

Why Maine Needs a Small Business Development & Entrepreneurial Strategy for Economic Growth

An Issue Brief Prepared by PolicyOne Research, Inc.

Prepared for:

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October 18, 2004



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TALKING POINTS

- ❖ Most economic activity occurs through small businesses. Furthermore, entrepreneurship, which is the lifeblood of small business, drives economic growth.
- ❖ Employers with fewer than 50 employees accounted for 96% of all businesses, more than half of all jobs, and 44% of all wages paid in Maine.
- ❖ Entrepreneurship is strongly associated with economic growth.
- ❖ The cost of health insurance is the most critical problem facing small businesses.
- ❖ Maine has many tools currently in place for supporting small business and entrepreneurship
- ❖ There have been several recent efforts in Maine to identify future opportunities, challenges, and strategies for small business development and entrepreneurship. What Maine now needs most is leadership to implement strategies.

ISSUE OVERVIEW AND FINDINGS

Maine is a rural state with relatively low per capita income. The state needs to aggressively foster policies and implement strategies aimed at raising our per capita income levels. Nothing could be more important for improving the quality of life of Maine families. Without increased income levels, Maine will be stifled in its efforts to improve and maintain our health, environment, and education.

Economic growth and development is integral to raising our per capita income levels. However, often times, news about economic development tends to focus on the “big loss” or “big hit” such as the old mill that is shutting down leading to a loss of 250 jobs or the new call center locating in Maine and expanding the job base by 100. While these activities make headlines, they are not typical of the day to day activities of economic and community development. Most economic activity occurs through small businesses. Furthermore, entrepreneurship, which is the lifeblood of small business, drives economic growth.

In seeking to grow our economy and raise our income levels, a strategy that focuses at its core on small business development and entrepreneurship makes the most sense for Maine. The State is covered with small businesses and entrepreneurs that are committed to Maine. We do not need to convince them relocate to our state and instead can focus on the support they need to grow their businesses and improve their workforce.

It is for these reasons that it is imperative for Maine to embrace and implement strategies to foster small business development and entrepreneurship

Maine has many tools currently in place for supporting small business and entrepreneurship including programs for financing and technical support, research and development, a reorganized community college system, state of the art connectivity to information technology including widespread opportunities for broadband access, and most importantly a first in the nation program to increase health care access for all, through Dirigo Health. As we look to new opportunities we must build from and continue to support these existing efforts.

Small Businesses and Entrepreneurship Impact on the Economy

The following indicate the importance of small business and entrepreneurship on the economy.

- There were approximately 70,000 self-employed persons in Maine in 2001. (U.S. Small Business Administration)
- In 2000, there were 121,170 micro-businesses (businesses under 5 employees) in Maine. Together they employed 157,447 persons and accounted for 20.1% of employment in Maine compared to 16.3% nationally. (University of Maine Cooperative Extension) (see Table 1)
- Micro-businesses contribute \$12.9 billion to the Maine economy and have an employment multiplier of 1.86 (every job created in a micro-business creates another 0.86 jobs). (Maine Small Business Development Center)
- In 2002 employers with fewer than 50 employees accounted for 96.4% of all businesses, more than half of all jobs, and 44% of all wages paid in Maine. (Maine Small Business Development Center)
- 47% of all small businesses in Maine are owned or co-owned by woman, and these businesses are growing nearly five times faster than the state average. (Maine Small Business Development Center)
- Entrepreneurship is strongly associated with economic growth, with variation in rates of entrepreneurship (among countries studied) accounting for as much as one-third of the variation in overall economic growth. (Global Entrepreneurship Monitor, a joint research initiative of Babson College, the London Business School, and the Kaufman Center for Entrepreneurial Leadership)

