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RURAL POLICY  
*and* DEVELOPMENT

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*Understanding Small  
Business Development  
& Entrepreneurialism  
in Greater Minnesota*

*Seeking solutions for Greater Minnesota's future*

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**Understanding Small Business  
Development and  
Entrepreneurialism in  
Rural Minnesota**



## Introduction

With the growing interest in entrepreneurialism in rural communities, the Center for Rural Policy and Development initiated a study to examine entrepreneurialism and small business development in rural Minnesota. With economic development an ever-present concern for rural communities, the goal of this study is to gain insight into whether encouraging small businesses and entrepreneurialism can be considered a viable form of economic development for these places. Attracting large businesses with dozens or hundreds of jobs has been a primary focus of economic development in both rural and urban areas for much of the past century, but while large companies bring a large number of jobs, businesses of this size are much fewer and farther between than many communities may realize. Recently, however, entrepreneurialism in the form of small businesses started by local individuals is beginning to be considered as an alternative, complementary form of economic development.

Small businesses are the backbone of the state's — and indeed the nation's — economy. In the first quarter of 2006, over 50% of businesses in Minnesota had fewer than five employees, and 94.1% of firms employed fewer than 50 people. As Table 1 shows, smaller businesses were slightly more prevalent in Greater Minnesota (the 80 counties outside the Twin Cities metro area) than in the Twin Cities metro area. In terms of job growth, however, data also shows that the smallest

businesses can be the most productive in creating jobs. Table 2 documents that between 1999 and 2002, years when the state was in an economic slowdown, the smallest employers experienced the largest employment growth.<sup>1</sup> In fact, while the largest employers (100+) lost jobs over that

Table 1: Percentage of businesses by employment size.

	Number of employees per firm				
	<5	<10	<50	>50	>100
<b>Greater Minnesota</b>	55.3%	75.1%	95.8%	4.2%	1.9%
<b>Seven-County Metro</b>	51.0%	68.9%	92.7	7.3%	3.3%
<b>State</b>	53.0%	71.8%	94.1%	5.9%	2.7%

Minnesota Dept. of Employment and Economic Development, Q1 2006.

Table 2: Net employment change statewide by firm size, 1999-2002.

	Total, all firm sizes	Employment size of firm*					
		1-4	5-9	10-19	20-99	100-499	500+
<b>Numeric change</b>	16,843	48,014	12,165	7,890	640	-1,251	-50,615
<b>Percent change</b>	0.7%	46.4%	9.4%	4.7%	0.1%	-0.4%	-4.4%

\* For multi-unit firms, employment size is the entire enterprise, not just the establishment where the employment change occurred.

Source: "Entrepreneurship and Economic Growth," Minnesota Economic Trends, November 2005.

Table 3: Percentage of workforce employed in each firm size category.

	Greater Minnesota	Seven-County Metro
<b>Less than 5 employees</b>	8.6%	5.1%
<b>5-9 employees</b>	10.0%	6.3%
<b>10-49 employees</b>	30.5%	25.5%
<b>50-99 employees</b>	11.9%	13.9%
<b>100+ employees</b>	39.1%	49.2%

Minnesota Dept. of Employment and Economic Development, Q1 2006.

four-year period, the smallest employers actually gained.

At the same time, Table 3 shows that 8.6% of the workforce in Greater Minnesota was employed in firms with fewer than five employees in the first quarter of 2006, compared to only 5.1% in the Twin Cities seven-county area. The percentages for Greater Minnesota remain larger than in the Twin Cities for the smaller firms but become smaller for firms of more than 50 employees. In fact, 60.9% of the Greater Minnesota workforce is employed in businesses with fewer than 100 employees, while 50.8% of the Twin Cities workforce is. (Note: Table 3 uses workforce in “private ownerships,” which excludes government employees. It also includes only “covered employment,” i.e., employees covered by unemployment insurance, which is required for every business with an employee. Therefore, self-employed individuals are not included, nor are businesses where the sole proprietor is the only employee and has chosen not to purchase unemployment insurance.)

Between the job growth that can be attributed to the smallest businesses and their prevalence in Greater Minnesota, a case can therefore be made for local economic developers to incorporate the encouragement of locally developed small businesses into their economic development plans if they have not already, rather than pin their hopes solely on attracting large employers.

