Regional Entrepreneur Focus Group Report

Small Business Policy Task Force

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In July 2020, the NC Rural Center convened a Small Business Policy Task Force (SBPTF) consisting of business leaders, resource-providers, policy makers, and entrepreneurs from across the state. Goals of the task force include: reviewing the Ewing Marion Kauffman Foundation's *America's New Business Plan*, refining its proposals within the context of North Carolina's small business ecosystem, and developing a list of state specific policy proposals. These proposals will incorporate all four pillars of *America's New Business Plan* (Opportunity, Funding, Knowledge, Support), with the aim of facilitating a more prosperous environment for small business development in North Carolina.

**Objectives**

From the very beginning, the work of SBPTF has been informed by the voices and experiences of North Carolina's diverse array of entrepreneurs. From September to October 2020, the Rural Center hosted a series of regional focus groups with small business* owners across the state. These conversations sought to identify the challenges and obstacles facing small business development, as well as potential opportunities for growth and added resources.

*For the purpose of this initiative - the NC Rural Center has placed a special focus on small businesses with fewer than 50 employees.*
In 2019, the Kauffman Foundation released America's New Business Plan, a bipartisan policy road map to support entrepreneurs, with recommendations for federal, state, and local government.

The plan was developed to provide policymakers with research-based solutions to overcoming the problems entrepreneurs face that prohibit them from starting and/or growing their business. Recommendations are broken into four pillars.

"America’s New Business Plan puts the ambitions and can-do spirit of everyday Americans first through a four-part entrepreneurship plan that ensures anyone with an idea has access to the opportunity, funding, knowledge, and support to turn it into a reality."

- America's New Business Plan

The Four Pillars:

Opportunity: An Equitable, Level Playing Field and Less Red Tape
When it comes to starting a business, entrepreneurs need a level playing field to compete with established businesses, which have better access to policymakers.

Funding: Equal Access to the Right Kind of Capital Everywhere
Entrepreneurs continually emphasize the need for access to capital, including patient capital and other innovative models that give them an opportunity to get their businesses off the ground.

Knowledge: The Know-How to Start a Business
Starting a business is a courageous act, and far too many entrepreneurs take that risk without really knowing where to begin or understanding the requirements and barriers that come with turning an idea into reality.

Support: The Ability for All to Take Risks
Becoming an entrepreneur means leaving behind the stability of a traditional job, and with it benefits such as health care and retirement savings.

Source: America’s New Business Plan, The Marion Ewing Kauffman Foundation, 2019
Executive Summary

In North Carolina, businesses with between 2 and 50 employees make up 95 percent of all business entities. These very small firms account for 44 percent of all employment in North Carolina and play a critical role in the state's economic development landscape.

As an integral part of the work of the Small Business Policy Task Force (SBPTF), the NC Rural Center has solicited the insight and expertise of North Carolina's entrepreneurs through a series of regional focus groups. What we heard from entrepreneurs in five regions across the state was a set of consistent challenges and obstacles facing small business in the areas of opportunity, funding, knowledge, and support.

Key Findings:

Opportunity: An Equitable, Level Playing Field and Less Red Tape

Entrepreneurs spoke of the need for main street businesses and smaller employers to be included in local and state government incentive programs. Many felt that too much emphasis was placed on recruiting larger employers, while ignoring the community impacts that local employers have. In addition, the Small Business Administration's (SBA) current definition of a small business allows larger companies to unfairly compete for economic development dollars intended specifically for small businesses.

Funding: Equal Access to the Right Kind of Capital Everywhere

A large portion of our participants reported ‘boot-strapping’ the initial capital for funding their business. For many entrepreneurs this was done out of necessity after being denied funding by traditional lenders. Those that did have success securing funding spoke to the importance of their local community bank, Community Development Financial Institutions (CDFIs), and their established relationships. For women and entrepreneurs of color, this process was reported as being significantly more difficult.

Knowledge: The Know-How to Start a Business

Many participating entrepreneurs spoke highly of North Carolina's business resource providers, specifically the Small Business Center Network (SBCN) and the Small Business and Technology Development Center (SBTDC). There was a broad acknowledgement that these providers needed to expand their offerings to include web and e-commerce assistance, social media coaching, and support for navigating legal and financial processes.

