

# COLORADO BUSINESS REVIEW

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**Inside:** Colorado Alliance for Microenterprise Initiatives on this page. Microenterprise Study Findings on page 2. Two Microenterprise Service Provider Perspectives on page 3. Highlights of the *Innovation-Entrepreneurship NEXUS* study on page 4.



Small businesses line the newly updated streetscape of Longmont's Main Street. Since 1982, the Longmont Downtown Development Authority has helped businesses and property owners locate in the area or improve their existing downtown location through financing and reimbursement programs.

## Colorado Alliance for Microenterprise Initiatives: Catalyst for a Vital State Economy

Bryan Hoyt and John Chin

Penn wanted to open his own barbershop. He knew exactly where he wanted to locate and how he wanted to run his business. But he needed some financial assistance to realize his dream. After numerous visits to different banks with no success, he turned to the Colorado Alliance for Microenterprise Initiatives (CAMI). Penn (not his real name) was relieved to find an agency that could help him acquire the \$15,000 that he needed.

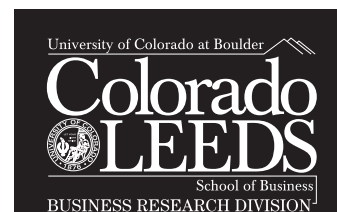
CAMI was conceived five years ago to help people like Penn. With a growing membership of more than 60 organizations, CAMI is a statewide association of microenterprise practitioners. Although CAMI doesn't provide direct services to small businesses, it offers

public education and advocacy to increase the capacity of its members to serve small business entrepreneurs. Because 20% of Coloradans are employed with small businesses, and these businesses account for one of the fastest growing sectors of the state economy (a 2.9% annual growth rate), it's crucial for a vibrant Colorado economy that microentrepreneurs have access to the programs and assistance they need to grow and prosper.

CAMI was able to help Penn by telling him about available resources. Most of CAMI's member organizations are nonprofits dedicated to serving those who might not be able to qualify for capital from traditional sources. Innovative and dedicated organizations such as the Microbusiness Development Corporation and the Colorado Enterprise Fund, two of

Colorado's microenterprise practitioners, offer loans under \$50,000 and various kinds of technical assistance, including business plan development and mentoring programs. The Aurora Small Business Development Center has several lenders that do signature-only loans from \$5,000 to \$75,000, with an approximately two-week processing time. The state

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Think Broadly.  
Act Boldly.



# Small Companies Have Big Impact on State's Economy

Brendan Hickey and Gary Horvath

Entrepreneurial and small business activity is a critical part of the Colorado economy, yet it is often the least understood. In an effort to expand the general understanding of this business segment, the Business Research Division at the Leeds School of Business conducted a research study this past winter for the Colorado Microenterprise Development Advisory Council (MDAC). The final product of these efforts, a report entitled "Analysis of Microenterprise Business Segment in Colorado," provides a historical review and a baseline analysis of the microenterprise business segment in Colorado. In order to achieve a comprehensive examination, the study first defined the microenterprise business segment, and then gauged the size of the segment based on the number of firms and the number of employees at these firms. In addition, this study aimed to evaluate the needs of, and issues facing, microenterprise businesses and the development practitioners that provide them with services.

The paragraphs that follow provide a brief summary of the report's major findings.

## Defining and Measuring the Segment

The first step in measuring the impact of the microenterprise business segment is obviously to define the microenterprise business segment. While there are many definitions, the common elements of most are size (maximum of 5 to 10 employees) and limited access to capital. This study uses the definition provided by the Colorado State Legislature in Colorado House Bill 1354, the Microenterprise Development Act. The bill states that a microenterprise is "a sole proprietorship, partnership, limited liability company, or corporation that has fewer than five employees and generally lacks access to conventional loans, equity, or other banking services."

Microenterprises are important to both rural and urban parts of Colorado. About 78% of the state's microenterprises are located in the 12 counties with Metropolitan Statistical Areas (MSAs). Moreover, in 37 counties, most of them rural, microenterprises provide more than 30% of the total jobs in the county.

In rank order, the industries with the largest number of microenterprises are Professional, Scientific, and Technical Services; Construction; Retail Trade; Consumer and Personal (Other) Services; and Real Estate and Rental and Leasing. The industries with the highest concentration or

percentage of microenterprises (i.e., microenterprises representing the highest percentage of total industry employment) are Real Estate and Rental and Leasing; Consumer and Personal (Other) Services; Professional, Scientific, and Technical Services; Agriculture; and Construction.

