



## Neglecting Success

# Many groups offer help to young sprouts. Why are the needs of established companies largely ignored?

IN 1998, WHILE I was an M.B.A. student at Boston University, I took a summer job advising small-business owners at a local Community Development Corporation in Boston. Like all CDCs, the group I went to work for was not-for-profit and was funded by the federal government. Its goal was to foster local urban renewal, largely through real estate development and by providing support to small businesses. My job at the CDC was to provide counseling and operational advice to entrepreneurs.

After just a few days on the job, I began to realize that most of my clients were more enthusiastic than practical. Many of them had nothing more than a vague idea: A guy with a passion for cooking, a popular family recipe for ribs, and no experience in the food industry came to ask about opening a restaurant. Another advice seeker had the idea of starting a company to offer advice to parents, but it quickly became clear that she had no desire to run a business—she simply enjoyed talking to her friends and family about their children.

In meeting after meeting, my advice took the form of a laundry list of the things an aspiring entrepreneur should know before choosing the strenuous life of a small-business owner. Drawing on my own experience running (and then selling) a multirestaurant delivery business, I would walk one visitor after another through Small Business Ownership 101. The vast majority of the dozens of people I saw arrived at my door with a quixotic view of what it would be like to run a business, and few wanted to take the steps I outlined to write and implement a serious business plan. Those who did go into business after seeking my counsel were still far from the day when they would have the capacity to employ people and bring new economic life into their struggling neighborhood—the results that I had arrived at the CDC eager to help create.

My favorite clients that summer were the small-business owners whose businesses were already a few years old and who came to me with specific questions. One woman, for instance, imported handwoven cloth from India to produce socks, stockings, and



**Seed Money** A slew of resources are devoted to helping start-ups, even though the failure rate among new businesses is high.

clothing. She had begun attracting quite a bit of business and was at a point where she wanted to analyze her sales and develop a growth plan to ensure profitability. Another client ran a small, marginally successful computer-support company. Because he didn't know how to compile financial statements and wasn't comfortable tackling human resources issues, he had been stuck at the same sales level for five years.

Both of these established business owners were positioned to grow. If they could make only a few important adjustments to their businesses, their prospects for success would look good.

For instance, I advised the owner of the handwoven clothing business to raise her prices slightly. After a few months, the new pricing provided the margins she needed to hire an assistant. This allowed her to spend more time with customers and focus on increasing sales.

Once I saw that established entrepreneurs were better positioned to take advantage of my help, it was all the more disappointing to realize that I could not spend much time with them. As a recipient of federal funding, the CDC was required to measure success by the number of clients I met with each week: the more clients, the better the program. Since I needed to meet with as many people as possible—even if some of them were years away from actually starting a business—I had little time to give to the entrepreneurs who could truly use my advice to improve their companies. By the end of the summer, my job mostly entailed convincing people who had not put much thought into starting a business that the demanding life of an entrepreneur

might not be for them, an odd economic development strategy to say the least.

Little has changed since the summer of 1998. Today many programs designed to help small businesses—from federal and state programs to those set up by private foundations—favor start-up businesses overwhelmingly. In many quarters, economic development is all but synonymous with start-up support. These programs have produced tangible economic benefits, of course, but I would argue that making start-ups the lifeline of economic development is risky business. Investing time, energy, and scarce resources in established businesses could produce a much better payoff for reasons that I only began to understand that summer.

I returned to business school in the fall of 1998, and I began to research the topic in more depth. The more I learned, the more I became convinced that I was on to something. All the research shows that the key predictor of a business's long-term survival is that it hire a few employees. Most programs geared toward start-up work with a large number of clients who have an idea for a

them. I found takers only through a rigorous outreach strategy. I went to community meetings and trade association meetings to introduce ICE, and I spent days walking through Boston and stopping into businesses that looked promising to speak with their owners. I also had to convince business owners that the process for joining—filling out an application and sitting through a one-on-one interview—was worth the trouble. But in the interview process, tellingly, the vast majority of the entrepreneurs said they didn't want to participate in a peer-to-peer learning program with start-ups and sole proprietors. My interviewees wanted the opportunity to learn from other business owners striving to build growing companies—exactly the population I had hoped for.

The success stories have rolled in since my group convened its first class in 2004. Julio Nunez, who owns a company called Hispanic News Press, came to us looking for ways to expand his small publishing company. Since Nunez completed the program, the circulation of his Boston-based Spanish-language newspaper

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business but haven't made a sale yet or hired an employee.

Even though people who only have an idea for a business could probably benefit from outside help, I think it would be more efficient from an economic perspective to focus on helping companies that already have a few workers on staff, since their long-term prospects are significantly brighter. Small-business programs that work with people who have only an idea for a business are essentially marketing their services to too broad an audience. As a business proposition, this makes very little sense.

I began writing a business plan for a program that would provide counseling and other support to existing businesses in order to promote urban renewal. My target client had a payroll, was already recording annual sales of \$250,000 to \$10 million, and was interested in growth. In order to provide the entrepreneurs with practical, real-world experience, I organized the program around four basic services: management training, peer-to-peer learning, one-on-one coaching, and networking opportunities.

The response to my plan was lukewarm at best. Time and again, I'd make my pitch to professors or to people who might fund a program, only to be told that there was no need for my program because the CDCs were doing just fine. Ultimately, frustration forced me to prove them wrong. In 2003, I launched the organization, InnerCity Entrepreneurs, or ICE. Raising money proved to be difficult. Grant-giving foundations were—surprise, surprise—more interested in helping programs that worked with start-ups, claiming that such programs already helped established businesses as well. Of the 10 foundations and corporations that I approached for seed money, only one offered support. Starting with one-third of the funding that I had hoped to secure, I put together a curriculum and began recruiting entrepreneurs.

Lining up the first class of owners of existing businesses posed another challenge. Established business owners had typically looked into free programs created for start-ups, only to be disappointed, so they were understandably leery when I approached

*El Planeta* has surged; the paper's success caught the attention of a larger local publisher, who recently bought a 35 percent stake in Nunez's business. A member of the current class, Andrea Taber, founder of Ever So Humble Pie Co., has significantly expanded the capacity of her company, which manufactures all-natural frozen pies. Taber has identified and hired a third-party distributor, and she is currently testing a contract with a national grocery chain.

By the time you read this, 33 companies will have graduated from our program in just three years. The 24 companies that completed the program in 2004 and 2005 have so far increased their sales by more than 40 percent, to \$35 million. Correspondingly, these firms have created nearly 100 new part- and full-time jobs.

Based on our early track record, I believe the time has come to focus more resources on building existing businesses. To accomplish this, we have to persuade those who control the flow of precious economic development resources of the value of existing small businesses. Business owners should talk with the trade and community organizations that represent them to articulate the need for support for businesses seeking to grow. Banks should offer the small businesses that receive their loans incentives like tuition reimbursement for completing such programs. Grant money should be spread around, and existing groups should diversify their program mix to make sure to include initiatives that are tailor-made for established businesses. By supporting existing entrepreneurs, we are most likely to foster the job creation, wealth generation, and development of community leadership that are vital to America's economic future. Don't we owe it to ourselves to adopt the most effective approach?

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