



Microenterprise in Central Ohio | The Way Forward

Summer 2018

Increase CDC and **Crane R&D, LTD**

Purpose

At **Increase CDC**, we value feedback and wanted to learn more about the experiences of our clients. We routinely evaluate our strategic goals and seek input from our program alumni. Historically, we've been able to find new insights and discuss economic development theories and results with our colleagues in the field. This year we were excited for the opportunity to partner with **Crane R&D** for a more advanced snapshot of our organization. We decided to open our tool to our counterparts in the entrepreneurial ecosystem by inviting them to participate and share our 2018 Central Ohio Microenterprise Survey.

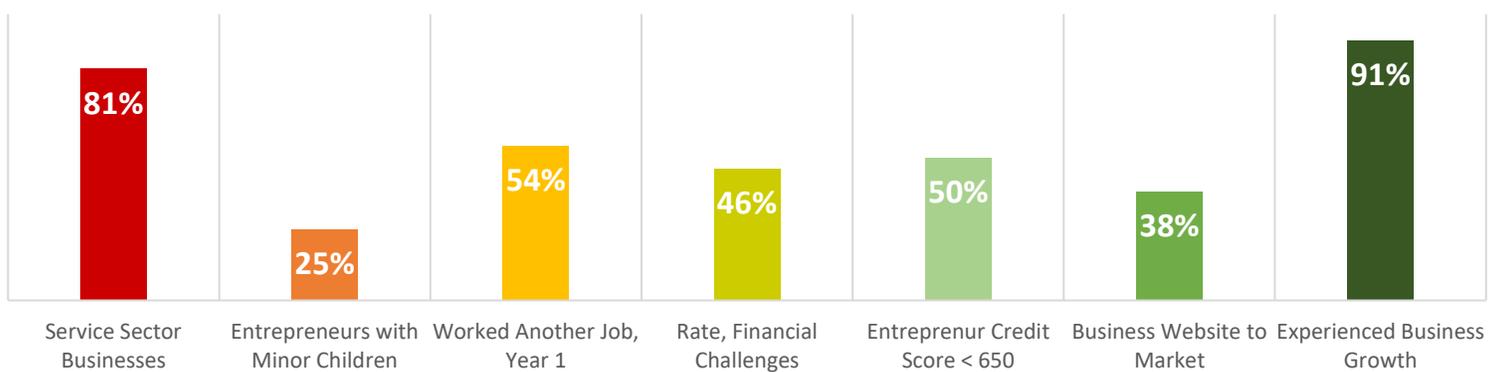
Methods

With the assistance of our AmeriCorps VISTA team member, we put together a list of questions. Most of the inquiries are common to the field of economic development, but we jumped on the opportunity to assemble information that we've been curious about for years. We created the content and **Crane R&D** helped us tweak a few things and load it into multiple digital platforms. Our original scope focused on our program's participants during our 31-day survey window (the month of July 2018). **Crane R&D** encouraged us to use our partnerships to add increased diversity to the responses for a clearer picture of the different groups captured by the term entrepreneur. Ultimately the survey link was emailed to over 1,000 entrepreneurs whose businesses originated in the Central Ohio area. Our AmeriCorps VISTA worker managed outreach using a database, and led us to a total of 125 responses, of which, we could use 119. Crane R&D created a master dataset and analyzed it using several advanced methods, starting on Page 2.

Organization of the Document

Overall, our survey generated about 5,000 pieces of raw data. As we mined through it, and added some new measurements, indexes, and coefficients, we ended up with over 7,000 bits of information to analyze. Our analysis was thorough, and we ranked our results from "minimal value" to "key finding." The following report was streamlined with our reader in mind, and so we only included our key findings for each of the three sections: a brief **Update to our 2013 Study**, **Crane R&D Deep Dive™**, and **"EC" our Way Forward**.

