

# REIMAGINING TECHNICAL ASSISTANCE

## Shifting the Support Landscape for Main Street



## About AEO

The Association for Enterprise Opportunity (AEO) is the leading voice of innovation in microfinance and microbusiness in the United States. For twenty-five years, AEO and its more than 450 member organizations have helped millions of entrepreneurs contribute to economic growth while supporting themselves, their families and their communities. AEO members and partners include a broad range of organizations that provide capital and services to assist underserved entrepreneurs in starting, stabilizing and expanding their businesses. Together, we are working to change the way that capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

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# REIMAGINING TECHNICAL ASSISTANCE: Shifting the Support Landscape for Main Street

## About this Work

Microbusinesses make up almost 90 percent of the nation's businesses and represent an even higher proportion of small businesses in low-wealth communities.<sup>1</sup> Their potential as an economic force is growing. According to the Kauffman Index of Main Street Entrepreneurship, a leading indicator of small business entrepreneurship activity in the United States, growth in the number and share of established microbusinesses is the primary driver for the upward movement of the 2015 index.<sup>2</sup> In spite of their numbers, these businesses tend to fly below the radar screens of investors and policy-makers. Microbusinesses represent a powerful economic force and can be a critical path to economic opportunity and financial inclusion. They are sources of job creation, wealth creation and intangible sources of social and cultural capital, all of which are imperative for thriving, equitable communities and sustained economic development. Their potential for impact as engines of both wealth-creation and employment-growth is undeniable: business owners are significantly wealthier than their wage-earning peers.<sup>3</sup> And these businesses could grow to employ far more than the 26 million people across the United States that they presently employ.<sup>4</sup>

Microbusinesses grow and hire when they get the right mix of capital and support: prior AEO research found a 30% difference in average annual revenue growth for a sample of businesses that got support compared to their peers that did not.<sup>5</sup> In fact, with the right mix of resources and support systems, employment from microbusinesses in low-wealth communities alone could grow by well-over 10 percent.<sup>6</sup>

When business owners in low-wealth and distressed communities are shut out of opportunities, the consequences ripple throughout the country and our economy. So, what is stopping these businesses from reaching anything close to their full potential? What can community organizations, investors and policy-makers do to unleash this powerful force?

With generous support from Capital One, AEO sought to understand opportunities to improve the support landscape for microbusinesses in low-wealth communities so that they can grow and hire. To do this, we started by seeking a deeper understanding of the needs of small business owners and aspiring entrepreneurs. We then looked at the current state of training and business development services targeted at business owners and aspiring entrepreneurs in low-wealth communities. We also identified programs and initiatives focused on supporting entrepreneurs more broadly. We interviewed leaders of both established and new nonprofits. We evaluated available data on the efficacy and costs of training and services to enable individuals to start and grow businesses. Last May, we convened the leadership of more than 80 non-profit lenders and service providers to share perspectives on the state of technical assistance and to engage in dialogue around what might change. Since then, we've focused on questions of availability of and access to products and services that can effectively and efficiently meet the needs of business owners and aspiring entrepreneurs in low-wealth communities by continuing to identify and evaluate opportunities to incorporate low-cost tools; to partner with emerging and proven product and service providers and to identify opportunities for testing and efficient replication of potentially high impact new models.

Along the way, we've met a lot of passionate individuals working hard to make dreams come true in their communities. Their passion and commitment is inspiring and energizing. This report and our subsequent efforts are intended to amplify the impact of their passion and hard work.

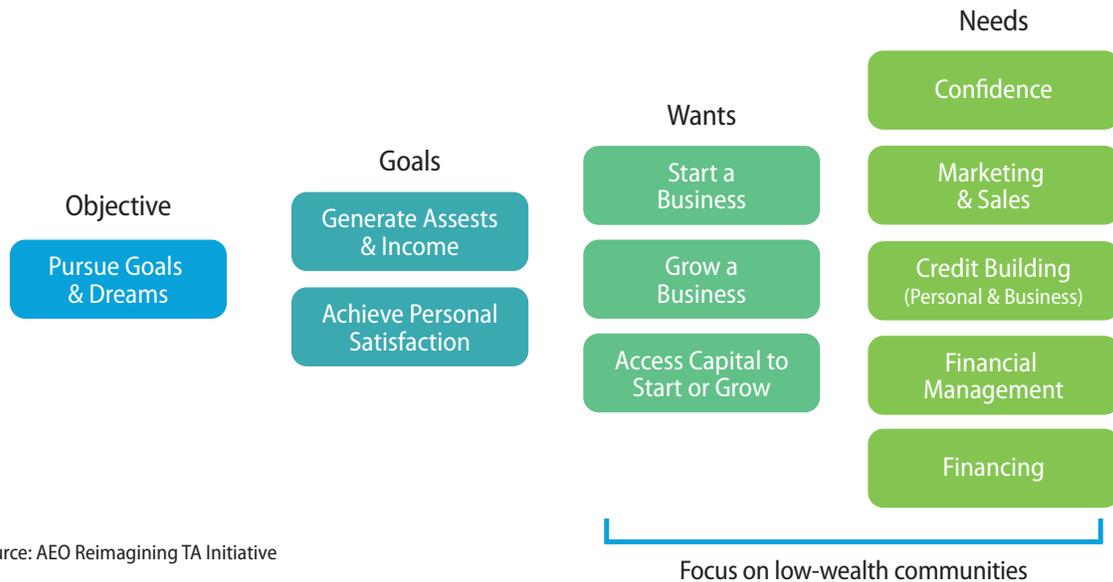
## Introduction: From Technical Assistance to Trusted Guidance

Microbusinesses grow and hire when they get the right mix of capital and support. Yet today there is no system to support Main Street businesses, especially those in low-wealth communities. In Part 1 of this report, we assess the needs of business owners in low-wealth communities. In Part 2, we compare those needs to the current landscape of available support. Finding gaps, we propose in Part 3, a new approach to fill the gaps. We call this new model “trusted guidance.” Trusted guidance reflects a needs-based view of business owners. It reflects the value of local, tailored, community-level support combined with tapping into the expanding marketplace of products, services for business owners. Finally, in Part 4, we offer a path forward for practitioners and funders.