From 1998–2001 the number of microenterprises in Colorado grew at a compound annual growth rate (CAGR) of 2.9%, a rate slightly higher than that for companies of all sizes. The highest growth rates were in the Information and the Real Estate and Rental and Leasing Sectors. Since 2001, growth appears to have occurred primarily in the Professional, Scientific, and Technical Services Sector, along with Finance and Insurance, Construction, Real Estate and Rental and Leasing, and Health Care and Social Assistance. Research conducted as part of this study suggests that during the economic downturn of 2001–2003, while most other areas of the economy were struggling, the microenterprise business segment was growing.

## Survey Results

### Business Owners

One major component of this study was a survey of Colorado microenterprise business owners conducted as a means of better understanding their concerns and issues. The survey results reveal that a majority of Colorado microenterprises are self-funded. Their most difficult challenges relate to cost management, and government taxes and regulations.

The survey also measured the perceptions of microenterprises about business plan training/assistance, technical assistance, management assistance, and access to capital. While most of the respondents understood the importance of these services, responses varied widely. Generally speaking, a majority of the respondents felt that these services are not readily available, and they were not satisfied with the services they received. While these results may be an accurate reflection of their feelings, they may not necessarily be a fair assessment of the services actually provided.

### Development Practitioners

Microenterprise development practitioners were also surveyed in an effort to better understand the scope of their services and to identify the issues and challenges they face. While practitioners expressed enthusiasm for working with this business segment,

*From the Editor*

Entrepreneurial and small business activity plays a critical role in the Colorado economy. For that reason, this issue of the *Colorado Business Review* focuses on the microenterprise business segment. The article on page 1 provides an overview of the Colorado Alliance for Microenterprise Initiatives (CAMI), a membership association of more than 60 service provider organizations. Two articles in the issue highlight the results of recently conducted research studies—one on microenterprises (this page) and the other on entrepreneurship and innovation (page 4). The resources offered by two microenterprise service providers, the Colorado Enterprise Fund and the MicroBusiness Development Corporation, are outlined on pages 3 and 4.

As always, please contact me at 303-492-1147 with any questions or comments.

—Richard Wobbekind

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# Perspectives from Two Colorado Microenterprise Service Providers

## MICROBUSINESS DEVELOPMENT CORPORATION

Merrily Hill Smith

The MicroBusiness Development Corporation (MBD) is making a significant impact on the Denver and Front Range micro business communities. Since its inception in 1994, MBD has administered more than 874 microloans totaling over \$5 million and has served nearly 7,000 clients with 10 or more hours of service and over 10,000 participants with less than 10 hours of service. In 2004 alone, the organization provided assistance to 3,022 adult and youth entrepreneurs.


The mission of MBD is to stimulate and support microenterprise by creating economic opportunity and business growth through providing access to knowledge, resources, and business capital to underserved populations. The organization achieves its mission by supporting the microentrepreneur at every step. MBD not only offers loans, but compounds that investment with one-on-one business development training, group trainings, and workshops. It also provides market opportunities to adult and youth clients. This combination of capital and education is the core philosophy of MBD and has resulted in one of the lowest default rates in the country—even though MBD extends some of the highest risk loans. The corporation uses this philosophy of full entrepreneurial support to serve adults, youth, refugees, new Americans, women, minorities, individuals with disabilities, and low income populations. In 2004, MBD clientele was 68% low income, 49% African American, 22% Hispanic, 57% women, and 14% youth.

The three primary components of MBD programs are microloans, technical assistance, and business development courses. Entrepreneurs can apply for microloans, ranging from \$10 for youth to \$60,000, to meet businesses needs. Technical assistance is primarily provided through the MicroBusiness Assessment Program, which assists entrepreneurs in reaching their goals through one-on-one consulting. At the end of the program, clients have a

comprehensive guide with action steps and resources to reach business goals. MBD's primary business development course, the ABCs of MBD, is a three-session class that covers personal credit and how it affects a business, business financial statements and break even analysis, inbound and outbound marketing and marketing research, as well as additional business resources that MBD and partnering agencies provide.

