

**Small Businesses in Rural Nebraska:  
Their Needs and Thoughts**

**An Analysis of the Rural Enterprise Assistance  
Project 2010 Small Business Needs Assessment  
Survey**

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## Key Findings

- A strong plurality of responding businesses employ only themselves, with 37 percent of responding businesses employing two to five people. As gross sales increase, businesses employ more people. In the 2008 survey, more respondents employed two to five employees and fewer employed themselves only.
- Nearly half of respondents preferred trainings in a one-time workshop setting. The second most preferred method for training was online “available when needed” methods such as podcasts. In the 2008 survey such online methods were preferred much less than traditional training methods.
- Preferences regarding training methods varied slightly according to gender and age. Female respondents preferred training or assistance through a one-time workshop setting in a greater intensity than did male respondents. Male respondents also preferred the workshop setting, but had preferences more evenly distributed across other options. All age groups also preferred the workshop setting. But, as would be expected, younger respondents were more likely to prefer online methods. Older respondents were more likely to favor one-on-one training and assistance.
- Based on gross business sales, most rural businesses are quite small. Nearly 60 percent of business owner respondents stated their business recorded less than \$100,000 in gross sales in the most recent business year. The largest number reported gross annual business sales of less than \$25,000.
- Business knowledge and planning and financial issues are the chief difficulties faced by start-up businesses. When responses regarding start-up difficulties were grouped and analyzed for priority, issues related to business knowledge and planning were the top-ranked issues for nearly 40 percent of respondents. Financial issues were top-ranked by 37 percent. Nearly 70 percent of respondents selected a lack of start-up cash as a chief difficulty faced in starting a business.
- Different business types had different start-up difficulties. Financial issues were the top-ranked difficulties for agriculture, online and construction businesses. Business knowledge and planning issues were the top-ranked difficulties for service, retail and manufacturing businesses.
- Responses about current business needs in many ways mirrored start-up difficulties. “Working capital” was the top identified need, followed by marketing, business finance knowledge, start-up cash, and written business plan.
- Marketing and advertising were by far the most popular choice for training and assistance that would improve businesses. Business plan development, legal issues, succession planning, and intermediate bookkeeping followed in popularity.
- While business knowledge and planning issues were major challenges for businesses in the start-up phase, they continue as challenges as businesses grow

- and mature. Throughout the survey, whether by business age, business type or amount of sales, respondents express a need for training and assistance on business knowledge and planning issues. This indicates that many people are starting a business with little planning or business knowledge, and despite having a successful business by some measure recognize the need for such training and assistance if the business is to grow and be more financially stable.
- Over 79 percent of respondents with employees do not offer employee health insurance benefits. Cost is the primary reason for businesses not offering health insurance to employees, followed by employees covered by other health plans.
  - Fifteen percent of business owners are not covered by health insurance. Insured business owners have health coverage through a variety of paths, with the largest number covered on a group plan through another member of the household (such as a spouse) or by purchasing an individual health insurance plan.
  - E-mail was the top technology used by rural small businesses, with personal e-mail used by 87 percent of businesses and customer e-mail by 66 percent of businesses. Nearly 60 of businesses indicated they used business websites, while only a third of businesses indicated using technology for e-commerce activities (sales and purchases) and e-business activities (such as filing taxes online).
  - Many small business owners are starting out with limited amounts of cash, and the issue of sufficient capital continues as a current need. While this may reflect the current economic climate, it also represents a critical and seemingly ongoing challenge for Nebraska rural small businesses. A large portion of respondents felt they did not have adequate access to capital or equity to finance their start-up business. While current needs continue to suggest lack of capital, there appears to be a significant reluctance to access loans or take on additional business debt.
  - Social networking technology (e.g., Facebook and Twitter) have a surprisingly large usage among rural small businesses. These technologies are likely in grow in popularity, making it wise for small business development initiatives to incorporate them into their dealings with their small business clientele.
  - The importance of succession planning represents a new, interesting addition to the 2010 surveys. In the 2010 survey, only 11 percent of business owners stated they are within 10 years of exiting their business. This would be the logical audience interested in succession planning. However, double that number claim succession planning is the current greatest need of the respondent's business (or businesses others work with) and nearly a third of respondents choose succession planning as a subject of needed training. This suggests there may be more rural businesses facing succession issues than indicated in the question on the stage of respondents' business, that more rural businesses than indicated by the age of the business are contemplating leaving business, or that the future of the business is one area of forward-looking thought.

## **Introduction**

The presentation of the 2006 Nobel Peace Prize to Dr. Muhammad Yunus and the Grameen Bank brought great attention to microenterprise development in many areas of the world, including the United States. Many researchers and commentators have lifted up small-scale entrepreneurship as an important development strategy in rural areas.<sup>1</sup>

While there are varying views on the keys to entrepreneurial success and the answers to the challenges entrepreneurs face, it is clear that more research involving small businesses, particularly the self-employed, is in order. Many of these businesses are self-employed in rural areas of Nebraska, the prime market for the Rural Enterprise Assistance Project (REAP) of the Center for Rural Affairs.

This report details the findings of recent survey work by REAP. The “2010 Small Business Needs Assessment”, a self-administered survey, was made available to REAP clients and to local chambers of commerce, economic development organizations, Nebraska Economic Development Association members, the Nebraska Bankers Association and other service providers that work with Nebraska’s small businesses. The survey was provided in a variety of methods—online, as a link on the Center for Rural Affairs’ web site, and in printed form. The REAP Needs Assessment Survey is administered biennially, with the first such survey done in 2008.