Key Findings



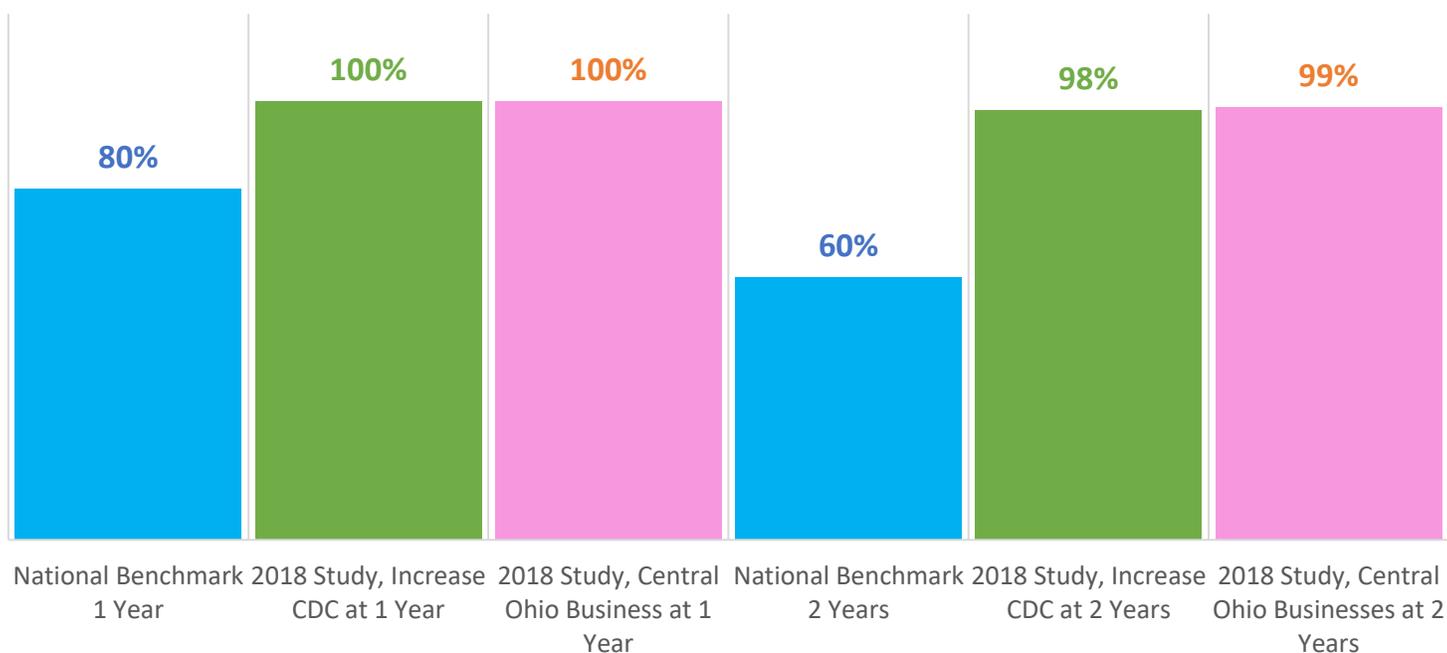
Update to 2013 Sustainability Study

It was important to compare current performance with our 2013 Sustainability Study conducted in coordination with the Columbus Foundation to better understand the entrepreneurial ecosystem. The 2013 Report gave a great snapshot of our client flow. Earlier this year, we partnered with **Crane R&D** to update our report. During our exploration, we learned that we could both update the most critical components of our 2013 Study and offer regional benchmarks for Central Ohio on a number of new areas.

Our first step was adapting our survey tool so that it focused less on the **Increase CDC** experience, and more on the global needs and experiences of microentrepreneurs in Central Ohio. The following three categories represent our **Increase CDC** baseline in 2013, our **Increase CDC** client performance outcomes now, and in places the first benchmarks of our local entrepreneurship community. For further added-value, we sought out known national rates and figures to ensure we stayed focused.

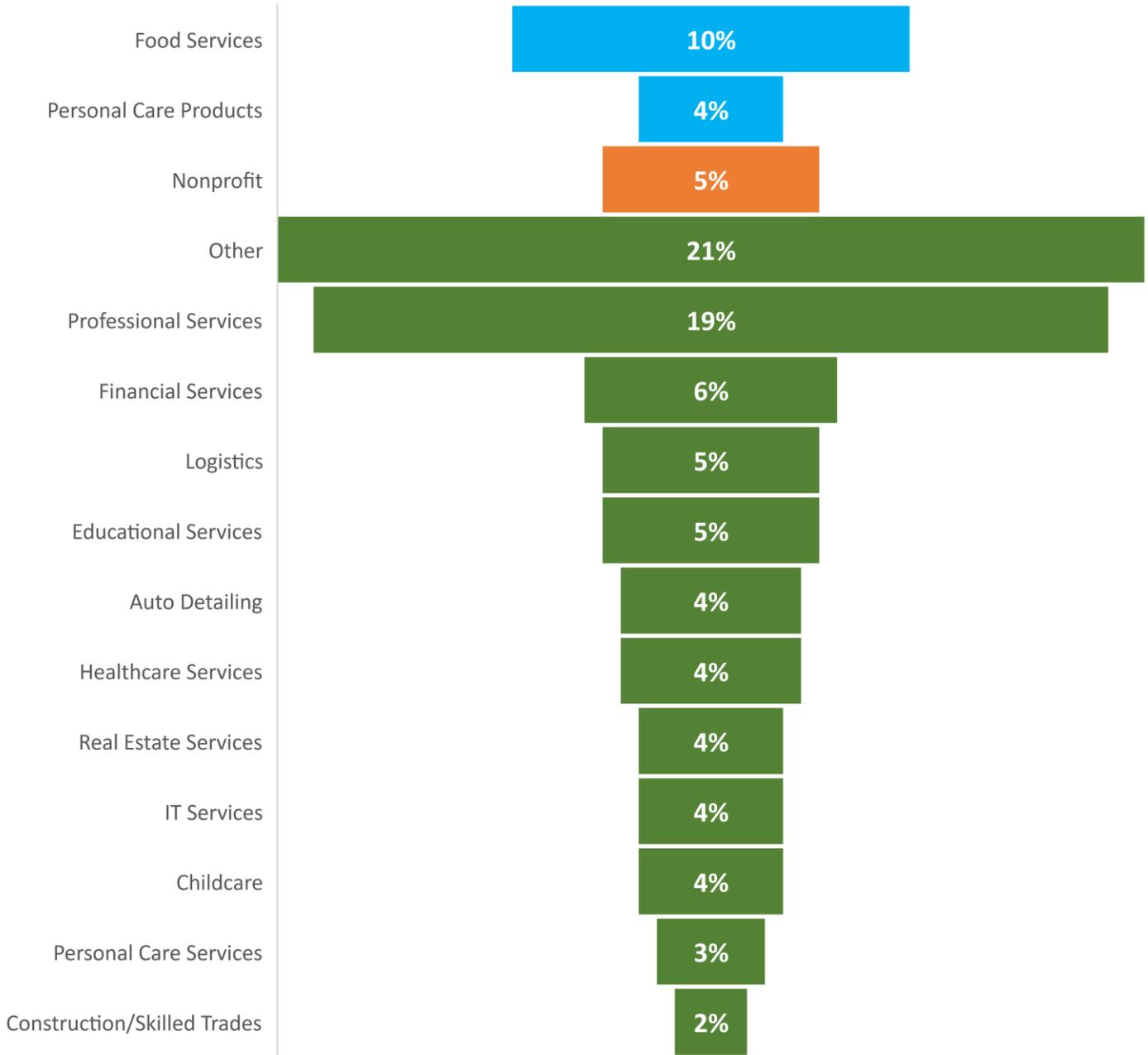
Category 1 | Business Status

Figure 1. 2017 Businesses Still Active, One Year, and Two Years After Registering with Secretary of State



Nationally, 80% of small businesses survive their first year¹. In Figure 1, we add a range of +/- 10% for each of these figures we protect from sampling error (those who closed their businesses down may not be totally represented if the business email addresses were inactive, they chose not to participate for some other reason, or the year of registration was not aggregated into a cohort format). Further, the 2013 Study did not inquire about the date of the business' registration with the Secretary of State. Finally, many participants likely received service through a business incubator after their business had already surpassed the two-year benchmark – neither point was collected.

