurship programs across the state.

BACKGROUND: MAINE SMALL BUSINESS AND ENTREPRENEURSHIP COMMISSION

The Maine Small Business Commission was created in 1989 by the 114th Maine Legislature to negotiate and approve the contract for Maine Small Business Development Centers (Maine SBDC) services and to advise the commissioner of DECD on matters concerning small business and entrepreneurship development. The Maine SBDC program is one of over 60 state, sub-state and U.S. territory SBDC programs that provide comprehensive coaching, training and information resources to their respective small and micro business communities. The Maine SBDC program is administered by the University of Southern Maine (USM) via federal (U.S. Small Business Administration) and state (DECD) contracts. The Maine SBDC state office at USM, in turn, subcontracts with regional Economic Development Districts, Coastal Enterprises Inc. and the Maine Technology Institute to deliver Maine SBDC services at conveniently located service centers across the state.

In contrast to its primary mission of Maine SBDC contract negotiation and approval, the Commission's advisory role is secondary and evolving. Prior to 2001, the Commission consisted of the commissioner of DECD, the CEO of the Finance Authority of Maine and the State Auditor. In 2001, the 120th Maine Legislature expanded the Commission's membership to seven by adding the Maine district director of the SBA, a representative of the Maine SBDC administrative unit (USM) and by authorizing the DECD commissioner to appoint "three public members with expertise and knowledge in small business and entrepreneurship." In 2003, the Legislature expanded the Commission's membership again, adding the chair of the Maine SBDC Advisory Council, as well as the House and Senate co-chairs of the Business, Research and Economic Development Committee. The legislative members are ex officio, nonvoting members of the Commission. In amending the Commission statute in 2003, the Legislature also renamed the Commission the Maine Small Business and Entrepreneurship Commission.

Since the Commission relies upon volunteer participation, particularly from those public members who are appointed, it is ill-equipped to conduct its own research or prepare its own reports. Instead, the insights and experiences of the Commission's members provide DECD with valuable guidance and feedback with respect to programs and policies that promote and support small business and entrepreneurship development. It is in this value-added vein that the Commission validates DECD-commissioned reports and recommendations regarding small business and entrepreneurship matters.

SUMMARY OF RECENT DECD-COMMISSIONED REPORTS

The findings and recommendations made in this report were excerpted from the following reports:

Strengthening the Support Infrastructure for Entrepreneurship Development in Maine **Entrepreneurship Working Group, July 2001**

Convened in March 2000 by DECD Commissioner Steve Levesque, the Entrepreneurship Working Group was tasked with developing recommendations to DECD on how to strengthen the support infrastructure for entrepreneurship in Maine. Early on in its work, the EWG collaborated with the Maine Rural Development Council and its Rural Entrepreneurship Initiative (REI) project. The REI, supported by the Ewing Marion Kauffman Foundation, explored rural entrepreneurship in four “discovery states” (Maine, Minnesota, Missouri and West Virginia). The EWG’s report benefited from the REI experience, including Kauffman’s convening of discovery states in November 2000 to share learning and experiences.

Assessment of Small Business Services: Statewide Coordination and Recommendations **University of Southern Maine, Center for Entrepreneurship and Small Business, August 2002**

Commissioned by DECD, the purpose of this analysis was to assess further Maine’s public and private non-profit business service providers and to recommend actions for improving this support system. The analysis placed particular emphasis on identifying opportunities for greater collaboration among service providers, as well as improving outreach to the small business community. DECD chose not to publish the report, because the author’s conclusions and recommendations were based largely on subjective data. In compiling this report, USM’s Muskie School and Center for Business and Economic Research conducted surveys of Maine small businesses and service providers respectively. The valid and reliable data collected from these surveys helped inform this report.

Promoting and Supporting an Entrepreneurship-Based Economy in Maine **Ewing Marion Kauffman Foundation (in collaboration with the EWG), December 2002**

This report, more widely known as the “Kauffman Report,” was the culmination of twelve months of work between the State of Maine and a team of Kauffman officials and external consultants. This partnership between Kauffman and the Entrepreneurship Working Group focused on five areas: K-12 Education, Higher Education, Adult Education, Support Systems and Public Policy.

How Maine Should Organize for Economic Development **Economic Development Working Group, June 2003**

The Economic Development Working Group, chaired by Dana Connors, President of the Maine State Chamber of Commerce, was appointed by Governor Baldacci and tasked with reviewing Maine’s economic development system and making recommendations for improvement. The report’s recommendations seek to achieve the following goals: 1) a strategic focus for economic development, 2) service coordination among related programs, 3) a customer-friendly business assistance system, and 4) a spirit of entrepreneurship and creativity among all Maine citizens.