The purpose of the survey was to gather information to evaluate the needs of Nebraska’s small businesses from the perspectives of both business owners and the people that serve them. The data and the survey findings will also assist REAP and the Center for Rural Affairs in their strategic planning.

## **History of REAP**

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

REAP, a program of the Center for Rural Affairs, is a statewide rural microenterprise development organization started in 1990. REAP was initially designed to address challenges to the rural economy occasioned by the farm crisis of the 1980s and early 1990s and to capitalize on the entrepreneurial spirit of people in rural and small town Nebraska.

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<sup>1</sup> Federal Reserve Bank of Kansas City, Center for the Study of Rural America. 2002. “Are High-Growth Entrepreneurs Building the Rural Economy.” *The Main Street Economist*, August 2002; Goetz, Stephan J. 2008. “Self-Employment in Rural America: The New Economic Reality.” *Rural Realities*, Vol. 2, Issue 3, 2008.

Research by the Center for Rural Affairs in the late 1980s and early 1990s showed that rural communities in Nebraska and other states of the Great Plains region suffered economic and social reversals as population declined and demand for products and services were reduced.<sup>2</sup> As a result, rural communities sought economic development strategies to address changes in the agricultural economy. REAP was initiated with assistance from private sources, notably from the C.S. Mott and Ford Foundations.

Public policy supporting microenterprise development did not come into existence in Nebraska until 1997 when the Nebraska Legislature adopted LB 327, the Microenterprise Development Act. Since 1997, the Microenterprise Development Act has operated from annual appropriations to the Nebraska Department of Economic Development from the Legislature. In 2005, minor policy changes and funding for the Nebraska Microenterprise Development Act were consolidated with other economic development programs in the Nebraska Advantage Act.

In its most recent state budget in 2009, the Legislature appropriated nearly \$1 million to the Nebraska Microenterprise Development Act; most of that amount is granted to organizations throughout the state (including REAP) to provide services to microbusinesses and entrepreneurs, and is administered by the Nebraska Enterprise Fund.

### **REAP Services**

REAP serves microenterprises (defined in Nebraska statutes as businesses with five full-time equivalent employees or less) in the rural areas of Nebraska (REAP uses the USDA definition of “rural,” those population centers with 50,000 population or less). REAP is a full-service microenterprise development organization consisting of nine staff located throughout rural Nebraska.

Within REAP are two projects reflecting the changing demographics of rural Nebraska and the special needs of female entrepreneurs—the Hispanic Business Center and the state’s only Women’s Business Center. Both “centers” are innovative business centers and operate without walls on a statewide rural basis.

The REAP program consists of four elements—credit (microloans), technical assistance, networking, and training. REAP also offers an innovative, online lending system to help further reach rural entrepreneurs in Nebraska.

### **REAP Statistics**

As of August 2010, REAP has seven roundtables and four active peer group associations for networking and training. REAP Roundtables and Peer Group Associations consist of

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<sup>2</sup> Funk, Patricia. 1989. *A Socio-Economic and Demographic Profile of the Middle Border*. Center for Rural Affairs, Walthill, NE; Strange, Marty, et. al. 1990. *Half A Glass of Water*. Center for Rural Affairs, Walthill, NE.

small businesses from a rural community or communities that formally organize to receive REAP services.

Most associations consist of eight to ten businesses. They typically meet once a month to network and receive business training. REAP groups are self-driven, based on their specific business and community development needs and goals. Formation of these groups was originally the dominant model utilized by REAP. Entrepreneurs now mainly access the REAP program through individual membership.

From its inception in January, 1990, through June 30, 2010, REAP's total lending for peer loans was \$474,923 and direct loans was \$5,093,023 for a total of \$5,567,946 in lending. REAP has also helped clients leverage loans totaling \$12,242,549 from other sources since January 1, 1999.

In the last three-year fiscal period, REAP assisted 5,773 businesses through counseling, training and lending activities. During this time, REAP assistance and lending helped to create or retain 1,108 jobs. REAP only counts jobs created or retained when significant counseling (10 or more hours) is done and/or loans are made.

### **Survey Methodology**

The self-administered survey was available online as a link on the Center for Rural Affairs' web site, e-mailed to various contacts including REAP clients, small business related listservs and service provider colleagues. The survey was also made available as a hard copy to those REAP clients without e-mail.

The survey was available February through April 2010. The survey consisted of 20 multiple choice and open-ended questions. The survey was available to participants through SurveyMonkey.com©. Responses returned by mail were all entered into SurveyMonkey.com© by Center for Rural Affairs staff.

A total of 457 individuals responded to the survey (compared to 258 responses to the 2008 survey) — 249 identified themselves as small business owners, 98 identified themselves lenders and 36 identified themselves as service providers. All respondents live and work in rural Nebraska.

A series of demographic questions and descriptive questions for the responding businesses were asked. In addition, specific questions were asked about health insurance and technology, two important issues for rural small businesses.

A series of questions about business needs were then asked. Business owners were asked to identify difficulties they experienced when starting their business; service providers and lenders were asked to identify the greatest needs of start-up businesses they were working with. Based on previous assessments, we offered a wide variety of possible

difficulties. The survey offered these choices and allowed an open-ended response for “other responses.”

Finally, business owners were asked to identify current difficulties they are experiencing; service providers and lenders were asked to identify the three greatest needs of current businesses they were working with. Respondents were also asked to identify the greatest training needs business owners have to improve their business.