Figure 2. Service Categories and Industries (Products in Blue, Nonprofits in Orange, Services in Green)

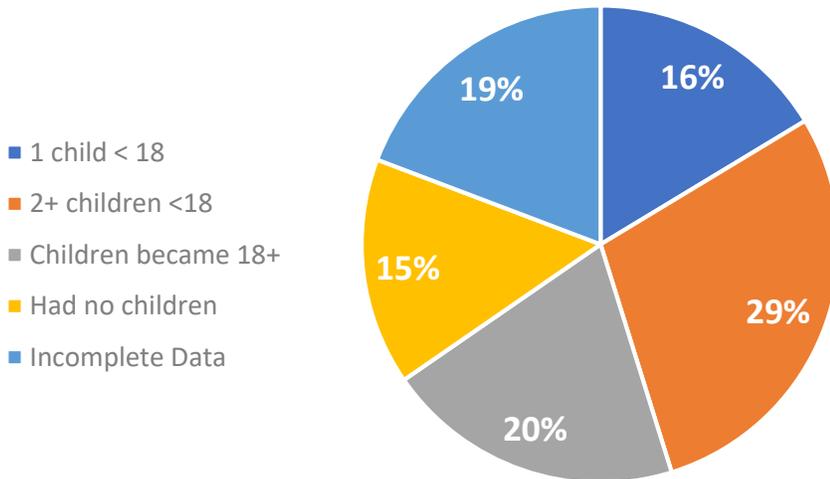


Comparing the 2018 Central Ohio cohort to the 2013 Study as a baseline for the region, service sector new business creation is up 13% (from 68% to 81%), retail sector is down 4% (from 18% to 14%), and nonprofits are down 7% (from 12% to 5%). These trends align with microentrepreneurs nationally, with greater thrust into the service sector for new businesses². Note, there has not been consistent small business growth, a significant dip in registrations and active small businesses was recorded in 2010².

Category 2 | Time Demands, Market Entry

The 2013 Study identified several elements of the time focused on procedures and the delivery of products and services but was not considering other time factors. The present study expended our understanding of how the time investment made by entrepreneurs competed with the rest of their lives.

Figure 3. Family Size



Life outside of preparing a business to enter the marketplace is an important indicator of the time investment that can be made. Adding the layer of marital status illuminates demands for select groups:

- Divorced or Widowed = average of 0 children < 18
- Married with Children = average of 2.9 children < 18
- Single with Children = average of 1.5 children

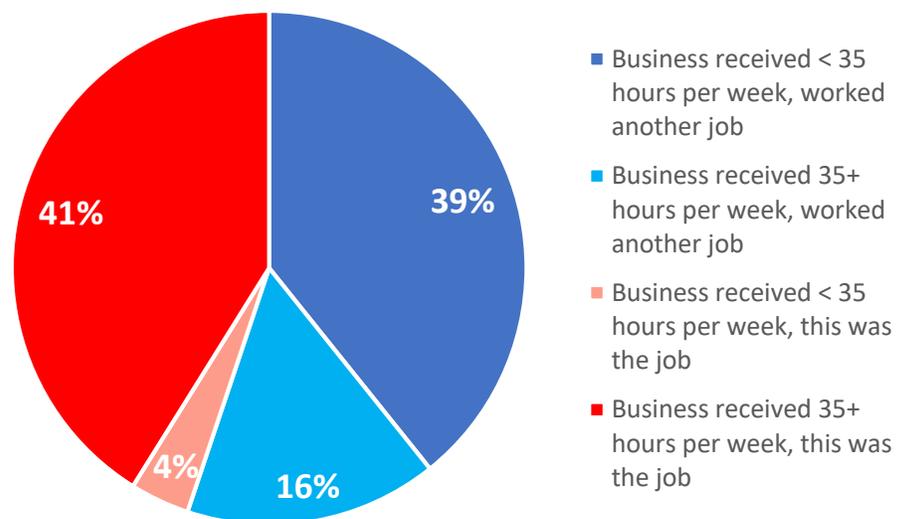
(~25% OF ENTREPRENEURS HAVE CHILDREN < 18)

We were shocked to learn that more than half (54%) of Central Ohio entrepreneurs worked another job in addition to their small business in their start-up year. This opened new questions about access to start-up capital and whether businesses were able to sustain themselves without an additional income stream.

- From a time-demand standpoint, we hypothesized that the quality of the time investment made by working entrepreneurs was reflected in the businesses growth rate.

(Keep reading to find out!)

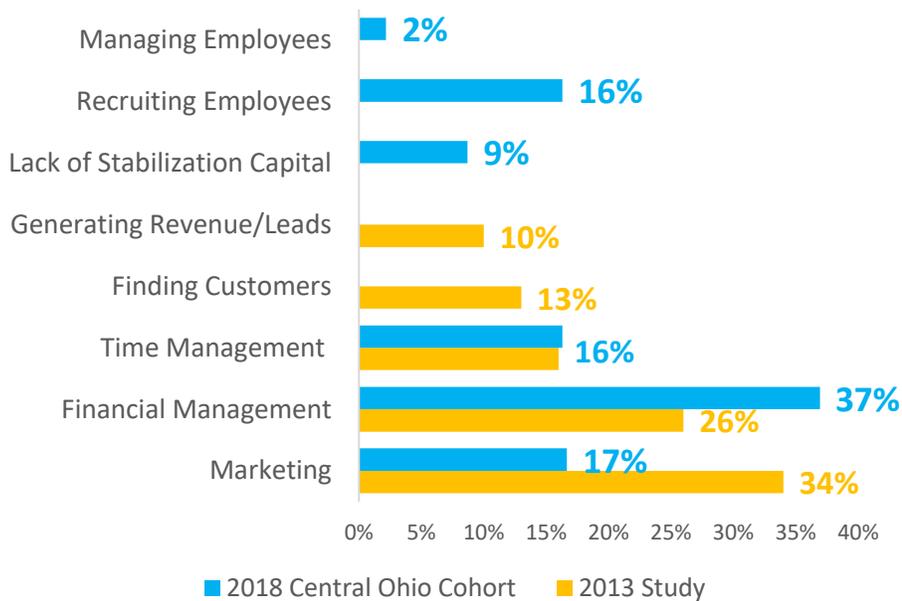
Figure 4. Competing Time Interests in Start-Up Year



Category 3 | Challenges

One of the greatest benefits of business studies is the opportunity to learn from the business owner's perspective what their greatest challenges were. In the 2013 Study we used general domains. The present study added a new level of categories to those domains, with emphasis on the experience of adding, managing, and retaining employees. Additionally, we asked entrepreneurs to rank their challenges, but found them so evenly-distributed that there was not a real benefit to going into specific numbers here.

Figure 5. Challenges by Volume



Fiscal Management was the forerunner of challenges. We'd like to flesh out this need area.

