



# Microenterprise in Southeast Iowa: What Small Business Owners and Development Leaders Say

Sandra Charvat Burke and Mark A. Edelman

## Summary of Recommendations

- Resource Guide. A one page resource guide “quick sheet” with main resources and contacts listed.
- Local Food, Agri/Regional Tourism, and Arts Cluster Development should be pursued.
- General Entrepreneurial Support along with Identification and Targeted Support for Specific Emerging Entrepreneurial Networks.
- Support for Business Plan Classes and Business Plan Competition.

## The Discussions

On September 20th and 21st of 2010, Mark Edelman and Sandra Burke from the Community Vitality Center at Iowa State University conducted discussions on the topic of microenterprise in four counties in Southeast Iowa. The discussions were held in eight locations across the four counties of Des Moines, Henry, Lee, and Louisa and included eleven owners of small businesses along with eleven economic development leaders. This report is a compilation and analysis of the ideas and comments provided by the owners and leaders and is divided into two sections, the first of which focuses on the comments of the business owners and the second which gives the comments of the economic development leaders.

### A. The Perspective of the Business Owners

#### 1. The Owners and the Businesses

There was a wide range of experience and years of operation among the business owners with some just starting their business and others having

had their business for more than 15 years. Some had closed businesses that were not successful. The types of businesses varied as well, from professional services and consulting, to farm value-added operations, retail establishments, food service and restaurants, and wholesale operations. Some of the owners had degrees in business or marketing while others had taken some classes or training in business management. The owners thought the degrees added to their credentials and helped with their knowledge of running a business. For some, the success of the substantive part of their business did not necessarily come from their degrees but from their past experience and the skills they had already developed.

For almost all, the business concept evolved from something the owner had done previously perhaps as an employee, as a skill they had, as something they loved doing, an interest they had, or as a creative or substantive activity they engaged in. In general, they said they started with, “what we knew.” The few that did not evolve from a previous activity had determined that there

was a business niche that was needed and not being filled by anything else in the area. For some, the immediate impetus to start or expand their activity or business was a job loss elsewhere, health issues, or retirement. For others, it was a decision to do something they really enjoyed.

The involvement of other family members was very high for some of the businesses; for others, the business was mostly a one-person enterprise. In most instances, however, the business was not the sole support of the family or couple. There was income into the family from other sources than just solely the business as spouses had other jobs and some of the owners had other work situations in addition to the business. Some of the businesses had paid employees (sometimes part-time) but several were small operations with primarily the owner and family members.

#### 2. Products and Marketing

Most of the owners were always looking for and thinking about new markets, new product lines; “tinkering with what we sell or do.” For most of the businesses, expansion came in smaller steps, e.g. adding a new product line on a smaller scale and trying it out before going on to more involvement. Many owners talked about the “price points” of their customers. Some offer several product lines for various price levels of customers. Many seemed sensitive to what was too expensive for the area, “No one wants to pay,” or “No one in this area would pay for that.” Most businesses could not survive on a narrow, small (5 mile) radius market. Many have a tri-state orientation for

marketing, also for suppliers, but still most had a regional reach at most. At least one had potential for some nationwide marketing based on the product while another could franchise, but that would take extra energy and effort.

Several owners noted that there were sales as a spin-off of tourism to and from Nauvoo. Although there were current opportunities springing from the Nauvoo link, there may be much more that could be captured or developed. The highway 2, Scenic Byway may also be better developed. In addition, the Chicago and St. Louis areas may be relatively untapped markets for products or services of some of the businesses.

Although most have some kind of web site presence, these businesses are not actually selling online. Businesses with their own individual web site use the site for information, promotion, and contact, but not actually for selling. Some of the businesses rely on being listed through Chamber or other group information or marketing sites. Some owners expressed a careful and targeted approach to advertising because it was perceived as expensive. For some, drive-by is effective for a portion of sales, but usually not a majority of the sales. Retail business locations must be visible. Owners thought that word of mouth was very important for their businesses. Change of location helped sales increase for several. Another marketing strategy is holding classes and teaching customers how to use the products. Some participate in joint marketing and events with other businesses of complementary services and products. Participating in events with competitors might be more difficult to do.

### 3. Capital Investment

The “physical plant” encompassing the business physical space needs,

equipment, buildings, location, remodeling, and land was of significant concern as nearly all the operations needed some sort of specialized physical plant. For most there was significant capital invested and debt arising from the physical plant. A few of the owners, however, needed only a simple office setting or they could work out of a home office. For some, the largest source of debt was from physical plant needs. In discussing the potential to rehab existing older buildings into usable business space, it was generally perceived to be very expensive to do and overall may not be profitable.