## **Methodology**

In undertaking this project, we concentrated our efforts on owners who had their businesses for fewer than three years. These owners either started their business from scratch or acquired an existing business, but we did not include the expansion or relocation of an existing business. The owner needed to have made a substantial investment of personal funds in the business.

To collect this information, we identified all Minnesota cities outside the Twin Cities seven-county area with populations between 1,000 and 20,000 and where minorities made up at least

10 percent of the population. This initial screen yielded 28 cities around the state. We then added the cities of Ely, Grand Marais and Virginia to represent northeastern Minnesota, since the initial screen had not selected any cities there due to the low minority population.

To select our businesses, we contacted city administrators, economic development authorities and/or local chambers of commerce to identify businesses in the appropriate time frame of less than three years. Officials in three cities said they did not have any new businesses at that time, while a handful of cities were unresponsive. From the rest we received lists totaling several dozen businesses. We contacted the businesses and arranged for interviews, usually at their place of business, although a few were conducted by telephone. All told, 56 business owners were interviewed, of which seven were minority owners. Out of all the entrepreneurs contacted, only one refused to be interviewed. This selection of businesses does not represent a scientific sample of startup businesses, but we did strive to make it a representative sample in terms of gender and geography. We also made every attempt to be representative in terms of different industry sectors, but the majority of the businesses in the study were retail.

Entrepreneurs were asked questions about themselves, their reasons for starting their business, whether they felt it was a risk, why they chose to open in that particular town (rather than move to a larger city), their business experience, the process, financing, planning, whether they used programs for financial assistance or education, problems they encountered, and fringe benefits. Lastly, they were asked whether there was anything they believed the state could do to help entrepreneurs.

## **Highlights of the study**

In the course of this study, we found several interesting findings.

- For many of the business owners, operating their own business equaled in some sense

independence. When asked why they chose to start their own business, the most frequent response was, “I want to be my own boss.”

- The business owners had a strong and distinct characteristic of community loyalty. Business owners not only expressed a desire to stay in their hometown while fulfilling their dream of owning a business, but that operating their business would in some way enhance or give back to their community.
- Access to financing to start their business was not a significant problem. However, a majority of business owners were reliant on some type of backup income, often in the form of a second job or an employed spouse, not only for supplemental income while they got their businesses going but for access to health insurance.
- Entrepreneurs also appeared to be operating with a lack of information, or at least they thought they were. Finding financial support for their startup, whether in the form of loans or grants, was a popular topic of conversation. And while the majority of interviewees were interested in educational and financial programs, only about half knew of any and even fewer participated.

### **Characteristics of the business owners**

The entrepreneurs interviewed for this report represent a cross-section of rural Minnesota.

They were split almost evenly between men and women, and covered the full age range, from a recent college graduate to retired individuals (the average age was 40 years old). While all of the manufacturing businesses in the study were owned by men, 65% of the retail businesses in the study were owned by women. The remaining services (services other than retail) were about 40% owned by women and 60% owned by men.

They also varied in level of entrepreneurial or business experience. A high number of the business owners (77%) had previous experience operating their own business, either in that same field or in something different. The remaining 23% had not owned their own businesses before, but most had some kind of past experience either working in a similar business or in some kind of management capacity that gave them some kind of applicable experience.

These businesses were also largely a solo affair (77% of them), although 11% of the cases were married couples in business together, 9% were unrelated persons, and two cases were group efforts, one a food coop and the other, a college educational project. But while the majority of the businesses had only one or two employees, the owners often tapped into the experience or free skills of a spouse, child or parent to handle the bookkeeping, give advice or help in some other capacity.

## Findings

Besides the facts and figures associated with these interviews, four findings about being an entrepreneur in rural Minnesota became quite clear in the course of these interviews.

### *1. Entrepreneurialism equals independence*

While it is beyond the scope of this report to say whether entrepreneurialism is more prevalent in rural areas than urban, it is apparent from the findings that there are budding entrepreneurs all across rural Minnesota.

The idea that there is a steady supply of entrepreneurs in rural areas is borne out by a survey conducted by the Center for Rural Policy and Development in 2005 of students in six northeast Minnesota colleges.<sup>2</sup> Of these students, 12.2% said they had owned their own business or were self-employed before becoming students (the rate was 23.5% of students age 25-40 and 37.0% of students age 41 and above). In addition, 54.0% reported that an immediate family member had owned a business at sometime, and perhaps most importantly, 52.0% said they were considering starting their own business at some point after graduation. Therefore, it can be construed that entrepreneurialism is alive and well in rural Minnesota.