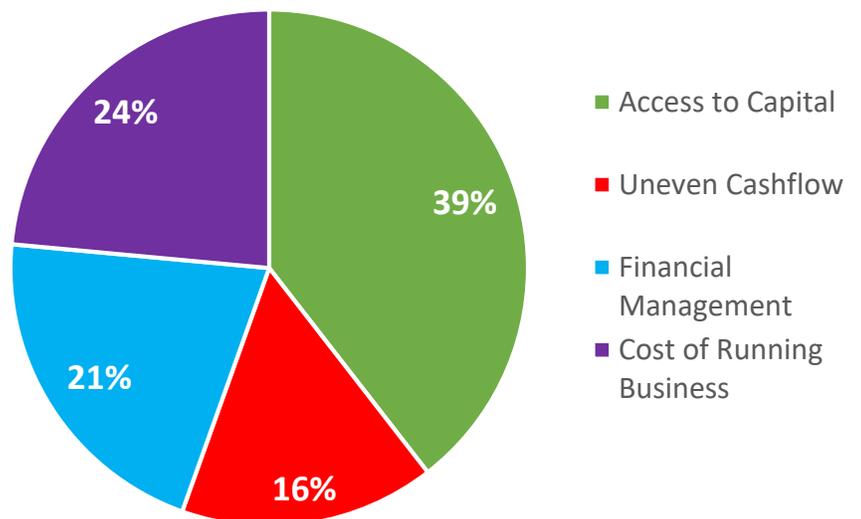
- 75% of entrepreneurs report that they solely manage their business finances
- 14% use an outside agency

Comparing this against the qualitative feedback we received, it is clear that there is a gap in securing capital, encumbering capital, and reinvesting capital in the business.

Figure 6. Distribution of Financial Challenges (Excludes all Other Challenge Types)

- Over 4 in 5 financial concerns may have been alleviated with increased capital resources.
- Entrepreneurs provided us with feedback about the start-up experience in their own words. 28% of their comments referenced financial assistance.

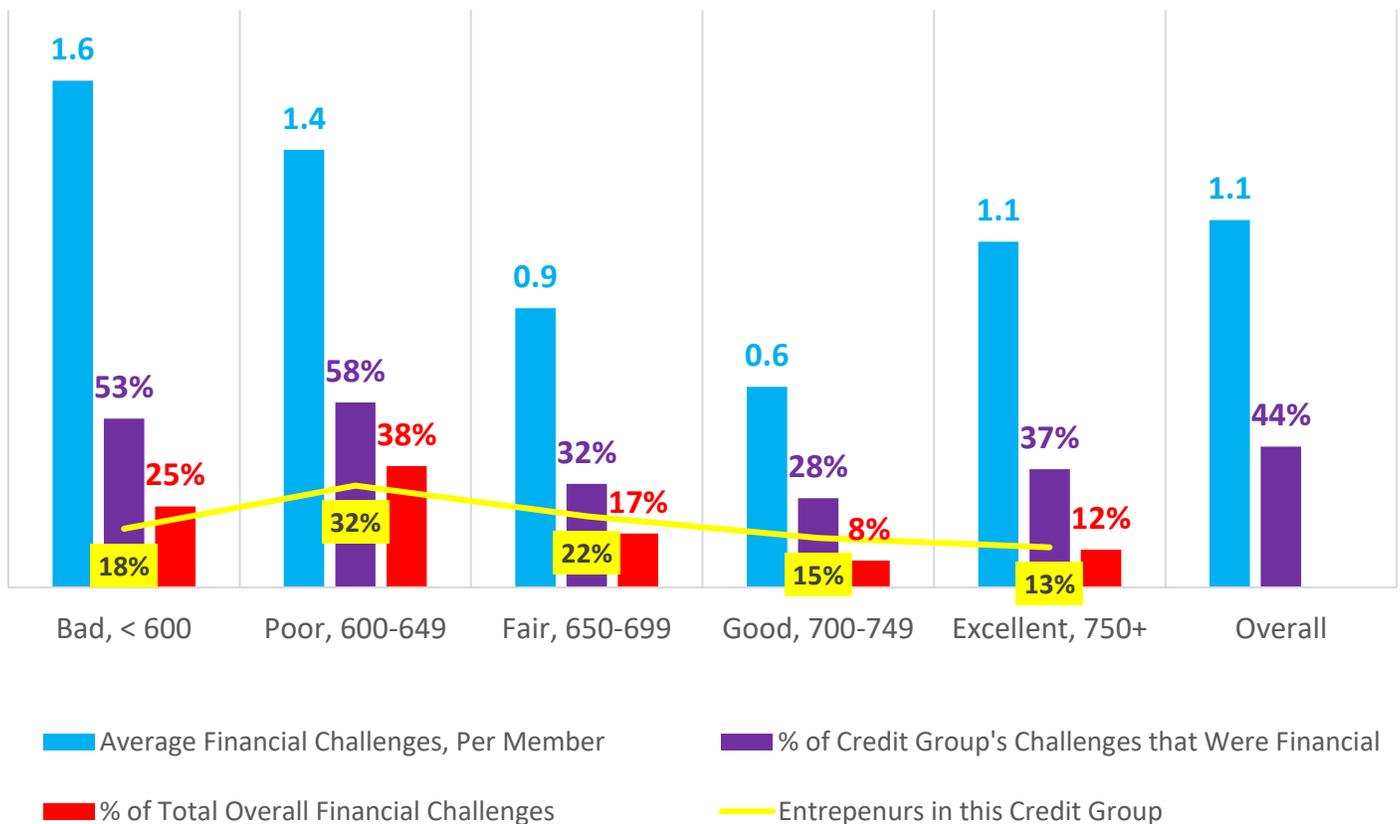
In the next section, we do a Deep Dive into how these concerns line up with credit grouping.



Crane R&D Deep Dive™: Finances, Revenue Cycles, and Marketing

We needed a clearer picture of the different groups of entrepreneurs that were emerging in our research, so we asked Crane R&D to help us with “breakouts.” These helped us to visualize group differences, and to refine our perspective of the entrepreneurial ecosystem. Below are a few charts that show our most significant findings on credit groups, marketing groups, employment groups, and income groups.