**Too many small business owners toil away for years without building a durable operation that can be transferred or sold. Effectively unlocking a system of trusted guidance would enable business owners to build durable businesses that match their aspirations, whether that is to sustain a family or grow into a much larger operation.**

**With the right mix of resources and support systems, employment from microbusinesses in low-wealth communities alone could grow by well over **10%****

# What Do Business Owners Need?



Source: AEO Reimagining TA Initiative

As part of this work, we talked to practitioners and reviewed the available literature related to what is required for a business to launch or grow. Not surprisingly, both the owner and the business itself must be prepared. For a micro business, these are typically one and the same. Confidence, aspirations and the right mindset all play a critical role in ensuring that a business owner is ready. Credit performance, financial management and revenue all speak to the possibilities for the business.

We also evaluated thousands of declined loan applications collected from multiple types of lenders to understand the reasons small business owners were unsuccessful in their applications for loans. We found that while each business is unique and each prospective lender evaluates a business on its own criteria, there are three common areas where business owners fall short on the path to capital. These areas translate into the primary needs of business owners seeking to access capital: 1) building credit (both personal and business); 2) financial management capabilities including cash flow management and tracking financials; and 3) the trajectory of their revenues and profit.

In addition, the rapidly changing landscape of small business financing creates an additional need for many small business owners: guidance and support evaluating available financing options. Over the last several years, a variety of factors have led to a dynamic and rapidly evolving credit landscape for small businesses. This explosion in new products to meet a broad variety of small business credit needs presents opportunities for Main Street. Yet at the same time, the range of products and channels creates an urgent need for trusted guidance (to accompany access to the same speed and convenience at a lower price.)

# Part 1: What Do Business Owners in Low-Wealth Communities Need?

Understanding how best to re-invent the support landscape for Main Street business owners in low-wealth communities starts with a view from the business owner. To better understand what the support landscape for Main Street in low-wealth communities should look like, we started by asking what business owners want, why they want it, and what they need to get it. We also explored what barriers stand in their way.

Each business owner or aspiring entrepreneur is unique, but there are commonalities across their starting points, their aspirations and their challenges. And the raw talent, aspirations and hard work of small business owners in struggling communities are no different than entrepreneurs anywhere. These business owners face barriers simply because of their starting wealth and the availability of resources in their communities.

As obvious as it seems, the support system for Main Street must be framed as a path to achieving the business owner's objective while ensuring that she gets what she needs. Sometimes this is easier said than done.

Here's what we found:

- 1. 3 discrete, but common, "wants":** Small business owners seeking help are typically motivated by one of three discrete objectives: 1) starting a business, 2) growing a business, or 3) financing a business. This is what they want. What they need to achieve those objectives may be harder to pinpoint and prioritize. For example, a business owner may want a loan to start or grow her business but customer feedback and proof of concept may be what she really needs to achieve her goal. Or he may want to open a new location when he doesn't have the financial reporting to demonstrate that the first site is profitable. One CEO of a community organization described it like this, "Often, our role is to point the business owners we work with to the underlying problem that needs solving." Effectively bridging gaps between these expectations is critical.
- 2. In need of decision support:** Business owners and aspiring entrepreneurs demonstrate interest in capability building and training, provided the offers are directly applicable to their current situation, and as long as the experience is carefully structured in terms of price, delivery mode, location, time of day, length of session and sense of fit for the owner. Micro business owners face plenty of challenges for which they seek advice. And when they seek advice it's most likely to be from sources they expect to be relevant: For example, the UPS Connect 2016 State of Small Business survey reports that business owners are mostly likely to turn to their peers for advice.<sup>7</sup> To be sure, owners of micro businesses, the smallest firms, share many of the same concerns as the owners of larger firms; however the relative intensity of their concerns differs from their larger peers.

Microbusiness owners indicate they struggle significantly more with three issues that derive primarily from their small size: uneven cash flows, costs of running the business and competition from larger players.<sup>8</sup> A 2014 survey of microbusiness owners fielded by CFED found similar challenges.<sup>9</sup> Of course, finances are not the only area where business owners need advice and support that they can count on. Other areas often cited in surveys and conversations include legal matters, sales & marketing, and technology.<sup>10</sup>

In addition to these headaches, capital access is a pain point experienced differently for microbusinesses compared to larger small businesses. According to the 2016 Federal Reserve Bank Small Business Credit Survey, micro businesses are less likely than larger small businesses to seek credit and are more likely to be discouraged.<sup>11</sup> And when microbusinesses were funded, they were most likely to experience a gap between the loan amount sought and the credit available. There is, of course, a relationship between the challenges business owners prioritize and their credit experience, as lenders are primarily evaluating these businesses on their cash flows and credit. (This is another illustration of the gap noted above between what a business owner wants and what she needs: if cash flows were steady, with reliable revenue streams and costs well-understood and effectively managed, then the business would likely be on an upward trajectory and would be better positioned to access capital.) These are areas for which support has been shown to make a difference in business outcomes when available and accessible.