*Why start a business:* In the interviews conducted for this study, the motives given by the entrepreneurs for venturing into their own businesses were fairly consistent, with the same reasons repeated frequently. Of those interviewed, a full 50% expressed a desire to be their own boss. Being their own boss seemed to be mostly an issue of having more control — over time, money, decisions in general — and being independent, as was evidenced with statements like “I would rather work for myself instead of someone else,” “I want to make my own decisions,” or “Why make money for someone else when I could be making it for myself?” Tim Krohn of Great Lakes Gallery in Cloquet expressed just this sentiment when asked why he opened his art gallery. A

graphic artist for 30 years, he was dissatisfied with working for others, so he opened a gallery where he and other local artists could sell their work directly to the public. “The [graphics] firm charges \$30 to \$60 an hour to the customer, while the artist gets paid \$5 to \$15 [an hour]. They’re taking your creativity and marketing that, while you get a quarter or less.”

An important part of being their own bosses for many of the entrepreneurs was the desire to have greater control over their time. Matt Levenson, a recent college graduate from Albert Lea who started his own video production business, looks to his entrepreneur father as an example. He appreciated the flexibility his father had in operating his own business. “I liked how my dad could be around and go to my games and support me,” Levenson said, and he wanted to have that for himself. Flexibility with time was especially important where children were concerned. Kalen Nelson, a business owner in Marshall, expressed a similar desire for flexibility with her time. “I can set my own hours and be flexible with my daughter since my husband’s hours are so inflexible,” she said.

The next most common comment, made by 21% of interviewees, was that the town needed this kind of service or this kind of shop. In fact, people often said they “saw a need.” Of course, most entrepreneurs do not go ahead and start a business unless they perceive some type of opportunity — a “need” not being met in the market — and many of the entrepreneurs interviewed here mentioned that they had done some kind of (often extensive) market research, whether they called it that or not. But interestingly, the interviewees here often couched their business in terms of doing something for the community (see next section).

In some cases (14%), people had a hobby or activity that they loved and wanted to turn into a business, while another 5% had developed a product they wanted to manufacture.



A number of interviewees cited some kind of outside economic force motivating them to start up. Some, like Sean Khounsanthone of Mountain Lake, had lost their jobs and decided to start their own businesses as an alternative to finding employment elsewhere. Julie Dykema of Worthington said she wasn't getting benefits in her other job, "so why not just start my own business?" Others, like Dawn Waldvogel, also of Melrose, started their businesses to supplement their income. A substitute teacher, Waldvogel started her tanning salon because she was "looking for something else to do besides (teaching), especially during the summer and after school."

*Why here:* Another recurring theme among the interviewees was their strong sense of place. An interviewer, especially one coming from an urban perspective may ask a rural entrepreneur why, if they are going to the lengths of starting a business, do they choose to stay in their small (sometimes very small) hometown. Wouldn't the customer base be better in a larger community?

Wouldn't there be better access to resources?

The interviewees were not asked such leading questions, but simply "Why did you choose to start your business here?" And for the most part the answer was simply, "Because it's where I live." In fact, for 27% of the interviewees, the community they chose to open their business in was where they were born and raised.

The reasons these rural entrepreneurs gave for *why* they started their own businesses are

probably not any different from those that urban entrepreneurs would give: wanting to be your own boss and having more control over your personal economy and time would be fairly universal. It is true, however, that rural residents live with considerably lower average incomes and fewer choices for employment. The reasons they gave for *where* they started their businesses, however, are probably somewhat different from their urban counterparts, who have more options in terms of resources and locations in their immediate area.

A person living in Minneapolis can open a business in any number of cities if they think their customer base would be better there, the rent or property values more affordable, or the local government more accommodating, all without having to move.