Support: The Ability for All to Take Risks

Healthcare emerged as the leading concern for entrepreneurs in launching their small business. Many noted that they had to maintain a second job to continue to have access to healthcare. Workforce housing was also listed as a primary concern. In sum, entrepreneurs reported that a lack of workforce housing in addition to their inability to offer health insurance, were the two primary barriers to recruiting and retaining skilled workers. Access to high-speed broadband also poses a greater concern as more businesses move to e-commerce in light of the COVID-19 crisis.
Who We Spoke To:

62% HUB business owners
A historically underutilized business (HUB), is defined as being majority owned and managed by an entrepreneur of color, female, socially and economically disadvantaged person, or disabled individual.

Age of Business
40% 0 - 3 Years
26% 3 - 5 Years
34% 5 + Years

5 regions
25 counties
55 entrepreneurs

Business Sector
33% Food & Beverage
20% Retail Trade
13% Health & Wellness
9% Business Services
7% Agriculture
4% Real Estate
4% Transportation & Construction
4% Travel & Lodging
5% Other
Design and Implementation

Focus group participants were recruited from five regions across the state (coastal, central, eastern, metro, western), with each region participating in their own session. Each session had 7-12 participants, representing a diverse array of business sectors, demographics, and personal and professional experiences.

Each regional entrepreneur focus group lasted 1.5 hours, and were facilitated by staff members of Rural Forward NC. Participants were asked questions reflecting the four pillars of America’s New Business Plan (Opportunity, Funding, Knowledge, and Support), with a focus on identifying recurring obstacles and challenges facing small business owners in North Carolina, in addition to opportunities for policy change.

Participants were asked to complete a post-meeting survey with questions targeted at gauging their perspectives on policy windows and opportunities, as well as their likelihood to engage in a public policy campaign.

Focus Group Facilitators

Calvin Allen, Director, RFNC
Tracy Chellis, Lead Partnership Manager, RFNC
Merald Holloway, Founder and Director, NC 100
Findings: Opportunity

Entrepreneurs spoke critically of traditional economic models and incentives that heavily emphasize job creation numbers, as small businesses are unable to generate the same number of job growth as larger companies. Many noted that the SBA’s current definition of a small business as employing less than 500 employees was unrealistic and allowed for large companies to unfairly compete for funds and grants allocated specifically for small businesses.

Small businesses bring many economic benefits to their communities such as hiring local community members, investing in downtown revitalization, improving quality of life, increasing and diversifying the local tax base, and contributing to a circular local economy. These metrics, however, are more complicated to quantify and small businesses are often under recognized for their impact. Additionally small businesses diversify the economy within a community, making rural communities more resilient and sustainable for the future.

"Our business has two employees (my wife and myself); however, when someone rents our venue we help create external jobs and local revenue in catering, photography, DJ, florist, etc. Since opening, we've had a local florist tell us our business has helped their business grow by 40 percent"

- Owner, Surry County Wedding Venue

1. State and Federal business incentives are too tied to job creation numbers.
   a. This excludes many small/micro businesses from qualifying for assistance.
   b. Often for a small business to qualify, they’d need to more than double employment numbers whereas 1-5 additional employees is a substantial increase for many.
   c. Tying incentives to job creation numbers fails to account for the multiplier effect that small businesses have on one another.
2. In a small community, the success of one small business creates a multiplier effect promoting the growth of surrounding businesses.
   a. There needs to be a metric for measuring community impact.
3. SBA definition of small business as having fewer than 500 employees needs to be revised.
   a. With the current SBA definition of small business being an employer with less than 500 employees, many larger corporations were able to compete for COVID-19 assistance, grants, loans, etc. intended for small business owners.
Findings: Funding

Initial funding for small businesses was mostly 'boot-strapped' either through personal accounts, credit cards, leveraging of home equity, crowdfunding, or withdrawal of 401(k) retirement funds. For BIPOC (Black, Indigenous and People of Color) and women, the ability to leverage personal finances and assets in accessing capital was more difficult. Many small businesses noted that they were turned away by large banks when applying for a loan even with healthy credit scores and established business plans.