- 3. Flat out and stretched thin:** Small business owners are time pressed and stretched thin. A small business owner typically wears many hats including CFO, marketing director, sales rep and more. This is especially true for microbusinesses. A skilled pastry chef with a passion for his work may want to know just enough to ensure that his business finances are on the right track – and that he has a trusted resource to turn to about his business when he’s faced with important decisions or opportunities. A business owner focused on solving a specific problem is not likely to be receptive to other services, if these offers aren’t presented to her as a means to solving a problem for which she has made bandwidth available. We tested this hypothesis by offering individuals seeking financing access to mentors. Only 10% of a sample of 349 business owners seeking loans expressed interest in an offer of coaching or mentoring. The time and place that services are offered also influence uptake. A classroom setting may be appropriate in some situations for some business owners but just as often, business owners pressed for time and resources want to know what they need to know (and why); what they need to do and who can help.

**“When you own your business, the acronym CEO changes from Chief Executive Officer to Chief Everything Officer. In my 2-year-old company, I am it – the only employee and the only funder. In communications with customers or potential clients, I refer to my “Shipping Department”, my “Marketing Manager” and my “Social Media Specialist”... But, in reality, “they” are all yours truly.”**

- 4. Running a small business – especially finances – can be stressful, and stress distorts decision-making:** Risk and uncertainty are part of the equation of starting and running a small business. A business owner devotes time and energy and puts up available savings as well as credit ratings in exchange for the opportunity to pursue a dream and ideally reap the financial rewards. Yet, timing of the payoff is at best an open question. As noted above, a business owner who is doing everything to start or run the show is stretched thin and frequently stressed out. Finances are often top of mind. A recent survey of small business owners sponsored by the National Federation of Independent Businesses (NFIB) found that nearly one quarter of survey respondents cited issues including finances as one of the biggest sources of work-related stress.<sup>12</sup> Business owners often confess that they are intimidated and stressed by their finances. Frequently they came to business ownership from a passion for the work and for their customers rather than a desire or familiarity with managing cash flows, profitability, credit scores or accounting. Although ownership can offer high points of excitement and personal fulfillment, business owners typically are moving through a prolonged state of pulse-pounding tension about whether their business will make it and what the consequences will be on family and/or employees. This frequent state of stress can influence judgment and decision-making.<sup>13</sup>
- 5. Most small business owners don't know what they don't know:** This doesn't make business owners unique, only human. As a group, business owners are likely more self-assured than the average person. In general, this mindset can be an asset for an entrepreneur. Yet, it can also create challenges when business owners are faced with responsibilities that they may not have the skills or experience to do – or enough time in the moment to evaluate fully. As one example of over confidence related to financial management, 94 percent of small business owners in a 2013 survey reported confidence in overseeing their business finances, yet 45% of these same individuals reported that they are not familiar with basic accounting principles.<sup>14</sup> When it comes to making financing decisions, a different but equally critical issue area, the Federal Reserve Bank of Cleveland found that many of the small businesses owners who participated in a series of online focus groups were overconfident in their ability to evaluate different credit products. When comparing three products, participants initially reported they were easy to compare and that they had all the information needed to make a borrowing decision. However, many participants subsequently found it difficult to answer specific questions about the products, rates and other terms.<sup>15</sup>

**45%** reported that they are **not familiar with basic accounting principles.**

## Part 2: What does the current landscape and approach look like?

The term “technical assistance” is rarely used outside the microfinance and community development circles, yet it has gained currency within those industries over the years and is widely understood by community development practitioners to represent the range of training, tools and services offered with the intent of helping emerging and existing businesses succeed.

A scan of the current landscape of technical assistance reveals offers that can be grouped into two broad categories: “Programs & Initiatives” or “Products and Services.”

### National Programs & Initiatives

Over the last few years, a few national initiatives have emerged to support different segments of entrepreneurs and business building activities with the intent of creating scalable network architecture: modular content in the form of curriculum or toolkits, along with resources and social connections for use by organizations and individual business owners that opt-in. Each initiative combines local energy and resources with a national framing and coordinating role. Most are purely private initiatives. Others enlisted support from government. For example, Start-Up America was a high-profile public private partnership that has since morphed and merged into TechStars, a technology start-up support ecosystem. Lean Start Up started as a book proposing a methodology focused on start-up tech companies but has since evolved into a methodology applicable to any company looking to introduce new products or services into the market. The methodology has sparked self-organized groups in communities across the country and around the world.<sup>16</sup>

Three other programs represent models that warrant mention: Goldman Sachs 10,000 Small Businesses, Rise of the Rest and VilCap Communities. The Goldman Sachs 10,000 Small Businesses program integrates practical business and management education, business support services, and access to capital for small business owners in urban areas who have growth aspirations for their existing businesses. The goal of the program is to unlock the revenue growth and job creation potential of these small businesses.<sup>17</sup> The businesses that participate in 10,000 Small Businesses are diverse in their industry representation and ownership. The common defining feature is a desire to grow from an established base.

Rise of the Rest launched in 2014 under the leadership of entrepreneur and philanthropist Steve Case in order to shine a spotlight on emerging high growth companies located outside of a few coastal cities. In 2016, Village Capital in collaboration with Rise of the Rest and others launched VilCap Communities with the purpose of addressing challenges experienced by new business models that are pioneering new business models for social change.<sup>18</sup> The program combines awareness, capital and collaboration in order to close this gap. As part of the national campaign and commitment, each of 16 selected communities has committed to develop a problem thesis that their community is well-positioned to address; source local entrepreneurs with unique insights into the problem; and run business development programs to train these entrepreneurs.