Following are selected findings from the survey. All survey results may be found in the Appendix.

### **Multiple Choice Questions and Demographics**

*What is your age group?*

The median age of respondents was 51. Nearly 40 percent of respondents were in their 50s, with 24 percent in their 40s, and 19 percent in their 20s and 30s. Seventeen percent of respondents were 60 or older.

*Describe your affiliation with Nebraska small businesses.*

The majority of all respondents identified themselves as “small business owner.” Slightly more than 20 percent of respondents identified themselves as a “resource provider.”

*What is the stage of your business? (Service Providers and Lenders were asked to skip this question.)*

Nearly 70 percent of respondents identified their business as “existing” (defined as “at the business for more than one year”). Thirteen percent identified their businesses as “new” (less than a year old) and nearly eight percent identified themselves as in the “pre-venture” (start-up stage). Finally, nearly 11 percent identified themselves as in the “transitioning” stage (within 10 years of exiting the business).

*What category best describes your business?*

Service and retail businesses dominated the responses. Over half (57 percent) the respondents described their business as a service business, and nearly 34 percent identified their business as retail. Agriculture (16 percent) and manufacturing (14 percent) were the next most identified categories. Nearly seven percent of respondents identified their businesses as online businesses and five percent of respondents identified themselves as construction businesses. Multiple responses were allowed for this question.

*How many employees does your business employ, including yourself?*

Slightly more than 45 percent of respondents employed only themselves (nearly 34 percent full-time and 11 percent part-time). Thirty-seven percent of respondents employed two to five employees, or people other than the respondent business owner. Nearly 18 percent of respondents employed six or more people.

The results of the 2010 survey were essentially flipped from the 2008 survey. In 2008, more respondents employed two to five employees and fewer employed themselves only.

*If training and/or assistance were made available to address the (business) needs, what is the preferred delivery method?*

Nearly half of respondents preferred trainings in a one-time workshop setting. In a likely sign of the times, the second most preferred method for training (at 40 percent) was online “available when needed” methods such as podcasts. In the 2008 survey such online methods were preferred much less than traditional training methods. In the 2010 survey one-on-one training and/or assistance was preferred by 39 percent of respondents, while classroom style (multiple sessions) was favored by 32 percent. Online training/assistance delivered at a specific time (such as webinars) was less favored, preferred by 29 percent of respondents.

Female respondents preferred training or assistance through a one-time workshop setting in a greater intensity than did male respondents. Male respondents also preferred the workshop setting, but had preferences more evenly distributed across other options.

All age groups also preferred the workshop setting. But, as would be expected, younger respondents were more likely to prefer online methods. Older respondents were more likely to favor one-on-one training and assistance.

*Business owners, please check the category of annual gross sales for your business's last recorded year.*

Nearly 60 percent of business owner respondents stated their business recorded less than \$100,000 in gross sales in the most recent business year. The largest number (35 percent) reported gross annual business sales of less than \$25,000. On the other end of the scale, nearly 20 percent of business owner respondents reported gross annual business sales of over \$500,000 in the past business year (with nearly 10 percent reporting gross annual business sales of greater than \$1 million in the past business year). Both ends of the sales chart had greater representation among 2010 survey respondents than in 2008.

*How prepared do you feel in operating your business in the event of a disruption or disaster?*

In recent years many state and federal agencies and entities have been funded to help prepare small businesses for natural or human-caused disasters. Rural small businesses are particularly vulnerable to these hazards because of their size, small number of employees and, as this survey demonstrates, their financial stress. A new question in the 2010 survey asked how prepared rural small businesses are for such disruptions. Most respondents (53 percent) believe they are somewhat prepared. But over a third of respondents believe they are in some degree unprepared – either totally unprepared (nearly 15 percent) or somewhat unprepared (over 23 percent). Only nine percent of respondents believe they are totally prepared. This suggests some work to do among rural small businesses in regard to disaster preparedness.

### **Business Needs Questions**

In addition to the demographic information, the following findings are gathered from all participants in this survey.

*What, if any, difficulties did you have when starting your business? Or what do you perceive as the difficulties of the starting businesses you work with?*

This question allowed respondent's to mark all offered responses that applied. A total of 829 responses were provided, or an average of 2.9 responses per respondent.

By far the leading difficulty was a lack of start-up cash. Nearly 70 percent of respondents selected this response. Lack of market awareness, lack of business finance knowledge, lack of a written business plan, obtaining financing from a traditional lender, and marketing all followed, all with 30 percent or more of respondents selecting.

When examining start-up difficulties by business type we employed a measure to rank the difficulties. In other words, given all the choices offered and the ability to submit multiple responses, how did the respondents rank the start-up difficulties they had or perceive others to have. For all businesses lack of start-up cash was the primary difficulty, with obtaining finance from a traditional lender was the second ranked difficulty. Financial issues, then, seem to be the primary issues start-up businesses face.

However, when responses are grouped into categories a more complex picture emerges. Most of the offered responses can be grouped into two main difficulties – financial (lack of start-up cash and obtaining finance from a traditional lender) and business knowledge and planning (lack of market awareness, lack of business finance knowledge, marketing, and lack of a written business plan). Analyzed in this way, issues related to business knowledge and planning were the top-ranked issues for nearly 40 percent of respondents. Financial issues were top-ranked by 37 percent.

Different business types had different difficulties. Financial issues were the top-ranked difficulties for agriculture, online and construction businesses. Business knowledge and planning issues were the top-ranked difficulties for service, retail and manufacturing businesses.