MAINE SMALL BUSINESS SURVEY DATA

As part of the USM study, the Muskie School of Public Service surveyed 510 Maine businesses with ten or fewer employees. The following are highlights from this survey:

Profile of Small Businesses Surveyed (N=149):

Employment:

- 78% had 1-5 full-time employees. (Only 6% of surveyed businesses had no full-time employees, and 16% employed more than five.)
- 66% had 1-5 part-time employees. (40% had no part-time employees, and only 8% employed more than five.)

Annual Sales:

- 70% had annual sales of \$100,000 to \$999,999. (14% had sales of less than \$100,000 and 16% had sales of \$1 million or more.)
- 16% of businesses were a second source of income for the business owner.

Nature and Structure of Business:

- Nearly 70% classified their businesses as non-goods producing, including retail and tourism. (Only 3% of surveyed businesses were manufacturers, and only 4% described themselves as high tech.)
- 58% were structured as corporations, while 34% were sole proprietorships.
- Two-thirds stated “family involvement” in the business.
- 20% of businesses were based in the owner’s home with an additional 23% located in separate buildings “on the property.”

Age and Life-Cycle of Business:

- Only 16% were five or less years old, while 31% were more than 20 years old.
- 54% described their businesses as “growing,” while 32% were “maturing.” (Only 11% described their business as “declining.”)

Business Start-Up and Development:

- 68% of businesses surveyed were started from scratch, while 20% were acquired and 10% were inherited from family.
- Of those businesses that were started from scratch, 56% were capitalized predominantly with personal funds, 26% with bank loans, 11% with family funds and 8% with credit cards. (Only 7% were capitalized with public financing, including SBA, FAME and Rural Development.)
- When starting, business owners sought advice from trade associations (12%), banks (9%), private consultants (8%), SCORE (6%), Maine SBDC (6%) and government agencies (3%). Two-thirds said they “did not know where to turn” for advice, while 15% said they did not need advice.

Use of Information Technology:

- 85% had computers, which they used for accounting (22%), billing (11%) and inventory control (8%).
- Of the business with computers, 72% had Internet access and 32% had a web page.

Business Development Challenges and Needs:

- The top five challenges for growth were the economy (41%), health care costs (33%), tax burden (23%), meeting customer demands (18%) and finding qualified employees (13%).
- 14% of respondents said that “financing/capital” was their greatest business development need, followed by “finding employees” (12%), cash flow management (7%) and time management (5%).

Awareness and Utilization of Business Assistance Services:

- **88% of respondents said they did not utilize public business assistance services.** (Business respondents said they received business advice from family and friends, other small businesses, professional consultants and magazines/journals.)
- Respondents said they would like more information about the following resources: financing programs (25%), Internet training (23%), business counseling (22%), business planning (21%), market research (16%), workforce development (15%), customer service (11%) and manufacturing/processing (3%).
- Respondents said they would like to receive training in the following areas: marketing (16%), financial planning (14%), computer/Internet (8%), accounting (7%), tax management (5%) and how to sell/pass on business (4%).
- Respondents stated the following preferences for being informed of available business assistance services: direct mail (37%), email (19%), one-stop centers (14%), local newspaper (9%), trade association (9%), Internet (6%), local radio (3%), www.mainebusinessworks.org (3%).

MAINE SMALL BUSINESS SERVICE PROVIDER SURVEY DATA

As part of the USM study, the Center for Business and Economic Research (CBER) surveyed 59 public and non-profit business service providers. The following are highlights of the CBER survey:

Maine service providers offer a wide variety of services to Maine businesses.

The 59 business service providers indicated a total of 135 primary missions and 127 allied missions. Business education (24), counseling (22), business training (22), referrals (22), lending (14) and advocacy (13) were the top primary missions. (Service provider respondents identified an average of 4.4 primary and allied missions.)

When asked to identify their distinctive competency, service providers responded as follows: counseling (23%), lending (21%) and training (18%).

Maine service providers rely upon a wide variety of funding sources, with most agencies receiving funding from multiple sources.

63% of business service providers receive state funding, followed by federal appropriation (54%), federal grants (49%), private grants (42%), client fees (41%), local funds (31%), interest income (24%) and regional appropriation (19%).