Many of the business owners interviewed, however, expressed a desire not to have to move. An excellent example of this would be Scott Ritter of Melrose (sidebar), who decided it was preferable to buy his own business compared to his other

**Scott Ritter,  
Melrose Main St. Repair, Melrose**

Scott Ritter is a good example of entrepreneurs who pursued a business opportunity because they didn't want to be forced to move. In Scott's case, it was the prospect of starting over in his career. After working in the same auto repair garage in Melrose for 14 years, the business closed, leaving him and his father — who had worked there for 34 years — with the prospect of finding new jobs. But as Scott searched for new jobs for the two of them, he found "there were no decent jobs out there ... and going someplace else would mean starting over." At the same time he was facing that reality, he also came to the realization that he just didn't want to work for anyone anymore. So he bought the closed garage, giving himself and his father their jobs back.

options. George Kessel, a 30-year resident of Albert Lea, was laid off from his job and not wanting to move, put his years of experience maintaining ice resurfacing machines to use in his own business. The commute was a factor for Steve Wieneke in opening his meat market in Worthington. Steve was tired of his 110-mile round-trip commute to Jackson every day, made necessary when the grocery store he had worked at in Worthington closed, and he couldn't find a

## Making a living in Ely

While the interviews for this study show an overwhelming indication for people to want to stay where they are, in Ely we found a different dynamic: entrepreneurs who fell in love with the community and created business opportunities that would allow them to stay.

A small north woods town on the edge of the Boundary Waters Canoe Area, Ely boasts a college, a clinic, numerous camping and fishing outfitters and gift shops. A city of approximately 3,700 year-round residents, Ely is a popular vacation destination, receiving around 700,000 visitors a year.

Rather than just visit, however, some people have chosen to stay. Mauro and Dafne Caruso visited in the summer of 2002 from the East Coast. They liked Ely so much, they sold their custom theater store in New Hampshire and by December had moved to Ely and were working on their new store, Custom Theaters of Ely. Richard Gamble, owner of the Ely Surf Shop, moved his family from the Washington, D.C., area to Ely after “falling in love” with place on a visit. Gamble commuted between Ely and his construction company in D.C. until he settled on what kind of business he wanted to open. Todd Bergerson chose Ely to for the location of this Ely Hemp Mercantile,



*Dafne and Mauro Caruso*



*Richard Gamble*

partly, he reasoned, because a high proportion of Ely’s visitors would be environmentally conscious and would therefore be interested in his environmentally sustainable clothing made from hemp fiber.

Like most of the entrepreneurs in the study, all three studied the town to determine what the area needed. The Carusos knew what their business would be, but tailored it to what they thought the community needed: both high-end and low-end electronics, especially specialized wiring for the new house construction occurring in the area.

Bergerson moved to Ely and studied the town for two years in the process of deciding how to approach his business. Gamble came in with no idea of what kind of business he would start. He finally settled on a clothing and hangout concept for the thousands of teenagers visiting the city each year.

“A lot of people would like to live here,” Bergerson says of Ely. The draw of the area is unmistakable. As one Ely resident said in an unrelated interview, “People fall in love with Ely. They move here, then they figure out how they’re going to support themselves so they can stay.”

job that paid as well locally. “If the store [he had been working at] was still here in Worthington, our store wouldn’t have happened,” he said.

Not everyone rejected the idea of relocating, however. In the case of two startups in Le Center, those owners were seeking out a location and chose the city because they found the local government and EDA very accommodating. The

city of Ely was a different case altogether. For all three of the entrepreneurs interviewed there, they were simply visiting the place and fell in love with it. The businesses they started were the means with which to support themselves there (see sidebar).

There is also the case of Wendy Haney and her husband, Kevin, both originally from Tracy.

After years of living in larger cities pursuing their computer technology jobs, they chose to move back to Tracy. “We got tired of the Cities, the traffic, the stress,” Haney said of their life in Minneapolis. “We missed it out here and we wanted to be near our family.” At the same time, Haney had had a lifelong dream of opening a needlework store, and had even operated an online version from her basement in Minneapolis, but she didn’t want to attempt to open a traditional store in the Twin Cities. “There were already about six stores [like hers] at the time in the Cities, and it would have cost serious dollars. Starting a business was the driving factor in moving back here,” she said. Being in computer technology, she was able to work at her job from Tracy, open her store and operate her online store.

Small-town life was also a draw for some of the immigrants interviewed as well. When asked why they chose to come to the community where they started their business, five of the seven immigrant entrepreneurs interviewed stated specifically that they preferred the small-town atmosphere and the slower pace for themselves and their children. Jose and Anna Rosa Hernandez had been operating a catering business in Chicago when they learned of a restaurant for sale in Melrose. In Chicago they had felt burdened by taxes and regulations. “Where we lived in Chicago, the unemployment rate was very high and a lot of men were going around with nothing to do and no self-respect. We feel much safer here. Here everyone is working and busy and friendly.”