Clearly there are examples such as those cited above of promising models and available resources, yet some critical gaps remain: first, many geographies and communities remain unserved. Bridging this coverage gap may be a matter of time, but it likely requires thoughtful engagement and purposeful intent to expand social and geographic networks. Second, at present there are no coordinated national initiatives to inspire and support aspiring or early stage small business owners, especially from low-wealth communities. As noted above, high-growth tech ventures in areas outside of Silicon Valley, New York City and Boston can benefit from Rise of the Rest. Innovative new business models with a social mission are the target of VilCap. Established small businesses in distressed urban communities poised for growth are eligible to participate in the Goldman Sachs 10,000 Small Business initiative at no cost to the business owner. Yet there is a gap in systematically supporting local Main Street business owners or aspiring entrepreneurs on the path from inspiration to launch. Few entrepreneurs in low-wealth communities with an idea or a business that is just getting going have a similar program to help position them for success.

## Local Programs & Initiatives

Microtracker.org, a program of the FIELD at the Aspen Institute, collects information from nonprofit programs across the country that provide training to emerging and established entrepreneurs in low-wealth communities. In spite of being able to point to more than 130 programs across the country, several barriers stand in the way of systematically delivering high-impact business development services to small business owners and aspiring entrepreneurs in low-wealth communities throughout the United States.

An expert team<sup>19</sup> illuminated these challenges in a report commissioned for the Micro Capital Task Force, a multi-stakeholder initiative convened in 2014 by AEO as a response to a challenge posed by the Treasury Secretary to solve for the market failure that prevents capital from flowing effectively to Main Street. Their assessment found that non-financial technical assistance, when provided by Community Development Financial Institutions (CDFIs) and other nonprofits, is highly diversified and includes training courses, one-on-one mentoring, advice, assistance with operations, and business incubation—all guided by the intent to help low-wealth entrepreneurs start a business, improve performance of an existing business, and/or qualify for financing.

The team identified several significant barriers that hinder the efforts of mission-driven organizations to provide effective business development services to entrepreneurs in low-wealth communities. These barriers include:

- The absence of scale and/or scalable models for the delivery of services<sup>20</sup>;
- Complex business models in which lenders, such as CDFIs, provide business development services in-conjunction with financing for starting and growing businesses;
- The duplication of efforts and resources, especially for the development of content, services, and products; and
- The near complete reliance on grants to cover operating budgets.

The report also identified the absence of data on the demand for and the effectiveness of technical assistance as a critical barrier to mobilizing additional investment in these services for low-wealth entrepreneurs.

In general, nonprofit organizations in low-wealth communities offer a small subset of the services and products that a business owner or aspiring entrepreneur needs to start or grow a business. A national survey by Aspen FIELD reveals a broad range of services offered but little uniformity of delivery.<sup>21</sup> For example, well-below half of the organizations offer sales and marketing support (e.g. “Access to Markets”) or credit building services; both of which are generally critical needs for small business in struggling communities. And not even one quarter of the organizations report helping their clients navigate technology, an increasingly critical yet complex area for a business owner to solve without guidance.

Many non-profits rely on a general business curriculum developed and delivered in-person by staff, consultants, or volunteers. Often the individuals who complete the training are eligible for loans and individualized consulting services. This model presents a variety of problems. First, the training is typically based on the assumption that individuals seeking technical assistance are starting at the same point, when in fact they more than likely have different objectives, varying amounts of business experience and different types of business needs. Second, the services offered rarely represent the full spectrum of “typical” needs experienced by small businesses just starting out or seeking to grow. Finally, the services offered are rarely evaluated based on the impact of the services. For example, the standard metrics for evaluating business development services presented by the FIELD Program at the Aspen Institute focus on variables such as the hours of services provided and the rate of business plans completed. Similarly, data collected by the Small Business Administration focuses on measures such as the amount of time spent with business owners rather than on the business owners’ satisfaction with the training or the impact on business outcomes. None of these measures provide actionable guidance on the key questions a business owner, investor, or other party needs to answer: Which services, delivered when and how, have a material impact on the revenue growth, profitability, and job creation potential of the business?

There are, of course, proven or promising models focused on low-wealth individuals seeking to start or grow their businesses that could potentially scale through replication. Most of these programs combine a curriculum for training with opportunities for networking and discrete consulting services for the businesses. The suite of services offered tends to evolve dynamically with the needs of the business owners in the network. Some examples include the Workshop in Business Opportunities (WIBO), based in Harlem, which has begun to license its nearly 60-year-old entrepreneur training program and operating model to other nonprofits across the country or Rising Tide Capital, which aspires to expand its program for training and coaching entrepreneurs in New Jersey, along with its back office system, to a national audience.

One key to successfully replicating a program is ensuring that trust resulting from local control and convenient, accessible locations for entrepreneurs is retained. Just as WIBO and Rising Tide Capital serve clients in locations convenient to the neighborhoods they serve, Urban Co-Lab, a recently launched incubator space in a historically excluded neighborhood in East Austin, provides individuals in the neighborhood, access to work and event space, entrepreneurial programming, community programming and job creation opportunities.<sup>22</sup>

In New Orleans, Goodwork Network, an innovative and effective nonprofit, creates value and establishes trusted relationships by developing new market opportunities for minority and women entrepreneurs. Goodwork Network launched Roux Carre, an open-air food court and performance venue in Central City New Orleans that is serving as an incubator for the entrepreneurs behind the food and the music. Similarly, another Goodwork Network program, ConnectWorks, creates contracting opportunities with large established institutions for the high capacity minority business clients in the community.