Almost all expressed significant concern and worry about their debt load. Some were self-financed and wanted to be debt free rather than taking on loans. One avoided a business because of being “scared” of going into debt. Most with loans got the financing from local banks and, in general, had not experienced significant difficulty getting them from local lenders. However, some of the local loan funds, such as revolving loans, had requirements that were tied to getting a bank loan as well as the revolving funds which limited the number of businesses that could qualify to use the revolving funds. Owners also noted that the size of the loan had an impact on the payment in that two loans for \$25,000 would have more costly payments than one loan for \$50,000.

### 4. Business Planning and Use of Development Resources

Many began without a business plan on paper, however, they did have a plan “in their heads.” A plan on paper came later for several, but a few that appear to operate successfully still do not have a plan on paper. Another said, “You only need a business plan if you want to get a loan.” Of those who had a plan, most said the process

of doing it was difficult but forced them to look at parts of their business that they didn’t like to deal with. One said that after they had spent time and effort on it, the lender didn’t read it. Another thought that planning just 6 months into future was not enough and suggests three years. For some, the creative, substantive, and action part of their business is what they love and they dislike doing the financial aspect, the accounting and reporting. Most noted having to think through and make decisions about the legal issues for the business and what kind of business form (sole proprietorship, corporation, LLC, etc.) best suited their needs. Many also had to get certifications, inspections, and/or licensing. Some businesses and industries are significantly more complicated in regulations and certifications than others.

Many owners initially did not know about the SBDCs or other business resources, other than banks for loans, when they started their business. Some said they “just stumbled onto” these resources almost by accident. Since learning about business development resources in the area, most owners had utilized them in some way including the SBDCs, the local economic development offices, or business classes or training. Once the owners had been networked into the resource system, they were grateful for the assistance they had found and also said the resource people they worked with had been very helpful. All said there was not enough information about where to get help and thought there should be a way to make it easier to learn about and find the resources that are available. Owners cautioned, however, that they cannot get away to attend meetings or workshops during their business hours; they “can’t close the store.” Many said they usually know what their business needs are but need help in finding what is

available and “pulling it all together.” There was a suggestion for an entrepreneurs “club” for networking, but finding a good time for meeting would be difficult.

Overall, the owners put in many, many hours of time, effort, thought, and worry into their businesses. There was a sense that being “out on their own” did bring a significant amount of anxiety. However, in general, the owners loved and enjoyed what they were doing and were pleased to see their business grow and prosper.

## **B. The Perspective of the Economic Development Leaders**

The discussions with the economic development leaders touched on many issues of small businesses and entrepreneurship. There were some varying opinions among the business leaders concerning capital availability. One thought that there was already enough money available for startup businesses through the revolving loan funds. Another thought, in contrast, that with bank pressures there were significant equity problems and thus financing was coming from families. Some perceived there to be a breakdown in venture and angel capital in SE Iowa and equity funds didn’t get “traction.” Another preferred an approach that would try to take those businesses that were already in place and take them to next level, expanding and growing those that were already there or transitioning existing businesses from retiring owners to the next generation, rather than focusing on startups. The current difficult and perhaps contracting economy in SE Iowa is an environment that makes people reluctant to go into business.

A good business plan was essential in the eyes of most development leaders. In general, some do not see the qual-

ity in business plans that they would like. Business plan competitions are one way to facilitate new businesses. There was one view that in a smaller geographic and population area a plan competition may not generate enough good plans to warrant doing it annually. Others thought that offering a business plan class in conjunction with a plan competition led to many more good plans being submitted. Some business plan competitions in the state include a category for expansions as well as for startups and this can be another way to structure a plan competition. High school business plan competitions can be used as well.

Some thought that a coaching network for entrepreneurs should be expanded. Another thought there were not enough people seeking services to justify more than a part-time position for entrepreneurial coaching. One community had hired a part-time coach to work with local entrepreneurs. Youth entrepreneurship programs were being tried and more kids seemed to participate when they were allowed to keep their profits rather than having to donate them. One leader noted that people don’t know what resources are available in the area. It seemed that lots of resources were available, but it was a matter of finding out about them and matching the business need to the right resource. It was noted that entrepreneurs have difficulty getting away from their business to go to workshops.