Table 1- Micro-Business and Employment Levels in New England - 2000			
State	Number of Micro-Businesses	Micro-Business Employment	Micro-Business Employment as a % of Total Employment
Connecticut	267,014	351,489	16.7%
Maine	121,170	157,447	20.1%
Massachusetts	505,482	666,984	16.2%
New Hampshire	109,180	143,658	18.4%
Rhode Island	75,403	102,598	17.6%
Vermont	63,636	84,743	21.4%
U.S.	20,337,765	26,811,000	16.3%
Micro-Business and Employment Levels in Maine by County - 2000			
County	Number of Micro-Businesses	Micro-Business Employment	Micro-Business Employment as a % of Total Employment
Androscoggin	7,233	9,521	16.0
Aroostook	5,621	7,743	19.6
Cumberland	26,703	35,689	16.6
Franklin	2,739	3,509	20.1
Hancock	7,906	10,149	28.2
Kennebec	9,507	12,333	16.6
Knox	6,196	7,636	28.2
Lincoln	5,410	6,927	36.5
Oxford	4,812	6,166	25.0
Penobscot	11,037	14,530	16.1
Piscataquis	1,672	2,146	25.0
Sagadahoc	2,998	3,752	17.9
Somerset	4,009	5,111	19.2
Waldo	3,967	4,820	28.6
Washington	4,445	5,335	29.5
York	16,915	22,080	24.4
Maine	121,170	157,447	20.1%
Sources: Data compiled by James C. McConnon, Jr., Business and Economics Specialist, University of Maine Cooperative Extension Micro-Business and Micro-Business Employment from: 2000 County Business Patterns, U.S. Department of Commerce; Total Full-Time and Part-Time Employment -Bureau of Economic Analysis, U.S. Department of Commerce			
Note: A Micro-business is a business with fewer than 5 employees			

Key Components of a Small Business Development and Entrepreneur Strategy

One of the best ways to find out what is most important for small businesses is simply to ask them. This is exactly what the National Federation of Independent Business (NFIB) does. NFIB is the largest advocacy organization representing small and independent businesses in Washington, D.C. Their *Problems and Priorities Series* has been published approximately every four years since its inception in 1982. This series reports on the most pressing issues facing small-business owners, as reported by small-business owners themselves.

As reported in the current 2004 edition, the 10 most severe problems for small-business owners in order are:

1. Cost of health insurance
2. Cost and availability of liability insurance
3. Workers' compensation
4. Cost of natural gas, propane, gasoline, diesel, fuel oil
5. Federal taxes on business income
6. Property taxes (real, personal, or inventory)
7. Cash flow
8. State taxes on business income
9. Unreasonable government regulations
10. Electricity costs (rates)

Most notably in 2004 according to NFIB, "health insurance costs were a "critical" issue for 65.6% of respondents, the highest percentage for any problem in the survey's 22-year history.

For its part in addressing these issues, Maine has recently completed a comprehensive effort to develop strategies to support small business development and entrepreneurship. In 2002, The Ewing Marion Kauffman Foundation worked with the Entrepreneurship Working Group of the Maine Small Business Commission on a year-long process to develop a plan for "Promoting and Supporting an Entrepreneurship-Based Economy in Maine". That process resulted in the following recommendations:

- Build on existing efforts to establish a entrepreneurship education program for grades 3-6 and test a middle school curriculum
- Continue to pursue joint development of entrepreneurship curriculum at the University of Maine and University of Southern Maine and make faculty available to any student within the University of Maine and Community College systems

- Build on the entrepreneurial internship/cooperative education program proposal developed by the University of Maine at Augusta
- Continue to pursue multi-disciplinary approaches to college entrepreneurship offerings
- Focus marketing messages for adult education on the benefits of entrepreneurship education
- Utilize distance learning technology along with face-to-face learning to reach rural areas
- Establish a “first stop” point of entry into the system of support services for entrepreneurs
- Provide new clients of support services with a host agency that functions like a “primary care physician”
- Develop greater specialization among service providers to develop “core competencies”
- Allow providers to focus more on promising entrepreneurs
- Link entrepreneurs to university and college resources
- Initiate collaborative marketing among service providers
- Improve system accountability among service providers
- Support private sector and community-based peer-to-peer entrepreneurial initiatives such as networking and mentoring
- Reallocate economic development resources towards entrepreneurship and use state funds to leverage federal resources
- Improve the capital availability for entrepreneurs through better organization of angel investors
- Develop a Maine “E-Team”, entrepreneurship team consisting of private sector champions to advocate for an entrepreneurship focus