## Products & Services

Thanks in large part to opportunities made possible by process automation, data aggregation and the power of sophisticated analytics, the marketplace for products and services to meet a range of small business owner needs has exploded. Technology makes possible new ways for small business owners to manage fundamental elements of running their businesses including managing financials, reaching customers and accessing capital. Technology has also made it easier for small business owners to assess and track their performance, access mentors and advisors or a range of other services. Most but not all of these products and services have been developed and launched by for-profit companies (both established incumbents and start-ups.) Some have been brought to market by nonprofits.

Regardless of the source of the product or service, each is designed to meet a need typically experienced by a business owner using technology to make the solution cheaper, faster and accessed more easily than its traditional alternative. For example, mentorship has long been a need of small business owners and aspiring entrepreneurs. Some business owners are fortunate enough to identify a mentor through personal connections or serendipity. Many non-profits created and manage mentoring programs in-house. Yet in the last decade, two technology enabled mentoring solutions have emerged based on a compelling logic and strong emerging results: MicroMentor.org and BusinessAdvising.org. Each serves a matchmaking and clearinghouse function to connect mentors with entrepreneurs seeking advice. Micromentor focuses its support on the segment of the market including aspiring entrepreneurs and early stage start-ups. Business Advising focuses its resources on small businesses with a proven growth trajectory, represented by annual revenues of at least \$150,000.

A growing market of products and services are available across five areas that cover the range of needs experienced by business owners: 1) confidence; 2) sales and marketing 3) credit-building; 4) financial management; and 5) financing. “Confidence” includes mentoring along with business planning and activities related to sparking an interest in entrepreneurship and taking the first steps to prepare. “Sales & marketing” includes products and services focused on meeting several needs including market sizing and competitive intelligence to lead generation, design and customer care. Credit-building, which is especially challenging in low-wealth communities includes understanding and awareness, monitoring, building and protecting both personal and business credit. Financial management, an area that as noted above creates significant challenges for most business owners includes tools for budgeting and forecasting, accounting, payments and receivables management, tax preparation and more. Finally, financing includes both support tools related to valuation, guidance as well as debt and equity products. Some products – such as the KIVA Zip crowdfunded loan as an example -- represent a hybrid. By design, a successful crowdfunding campaign is proof of concept for customer demand. Exhibit A includes a small but representative sample of products and services designed to meet critical needs of Main Street business owners. Some of these products are available at no cost to the business owner; others are priced to make products and services generally available to much larger companies accessible to Main Street businesses.

# Exhibit A: Growing Range of Products & Services Emerging to Meet Business Owner Needs

Illustrative Offers

## Confidence

- Exposure to Role Models
- Access to Networks
- Business Planning
- Membership & Coaching



## Marketing & Sales

- Market Sizing & Comparative Analysis
- Pricing
- Lead Generation & Segmentation
- Channel Strategy
- Creative & Design
- Customer Care



## Credit Building

- Understanding & Awareness
- Monitoring
- Building
- Dispute Resolution / Management



## Financial Management

- Budgeting & Forecasting
- Accounting & Bookkeeping
- Payments & Receivables Management
- Tax Preparation



## Financing

- Equity
- Debt
- Valuation



Funding Circle



What's Your Business Worth?™

Investments in technology and innovation represent the potential to democratize access to services, capital and markets. Yet there are signs that adoption in low-wealth communities is slower or less intense than in wealthier communities. If emerging methods, tools, products, services and social networks are not adopted by business owners and aspiring entrepreneurs in low-wealth communities, then new investment and other resources are less likely to flow. Academic research suggests a relationship between entrepreneurs' social ties and resources.

Interviews with business owners and nonprofit executives suggest there are two primary barriers in low-wealth communities: awareness and adoption. These barriers – and their likely solutions – play out at both the level of business owners directly and the nonprofit intermediaries that seek to support the growth and success of these businesses. Community organizations undoubtedly have an important role to play in making resources available, connecting individuals to them and overcoming the barriers to adoption. Adoption is typically made challenging as a result of price especially without proof of value, where this proof is not necessarily absolute, but presented relative to the context and needs of the business owner.

Many of these market-based solutions could be adopted or adapted by nonprofits as one path to solving some of the fundamental challenges identified above. Many of the services available in the marketplace are similar to current offers from nonprofits but could present opportunities to radically increase reach, move toward uniformity across markets and all at lower costs to serve compared to current approaches. For example, according to a survey by the Score Foundation, 40% of business owners surveyed cited book-keeping and taxes as the worst part of owning a business and nearly half of respondents (47%) complained about the expense.<sup>23</sup> Moreover, few nonprofits offer book keeping, accounting and financial statement assistance to their clients.<sup>24</sup> The relatively small number of nonprofits that do offer these services report challenges in their ability to be as effective or scalable as they would like. Meanwhile, as a result of this common need and pain point, several solutions have emerged in the commercial market. Some are purely “high tech” in the form of mobile or desktop cloud-based applications. Others combine high tech and high touch so that business owners can send in receipts and still benefit from real time, live guidance from a dedicated expert book keeper. It would not be hard to test whether and how some of the best market-based solutions could be adapted so that they could be adopted at scale by non-profits to better meet the needs of clients in low-wealth communities. It would require design of an experiment, commitment from a group of nonprofits to work with some of their clients, negotiation of volume discounts with product or service companies, and time to observe the results in order to act on them.