## ***2. Concern for community***

One of the striking findings of this study was the number of people who saw their business as a way of helping their hometown. While none of them gave community development as the primary reason for starting their business, for many there was a definite connection between the business they decided to start and the town where they lived.

Many entrepreneurs mentioned a concern about “empty storefronts downtown.” Bruce

Isenor and Mary Jane Grundhoffer, owners of Simpler Times Feed and Seed in Montgomery, stated that they hoped locating their shop in downtown Montgomery would help attract other stores to downtown Montgomery, a town that is evolving into a bedroom community where residents have “a shop-out-of-town mentality” because they tend to shop where they work rather than where they live, they said. Greg Leintz, a business owner in Bagley, considered locating his second store downtown a good decision: “In small towns, you don’t want empty store fronts downtown.”

In the small town of Tracy several entrepreneurs were considering the city’s economy. Charles Reinert and Diane Tosh-Ferrazzano saw their alternative medicine business as a way of “doing something of value for the community,” and they were “concerned about the empty store fronts.” Glenda Johnson saw her restaurant/gift shop, The Etc., as providing a long-needed place to eat in downtown Tracy. And Wendy Haney, who moved with her husband from the Twin Cities back to Tracy, had definite ideas about the example her needlework shop could set. With a combination of a storefront and an online presence, “we want to show how you can build up small towns, especially using the Internet.”

In a similar vein, Anders Berggren in Crookston said he, of course, wants to make money with his computer networking business, but through his business and the technology he provides, he also wants to help small rural businesses survive and generate jobs that would keep young people in the area.

As discussed in the previous section, when an entrepreneur decides to start a business, those who have done their market research are generally targeting an unmet need. But besides seeing it as a profitable opportunity for themselves, many of these entrepreneurs also characterized their business as something that would add value to the community. For example, business owners in southwest Minnesota often characterized their businesses as providing products or services

that people would otherwise have to drive to Sioux Falls or Mankato for: Kalen Nelson’s scrapbooking shop in Marshall, Lori Hebig and Deb Schenkoske’s lighting store in Tracy, and Maria Their’s teacher supply store in Worthington. The incident that got Julie Dykema thinking about opening her own craft supply shop in Worthington involved felt: “I couldn’t find decent felt [in Worthington] for a project.” One fabric store had closed and the remaining large discount retailer “didn’t have enough stuff. So I had to drive 50 miles for a 59-cent piece of felt. That’s what set me off.”

Carmen Ditsch, who had owned a small salon in Fargo before returning to her native Warroad for family reasons, may have summed up the sentiment the most succinctly. She could have returned to a larger city to start a new business, but she instead chose to stay and open a salon in Warroad, not only to be near her family, but also for “the quality of things” in a small city, she said. “I wanted to bring a big-city type salon and spa to a smaller town on a smaller scale.”

Everyone, of course, started their businesses based on rational economic decisions. No one stated that they started their business first and foremost for altruistic reasons. But for many, they considered their new business part of needed economic development in their community.

### 3. Financial resources

*Sources of financing:* While the question is sometimes raised as to whether there is a problem with access to capital for rural entrepreneurs, three-fourths of those interviewed here said they had no trouble finding financing for their business. A large percentage of the entrepreneurs interviewed borrowed their startup money from some outside source (70%), and most of the interviewees used several different sources of funding. As Table 4 shows, the most common source of funding was from the local bank (50%). Approximately 30% of the startups received funding through borrowing from some type of economic development program, whether a

city, county or regional economic development program or authority, or a combination of these. Eleven percent used credit cards (for some it was their only form of borrowing), while 9% borrowed against their own home. And interestingly enough, 20% of entrepreneurs did not borrow from an outside source at all. Instead, they used their own money exclusively or obtained funds from a close family member.

Of the approximately one fourth (23%) who reported having difficulties borrowing capital, the problem generally involved something such as a delay in processing at the bank, lack of collateral (sometimes making it necessary to borrow against the house), lack of work history, dealing with a large bank with an out-of-town decision making process, or dealing with a small bank with its local ties and occasional prejudices. Only one minority

Table 4: Sources of startup funding.

Source of funding	% of interviewees
Borrowed from source other than family	70%
Borrowed from bank or credit union	50%
Borrowed from an economic development program (federal, regional, county, city)	29%
Used personal credit cards	11%
Self-financed or borrowed from an immediate family member	20%
Borrowed against home	9%

Table 5: Sources of income among entrepreneurs interviewed.