*Currently, what are greatest needs of your business or the businesses you work with?*

Respondents were provided a list of business needs and were allowed to mark all offered responses that applied. A total of 1,019 responses were provided, or an average of 3.6 responses per respondent.

In many respects the responses to this question mirrored the responses to the previous question on start-up difficulties. By far “working capital” was the top identified need

(nearly 46 percent of respondents). Following were marketing, business finance knowledge, start-up cash, and written business plan.

*What types of training and/or assistance would you like to have to improve your business or the businesses you work with?*

This question also provided a list of possible training and assistance topics and respondents could mark all that apply. A total of 847 responses were provided, or an average of 2.9 responses per respondent.

Marketing and advertising was by far the most popular choice for training and assistance, with nearly 55 percent of respondents selecting that as a choice. Business plan development, legal issues, succession planning, and intermediate bookkeeping followed in popularity.

### **Small Business and Health Insurance**

With the importance of health care reform in 2010, the survey asked a series of questions related to health insurance and small businesses.

Over 79 percent of respondents with employees do not offer health insurance benefits to their employees. Cost is the primary reason for businesses not offering health insurance to employees, followed by employees covered by other health plans.

Of the respondent business owners, a total of 15 percent are not currently covered by health insurance (of that 15 percent, a bit over one percent are not covered but have children who are). The remaining business owner respondents have health insurance coverage through a variety of paths. The largest number (33 percent) are covered on a group plan through another member of the household (such as a spouse), 30 percent purchased an individual health insurance plan, and 11.5 percent are covered through a public plan such as Medicare or Medicaid. Only 10 percent of business owners had health care coverage through a group plan offered by their business.

Cost again was the primary factor for business owners not having health insurance coverage. Of business owner respondents stating they did not have health insurance, nearly 58 percent said it was because health insurance is too expensive. The other

primary reason (11 percent) was that coverage was not available or offered due to health reasons (such as pre-existing health conditions).

### **Small Businesses and Telecommunications Technology**

Another important issue to rural small businesses is the use and availability of telecommunications technology. The 2010 survey thus asked a series of questions about telecommunications technology.

Respondents were asked what technologies were used in the respondent's business or by businesses with which the respondent worked. Respondents were provided a list of options and allowed to select all that applied. A total of 989 responses were offered, an average of 3.2 responses per respondent.

E-mail was the top technology used, with personal e-mail used by 87 percent of businesses and customer e-mail by 66 percent of businesses. Nearly 60 of businesses indicated they used business websites. A bit more than a third of businesses indicated using technology for e-commerce activities (sales and purchases) and e-business activities (such as filing taxes online). A bit more than a third of businesses also used technology for social media such as Facebook and Twitter, a surprising number given the newness of such technologies.

The survey also asked respondents to rate their internet affordability and reliability. Respondents rated a series of statements from 1 (not true) to 4 (very true). Statements and results are:

- *My internet service is reliable.* Over 54 percent of respondents rated this as “very true,” with an average rating of 3.4 (about midway between “often true” and “very true”).
- *My internet service is affordable.* Responses to this statement were more spread across the options, with about 35 percent responding “very true,” but about 29 percent saying “somewhat true.” The average rating was 2.93, just below the “often true” mark.

- *My internet service is the speed I need.* Again, responses were spread across the options. The top response again was “very true,” with 38 percent of responses. But this statement had the highest rating for “not true” of the three statements, with almost 13 percent of respondents selecting that response. The average rating was 2.92, again just below the “often true” mark.

## **Analysis of Questions by Topic**

The following section represents our analysis of the responses to the survey.

### *Advertising and Marketing*

Issues related to marketing are consistent challenges to rural small businesses. They were in the 2008 survey and continue to be in 2010. “Marketing” represented the fifth most common difficulty in starting a business, and the second most common current difficulty for small businesses. It is difficult to determine if the respondents are struggling with marketing generally, or if they are struggling with the cost of advertising and marketing.

### *Business Planning and Management*

A large number of respondents indicated that many small businesses in rural Nebraska lack adequate business plans. Maybe that is to be expected at the business start-up stage, but nearly a third of respondents state this is a current need as well. This lack of planning likely affects all aspects of a business.

Many challenges found in other categories could be addressed with a fully developed business plan; issues such as not starting with enough cash, financing, marketing for current demographics, identifying a customer base, and lacking an advertising plan are all challenges offered by business owners, but are also important initial planning considerations.

The survey results generally show an admitted lack of knowledge about basic business and finance practices, both at the start-up phase and currently. When combined with a lack of operating cash and capital, it appears many small business owners are jumping into starting a business without adequate planning. A lack of planning places small businesses at risk of failure, both as a start-up and throughout their businesses history. The ultimate goal of any business development initiative or program should be to help build sustainable businesses in communities and neighborhoods. The survey results show significant challenges to meet this goal.

### *Cash Flow, Lack of Cash, and Capital*

Many small business owners are starting out with limited amounts of cash, and the issue of sufficient capital continues as a current need. While this may reflect the current economic climate, it also represents a critical and seemingly ongoing challenge for Nebraska's rural small businesses.