One leader noted the large amount of money spent by Workforce Development and the small amount of that which was spent on entrepreneurial development. It was also noted that nurturing an entrepreneur costs more per person than “hitting a home run” with attracting a new plant. However, the pipeline of new plants looking for new locations is down due to the recession. Developing entrepreneurs is

a different strategy and approach than attracting new businesses. One leader commented that perhaps not everyone should be a small business owner.

There was some discussion of community resources that might be developed to facilitate businesses. One was the concept of an office incubator where there would be shared overhead, accounting, secretarial and reception help, office equipment and space, and internet access. Another idea was to develop a trust to own properties for downtown revitalization and retail space. A revolving loan fund could be used for structural improvements and the upper story devoted to apartment rehabs. Sometimes out-of-town owners of downtown or business properties significantly overvalue what they think the property is worth.

There was discussion and interest in further development of food, arts, and tourism business networks. Arts entrepreneurs are active in the area already. Value-added agriculture can be enhanced through the use of high tunnels and hoop buildings, although there is expense involved. Linkages could be made between local food pantries, senior meals, community gardens, an incubator kitchen, and farm producers. It was suggested to think “farm to fork.” The Geode and Pathfinders RC&Ds have been facilitating discussions and linkages for food networks. Using Farm Bureau and getting on meeting agendas could enhance contacts with farmers.

There were various views on where a potential SE Iowa kitchen incubator might be located. Also there might be a need for a food scientist for a kitchen incubator. There is potential to develop food products to be marketed to immigrant and ethnic groups, restaurants, and grocery stores. Some ethnic grocery stores and restaurants now go to Chicago for supplies. Marketing through HyVee and Fareway

could be explored as well. Tourism is another area that could be enhanced and developed including a greater emphasis and development of area and regional branding. It was suggested to put a “Welcome Center” in Donnellson near the crossroads of the Avenue of the Saints and Highway 2 on the Mormon Trail. Part of Highway 2 is designated as an Iowa Scenic Byway and Highway 2 goes across the state, from the Mississippi to the Missouri River.

## C. Recommendations

### 1. Resource Guide.

There is an immediate need, recognized by both owners and leaders, for better dispersal of information about business development resources to current and potential business owners. There needs to be a one page (front and back) resource guide “quick sheet” with the main resources and contacts listed. This should be on websites and distributed to banks, realtors, libraries, chambers and economic development groups, high schools, tax preparers and accountants, attorneys, county and city government offices, Extension offices, and any other place where the public could learn about resources available to them if they are thinking about starting or expanding a business.

### 2. Local Food, Agri/Regional Tourism, and Arts Cluster Development.

There was a substantial interest among some of the owners and leaders for further development of a food, arts, and tourism network that should be pursued.

### 3. General Entrepreneurial Support along with Identification and Targeted Support for Specific Emerging Entrepreneurial Networks.

Any microenterprise development initiative or organization that might be formed should be flexible enough to meet many of the needs of many different kinds of entrepreneurs in different businesses and industries. There is likely a core of basic business fundamentals that is relevant to any and all businesses and industries. Yet, as a cluster of businesses develop in a specific industry area, more focused and targeted networks may need to be developed. Best practices, suppliers, market channels, and the business environment become much more industry specific and entrepreneurs will need to learn from other entrepreneurs, experts, or coaches who possess expertise from their own industry in a targeted rather than general approach. A process that matches speakers, coaches, and workshops to topics of interest to specific industry clusters of entrepreneurs will

help them take the next steps in their business development.

### 4. Support for Business Plan Classes and Business Plan Competition.

Making a formal business plan is a stumbling block for some entrepreneurs and most do not like doing it. Ways to streamline the process or provide incentives for completing the business plan may pay off in terms of business plan completion and thus in more solid and successful businesses. Offering a business plan class in conjunction with a business plan competition can enhance the quality of the plans that are submitted. For many, keeping the requirements of a business plan as straight forward as possible is appreciated. However, there can be a tradeoff between simplicity and readiness. Most lenders look for evidence that the entrepreneur understands the local market and business segment they are considering and that there is some rationale and evidence behind the business strategies and financials presented to provide confidence that the loan will be repaid. Not all people are equipped to become successful entrepreneurs. Others learn from experience. And still others may spend a couple of years learning about an industry and methods of entry before they are confident enough to put a plan together.

IOWA STATE UNIVERSITY  
University Extension

*Community Vitality Center*  
183 Heady Hall  
Iowa State University  
Ames, IA 50011-1070  
515-294-6144  
cvc@iastate.edu  
www.cvcia.org  
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