Maine service providers serve predominantly small businesses, reflecting the preponderance of small businesses in the state, the demand for services by early-stage entrepreneurs and the targeting of services to this group.

- Service providers serve predominantly small businesses with 93% of their clients employing 50 or fewer people. (68% of service provider clients have five or fewer employees.)
- 74% of service provider clients are in the pre-venture (27%), start-up (26%) and early or 1-3 years old (21%) stage of their business life-cycle. Additionally, 12% of clients are in the growth stage, 11% in the maintenance stage and only 3% are declining.
- 57% of service providers target services to microenterprises, followed by start-ups (50%) and successful small businesses (49%). 48% of service providers said they target their services to clients who demonstrate significant job creation potential.
- 68% of service providers focus their services on a combination of the individual and the enterprise, with 24% serving the owner only and 8% serving the business only.

Maine service providers serve a diversity of markets, whether geographic, industrial or socioeconomic.

- Service providers described their service areas as follows: statewide (35%), regional or multi-county (32%), county-wide (22%) and local (11%).
- 59% of service providers said they target services to women and/or minorities, while 55% target services to disadvantaged individuals.

- 70% of service providers indicated that they serve all industrial sectors. Business services are targeted to manufacturing (43%) and natural resource-based industries, including forest products (39%), agriculture (36%) and marine (24%). Services (33%), retail (30%), information technology (29%), medical (22%), wholesale (21%) and construction (10%) are also targeted by Maine service providers.

While the majority of Maine service providers do not target their services to growth-oriented businesses, most screen their clients and offer different levels of assistance and types of services based upon the growth potential of clients.

- Only 41% of business assistance service providers target their services to growth-oriented businesses.
- 59% of business assistance service providers screen their clients.
- 59% of service providers offer different levels of assistance or different types of services, based upon the growth capacity of clients.
- 51% of service providers measure the economic impact of their client services.
- 52% of service providers continuously assess the needs of their clients.

Nearly all Maine service providers collaborate with other providers to serve their clients.

- 83% of service providers stated that they formally collaborate with other providers.
- Informal relationships (91%) were the most common means of collaboration, followed by formal memoranda of understanding (58%), contracts (49%) and letters of intent (33%).
- 47% of service providers refer clients to private sector business service providers.

While Maine service providers employ a variety of marketing strategies, most do not have a written marketing plan.

- Less than half (47%) of service providers have a written marketing plan.
- According to service providers, the most effective media for marketing business services were as follows: word of mouth (23%), print (23%), PSA/radio (10%), electronic/www.mainebusinessworks.org (10%) and trade shows/resource fairs (6%).

While clients must wait before receiving business services, the majority of Maine service providers do not believe that demand for their services exceeds their delivery capacity.

- Maine service provider clients wait an average of 8.2 days for service delivery.
- 60% of Maine service providers do not believe that demand for their services exceeds their delivery capacity.

Maine service providers believe that they should become more specialized in order to improve business assistance and reduce redundancy.

- Two-thirds (67%) of service providers identified more specialization as a means of improving business assistance statewide.

KEY FINDINGS

Business management and entrepreneurial skills are critical to the launch, growth and survival of small businesses.

“Seventy percent of all new businesses fail within two years: Overall, 50 percent of businesses with employees survive four years or more. That is better than myth suggests, but it gets even better. For example, getting help helps: 87 percent of incubator-based start-ups are still going after five years. Small Business Development Center clients usually have only half the failure rate of start-ups in general. College graduates, who have taken classes in small business or entrepreneurship also have much better chances of starting and growing businesses than business school graduates without such training, and they have much higher rates of success than the general public.” (Excerpted from Entrepreneurial Small Business, Dr. Jerome Katz, Coleman Foundation Chair of Entrepreneurship, John Cook School of Business, Saint Louis University.)

Entrepreneurship and small business coaching and training is adult education. Therefore, to be effective, it must be integrated with traditional community-based adult education, as well as K-12 and higher education resources for entrepreneurs.

According to the Kauffman Foundation, “increasing Maine's entrepreneurial population” should be a principal focus of Maine's economic development strategy. While entrepreneurship education at the K-12 level will increase Maine's entrepreneurial population in the long term, adult education is the short-term opportunity for increasing entrepreneurial capacity. Entrepreneurship education at institutions of higher education presents both short-term and long-term opportunities for increasing Maine's entrepreneurial population. With respect to higher education, Kauffman noted that “this appears to be an area where there are significant opportunities for expanding the range of support.” In particular, Kauffman made the following observations about Maine's higher education resources:

- Maine institutions of higher learning have untapped capacity, including faculty expertise, research and students.
- Entrepreneurs do not know what is available at Maine universities, colleges and community colleges or how to navigate the system.