A large portion of respondents felt they did not have adequate access to capital or equity to finance their start-up business. A recent study of entrepreneurial activity in Nebraska confirms this finding. The book *Entrepreneurship in Nebraska* found that one of the top factors in business survival includes the company's cash flow.<sup>3</sup>

Needs of business owners continue to suggest lack of capital (for start-up, day- to- day business operations, or expansion). There appears to be less desire to access loans, likely because of related cash flow issues and the ability of businesses to repay loans. This can be seen in responses to Question 12 of the survey on current needs regarding lending, refinancing and obtaining financing from a traditional lender. All ranked low on the list of greatest needs of businesses, some among the lowest needs. This reluctance may also indicate the awareness business owners have of their own debt loads. However, working capital ranked as the greatest need for businesses. Taken together, these responses indicate many respondents are not operating businesses with sufficient cash, capital or equity, but are reluctant to take on additional debt. So given these opinion, businesses likely have two choices to improve their capital status – take steps to improve cash flow or incur more debt. A comprehensive review of all survey answers suggests taking steps to improve cash flow is the route most businesses wish to take.

While cash status was indicated as the largest need by small businesses, both currently and when opening their business, there is little indicated need for training in this area. This could be explained by many reasons: there is not training available for cash and debt management, lack of time or resources to obtain such training, lack of computer resources or skills to obtain online training, business owners do not know exactly what they need, such training is not marketed to this audience, or cash flow issues are considered a part of other training areas such as marketing.

### *Networking and Mentoring*

About 20 percent of respondents indicated that a lack of adequate support networks (whether family/friends or business) was a difficulty when starting a business. About the

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<sup>3</sup> Thompson, Eric C. and Walstad, William B. 2008. *Entrepreneurship in Nebraska: Conditions, Attitudes, and Actions*. Gallup Press, New York, New York.

same number indicated it was a current need. While representing a significant difficulty, a lack of support networks ranked low on the list of both start-up and current difficulties.

### *Succession Planning*

The importance of succession planning represents a new, interesting addition to the 2010 survey. In the 2010 survey, only 11 percent of business owners stated they are within 10 years of exiting their business. This would be the logical audience interested in succession planning. However, double that number claim succession planning is the current greatest need of the respondent's business (or businesses others work with) and nearly a third of respondents selected succession planning as a subject of needed training. In fact, succession planning is the fourth most popular training subject. This suggests there may be more rural businesses facing succession issues than indicated in the question on the stage of respondents' businesses, that more rural businesses than indicated by the age of the business are contemplating leaving business, or that the future of the business is one area of forward-looking thought. Whatever the reason, the future of rural businesses is a critical issue because of the aging rural population and the lack of successors, natural or otherwise, within rural communities. For the future of sustainable rural businesses and the viability of rural communities it is an issue on which business development initiatives and providers should focus.

### *Technology*

To gauge the availability and effectiveness of technological resources in rural Nebraska, respondents were asked specifically about their technology use, affordability and reliability. It is clear from the responses that technology is widely accepted, regardless of any demographic or economic variable. However, most respondents have not incorporated technology in their business operations beyond the simplest and most accepted applications.

Nearly all respondents reported using e-mail for personal use, and about two-thirds of respondents use e-mail to transact business with customers. However, significantly fewer respondents use technology in other aspects of their businesses – about a third use technology in sales or purchase transactions or to conduct other business activities and processes (for instance, filing taxes or other business documents or forms online). About 60 percent of respondents reported having a business website, six percentage points more than the 2008 survey results.

Given the newness of social networking technologies such as Facebook and Twitter, a surprisingly large number of respondents (over a third) use them. In addition, more than

one in four respondents stated training or assistance in social networking would help their business. These are technologies that are likely to be more popular in coming years. Business development initiatives would be wise to incorporate social networking technologies in their training, in their operations and in their general communications with their small business clients.

Respondents were also asked to rate the reliability, affordability and speed of their Internet service. While most respondents rated their service as reliable, over a third of respondents indicated their service is not or only somewhat affordable, and nearly a third responded their service is not or only somewhat at the speed they need. A significant segment of rural small business owners in Nebraska appear to be losing the advantages of business technology services and uses because of cost and speed.

### **Businesses and Sales**

Respondents were asked about their annual gross sales from the last recorded year. The largest number of respondents (nearly 35 percent) reported gross annual business sales of less than \$24,999; a combined 61 percent reported gross business sales of less than \$100,000. On the other end of the scale, nearly 19 percent of business owner respondents reported gross annual business sales of over \$500,000 in the past business year.

Because of the continual importance to a business in capital and cash flow as expressed by respondents throughout the survey, following is a more detailed look at responses to the sales question cross-tabulated with responses to other relevant questions.

#### *Gross Sales Less than \$24,999*

More businesses in this sales category than in any other were at the initial stages of business development – over 36 percent are in the pre-venture or new (less than one year) stage. As such, businesses in this sales category were the most likely to be non-employers – nearly 80 percent have no employees.

Business owners in this sales category indicated a major difficulty with finances, either in start-up capital or in operating cash. Nearly 60 percent of respondents in this category stated the major start-up difficulty was start-up cash, followed by obtaining financing from a traditional lender. The top current need among these respondents was working capital, followed by marketing. With a limited customer base and advertising options, one could expect these to be constant needs in rural areas of the state.

Marketing and advertising, legal and social networking were the top training needs identified by respondents in this sales category. The social networking response is new to

the 2010 survey, and may represent a new way of doing business by the smallest business.

Business owners in this sales category also expressed financial issues as the primary current need for their business. Other needs included advertising, marketing and a customer base (all, of course, related to business financial and cash flow issues).