A re-invention of the wheel is not what Maine needs. The efforts mentioned above have effectively identified the components of a small business development and entrepreneurship strategy. In summary, Maine must implement a strategy that addresses the following:

- Greater access to affordable health care
- Access to education and training including entrepreneurship coursework and training at all levels (k-12, higher ed., and adult ed.), mentoring, apprenticeships, and internship programs
- On-going advisory and technical support, including management and marketing
- Access to financing and capital
- Support for research and development
- Greater access to government contracts by small businesses
- Reduction and control of costs including worker's compensation, energy, and tax costs
- Reduction, streamlining, and assistance with regulations

What is Maine Doing?

Maine has worked hard to develop and implement several programs that directly support small business development and entrepreneurs. It is critical that support for these programs is maintained as other programs and services are implemented. Several specific programs address the core needs of Maine small businesses and entrepreneurs in the areas of financing and technical support, access to health care, education and training, and support for R&D. They are:

Small Business Development Centers - Maine SBDC's provide comprehensive business management assistance, training, resource and information services to Maine's micro, small, and technology-based businesses. Maine SBDC is a partnership program of the U. S. Small Business Administration in association with the Maine Department of Economic and Community Development and the University of Southern Maine.

DirigoChoice - DirigoChoice is part of a state strategy to lower health care costs, increase access to health care, and ensure high quality health care. It is state supported health care coverage designed to give Maine businesses with 50 or fewer employees, the self-employed, and individuals an affordable, high-quality option for health coverage.

Maine's Community College System - The Maine Community College System is Maine's public two-year college system offering over 230 career and transfer programs, internships and customized training for business and industry. The seven Community Colleges are located in Auburn, Bangor, Fairfield, Presque Isle, South Portland, Calais, and Wells. Off-campus centers are located in East Millinocket, Ellsworth, Belfast, South Paris, Caribou, Houlton, Dover-Foxcroft, and Bath. The Community Colleges serve over 8,898 students in degree programs, and over 11,000 in credit and noncredit courses and seminars.

Regulatory Fairness Board – Recent state legislation has given Maine's small businesses greater influence on state regulatory policy. This includes reforms to the increase small business representation on the Regulatory Fairness Board. This board consisting of business people conducts field hearings and reports to the legislature regarding recommended legislation, and rule changes or adoption. Among other changes include a requirement that permitting and licensing be available on-line eventually leading to a "one stop site". According to Deb Cook of the Maine Small Business Alliance in a May 11, 2004 Portland Press Herald Article, "This is an attempt to streamline, to really level the playing field for the small businesses, understanding they don't have the staffing to spend all that time on sorting through process."

Maine Technology Institute - MTI provides funding for private companies and research laboratories to support and promote research and development, and assist innovative Maine companies and inventors in getting their products to market.

Finance Authority of Maine – The Finance Authority of Maine administers numerous finance programs to help Maine's businesses. Several are specifically targeted to start-up and early stage companies. They include:

Small Enterprise Growth Fund - The SEGF provides up to \$500,000 in venture capital to small businesses with growth potential.

Maine Economic Development Venture Capital Revolving Investment Program - This program is designed to allow the State to invest as an equal partner in eligible private venture capital funds to support emerging and early-growth businesses in Maine.

Maine Seed Capital Tax Credit Program - This program is designed to encourage equity investment in young business ventures, directly and through private venture capital funds. It provides State income tax credits to investors for up to 40% of the cash equity they provide to eligible Maine businesses.

These programs provide a solid basis for moving forward in growing Maine's small businesses and entrepreneurs.