**Clearly there are examples of promising models and available resources, yet some critical gaps remain: many geographies and communities remain unserved and at present there are no coordinated national initiatives to inspire and support aspiring or early stage small business owners, especially from low-wealth communities.**

## Part 3: The Case for “Trusted Guidance”: *What, How and Why?*

So what does this all mean for Main Streets in low-wealth communities? Clearly there is a critical opportunity to help business owners and aspiring entrepreneurs in low-wealth communities achieve their dreams and aspirations, grow and create jobs. Given the features of micro (and small) business owners described above – especially the fact of being time pressed and stretched thin, what these business owners need is wise counsel and access to solutions to meet their needs delivered by someone who (or something that) has earned credibility as a trusted authority through shared experience and empathy. Organizations – nonprofit, for-profit and government – must design and deliver support to meet the needs of the business owner or aspiring entrepreneur.

Meeting the needs of small business owners and aspiring entrepreneurs in low-wealth communities is not about the design of a single training course or tool. It’s about bringing to bear available products, services and resources while creating social networks and new market opportunities to solve for access.<sup>25</sup> Achieving these objectives requires a new model. We’re calling this new model “trusted guidance.”

Trusted guidance must be designed and delivered in a manner that entrepreneurs recognize and value the direct short and medium term benefits to them. Certainly, bridging the gap described above between “needs” and “wants” requires creating awareness of opportunities (or barriers) in a manner that a business owner or aspiring entrepreneur recognizes the relevance to her context.

A trusted guidance model includes fuel to ignite confidence and the spark of entrepreneurship along with actionable advice and access to resources to improve the odds of success along the way. A trusted guidance model includes tools and help in the form of products and services to support action and insight. Ultimately, this new model for technical assistance is a support system that meets individuals where they are and empowers them to achieve aspirations and to reach goals.

For organizations, trusted guidance represents both a new model and a mindset. It requires the leadership of nonprofit organizations to make critical strategic choices. It requires focus and specialization within organizations along with coordination and collaboration across them. No single organization – nonprofit, private or public – has all of the resources needed to meet all of the needs of every entrepreneur or segment of entrepreneurs. Yet without purposeful focus on the potential contributions and needs of Main Street businesses, these individuals and neighborhoods will continue to be left behind. By shifting the approach to trusted guidance, this framework can unlock focus and better allocation of resources.

For some organizations and communities, this shift will require engaging in new activities such as market-making. In some cases, creating new market opportunities for entrepreneurs in low-wealth communities is about making it possible to compete effectively in an established channel, category or procurement process. Often, however, in underserved communities in particular, it's also about market building. Creating economic opportunity by weaving in entrepreneurship and business building into areas not traditionally focused on small business and typically operating in silos. This might mean joining forces with stakeholders focused on early childhood development in order to improve both the quality of childcare AND the financial sustainability of neighborhood daycare businesses. It could mean collaboration and joint planning with municipal authorities and affordable housing developers to ensure that local contractors are selected to build the houses. Ultimately, it's about getting small business owners in struggling communities what they need to succeed so that they can grow and hire.

So, then what would be the benefits of moving to a model of trusted guidance?

An effective model of trusted guidance could unlock growth and job creation from millions of small businesses in struggling communities. It could also unlock material wealth creation for hard-working parents and their children. Too many small business owners toil away for years without building a durable operation that can be transferred or sold. Effectively unlocking a system of trusted guidance would enable business owners to build durable businesses that match their aspirations, whether that is to sustain a family or grow into a much larger operation.

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## Part 4: Where do we go from here?

Small business owners and aspiring entrepreneurs in low wealth communities need a trusted guidance model in order to achieve their dreams, contribute to the economy and create jobs. This trusted guidance needs to be relevant, easy to access, and cover the full range of issues that each business owner is likely to experience only once, but nearly every business owner will experience at some point. Certainly it must be presented in a manner that is valued by the business owner, often creating a bridge between what he wants and what he needs. This concept of trusted guidance is as likely to be about shifting mindsets as it is offering technical capabilities. But both are critical. Nonprofit organizations in these communities are among the best positioned entities to support aspirations in their neighborhoods. Yet these organizations don't need to build everything in-house. With access to the right mix of support and resources, local organizations can facilitate access to resources including trusted advisors in the form of peers and credible third parties.

For many organizations, this approach means change from business as usual. Moving to a model of "trusted guidance" will require non-profits to adopt new models that can achieve the benefits of scale without losing local control. A shift to this new model could be facilitated through a network to test, experiment, learn and expand with an eye toward replication and/or scale. Participation in such a network could enable some organizations to re-allocate resources toward specialization and focus.

Yet a shift toward trusted guidance cannot happen absent significant investment. It will require seed money. It will require flexible funding to test new models. Once proven, these new models will require further funding, structured to align incentives and outcomes using simple pay for performance mechanisms. Fortunately, in a network model, these costs can be distributed across multiple organizations in order to maximize efficiency and impact.

Finally, just as programs and initiatives to support high-tech, high growth companies are advanced by a national supporting back-bone organization, moving to a model of trusted guidance for entrepreneurs in struggling communities would benefit from a central IT backbone along with strong local engagement and collaboration across sectors. A nationally coordinated program could serve to align and focus resources and share information and insights across communities and organizations.

### A place to start

AEO recognizes that a shift to trusted guidance is a major undertaking, but we are confident that community development practitioners, investors, and other stakeholders have both the will and the capacity to come together to look deeply at the needs of microbusinesses and to develop innovative ways to meet those needs.

To that end, we offer the following recommendations that we hope will serve as a starting point for a comprehensive, ongoing, industry-wide discussion to reimagine technical assistance.