While Kauffman observed that the University of Maine's Office of Research and Economic Development and USM's School of Applied Science, Engineering and Technology, its work in other states suggests that market research is another area where academic resources can benefit entrepreneurs lacking in-house marketing capacity.

While there is an array of small business and entrepreneurship development services (both technical and financial) available to Maine entrepreneurs, awareness and understanding of these services is limited among Maine's small business community.

In assessing Maine's entrepreneurship support system, Kauffman observed numerous agencies providing similar services to the same population. While its initial impression suggested possible duplication or inefficiency, upon further investigation, Kauffman concluded that these agencies serve segmented markets or populations.

Whatever the rationale for multiple agencies serving Maine entrepreneurs and small businesses, the unintended consequence of this system is that its customers are often confused by the number and array of services available to them. In recommending further examination of its entrepreneurship support system, Kauffman suggested that Maine pay particular attention to the following:

- **Specialization.** Where there appears to be “mission overlap,” how do organizations differentiate their services?
- **Production versus Retailing.** Should statewide entities focus on developing better information and assembling resources that are available to support entrepreneurs in every region of the state (i.e. product development and distribution) and designate the delivery of these services (i.e. retailing) to regional and local agencies?

Competing marketing messages by individual agencies contribute to Maine entrepreneurs' limited awareness and understanding of available support services.

As the Maine approach to serving entrepreneurs moves from a collection of individual providers to a system, the marketing effort must reflect the value of the system as a whole.

Clients will be driven to services when the entrepreneurs believe that using the service will make a significant difference in their probability of success or their rate of growth. Rather than promoting the availability of services, the system marketing effort should focus on success stories using client testimonials. These stories need to be as detailed and specific as possible to help potential clients understand the appropriateness of the service in a given situation and the potential benefit of using the service. Stories that include combined support from a number of providers within the system further demonstrate the range of valuable services that a client can expect from the system. Service providers need to recognize that the lack of a fee structure does not mean that a service does not have costs for the entrepreneurs in terms of their time and energy. There are opportunity costs, and only when the entrepreneur perceives that the opportunity cost of using a public or for profit service has value will they take advantage of the assistance.

The numbers in the Muskie School survey of businesses bear this out. Eighty-eight percent of those surveyed said that they did not use public business assistance programs. Only 66 percent said they were not aware of these services. Therefore, 22 percent knew of the service and still chose not to avail themselves of the assistance.

One should not put too much weight on the percent of respondents who said they were not aware of these services. This does not mean that they were not exposed to information about support services, only that it did not register. This may be more about the message than outreach effort. Any marketing campaign to increase demand for support services must be grounded in the clear distinctions between exposure, awareness and impact. Exposure means that the information is presented in venues (e.g., magazines, radio) where target audiences would have an opportunity to see it. Awareness means that the target audience is cognizant of the exposure (i.e. can recall having seen the information). Impact means that the target audience acts on the information (i.e., they contact the program or agency for assistance).

Finally, delivery capacity must match anticipated response to the marketing campaign. With only one or two exceptions, the participants at the two summit sessions indicated that they already had more clients than they could serve. With limited capacity, the issue of targeting markets becomes even more critical.

“The one area in which Maine's entrepreneurship support system seems to be weakest is support for mentoring and networking opportunities.” (Kauffman report)

The existence of peer-to-peer entrepreneurial networks is critical to the continuous learning cycle associated with entrepreneurship. While several Maine organizations indicate that they offer mentoring to entrepreneurs, there is a significant difference between business technical assistance and mentoring. The primary difference is that the mentor should be an experienced entrepreneur, who can help an aspiring entrepreneur recognize opportunities or challenges before they become crises and who can provide guidance to address these situations. Moreover, while a Maine SBDC or SCORE counselor or other service provider may be an experienced entrepreneur, a mentoring relationship generally involves a longer time commitment than these organizations can afford to make to any one client.

While Maine may be weak in the area of networking and mentoring resources, the cost of seeding and supporting such peer-to-peer learning opportunities is minimal. What's more, entrepreneurial networks, including the Maine Technology Institute's Tech Tracker program, mentoring resources through the Women's Business Center at Coastal Enterprise and other chamber and trade association resources are emerging across the state.