*Gross Sales \$25,000 to \$49,999*

Three-quarters of businesses in this sales category classified themselves as “existing” – or in business for more than one year. This sales category thus represents slightly more mature businesses, thus slightly more sales.

Despite being in business longer, businesses in this category still are primarily non-employers – 71 percent of respondents have no employees.

Financial issues still challenge these businesses. Start-up cash and financing from a traditional lender were the primary start-up difficulties for these businesses. Working capital and marketing were the current needs most identified.

Top training needs identified by these businesses are marketing and advertising and intermediate bookkeeping, legal issues and taxation issues.

*Gross Sales \$50,000 to \$99,999*

Nearly three-quarters of business respondents in this category classified themselves as “existing,” or in business for more than one year. With greater sales, these businesses were more likely to have employees. Fifty-six percent of respondent business owners have five or fewer employees.

The primary start-up concern of business owners in this sales category was also related to cash or financing (nearly half of all respondents in this sales category selected a lack of start-up cash as the top start-up difficulty). However, respondents in this category mentioned start-up difficulties different from other categories – marketing, the lack of a business support network and lack of a business plan all tied for the second most common start-up difficulty in this sales category.

Current needs by respondents in this category also related to finances. Working capital was the most common current need selection, followed by marketing.

Marketing and advertising was selected as the most useful training need – nearly two-thirds of respondents in this sales category selected marketing and advertising as a training need. Basic bookkeeping, legal issues and business plan development tied for the second most selected training need. Marketing is an issue consistently mentioned by respondents in this sales category, differing in that respect from lower sales category. It is

also interesting that business plan was still mentioned as a current need among these experienced businesses, particularly when it was also a common start-up difficulty among these respondents.

*Gross Sales \$100,000 to \$149,999*

Two-thirds of the businesses in this category classified themselves as “existing,” with more than one year of experience. However, this is the first sales category where some respondents (25 percent) classified themselves as “transitioning,” within 10 years of exiting the business. This sales category also continues the trend of increasing likelihood of employees as sales grow – nearly 60 percent of respondent businesses in this category have employees.

A lack of start-up cash again was identified as the chief start-up difficulty among businesses in this sales category. Other start-up difficulties commonly identified in this category were a lack of business finance knowledge and marketing.

Financial needs also dominated the current needs among businesses in this sales category – a third of respondents selected line of credit, lack of cash, and obtaining financing from a traditional lender as a current need. Marketing was also selected by a third of respondents in this sales category.

Marketing and advertising and legal issues were the top two items selected by respondents in this sales category for training needs.

*Gross Sales \$150,000 to \$299,999*

Three sales categories between \$150,000 and \$299,999 are combined due to low response numbers in each category. In these combined categories nearly two-thirds of respondents are businesses in operation more than one year. And almost all businesses in these categories are employers – 88 percent of the businesses employ people in addition to the business owner.

Start-up difficulties among respondents in these sales categories are similar to lower sales categories and relate to finances – a lack of start-up cash and obtaining financing from traditional lenders were the two most common start-up difficulties. A lack of business finance knowledge was also a common start-up difficulty for these respondents.

Marketing and working capital are the top current needs for businesses in these sales categories. Because of higher sales by these businesses, marketing likely emerges as the primary need, compared to working capital in smaller sales categories.

Training needs also reflect a more mature and larger business that exists in these business categories. Marketing is by far the most common training need, followed by more advanced bookkeeping and succession planning.

*Gross Sales \$300,000 to \$749,999*

Because of low response numbers, two sales categories are combined here. In this combined category nearly all businesses – 89 percent – have been in business for more than one year. The remaining respondents classify themselves as within 10 years of exiting the business. In addition, 95 percent of the businesses in these categories employ people other than the business owner.

Start-up difficulties for these sales categories are similar to those of lower sales categories. A lack of start-up cash and obtaining financing from traditional lenders were the most commonly mentioned start-up difficulties in these categories. A lack of business finance knowledge was also a commonly mentioned difficulty.

Marketing and working capital were the most commonly mentioned current needs for businesses in these sales categories. Succession planning and marketing and advertising were the most commonly mentioned training needs for businesses in these sales categories. Social networking was also a commonly mentioned training need.

*Gross Sales \$750,000 and Over*

Two sales categories were also combined for this analysis due to low response numbers. Seventy percent of businesses in these categories were in business for more than one year, and 22 percent of respondents classified themselves as within 10 years of exiting their business.

All of the businesses in these sales categories are employers, and are the largest employers in the survey. Half of the business respondents in these sales categories have 11 or more employees.

A lack of start-up cash and the lack of business finance knowledge were the two most common start-up difficulties in the combined results of these sales categories. A lack of a business plan was also a commonly identified start-up difficult, particularly in the smaller sales category (\$750,000 to \$999,999).

Working capital and marketing were the two most common current business needs in the combined results of these sales categories. However, succession planning was the second most common current need for the over \$1 million sales category (where more business owner respondents classified themselves as transitioning).

Marketing and advertising and succession planning were the most popular training needs responses in the combined results of both sales categories. Again, succession planning training was more common in the over \$1 million sales category.

## **Implications**

While not a scientifically managed survey, the results outlined in this report provide interesting and compelling insights into the thoughts, opinions and needs of those owning and working with small businesses in rural Nebraska. As such, there are important implications for how services are provided to rural entrepreneurs in Nebraska in order to develop not only individual enterprises but the state's rural economy.