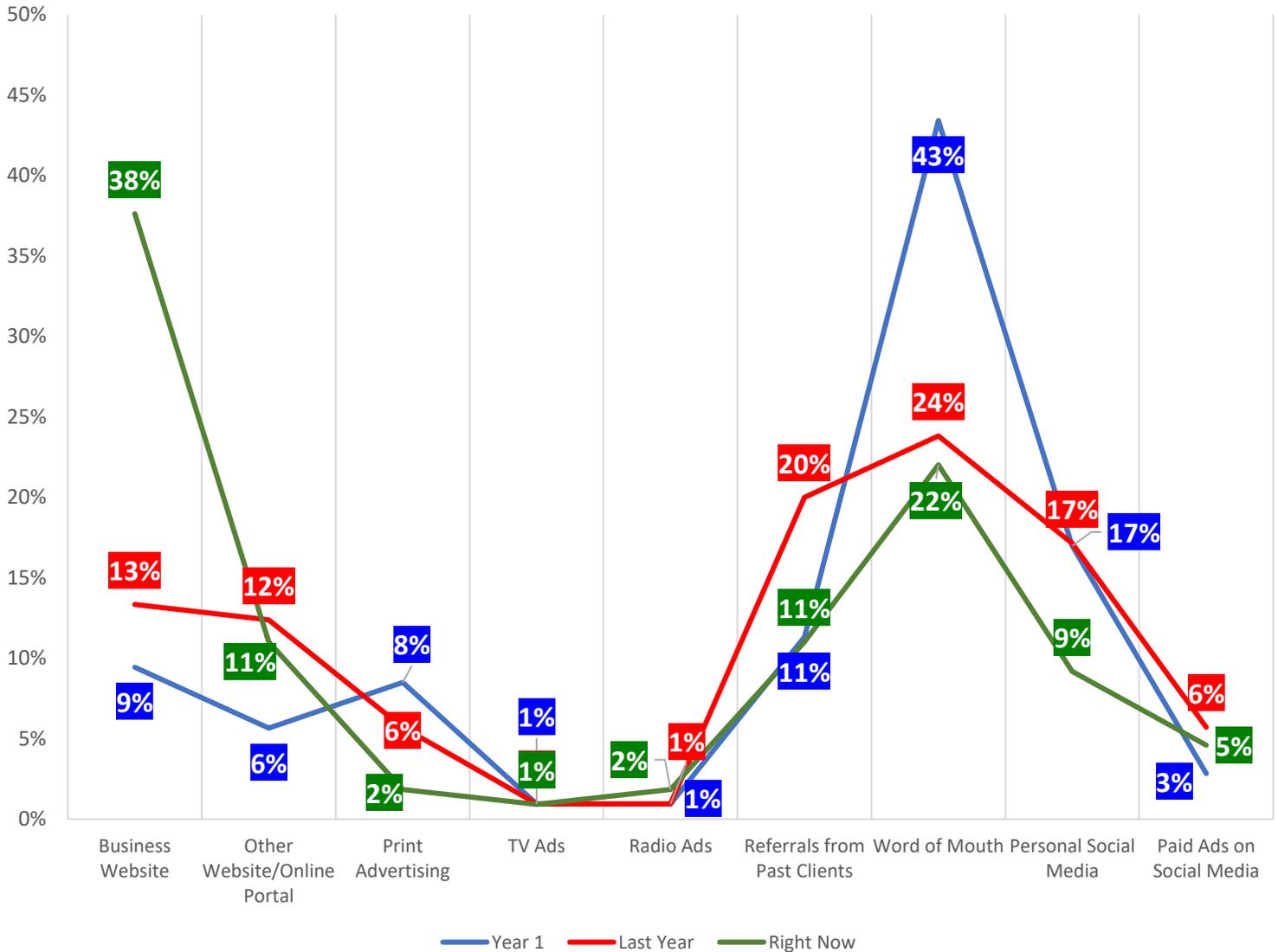
Figure 7. Breakout: Credit Group and Financial Challenges



These figures have a slight variance to those on the previous page (here we have a rate of 44% Financial Challenges, and in Figure 5 the rate was 46% when all of the subcategories for Financial Management and Lack of Stabilization Capital were put together), this is due to Figure 7 only looking at the challenges identified by entrepreneurs who shared their personal credit group with us. The results were fascinating:

- Personal credit scores of 649 or lower accounted for 50% of entrepreneurs, and they had nearly two-thirds of all financial challenges. More than half of this group’s challenges were financial.
- On average, all entrepreneurs had at least one major financial challenge (1.1).
- The credit group with the lowest average financial challenges in all categories scored 700-749.
- Interestingly, entrepreneurs in the Excellent group had more financial woes than those with Fair group. We think that this may be because they have more invested in their credit worthiness.