“Do you have backup income?”	
Have one other job	34%
Have more than one other job	2%
Spouse is employed*	38%
Business is sole support	27%

\*But spouse’s job could not be necessarily used as backup for the business. More often, it was the source of money to pay family bills and supply health insurance.



business person reported any problems, stating that the local banks “gave him the runaround” and said they “couldn’t understand him.”

Based on comments made by many interviewees, however, the question could be raised as to whether there is access to *sufficient* capital. As Section 4 shows, these business people were very interested in any kind of information on small business loans or grants.

*Financial backup:* Starting or even acquiring a new business involves a certain amount of financial risk for most people. To understand better these business owners’ willingness to take risks, everyone was asked whether they had some kind of “backup income” that they could depend on while they got their new business going (Table 5). Only one fourth indicated that they did not, that their new business was their sole source of income. The other 75% responded that they did have some kind of supplemental income. For the most part, that income was from either one or more other jobs of their own and/or a job held by their spouse. This employment was generally relied upon to “pay the day-to-day bills” of the household, but interestingly, not for financing the new business itself. Such an arrangement, it appeared, allowed the business owners to get their ventures started while minimizing the amount of financial disruption to the household.

An important related finding was that a full 50% of the interviewees said they depended on their “regular” job or their spouse’s job for health insurance. One third of interviewees purchased their own, and the remaining 13% simply went without.

#### **4. The assistance disconnect**

Possibly the most important finding in the study was the apparent disconnect between entrepreneurs and the assistance they were seeking in the course of starting their business. The interviewees accessed information through a number of sources, but a majority of them said they would like more or better access to information in the areas of basic business

Table 6: The groups entrepreneurs turned to for assistance (or just advice) in starting their businesses.

<b>Local economic development person and/or the city or county government</b>	59%
<b>Other business people, local or otherwise</b>	30%
<b>Friends and relatives, especially those who had businesses of their own</b>	29%
<b>Small Business Development Centers</b>	23%
<b>A regional economic development program, such as one of the regional Initiative Foundations</b>	20%
<b>The state</b>	20%
<b>An accountant</b>	14%
<b>Vendors and suppliers (in the case of franchises, the franchisor)</b>	14%
<b>A school or school-sponsored program</b>	13%
<b>The local bank</b>	4%

management and startup financing. Among those interviewed there was a definite desire for easy access to information, especially a kind of access that would get them what they needed to know without requiring lengthy road trips or time-consuming phone calls.

When it came to starting their businesses, a majority of the interviewees sought out local sources of information and advice and received it in the form of help in areas such as writing a business plan, assistance with acquiring a loan, how to manage inventory, and where to find suppliers. As Table 6 indicates, nearly 60% contacted someone in their local city or county government, most frequently an economic development person, making this the most popular source of information. Comments about their effectiveness, however, ranged from extremely helpful to extremely “useless,” with some economic personnel telling the interviewees they weren’t interested in small businesses. Comments were more often positive, but the range did indicate an inconsistency from community to community.

The next most common groups to be consulted were other business people and friends and relatives, especially those who had businesses of

their own. Small Business Development Centers came in fourth.

It also became apparent in the course of the interviews that the business owners were very interested in programs to help them start their businesses. Nearly 80 percent of all respondents said they would be interested in programs, particularly in the areas of learning more about the availability of low-interest loans, training in operating their business, especially in the areas of taxes and advertising, and help with regulations and permits from the state. When asked if they had taken advantage of some type of program, whether educational, financial or both, 50% of the interviewees reported that they had. Forty-three percent reported obtaining funds through a financial program, ranging from low-interest loans offered by the city to assistance from a regional nonprofit. One third of respondents reported using some kind of educational program, which included formal classes such as those offered by state colleges and universities, tax seminars offered by the state, advice and mentoring support from a source such as regional Initiative Foundations, or even a class on how to start a coffee shop.

The interviewees were, understandably, keenly interested in the topic of financing, and

there was an almost universal belief that the government, whether state or federal, offers some kind of financial assistance. The problem was that they couldn't find it. One of the most frequent statements was, "I've heard there's money out there, but I don't know where it is," or something similar. A large number of interviewees said they had heard about small business grants (as opposed to loans) to be had "out there," but only one business actually received a grant, in that case from the city economic development authority. Some spent quite a bit of time looking before they gave up, while others treated government grants like an urban myth: something they had heard about but couldn't find and weren't sure even really existed. In the end, most concluded they just didn't have the time to look.