This section will discuss some of those implications. Nothing in this section is intended to criticize the current or past efforts of any organization or entity serving rural entrepreneurs. Rather, this section is intended to offer suggestions and challenges to important demographic, social and economic issues that permeate all aspects of rural development in Nebraska and the United States.

According to the results of this survey, rural small businesses, regardless of size, maturity or any other characteristic, appear to have similar challenges and needs. Many small business owners start out with limited amounts of financial resources and insufficient business plans. As businesses grow and mature financial issues and related challenges continue to plague many.

The technical training needs for many small businesses are also similar regardless of business size, age or other characteristics. The survey results do provide some interesting and challenging insights into how training and education can be provided to entrepreneurs scattered across a state as large as Nebraska.

REAP and other small business providers face the challenge of balancing assistance and educational programs often related to technological enhancements for a rural, generally older population who in large numbers prefer traditional and one-on-one assistance and training relationships and a significant number of whom have Internet services inadequate for business and education purposes. Balancing new technology and traditional relationship-based services is a challenge that may well determine how many clients and businesses are served by REAP and other small business service providers and, ultimately, how many such clients and businesses are successful rural entrepreneurs.

The financial challenges offered by respondents in the gross sales categories below \$100,000 raise warning signs for these businesses and their rural communities. The need for working capital is a natural response for start-up or less experienced businesses, but for capital issues to remain after a business is established is both a reflection of the

current economy and the nature of operating a small business in a rural place. How businesses respond to these financial challenges, with the assistance of business development programs and public policy, is critical for the rural economy.

These are challenges not only for the businesses in the lower sales categories, but for REAP, the Nebraska small business community and rural communities in general. If established businesses are facing these challenges, it begs the questions of how long they can remain in business, how long they can remain in their communities, and what incentive is there for start-up businesses in similar communities that may face identical challenges. These are issues service providers such as REAP, lenders and public policy must address if small businesses are to continue to flourish in the communities of rural Nebraska.

Other demographic issues presented by the outcomes of this survey present challenges to REAP and the rural small business community. The age of business owners is one example. The exodus of youth and their entrepreneurial spirit is a challenge facing most rural communities in Nebraska and elsewhere. The findings of this survey do nothing to alleviate this concern.

With fewer than one in five respondents to this survey under the age of 40, REAP, Nebraska's rural small business community and rural communities in general face an immediate and fundamental question: where is the next generation of rural entrepreneurs? Further, if established rural small businesses are expressing concerns and needs regarding finances, what can be done to provide assurances and incentives to young entrepreneurs so that similar issues will not doom their efforts?

And a new, related issue rises to prominence in the 2010 survey – a significant expression of a need for business succession training and planning. If generally older business owners are expressing a need for succession planning, where will they find their successors in rural Nebraska?

The results of this survey also reveal a general lack of planning and entrepreneurial education among those with a business idea and the talent, skills and fortitude to make it work. Many of the issues, concerns and needs offered by the business owner respondents can likely be laid at the doors of inadequate planning and insufficient financial education. Again, these are issues service providers such as REAP, lenders and public policy must address if small businesses are to have a viable future in rural Nebraska.

Finally, the one exception to a lack of planning may be the concern about succession planning that shows up in the survey. The statement that succession planning is a current need by business owners in some sales categories and the desire for succession planning training and assistance implies a concern among business owners about the future of their business. With an aging rural population and fewer younger people remaining in or

relocating to rural areas, business succession is a critical long-term issue for rural businesses and rural communities.

## **Recommendations**

- 1. Greater emphasis should be placed on rural small business succession planning with a collaborative program with state and local economic development entities and small business development programs.** Business succession planning has been an issue on the public policy radar in Nebraska for some time, but the fact that this surveys points to succession planning as a primary business and training need demonstrates there is more to do. With the demographic challenges facing most of rural Nebraska, small business succession is not an easy issue. It will need to involve mentoring, entrepreneurial training for students, and linkages between business owners and prospective owners. But the future of many rural communities depends upon finding successors to today's business owners. Community-based collaboratives with local, state and federal economic development entities and small business development programs should be established to provide succession planning training for current business owners and begin the process of developing tomorrow's successor owners.
- 2. Fund state and federal initiatives that provide capital to rural small businesses.** Despite the projected budget deficit facing Nebraska, the Nebraska legislature should not cut the budget of the Nebraska Microenterprise Development Act in the 2011-13 state biennial budget that will be developed in the 2011 legislative session. These funds provide capital, training and assistance to job-creating small businesses throughout the state. A soft economy is not the time to take away resources that will help small businesses address the challenges found in this survey, and now is not the time to reduce resources to help build the rural economy in Nebraska. In addition, federal programs that help develop and support rural small businesses through agencies such as the Department of Agriculture and the Small Business Administration should be at a minimum continued at current funding levels.
- 3. Remove the annual cap on the Nebraska Microenterprise Tax Credit.** The Nebraska Advantage Microenterprise Tax Credit rewards investment by business owners of small, rural businesses. Many of the needs found in this survey would be addressed by the tax credit provided by this state law. However, the available Nebraska Advantage Microenterprise Tax Credits are limited to \$2 million annually. This cap has resulted in a limited number of businesses able to take advantage of the program. The result is limited new small business investment and employment.

The annual limit results in all the tax credits being applied for very early in the year to the detriment of other small businesses in the state. Further, the only state tax incentive or tax credit program aimed specifically at small businesses is the only program with such a cap.

In addition, Congress should adopt H.R. 5990, the “Rural Microbusiness Investment Credit Act of 2010,” a similar federal tax credit for small business investment in rural areas.