MBD offers a variety of additional services to expand the opportunities available to low-income microentrepreneurs, such as its new technology resource center, The Works. MBD recently opened this multipurpose technology resource facility, which is funded by Hewlett Packard and the Jay and Rose Phillips Family Foundation. It fosters skills and provides the tools necessary for small business owners to successfully pursue their business endeavors. The Works is fully equipped with 10 new workstations, complete with Windows and Microsoft Office, Excel, PowerPoint, and Publisher. Entrepreneurs can also use digital cameras, scanners, and color printers, and have high-speed Internet access. Regular courses are also offered on how to use technology for business purposes.

Additionally, the Access to Markets Program enables business owners to participate in markets to sell products and services, and establish a customer base. The primary vehicle for the Access to Markets Program is the Global Market, a cultural event that unites individuals, organizations, and businesses of the Five Points neighborhood and beyond for a family-oriented marketplace event that celebrates the diversity of the greater Denver metro area and generates economic opportunities for the community through the participation of local underserved business vendors. The 2nd Annual Global Market will be held August 27, 2005, in the historic Mestizo-Curtis Park from 11 a.m. to 7 p.m. and will feature more than 200 vendors selling authentic cultural products from around the world, live entertainment, cultural cuisine, a youth marketplace, and much more!

These programs and services are just some of the MBD's offerings. Please visit [www.microbusiness.org](http://www.microbusiness.org) or call 303-308-8121 for more information. 

**Merrily Hill Smith, Director of Operations with MBD, can be contacted at [mhs@microbusiness.org](mailto:mhs@microbusiness.org).**

## COLORADO ENTERPRISE FUND

Ceyl Prinster

The Colorado Enterprise Fund (CEF) is a nonprofit community development financial institution (CDFI) founded in 1976 for the purpose of community and economic development. CEF's mission is to foster economic opportunity and stimulate job creation through business ownership. By providing entrepreneurs with access to loan capital and business technical assistance, CEF fills a gap for businesses that are not eligible for bank financing.

CEF founded microenterprise development in Colorado. Our program was the first in Colorado—and one of the first in the nation—to provide small loans to non-bankable entrepreneurs. Our innovative approach combines patient, flexible business financing with ongoing management support and technical assistance. CEF works only with businesses that do not qualify for loans from traditional financing sources, but that do have market viability and a reasonable probability of success. Since 1990, the organization has loaned more than \$9.1 million, and it manages a portfolio of about 200 borrowers each year. These loans have assisted in the creation of approximately 2,800 jobs. The loans range from \$1,000 to \$200,000, with an average loan amount of \$17,000.

The four-year business survival rate for CEF borrowers is 77%, and in 2004, CEF maintained a 98% repayment rate. One key to this success is that CEF provides management and technical assistance to its borrowers for free or at low cost. Services include assisting borrowers with financial management, cash flow forecasting, market analysis, marketing planning, job-cost analysis, management information systems, and more. CEF staff is the primary source of these services, but professionals also volunteer their time to assist borrowers.

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# Colorado Leads Nation in Entrepreneurship and Innovation According to National Study

James R. Henderson

On April 19, more than 50 state business, economic development, government, and university leaders met at the Magellan Center in Longmont to hear the presentation of the study released by the Office of Advocacy of the U.S. Small Business Association and the Edward Lowe Foundation entitled *The Innovation-Entrepreneurship NEXUS*. The report covers the 10-year period 1990–2001 and discusses the correlation between entrepreneurship and innovation and its combined impact on economic growth.

Colorado leads the nation in entrepreneurship and innovation, two key driving forces in economic growth. Other key study findings were:

- Most of the top regions for the entrepreneurship index are in the “non-California” western part of the country, while the lowest regions tend to be in the Upper New York/Upper Midwest area.
- The most entrepreneurial regions had better local economies from 1990 to 2001 compared to the least entrepreneurial regions.
- The most entrepreneurial regions are associated with higher levels of technology.
- The most entrepreneurial regions are moving away from manufacturing as an economic base, but not necessarily toward service industries.

- Entrepreneurship alone improves the economy, to some extent. Innovation alone has a smaller impact. However, entrepreneurship combined with innovation exponentially drives significant economic growth.

Colorado leads the nation on all measured data. The nation was segmented into 394 regions, and data were weighted to account for community size.

According to the study, Glenwood Springs ranks as the nation’s most entrepreneurial region. In addition, four Colorado areas are among the 20 most innovative/entrepreneurial regions in the country, with Fort Collins in the #1 position. Others include Denver (#6), Colorado Springs (#17), and Glenwood Springs (#18). The study measured each city and its surrounding area. (It should be noted that the Boulder-Longmont area was included in the Denver metro region.) Utah has the next highest number (three) of innovative/entrepreneurial regions.