## Action Items for Community Development Practitioners

- 1. Focus on needs:** Start with a view from the perspective of clients. Tailor offers to the common starting points and resulting needs of entrepreneurs: starting a business, growing a business or seeking capital. Within these need-state segments, layer in sector-focused opportunities and other features of the business or the business owner.
- 2. Be responsive, but be realistic:** Against these needs and business owner profiles, identify what makes an organization distinctive in its approaches and then solve for gaps in capabilities and resources by collaborating with others. Recognize that while every neighborhood has needs representing for all three starting points, not every community development organization has the capacity or mandate to build custom solutions. To maximize impact, each organization must combine knowledge of what is available and what works, with assessment of own strengths and needs it is best positioned to meet.
- 3. Re-define success:** Explore new ways to define and measure success that are actionable, holistic, realistic (and creative). Ideally, these measures would be shared across multiple organizations in order to aggregate a view of impact and benchmark performance. To date, there has been little agreement among practitioners on how to assess technical assistance programs. Unique metrics are likely needed for each category of trusted guidance: support for starting a business, support for growing a business, and support for access to capital.
- 4. Embrace new kinds of partners:** Forge innovative new models with non-traditional partners. Municipal leaders focused on economic development are increasingly recognizing the imperative of growth from local businesses. Increasingly companies large and small are recognizing opportunities for customer insight, growth and reputation building from working with local Main Street businesses in the communities where they operate. Making market opportunities requires cross-sector collaboration.
- 5. Experiment:** Explore ways to transition programs by developing “testable hypotheses” that can be launched quickly at low cost. Use free and low-cost technology tools to create in-market experiments with and for clients. Engage the entire staff and develop simple systems, processes, and opportunities to enable front-line staff, senior management and others to exchange lessons learned for continuous improvement and innovation.
- 6. Don't reinvent the wheel:** Organize working groups to address segments of business owners and/or thematic issues; share insights and data. Effectively doing this will likely require coordination and a centralized but flexible shared system for gathering knowledge and disseminating information and tools.

**A shift to this new model could be facilitated through a network to test, experiment, learn and expand with an eye toward replication and/or scale. Participation in such a network could enable some organizations to re-allocate resources toward specialization and focus.**

## Action Items for Investors and Philanthropy

- 1. Engage and lead:** Recognize the critical role that business ownership plays in transforming neighborhoods and building wealth. Acknowledge that absent engagement and support, these businesses will not be prepared to contribute to job creation and neighborhood revitalization. Weave small business needs into community development planning to make market opportunities.
- 2. Fund Experimentation!:** Support experimentation necessary to drive a shift toward sustainable and scalable business models for providing trusted guidance for Main Street businesses in low wealth communities, especially startup businesses. Give nonprofits “permission” to transform traditional programs by creating financial incentives for thoughtful and coordinated efforts toward meaningful transformation.
- 3. Create incentives for collaboration and innovation:** Develop a small network of funders and practitioners to test innovative new ideas—for example, a new “reward” or pay-for-performance model that incorporates metrics that incentivize organizations to make much needed and potentially difficult changes.
- 4. Be bold:** Be mindful that, while the critical economic problems of income inequality, underemployment, and unemployment demand transformational change, persistent constraints on resources have conditioned too many non-profit organizations to pursue incremental change. Be committed to promoting the adoption of bolder strategies and to advancing the kind of transformational change that only donors and investors can catalyze.

It is imperative to re-imagine technical assistance. Fortunately, it's also possible. By doing so, we will collectively unlock opportunities for small business owners in **every** community. To that end, AEO invites stakeholders to engage in dialogue to explore strategies for implementing a more efficient and more cost-effective model for the delivery of technical assistance. We are confident that, working together, we can expand our impact in the low-income communities we serve.

**For some organizations and communities, shifting to a trusted guidance model will require engaging in new activities such as market-making...This might mean joining forces with stakeholders focused on early childhood development in order to improve both the quality of childcare AND the financial sustainability of neighborhood daycare businesses. It could mean collaboration and joint planning with municipal authorities and affordable housing developers to ensure that local contractors are selected to build the houses.**

## ENDNOTES

1 In an analysis of Dun & Bradstreet data, a joint team from AEO and IBM identified 10.2 million microbusinesses in low-wealth communities representing 90.7 percent of the dataset of small businesses in low-wealth communities.

2 Fairlie, Robert W; Morelix, Arnobio; Russell, Joshua; and Reedy, E.J; “2015 Kauffman Index of Main Street Entrepreneurship – National Trends”, Kansas City: Ewing Marion Kauffman Foundation. The Kauffman Index: Main Street Entrepreneurship takes a dual approach for understanding Main Street business activity, looking both at locally established business entities (companies with fewer than fifty employees and older than five years) and the business owners (incorporated or unincorporated and with or without employees).

3 “One in Three: Creating Opportunities for All Americans to Bounce Back”

4 “Bigger than You Think: The Economic Impact of Microbusinesses”, 2014

5 “The Power of One Business” 2013

6 AEO prior research found that 15% of a sample of microbusinesses was characterized as “Momentum Businesses” because with capital and support services from community organizations they grew to employ an average of 16 employees. Assuming that the same portion of microbusinesses in low-wealth communities are potential “Momentum Businesses” then that represents ~1.5 million microbusinesses. If these businesses each added only 2 employees (vs the 10-14 observed in the sample), then the number of individuals employed by microbusinesses in low-wealth communities would grow by ~14%. If these businesses grew to parity with “Momentum Businesses” in our sample, then employment from microbusinesses in low-wealth communities would double.