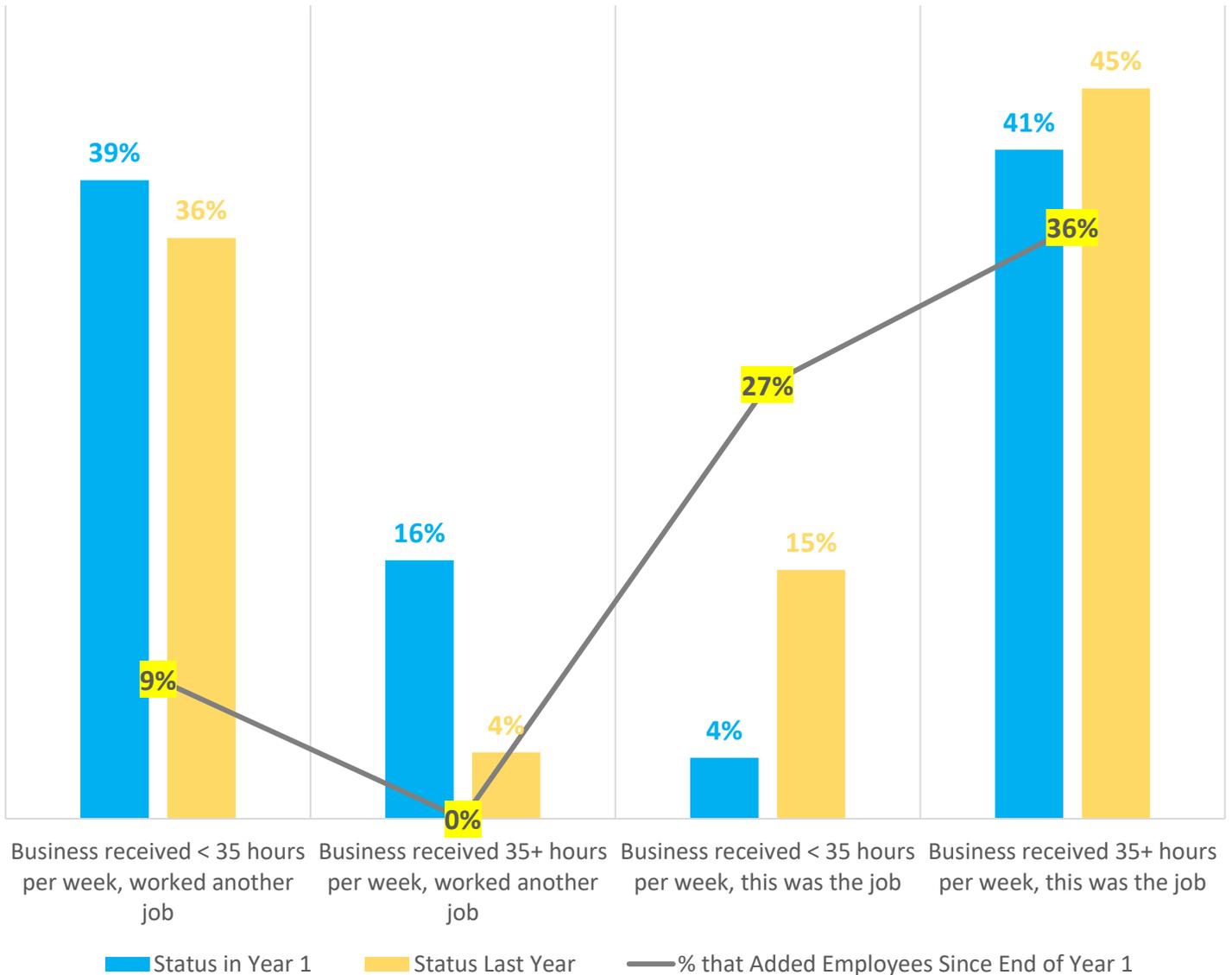
Figure 8. Primary Marketing Types at Startup, First Year, and Last Year



Highlights

- Central Ohio entrepreneurs identified that in Year 1 Word of Mouth was their primary marketing strategy. Right Now driving traffic to the Business Website is the primary strategy.
- Right Now, entrepreneurs are using print **four times less often** than in their first year. This statistic rings true across age groups and businesses started more than 10 years ago (when social media and social marketing began to establish themselves). This invites a question about whether entrepreneurs believe that a physical document provides more credibility than a digital document. This start-up aversion to digital solutions may explain < Year 1 business mortality³.
- Right Now, Central Ohio entrepreneurs are using their business websites to market **four times more often** than in Year 1. This suggests an early digital strategy is critical to long-cycle success.

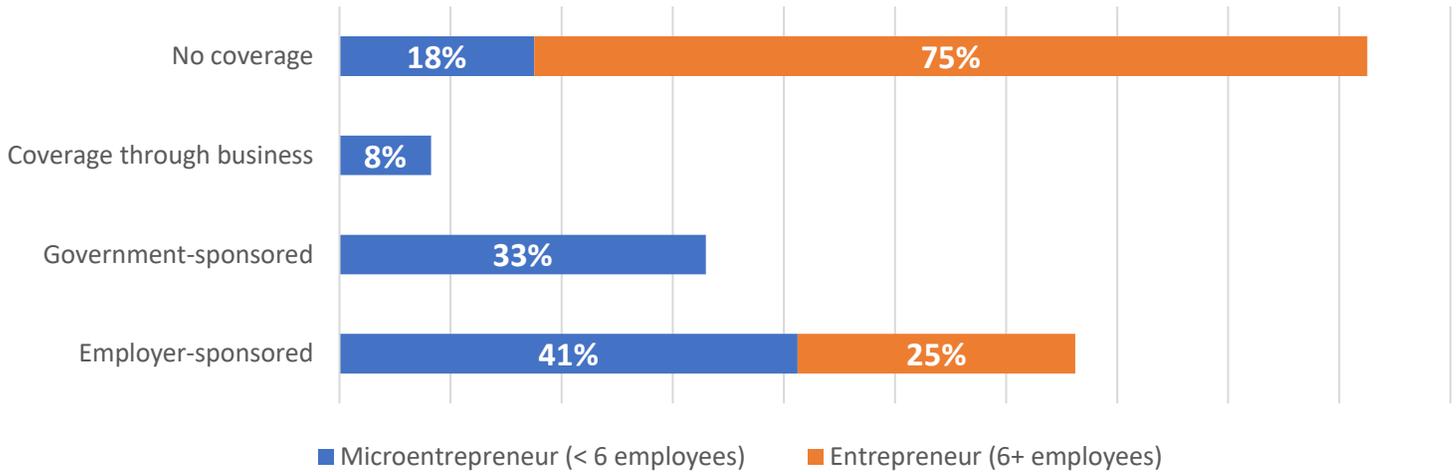
Figure 9. Employment Groups and Entrepreneur's Time Investment



Highlights

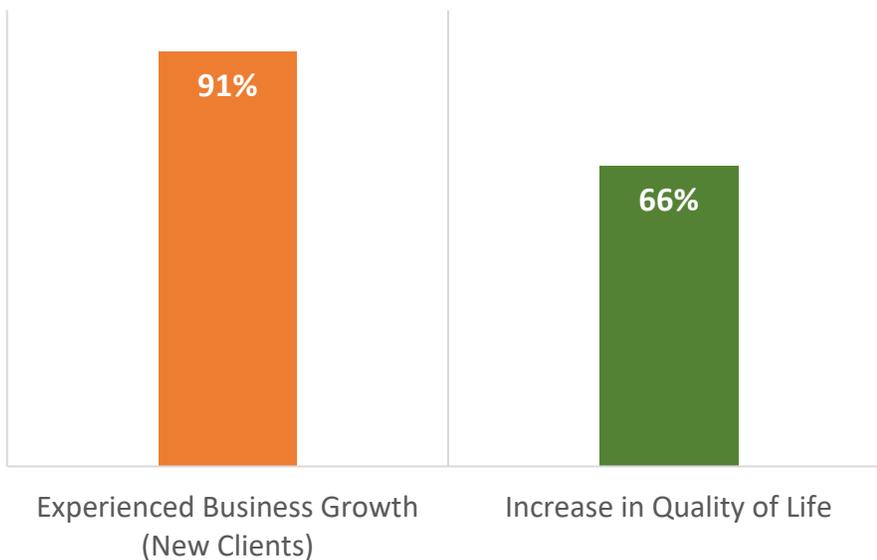
- 15% more entrepreneurs (now an average of 60%) work solely for their businesses.
- Of these, those who worked for themselves full-time were more likely to hire employees.
- The demographic data is incomplete, but from what we can see now, businesses were about 8 years old for the entrepreneurs that made the switch, and entrepreneurs themselves were 45 years old on average.
- This data brings up the question of premature scaling. We'd love to expand our research in this area to better understand the decision-making factors, prior success, and psychosocial determinants that informed their scaling plans.