Many small business owners noted that personal connections is what made launching their business possible. Most notably, relationships with community banks made the largest impact. Many found that community banks were more responsive and more likely to invest in local small businesses and expansion capital. Participants largely agreed that longer loan terms would be most beneficial, given the costs associated with the first 1-2 years of business, and that 2-5 year loan terms were an unreasonably short window for repayment.

1. Small businesses rely on community banks for start-up and expansion capital.
   a. Relationships matter when obtaining funding. Many entrepreneurs who are denied by large banks go on to receive funding based on knowledge and relationships with local lenders.
   b. Even with good credit, obtaining a loan for a new business is incredibly difficult without leveraging prior wealth/assets.
      i. HUB business owners are disproportionately impacted.
2. Access to expansion capital is a major obstacle in business development.
   a. Entrepreneurs reported a need for ongoing funding during various stages of growth. Lack of capital access beyond start-up posed a significant barrier to growth.
3. The terms on small business start-up loans are too short (2-5) years.
   a. Because of high costs associated with opening a business, many entrepreneurs won’t turn a profit until year three, making short repayment terms difficult.
4. Those utilizing retirement funds to start business, were limited by the early withdrawal penalty.
   a. Participants reported their support for removal of early-withdrawal penalty if funds were utilized for the creation of a business.
5. Finding funding as a woman or entrepreneur of color is more challenging.
   a. Entrepreneurs of color reported discriminatory practices and systemic barriers to their achievement.

'Between 2010 and 2015, there were 165 bank branch reductions in rural North Carolina (compared to 32 reductions in urban counties). In addition, rural counties experienced a 61 percent decline in small business lending, for a total decline of more than $1.6 billion.'

- Small Business Dynamism in North Carolina, NC Rural Center
Findings: Knowledge

There was near unanimous agreement amongst entrepreneurs that the process of creating and registering a business in North Carolina is both complicated and burdensome. The systems in place (local regulations, state-wide regulations, federal taxes, industry requirements) do not communicate with one another, and do not provide clear information to entrepreneurs as to what is required of them. A clear improvement would be to streamline these processes, potentially through an app.

Entrepreneurs noted that while Small Business Centers (SBCs) and Small Business & Technology Development Centers (SBTDCs) were very helpful in initially drafting business plans, they relied on entrepreneurial networks as their business ventures progressed through implementation. Entrepreneurial networks provided the most realistic advice and guided many small business owners in navigating the early stages of launching a business, particularly when it came to industry specific questions. Entrepreneurs expressed a need for expanded supports and resources focusing on e-commerce, social media, accounting and finance, and technical skills.

Many agreed that the best way to support BIPOC and women entrepreneurs would be more targeted efforts to share knowledge over access information and resources, considering that this is such a substantial barrier to all entrepreneurs. There was also large agreement on the need for more entrepreneurial courses in high schools to introduce young people to the possibility of launching their own business.

1. Majority of entrepreneurs were either vaguely familiar or uncertain about the requirements and regulations of starting a business.
   a. Nearly unanimous agreement that the filing and registration process is confusing and burdensome. Entrepreneurs expressed significant interest in streamlining the process from the state level down to local - potentially through the use of an app.

2. NC has great resources in SBCs and SBTDCs, however, they lack the specificity that entrepreneurs need.
   a. With business & marketing moving to a more online presence; entrepreneurs, especially those in rural areas, lack the knowledge to effectively utilize online platforms for sales and marketing.
   b. There is also a large need for back-end business technical support (i.e. accounting, payroll, legal, etc.).
   c. Majority of entrepreneurs expressed interest in online business courses through resource providers.

3. Inter-entrepreneur networks are heavily utilized by those starting a business.
   a. Entrepreneurs relied on existing business owners to navigate the registration/filing process, legal & tax procedures, etc. These networks often prove to be more beneficial than local officials, SBCs, etc.

4. There was nearly unanimous support from entrepreneurs about the implementation of an entrepreneurship curriculum in middle & high schools.