7 UPS Connect, “The 2016 State of Small Business” (January 2016). Note that survey respondents reflect “typical” microbusinesses with 29% of respondents reporting <\$100K in annual revenues and 69% of respondents indicating <\$1m in annual revenues. 44% of respondents were microbusinesses and 80% had fewer than 25 employees.

8 For example, the Wells Fargo/Gallup Small Business Index surveys 600 small business owners with annual revenues up to \$20 million on current and future perceptions of their business financial situation each quarter. In the first quarter of 2016, 8% of owners surveyed cited costs of running their business as one of their biggest challenges. This compares to 22% of microbusinesses surveyed by the Federal Reserve Bank of New York in 2015 citing the same challenge. Similarly, where only 5% of the larger businesses surveyed by Wells Fargo /Gallup reported financial stability or cash flow management as one of their biggest challenges, more than one in four (26%) of respondents to the Fed Survey cited this challenge. <https://wellsfargoworks.com/small-business-index>; <https://www.newyorkfed.org/smallbusiness/small-business-credit-survey-employer-firms-2015>

- 9 Lauren Williams & Kasey Weidrich, "Understanding the Financial Vulnerabilities of Microbusiness Owners" (CFED, April 2014)
- 10 See surveys of small business owners including WESST client survey 2014; UPS, Wells Fargo, Bank of America
- 11 Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, & St. Louis "2015 Small Business Credit Survey: Report on Employer Firms" (March 2016)
- 12 <http://www.nfib.com/content/playbook/infographic/how-small-business-owners-spend-their-time-mybiz-ja2014-65991/>
- 13 Psychologists, behavioral economists and others have studied how stress presents biological responses that can affect financial decision-making. In their 2013 book *Scarcity*, Sendhil Mullainathan and Eldar Shafir demonstrate that people's minds work differently when they feel they lack something. And it does not greatly matter what that something is. Anyone who feels strapped is likely to succumb to a similar "scarcity mindset." This scarcity mindset can bring benefits but it also can be debilitating. It shortens a person's horizons and narrows her perspective, creating a dangerous tunnel vision. Anxiety also saps brainpower and willpower, reducing mental "bandwidth", as the authors call it.
- 14 <http://www.staples.com/sbd/cre/tech-services/explore-tips-and-advice/infographs/open-for-business-top-small-business-owner-trends.html>
- 15 Barbara J. Lipman & Anne Marie Wiersch, "Alternative Lending Through the Eyes of "Mom & Pop" Small-Business Owners: Findings from Online Focus Groups" (August 25, 2015)
- 16 A search of [meetup.com](http://meetup.com) for "lean startup" returns 100s of groups around the world
- 17 For more information on the accomplishments to date of the 10,000 Small Businesses program, see "Stimulating Small Business Growth: Progress Report on Goldman Sachs 10,000 Small Businesses" <http://www.goldmansachs.com/citizenship/10000-small-businesses/US/news-and-events/10ksb-program-impact.html>
- 18 See "Bridging the "Pioneer Gap": The Role of Accelerators in Launching High-Impact Enterprises --A Report of the Aspen Network of Development Entrepreneurs and Village Capital." (June, 2013)

## ENDNOTES

19 Ira Lieberman, Keith Catanzano, Paul DiLeo, Alana Heath, and Jose Ruisanchez. Mr. Ruisanchez led the assessment of business development services bringing his global expertise to bear. Ruisanchez worked for the International Finance Corporation, part of the World Bank Group, and was its Vice President for Latin America and the Caribbean. He has had extensive experience in the microfinance and small business sector serving on the Board of the first microfinance investment fund focused on Latin America, Pro Fund's, as an early investor in Banco Sol Bolivia, part of the Accion International Network, and conducting various pre-and investment appraisals of MFIs for investors such as Compartamos in Mexico and Acleda in Cambodia. He has advised the IFC on its small business program and the Danish Fund for Microfinance on its investment strategy.

20 Granular cost data at the service, product, or program level is not generally available for nonprofit organizations. However, a few benchmarks provide insights into the costs of technical assistance provided by nonprofit organizations. For example, the FIELD Program at the Aspen Institute reports average costs per client of around \$2,700. This estimate is not broken out to enable an assessment of the client needs (for example, the need for capital or training in starting or growing a business) that have been met, the cost drivers, or the outcomes that have been produced. AEO's discussions with leaders of organizations that focus exclusively on helping businesses start, grow, and access capital reflect broadly similar costs. Data from the SBA's Microloan Program offers further insight. The Microloan Program is a proven approach for moving business owners along the path to capital and a critical source of financing for technical assistance and loan capital in low-wealth communities. It is designed to pair operating capital for technical assistance with loan capital; the average cost of technical assistance per loan closed over the life of the multi-year loan through that program is close to \$6,000. A further look at program metrics suggests that costs to serve could be reduced significantly with low-cost diagnostic and assessments to permit more effective triage of business owners and resources, along with more targeted interventions tailored to meet business owners and aspiring entrepreneurs where they are.

21 See Edgcomb, Elaine and Girardo, Will "Key Data on the Scale of Business Development Services," (April 2010) for an overview of the types of services offered by nonprofits tracked by the FIELD Program and the numbers of nonprofits that offer various services.

22 <http://www.urbanco-lab.com/>

23 <https://www.score.org/resources/infographic-look-accounting-and-taxes>

24 According to Aspen FIELD report, fewer than 20% of organizations provide tax preparation, which reflects the closest proxy as financial statements are necessary input for tax preparation.

25 Barriers to access can include geography, technology, price, language, cultural context, etc.

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