While there should be “no wrong door” to enter Maine's entrepreneurship support system, there should be a “first stop” point of entry option, both telephone and web portal, for entrepreneurs, who do not know where to begin.

DECD's Business Answers program and www.mainebusinessworks.org could be branded as the first stop points of entry in to Maine's entrepreneurship support system for telephone callers and web users respectively.

There is little consistency among Maine organizations in how they measure the effectiveness of small business and entrepreneurship development services.

Historically, the performance or effectiveness of small business service providers has been based more on activity or “outputs” than on impact or “outcomes.” Based upon Kauffman's experience across the U.S., even when client outcome measures, such as job creation and revenue growth are used, these measures do not always reflect the value of the support services. In order to capture this value, a growing number of support organizations are beginning to measure client outcomes using the client's expectations as a benchmark.

Compared to start-ups, existing business owners appear to be underserved.

Because entrepreneurs, who are engaged in start-up and microenterprise activities, are hungry for external information and resources, they are more likely to be aware of the array of services available to them. As a result of this demand, service providers are more responsive to the needs

of entrepreneurs who are in the pre-venture, start-up and/or early stages of business development.

Despite scarce resources, there appears to be little targeting of small business and entrepreneurship development services to clients who offer the greatest potential for economic impact.

Given the reality described above, the critical question for service providers to consider is as follows: Are service providers serving entrepreneurs with the greatest development needs and/or the greatest potential for economic impact, or are they simply addressing the needs of the clients who are most aware of their services? Effective marketing strategies are critical to targeting services to clients with the greatest development needs and/or the greatest potential for economic impact.

Technology is a powerful tool that can be used by service providers to improve efficiencies, offer convenient access to business development information and resources, and connect entrepreneurs with online training curricula, coaches and peers.

The Maine Small Business Development Centers offer a useful model for service provider technology utilization. The Maine SBDC's portal or intranet allows its counselors to manage client data, share information and resources and collaborate with other counselors. Additionally, the Maine SBDC and Maine Centers for Women, Work and Community's "Taste of Success" program offers live, monthly, online peer-to-peer learning opportunities for value-added food producers at eight locations throughout the state. (This technology, Macromedia Breeze, also allows Maine SBDC counselors, whose offices are located throughout the state, to co-counsel clients live, online.) The Maine SBDC also plans to debut on-demand training online this spring with a four part primer on starting a small business. Finally, the Maine SBDC's web site www.mainesbdc.org offers a wealth of information for entrepreneurs and is linked with www.mainebusinessworks.org, which includes a comprehensive calendar of business education opportunities throughout the state.

KEY RECOMMENDATIONS

1. Develop and pilot a regional entrepreneurship support system model (i.e. collaborative program development, delivery and marketing).

While regions should be given flexibility in designing systems that recognize the uniqueness of their areas, any entrepreneurship support system must meet the following criteria:

- The system must be responsive to the needs of entrepreneurs, and
- entrepreneurs seeking assistance from the system should receive services from the organization that is best qualified to meet the entrepreneur's needs.

The following are elements of a user-friendly, responsive, cost-effective entrepreneurship support system:

- **Common Intake.** Regardless of how a client enters the system, the initial point of contact should be responsible for gathering basic information about the client.
- **Host Agencies.** Upon intake, clients needs are diagnosed and they are referred to “host agencies” (analogous to primary care physicians), who may make referrals to “specialists” but maintain an ongoing relationship with the client.
- **Specialization.** Organizations that comprise the support system should develop core competencies or “specialized services,” for which they welcome referrals from other agencies within the support system.
- **Accountability.** Organizations that comprise the support system use common program performance and client outcome metrics to measure their effectiveness.

2. Strengthen and support networking, mentoring and other peer-to-peer learning opportunities for entrepreneurs.

DECD, through funding programs such as the Maine Microenterprise Initiative, should strengthen and support existing and emerging peer-to-peer learning opportunities for entrepreneurs.

3. Develop and execute collaborative marketing strategies that promote the entrepreneurship support system as a whole.

DECD should lead by example and budget some of its marketing resources towards promoting the entrepreneurship support system as a whole.

- Co-brand DECD's *Business Answers* program with www.mainebusinessworks.org and position each as the point of entry for telephone callers and portal for web resources respectively.

Utilize technology, particularly information technology for marketing, as well as program delivery.

- Populate www.mainebusinessworks.org with comprehensive data on training, technical and financial assistance resources and promote it as the premier portal for such information.