Specifically, the study measured how the combination of innovation and entrepreneurship enhances specific areas of growth compared to the least innovative-entrepreneurial regions.

In Denver (large regions)

- Average annual employment growth increases by 69%
- Average annual productivity increases by 142%


- Average wages increase by 64%
- Average new firm births increase by 458%

In Fort Collins and Colorado Springs (medium regions)

- Average annual employment growth increases by 72%
- Average annual productivity increases by 63%
- Average wages increase by 110%
- Average new firm births increase by 127%

In Glenwood Springs (small regions)

- Average annual employment growth increases by 171%
- Average annual productivity increases by 85%
- Average wages increase by 18%
- Average new firm births increase by 59%

A copy of the report, as well as other small business-related research, is available at <http://www.sba.gov/advo/research>. 

**James R. Henderson is the regional advocate for Region VIII, Office of Advocacy, U.S. Small Business Administration. He can be reached at 303-844-0503.**

## PERSPECTIVES: COLORADO ENTERPRISE FUND

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Businesses financed range from small, home-based child-care businesses to multistate service firms with many employees. The types of businesses include dog grooming, clothing retailers, auto repair and auto body, satellite dish sales, computer software design and marketing, landscaping, catering, coffee shops, restaurants, chiropractors, a mountain resort, manufacturers, and janitorial services, to name a few.

CEF is an independent, self-contained, “turn-key” loan program. It holds all cash used in lending and loan operations, and has sole

responsibility for the underwriting, approval, funding, closing, servicing, and collection of loans. CEF receives funding from public and private sources, including the U.S. Small Business Administration, the U.S. Treasury Department CDFI Fund, municipalities, banks, foundations, and others.

CEF’s primary service area is Colorado’s Front Range, from the Wyoming border to Pueblo, but it has the capacity to originate and service loans anywhere in the state of Colorado. The organization has made loans in Western Colorado and in some mountain counties on

a limited basis. The main office is located in Denver, with a satellite office in Fort Collins. CEF has received many awards, including Denver Non-Profit of the Year and Financial Services Advocate of the Year.

For more information, visit [microloans@coloradoenterprisefund.org](mailto:microloans@coloradoenterprisefund.org), or call 303-860-0242, ext. 16. 

**Ceyl Prinster is the Executive Director of CEF. She can be reached at [ceyl@coloradoenterprisefund.org](mailto:ceyl@coloradoenterprisefund.org).**

they reported difficulty in accurately answering survey questions because they seldom tracked the services they provide by firm size. When asked about certain factors related to microenterprises in the state, respondents were most satisfied with the quality of business plan training, availability of support services, and quality of management assistance. They were least satisfied with the public's knowledge of the impact of microenterprise firms on the economy and these firms' knowledge of funding processes.

Service providers were also asked to rate the resources available to them for providing services to microenterprises. They indicated the most important items were information on various microenterprise development funding sources, networking with policy or decision makers or lenders, and information on microenterprise development funding processes. Items of least importance were public policy advocacy for microenterprise development, performance data or statistics, and best practices research. The practitioners reported they were most satisfied with information on various microenterprise development funding sources, best practices research, and information on microenterprise development funding processes. They were least satisfied with public policy advocacy for microenterprise development, networking with policy or decision makers or lenders, and performance data or statistics.

Finally, practitioners were asked to estimate the impacts of their services. Here, they indicated that the greatest impact on company success rates occurred in the areas of technical assistance and access to capital. They felt they had less impact in terms of client success rates for services provided in the areas of management assistance and business plan assistance.

### Highlights of Best Practices in Microenterprise Development

While this project was not intended to be an in-depth study of best practices, results from the surveys provide insight into innovative practices that are being used by Colorado practitioners to more effectively provide assistance in preparing business plans, providing technical or management assistance, and improving access to capital.

Traditional business plan assistance is often provided through general courses, step-by-step assistance, and a review of draft versions. Colorado service providers are modifying

traditional approaches with ideas such as creating peer boards to review business plans, utilizing both community and business leaders to assist in developing and evaluating plans, e-counseling with entrepreneurs throughout the state, linking mentor programs with existing business leaders, and using a team of local experts to produce business assessment reports with recommendations for business action plans.