5. SBCs and other business resources have limited bilingual resources.
   a. This prohibits many Latino and Hispanic business owners from getting the information they need.
Findings: Support

The ability to obtain and offer health insurance emerged as the leading concern for entrepreneurs when launching their small businesses. Many noted that they had to maintain a second job to continue to have access to healthcare, and that it made it difficult to recruit and maintain a local workforce. One entrepreneur noted that a pooled healthcare model would potentially benefit small businesses in the current healthcare climate. Broadband was another pertinent theme, especially as many, if not all, small businesses transitioned to e-commerce to adapt during the COVID-19 pandemic. While entrepreneurs found it difficult enough to navigate social media, particularly targeted Facebook ads, their struggles were amplified in areas with limited or insufficient broadband.

A lack of affordable workforce housing was also noted as a barrier for small businesses; without reasonable housing options local workforce was unlikely to stay or commute into a rural community when there were more options in metropolitan centers.

"Everyone wants health insurance, but no one wants to pay for it. It creates a barrier to cost for small businesses...I would have to cut jobs to provide more benefits, and finding a middle ground is not easy."

- Owner, Craven County Restaurant

1. Health Insurance was listed as the primary support needed by small business owners and entrepreneurs.
   a. Many small business owners can't afford healthcare for themselves, their families, or employees.
   b. Creates difficulties when recruiting and hiring staff.
   c. Many entrepreneurs had to do without health coverage while starting a business.
   d. Small businesses would have to cut jobs in order to provide employee insurance.
   e. Pooled healthcare coverage option for small business owners could work if it were affordable.

2. Leaving an employer sponsored retirement fund ranked highly as a concern for entrepreneurs when starting a small business.

3. Finding and retaining workforce is a close secondary concern for many business owners and entrepreneurs.
   a. Key determinants are workforce housing, and lack of employer-provided healthcare options.
      Both of which limit the ability of entrepreneurs to recruit and retain qualified employees.
Businesses are being forced to adapt. Many are scaling up their online platform (e-commerce and marketing), however, a significant number lack the technical skills and knowledge to make this shift. Outsourcing these services can be too pricey for 'do everything' entrepreneurs to accomplish. Our participants voiced a wish to see more services offered through SBCs and SBTDCs to help accomplish these goals.

In addition, entrepreneurs have acknowledged the value of community banks when it came to applying for Payroll Protection Program (PPP) funding. Those with strong community bank relationships received funding faster and with less ‘red-tape’ than those going through large banks and the SBA. Moving forward, nearly all participants expressed reservations about taking on additional debt given their uncertain futures. Many say the need for both grants and rent forgiveness are their top priorities relating to COVID-19.

Findings: COVID-19 Update

Businesses are extremely hesitant to take on additional debt with an unpredictable economic climate ahead.

1. In need or grant assistance, rent forgiveness, and/or government rent subsidy needed.

2. Small business assistance should come in the form of tax relief this year.
   a. Entrepreneurs affected by COVID-19 would benefit from relief on their income tax, payroll tax, and property tax for their 2020 filing.

3. PPP funding received in March-June has already been expended with business revenue still not back to normal levels. Businesses are in need of additional and sustained funding.

4. Local banks were far more efficient in dispersing PPP funds to small businesses than larger financial institutions.
   a. Many entrepreneurs without ties to community banks were passed over for PPP funds.

5. Businesses were not prepared for long-term adjustments.
   a. Many only had the cash flow to cover a month’s loses.

   a. With lost revenues in 2020 reflecting on financial statements, many existing firms believe banks will be far less willing to lend moving forward.
Entrepreneurs of color consistently reported encountering significant systemic challenges when starting and operating their business. These challenges are present though the opportunity, funding, knowledge, and support aspects of running a business.

Entrepreneurs of color experienced systemic issues disproportionately impacted them when applying for funding, accessing resources, and utilizing entrepreneurial networks. Many entrepreneurs of color expressed concerns about inequities in the disbursement of COVID-19 relief funds and the prospects of recovery assistance moving forward.

**Findings: Equity versus Reality**

Entrepreneurs of color experienced systemic issues disproportionately impacting them when applying for funding, accessing resources, and utilizing entrepreneurial networks. Many entrepreneurs of color expressed concerns about inequities in the disbursement of COVID-19 relief funds and the prospects of recovery assistance moving forward.