Clearly there is a gap here, either in the availability of programs or the awareness of them. While some people spoke highly of a particular program, other people in the same town didn't know of its existence. While only one person said there were no programs available, 30% said they *didn't know* if any kind of programs were available or that they were aware of programs but weren't sure how to access them. Wendy Haney, who lived in the Twin Cities for several years before moving back to Tracy to open her

## Training for the entrepreneur

Among the nearly 50% of business owners who said they had taken advantage of some kind of educational or financial program, there were two programs that were mentioned more frequently, both in southwest Minnesota.

One educational program people spoke highly of was a course offered through both Minnesota West and Ridgewater community colleges. In this course, business owners register for and attend classes on managing their businesses. At the same time, as part of that class, instructors visit their businesses periodically and worked with them for a day

on things such as using accounting software, customer service and inventory management. Community and technical colleges throughout the Minnesota State Colleges and Universities system offer similar courses.

The Southwest Initiative Foundation's Micro Enterprise Program was also mentioned several times, especially by the immigrant entrepreneurs who were helped by it. In these cases, the entrepreneurs were helped through all the steps of starting their businesses and after they were open with educational and financial support.

needlework shop, said there was an ample supply of information and programs in the Twin Cities area on starting a business, but very little where she now lived.

*Looking to the state:* During the interviews for this study, the business owners were asked the question, “If you could give the state some advice on how to help people who are starting a business, what would it be?” Of those who answered the question, the most common responses had to do with better access to information and technical assistance. A full 40% asked for better access to general information on how to start a business, including requests for such things as a live person to talk to after hours and training in various aspects of starting and operating a business such as using computers, software and the Internet, navigating the tax system and using advertising effectively (advertising seemed to be a common mystery for many of the interviewees).

When asked what the state could do to make starting a small business easier, interviewees were enthusiastic with their comments; few people said “nothing.” As discussed above, the largest percentage of comments revolved around streamlining the access to information and technical assistance. A suggestion made by several interviewees was for the state to establish some kind of one-stop or first-stop office or phone number. It would not provide all the information an entrepreneur needed, but would instead guide that person in the right direction, and that guidance would be customizable for their type of business and geography. A recurring theme among the interviewees was that their experience with the state was fragmented and that when they did start at one place with the state, they were sent to another place, then another. Some interviewees also said that the people in their town who should have information for entrepreneurs, namely the local chamber or economic development authority, didn’t seem to know anything, and that the state should address this issue.

Besides access to information, one third of respondents asked for help with accessing grants

## Helping young people get started

When Matt Levenson of Albert Lea found himself starting his own business, he was still a college student. He needed to buy some equipment to get his video business going, but being young and in college, he found it hard to get financing. “I had to start small and buy equipment strategically,” he said. It worked out well for him: he’s been able to buy equipment as he finishes projects, but he does think, he said, there are few financing options for young people. Financing and education programs on starting a small business would be very useful to young entrepreneurs, and the state could be helping with that, he said.

Tara Kraft in Worthington also mentioned the importance of helping young people start their own businesses. She started her first business at the age of 18 in her native Trinidad. Now she’s preparing her kids to have businesses of their own someday. “I’m proud of the the government for lending money to kids to go to college,” she said, “but they’re not helping them when they get out.”

In Marshall at Southwest Minnesota State University, starting and operating a business is a student project. On the recommendation of executives at nearby Schwan’s, SMSU’s chapter of Students in Free Enterprise opened their own store in downtown Marshall, in the process doing market research (they settled on a wild bird store), creating a business plan, obtaining a loan, staffing and managing the store daily. The store is staffed by students and advised by local business people. “People often think the store is funded by Schwan’s or that it doesn’t need to make a profit, but it’s a regular store with loans and rent,” said 24-year-old Tom Ruud, a co-manager.

The SIFE group plans to operate the store for a while, then sell it and open another store in Marshall. For Ruud, it has been invaluable experience. “Even if I went into a big corporation some day, anything I encounter there I’ve already done here,” he said.

and loans, whether from government or private sources, or some other form of financial assistance in starting up, such as gap financing. They also asked for less-complicated rules and a break on taxes. An efficient, streamlined startup process that didn't waste their time or money was clearly a priority for these entrepreneurs.