Similarly, state and local providers are creatively building on traditional management assistance delivery systems by providing these services through peer boards and alliances. In this way, emerging and small business owners can discuss issues with one another. New firm owners can learn from others' experiences, and thereby anticipate and perhaps avoid potential business pitfalls. Another approach is to link volunteer subject experts to an entrepreneur with a specific problem. Several Colorado assistance providers have also focused on organizing training and assistance services either in small group workshops (with 5 to 10 entrepreneurs) or in one-on-one settings. At the same time, general assistance programs that include Spanish language training and simple translation services have become more prevalent. Providers have recognized that one of the frustrations of a business owner is meeting the conflicting time demands of running a business and researching answers to business and operation questions.

One approach that has become popular in recent years for dealing with technical issues is to encourage industry specific trade groups to assist microenterprises with technical and operational concerns. Microenterprise development providers also pre-screen questions and act as a referral service for more technical problems.

Access to capital is listed as a major concern by both microenterprise businesses and service providers. Limited public funds for loan programs and other financial assistance have been more difficult to access in the recent recession. Colorado microenterprise development providers have been innovative in dealing with these funding issues by using methods that help streamline decision making for loan funds, and monitor and troubleshoot client loan applications; holding investor forums; linking entrepreneurs with insufficient collateral with "angel" loan guarantees; assisting in creating pool or team businesses for single loan

applications; and identifying critical community service needs and obtaining special financing for entrepreneurs in those businesses.


### State Microenterprise Intermediary?

Both surveys asked whether microenterprise businesses and service providers would support efforts to establish a state microenterprise intermediary. About three-fourths of the responding firms and two-thirds of the practitioners indicated support for the concept. Despite this strong support, both groups expressed concern about adding another layer of bureaucracy, increasing business costs, and duplicating services.

### Challenges and Opportunities

Microenterprise development faces many challenges because the numerous definitions complicate the measuring and tracking of this business segment. Microenterprise firms have missions ranging from starting the next Microsoft to supplementing a household's income by knitting scarves to be sold at craft shows. This disparity makes it difficult to identify companies and provide services. Similarly, many of these firms are highly volatile, poorly funded, and sometimes mismanaged, which also makes it challenging to provide assistance.

While microenterprise firms are often in need of business services, they may not fully appreciate the value of these services or know where to find them. Sometimes the independent, "do-it-yourself" spirit of microentrepreneurs prevents them from seeking much-needed assistance. Nevertheless, a wide range of anecdotal evidence suggests that the services provided by practitioners are available to many microenterprises and can be very valuable.

Currently, it is difficult to measure many of the impacts of microenterprises and microenterprise development because of these challenges. However, practitioners are optimistic that with increased support and awareness of this business segment, microenterprises can play an even greater role in the economic and social development of Colorado. 

**Brendan Hickey (brendan.hickey@colorado.edu) is a student research assistant, and Gary Horvath (gary.horvath@colorado.edu) is an analyst, both with the Business Research Division in the Leeds School of Business at CU-Boulder.**

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For information/address change:

Business Research Division  
420 UCB, University of Colorado at Boulder  
Boulder, CO 80309-0420 • 303-492-8227

## COLORADO ALLIANCE FOR MICROENTERPRISE INITIATIVES


### CONTINUED FROM PAGE 1

network of Small Business Development Centers is also very interested in microbusiness development and offers various loan programs and technical assistance. Another good free resource is SCORE, a network of retired executives who provide business advice.

Besides providing a viable business development strategy, microbusiness resources also traditionally focus their services to women and minorities. Often in these cases, microfinancing is a juxtaposition of small business development and anti-poverty strategies, allowing society's disenfranchised the chance to acquire assets while learning crucial financial skills. Del Norte Neighborhood Development

Corporation, a CAMI-member organization, has served Denver's Highland Community for more than 20 years. It offers a savings plus program to help residents develop assets to begin a small business, as well as other community development programs. Mi Casa is a nonprofit development organization that typically targets low income Latinas and youth. One of its programs is an intensive 12-week business course, the goal of which is for every graduate to leave with a viable business plan.

With CAMI's assistance, Penn was both excited and encouraged to continue the process of starting his own business. While the road to successful self-employment is often arduous,

Penn obviously is not the kind of guy who takes “no” for an answer. He has a dream to open a barber shop, and Colorado's dedicated microenterprise practitioners will help him achieve that dream. 

**Bryan Hoyt is a project analyst with CAMI, and John Chin is the organization's executive director. They can be reached at 303-592-4064.**