1. **Access to Capital poses a significant hurdle for entrepreneurs of color.**
   a. Even with an established business plan, good credit, and existing cash flow, entrepreneurs of color reported being declined for traditional funding sources at a much higher rate than their white counterparts.
   b. Traditional funding sources often required leveraging existing wealth and assets, which were not as readily available for entrepreneurs of color.
   c. Many entrepreneurs of color report needing smaller start-up loans than their counterparts (i.e. $5,000-$10,000), however securing even a small amount of funding from a bank was nearly impossible without existing relationships with a local lender.

2. **Local lenders don’t have active engagement with underserved communities.**
   a. Lack of engagement and relationships between entrepreneurs of color and local lenders further propagates the barrier to funding.
   b. In response to COVID-19, entrepreneurs of color reported being the last to know about their local banks PPP funding. By the time they found out, many reported the funding was already depleted.

3. **Resources providers SBCs, SBTDCs, CDFIs, etc. aren’t effectively reaching entrepreneurs of color in rural areas.**
   a. The abundance of resources between entrepreneurs of color in urban areas and those in rural differed significantly. BIPOC and women entrepreneurs in urban areas reported receiving ample assistance from resources targeted at serving communities of color (The Institute, Women’s Business Center, Prospera, etc.), while those in rural did not.
   b. Entrepreneurs of color spoke of a need for formal entrepreneurial mentorship programs.
   c. In rural areas, there is a lack of bilingual resources and capacity for Latino and Hispanic entrepreneurs.

4. **BIPOC entrepreneurs believed CDFI’s and other institutions capable of reaching their population have not received adequate public funding.**
   a. When CARES Act funding was dispersed, entrepreneurs of color believed they would have been better served had their local CDFI been provided more funding specifically for business owned by people of color.
Avenues for Opportunity

Throughout our focus groups, entrepreneurs were asked to outline specific opportunities that they believed state leaders and lawmakers could address to create a more supportive environment for small business in North Carolina. Below is a list of recommendations that emerged directly from these conversations.

1. **Sustained funding in the State Budget for Small Business Center Network.**
   a. Needs to include additional funding for more technical support resources (online marketing, e-commerce, etc.).

2. **Small Business Administration’s definition of small business needs to be altered.**
   a. Allowing a corporation with 500 employees or fewer to be defined as a small business creates an unfair competition with micro-businesses and community firms for funding and resources.

3. **Creation of a grant program for entrepreneurs exploring costly business certifications.**
   a. GAP (Good Agriculture Practices Certification), Organic Certification, Minority Business Enterprise Certification, Leadership in Energy and Environmental Design (LEED) etc.

4. **Implementation of entrepreneurial curriculum in middle and high schools.**

5. **State funding to subsidize small business loans for community banks.**
   a. Could lower interest rates, and risk aversion leading to an increase in the number small business loans.

6. **Streamline the registration and filling process for small businesses; possibly through the implementation of an App.**

7. **Restructuring of how state grants and incentives are awarded.**
   a. Need to include metric for Social Return On Investment (SROI), measuring a community’s benefit from a small business.

8. **Funding for the creation of an entrepreneur mentorship program.**
Below you'll find a glossary of terminology used throughout the Regional Entrepreneur Focus Group Report.

**BIPOC**: Black, indigenous or people of color

**CARES Act**: Coronavirus Aid Relief and Economic Security Act

**CDFI**: Community development financial institutions

**GAP**: Good agriculture practices

**HUB**: Historically underutilized businesses

**NCGA**: North Carolina General Assembly

**PPP Funding**: Paycheck Protection Program

**SBA**: Small Business Association

**US SBA definition of a small business**: For advocacy purposes the SBA defines a small business as an independent business having fewer than 500 employees. However, for government programs and contracting this definition is broken out for specific industries using varying definitions based on revenues as well as the number of employees.

**NC Rural Center's definition of a small business**: 50 or fewer employees

**SBC**: Small Business Centers

**SBTDC**: Small Business and Technology Development Centers
For questions about this report and/or the Small Business Policy Task Force, contact:

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