Fourteen percent of interviewees also asked the state not to burden startups with too many permit and licensing fees. They suggested that the permitting process be simplified: people starting food businesses, especially, found the many regulations and permits from different state agencies confusing and time-consuming. People also said they would like to see the state give some kind of breaks to small businesses "the way they do for big ones," and to keep taxes under control. And one retail store owner in Worthington asked that the state not discourage retail stores. When looking for assistance in opening her store, she said, "It was like they're saying, 'You can start any kind of business you want, except retail.'"

Only one immigrant entrepreneur, Tara Kraft of Worthington, had a request of the state, and that was to give more help to young people in starting businesses. The others had very few dealings with the state and didn't really have any advice to give or requests to make. As Jose Hernandez in Melrose said, "I suppose there are people in offices somewhere working with small businesses, but I wouldn't know where to go."

## **Observations & Recommendations**

As a result of these interviews, two recommendations can be made concerning rural entrepreneurs:

- **Include local entrepreneurship and/or small business development in the community's larger economic development plan.**

Rural leaders cannot afford to overlook entrepreneurship and small business development as a formal part of their community's economic development plan. The rural entrepreneurs

interviewed for this study showed a clear desire to stay where they were, and for communities losing population, this is a desire that should not be ignored. Existing business expansion and retention and business recruitment programs serve a valuable purpose in rural communities, but they do not make a complete economic development strategy, especially if they are focused exclusively on maximizing job numbers through the development of large businesses. Small business development within the community serves as a complement, presenting additional opportunities to residents and, importantly, working with assets already present in the community. If helping people start a small business helps them stay and contribute to the economy, communities should consider making entrepreneurship and/or small business development a distinct and strategic part of their larger economic development plan.

- **Remedy the disconnect between rural entrepreneurs and the important information and assistance they need to start and operate their businesses.**

The interviews conducted for this study showed a clear disconnect between the business owners and those who could provide them with information on how best to start their businesses and make them successful. While 80% of the interviewees said they would be interested in some kind of program that provided them with information and assistance in starting their business, only 49% said they took advantage of such a program, and nearly one third of those interviewed said they didn't know if any such programs were available in their area. There is clearly a demand.

When asked what the state could do to help small business owners, one request that came up repeatedly from business owners was for the state to act as an information broker. It was clear, however, that business owners were inclined to stay local when looking for information on starting their businesses by going to their local economic development agency or another local



resource. These offices, whether sponsored by the city or the county, were the first place a majority of entrepreneurs (59%) went for guidance in starting their businesses. However, there appeared to be an inconsistency from community to community as to the quality of information and help available.

One recommendation we would extend, then, is for the state to strengthen the Small Business Development Centers that are located around the state. These offices are jointly funded by the federal Small Business Administration and the state and serve the sole purpose of assisting people in starting and maintaining their small businesses.

However, like local economic development offices, SBDCs vary in visibility, accessibility and strength. Efforts can be made to strengthen their capacity and make them more visible through marketing at the local level, especially through banks and economic development agencies. Having better access to accurate and specific information and services could improve an

entrepreneur's odds of succeeding and even help a would-be entrepreneur realize his or her business idea may not be the right one before too many resources are expended on it. Either way, such assistance would be a boon to rural entrepreneurs and their communities. The SBDCs represent a network already in place that can be effectively utilized to help small businesses survive and grow.

Granted, many residents do choose to leave their rural communities, as is evidenced by the steadily declining populations in many rural counties. However, there are also residents with an entrepreneurial bent who are willing and truly want to stay. If the Haney's of Tracy or the Ely entrepreneurs are any indication, there may even be those entrepreneurs who have moved to urban areas who would like to come back. If those with such an inclination could be made aware of and gain access to the resources available to help them start a business, more people might choose to stay or even return.

## Endnotes

<sup>1</sup> Schaffhauser, Anthony. "Entrepreneurship and Economic Growth." *Minnesota Economic Trends*. Minnesota Department of Economic Development. November 2005. [www.deed.state.mn.us/lmi/publications/trends/1105/growth.htm](http://www.deed.state.mn.us/lmi/publications/trends/1105/growth.htm).

<sup>2</sup> "The Entrepreneurial Campus Initiative: Understanding the Entrepreneurial Orientation of Students." Center for Rural Policy and Development. October 2005. <http://www.mnsu.edu/ruralmn/pages/Publications/reports/Entrecampuses.pdf>