Figure 10. Central Ohio Entrepreneur Insurance Coverage, Right Now



As reported in *Figure 4* and *Figure 9*, most small businesses start while the entrepreneur is still employed elsewhere. One of the essential concerns of new entrepreneurs is health insurance coverage^{4,5}, particularly with the federal mandate and associated penalties for failing to maintain a personal policy⁶. Fifty-two percent of Central Ohio microentrepreneurs⁷ held an additional job last year, compared to 40% of entrepreneurs with 6 or more employees. Respondents were overwhelmingly microentrepreneurs (95%), with this in mind, we acknowledge that the ratio of entrepreneurs without insurance coverage may be victim of skewing. The data does indicate that there may be a need for a localized insurance exchange.

Figure 11. Quality of Life Change and Perceived Success



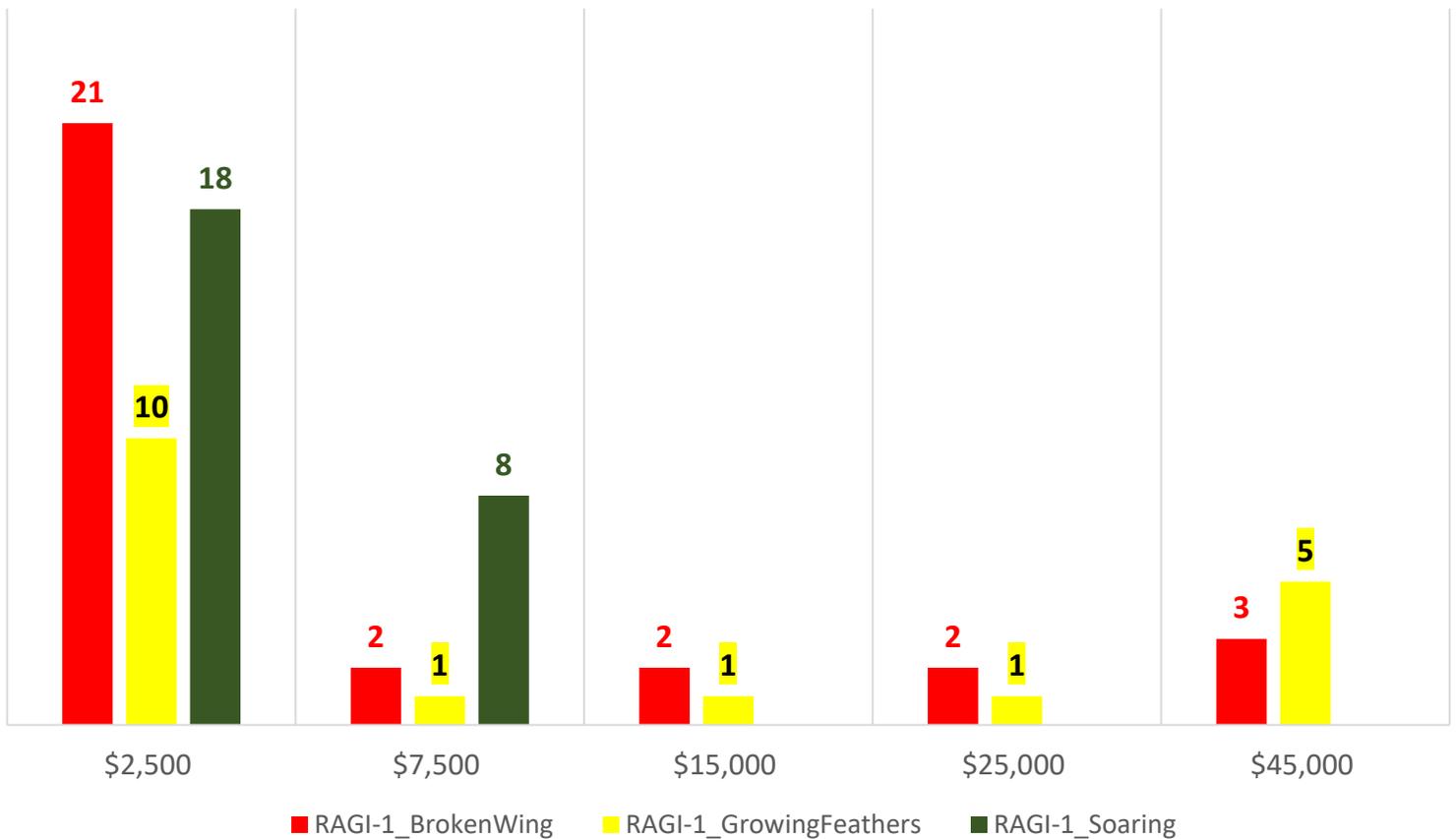
We asked questions that are often overlooked in the hunt for insight into revenue generation, production innovations, and strategy.

- The vast majority of entrepreneurs experienced success as gaining new customers/clients.
- Our inquiry about quality of life was scaled 1 (no change) to 5 (things are completely different for the better). The average response was 3.3, translating to a 66% increase in life quality.

Relative Annual Growth Index – 1™ (RAGI-1™)

Crane R&D created a new way to think about business financial success using their Relative Annual Growth Index on businesses that survived the first year (RAGI-1™). We'll spare you all the advanced statistics behind the scenes, but the big picture is that it ranks success by measuring the distance between expected profitability and a business' lifecycle. RAGI-1™ sorts through the details and gives a score from -1 to +1. While this new tool is still under development, it revealed an alternative new way to think about small business development, as opposed to traditional assessments of a business meeting criteria to scale. Presently, RAGI's has three cut scores (the categories that businesses fall into): Broken Wing (-1.0 to 0.0), Growing Feathers (0.01 to .099), and Soaring (0.10 to 1.0); the higher the score, the healthier the business.

Figure 12. Start-up Cost and the Relative Annual Growth Index – 1 (RAGI-1™)



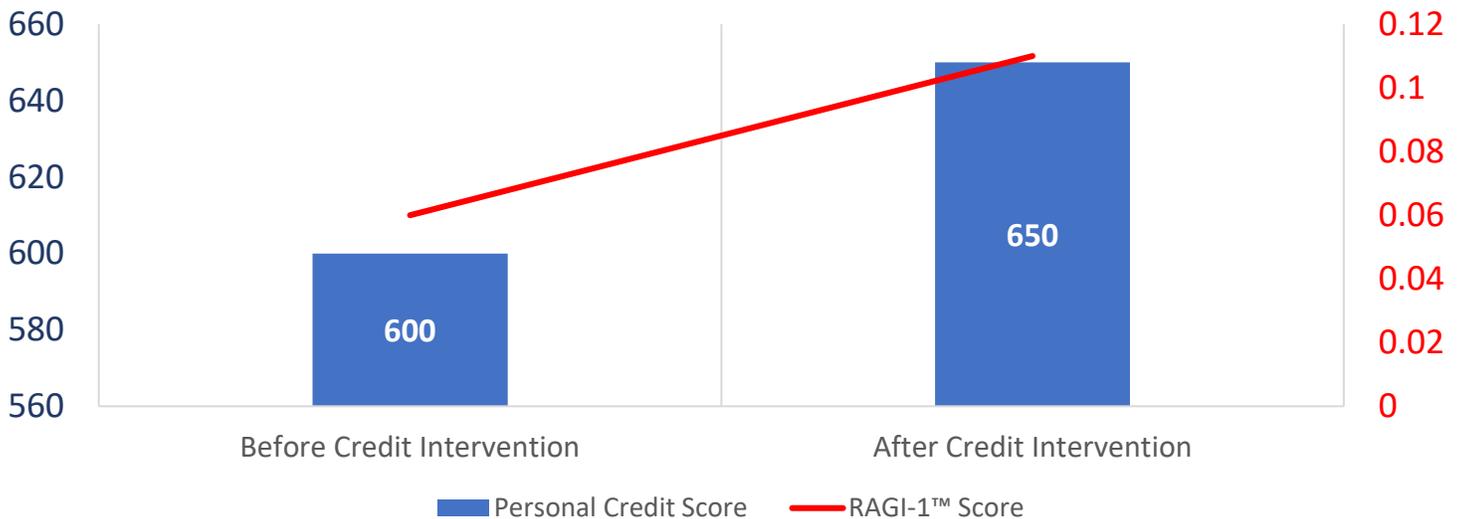
Some insights are easier to see with RAGI-1™, like the green bars in *Figure 12*, which identify that the healthiest businesses in the Central Ohio cohort required \$7,500 or less to start up. Analytics like this can help to provide parameters for microlenders to avoid supporting premature scalability by over-lending.

Figure 13a. RAGI-1™ Predictive Relationship with Credit Score, ($R^2 = .11$, $F(5,57)=2.48$, $p<.05$).

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.406	.257		-1.579	.120
	YearsInBusiness	-.010	.004	-.303	-2.323	.024
	EntrepreneurAge	.000	.002	.015	.113	.910
	ActualStartup_MedianGroup	-1.935E-6	.000	-.103	-.828	.411
	QualityOfLifeChange	.091	.080	.138	1.133	.262
	CreditGroup_Median	.001	.000	.258	2.120	.038

a. Dependent Variable: RAGI_1YearPlus

Figure 13b. RAGI-1™ Predictive Relationship with Credit Score, Sample Case Visual



After a little math, we learned that for every 10 points gained in the personal credit score, there is a 0.01 increase in the RAGI-1™ score. Figure 13b puts this into context, if an agency can intervene with a personal credit management solution for entrepreneurs, there is a secondary benefit to the health of the business. In this sample case, a 50-point increase in personal credit correlates with a 0.05 increase in the RAGI-1™ score. This would take a business' ranking from 'Growing Feathers' to 'Soaring.' As Crane R&D introduces more data to RAGI-1™, it gets smarter, and better able to help lenders and coaches serve entrepreneurs.

Entrepreneurial Clusters | The Way Forward

Crane R&D helped us engage over 100 entrepreneurs across Central Ohio to learn about their journeys to today. We asked questions about dozens of items and Crane R&D helped us understand what mattered and how to formulate strategies around our new knowledge. Among the most critical findings from our survey was the emergence of “entrepreneurial clusters” (ECs). These are groups that link business outcomes such like revenue growth and job creation to certain characteristics of the perception of the business owner. This EC approach shed light on the power of marketing strategies, lean survival planning, personal credit, and a number of other factors. Our vision is to deepen our relationship with Crane R&D so that eventually RAGI-1™ is able to be used on the frontend when we meet new entrepreneurs, so that we can help think through funding, psychosocial determinants, market entry, and scaling in new ways.

EC 1 | Improving the Business Plan Development Process

- We attribute the increase in our client’s Year 1 and 2 survival (comparing the 2013 Study to the present study) to a number of changes in our agency, including more touchpoints, and our team members spending more time overall with our entrepreneurs.

EC 2 | Realign Business Coaching Strategies to Use More Industry-Specific Approaches

- We noticed a significant increase in new entrepreneurs launching businesses in the service industry. General business strategy is helpful, but what if we could add value by training our clients how to excel against specific challenges here in their market?

EC 3 | Increase Opportunities for More IT Start-Ups in Central Ohio

- Our respondents told us that only 4% had IT businesses, which is a fraction of the 25%+ identified by the Small Business Administration for Ohio⁸. There are many large players, but we want to increase supplier diversity by enhancing our strategic partnerships locally.

EC 4 | Add More Youth Entrepreneurship Training Opportunities to Central Ohio

- We know our average entrepreneur is in their mid-40s, but why not help youth start thinking about their options in business now?

EC 5 | #HireOne Initiative

- Having a team makes a difference, as seen in *Figure 9*. We want to empower microenterprises to grow at the right time, so we are launching the #HireOne initiative to grow the economic and social impact of Central Ohio’s entrepreneurs.

References

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