4. **Nebraska should promote community entrepreneurial and small business infrastructure.** As this survey revealed, many rural small business owners are troubled by the lack of local support for their business and other small businesses. This points to the need for a comprehensive entrepreneurial community development policy where it is recognized that each community member has a role if entrepreneurship in rural communities is to be promoted.

Community members must play the roles of lender, investor, educator, promoter, supporter and helper to create an entrepreneurial community. By establishing the Building Entrepreneurial Communities Act Nebraska has taken a step in assisting communities toward building this community capacity and infrastructure.

Again, like many of the issues presented by this survey, this is a question of scale – how to build entrepreneurial capacity and infrastructure in Nebraska’s many small rural communities. Government, of course is limited in resolving this challenge for communities, and local citizens must take the initiative in building their future.

State government, however, can play a facilitation role through programs like the Building Entrepreneurial Communities Act. **The Nebraska Legislature must reauthorize and extend the funding for the Building Entrepreneurial Communities Act in the 2011-13 biennium budget developed by the Legislature in the 2011 session.**

5. **Nebraska should make a commitment to business and financial education and business plan development for existing and prospective small business owners.** This survey points to a significant need for business and financial education and business planning. Too many small business owners appear to be opening a business enterprise with too little business knowledge and planning. The fact that a significant number of established business owners still list business planning as a need for their business demonstrates the need. In collaboration with K-12 schools, community colleges and community organizations, Nebraska’s small business development entities should place a greater focus on business and

financial education, business plan development and financial literacy for both existing businesses and prospective business owners.

## APPENDIX

Below are tables for each multiple choice survey question listing response results.

*What is your age?*

<b>Response</b>	<b>Pct.</b>
<b>20-29</b>	6.4
<b>30-39</b>	12.8
<b>40-49</b>	24.0
<b>50-59</b>	39.8
<b>60 and over</b>	17.0

*Describe your affiliation with Nebraska small businesses.*

<b>Response</b>	<b>Pct.</b>
<b>Small Business Owner</b>	54.0
<b>Service Provider</b>	21.4
<b>Lender</b>	7.9
<b>Other</b>	16.6

*What is the stage of your business? (Service providers and lenders were asked to skip this question)*

<b>Response</b>	<b>Pct.</b>
<b>Pre-Venture (start-up stage)</b>	7.8
<b>New (within first year)</b>	13.4
<b>Existing (more than one year)</b>	68.0
<b>Transitioning (within 10 years of exiting business)</b>	10.8

*What category best describes your business?*

<b>Response</b>	<b>Pct.</b>
<b>Agriculture</b>	16.3
<b>Manufacturing</b>	13.6
<b>Retail</b>	33.9
<b>Service</b>	56.6
<b>Online</b>	6.8
<b>Construction</b>	5.0

*How many employees does your business employ, including yourself?*

<b>Response</b>	<b>Pct.</b>
<b>One (self full-time)</b>	33.8
<b>One (self part-time)</b>	11.3
<b>Two to five</b>	37.2
<b>Six to 10</b>	7.8
<b>11+</b>	10.0

*What, if any, difficulties did you have hen starting your business? Or what do you perceive as the difficulties of the starting businesses with which you work? Multiple answers allowed.*

<b>Response</b>	<b>Number</b>
<b>Lack of start-up cash</b>	195
<b>Lack of market awareness</b>	64
<b>Lack of business finance knowledge</b>	113
<b>Marketing</b>	89
<b>Finding a location</b>	35
<b>Obtaining financing from a Traditional lender</b>	103
<b>Lack of family/friend support network</b>	19
<b>Adequate business support Network</b>	52
<b>Lack of written business plan</b>	108

*Currently, what are the greatest needs of your business or the business with which you work? Multiple answers allowed.*

<b>Response</b>	<b>Number</b>
<b>Working capital</b>	131
<b>Business succession knowledge</b>	62
<b>Customer service</b>	27
<b>Line of credit</b>	69
<b>Short-term lending</b>	36
<b>Long-term lending</b>	53
<b>Refinancing</b>	20
<b>Start-up cash</b>	90
<b>Market awareness</b>	69
<b>Business finance knowledge</b>	92
<b>Marketing</b>	98

<b>Finding a location</b>	15
<b>Financing from a traditional lender</b>	64
<b>Family/friend support network</b>	9
<b>Business support network</b>	53
<b>Written business plan</b>	83

*What types of training and/or assistance would you like to have to improve your business or the businesses with which you work? Multiple answers allowed.*

<b>Response</b>	<b>Number</b>
<b>Marketing and advertising</b>	157
<b>Basic bookkeeping</b>	82
<b>Intermediate bookkeeping</b>	84
<b>Advanced bookkeeping</b>	53
<b>Succession planning</b>	89
<b>Legal</b>	91
<b>Taxation</b>	73
<b>Social networking</b>	74
<b>Business planning</b>	108

*If training and/or assistance were made available to address the needs, what is the preferred delivery method? Multiple answers allowed.*

<b>Response</b>	<b>Number</b>
<b>Classroom Style</b>	105
<b>Online (delivered at a specific time, webinar)</b>	97
<b>Online (available when needed, podcast)</b>	134
<b>As a workshop</b>	164
<b>One-on-one</b>	130
<b>None needed</b>	23
<b>Other</b>	29

“Other” responses included:

Please check the category of annual gross sales for your business's last recorded year (business owners only).

<b>Response</b>	<b>Pct.</b>
0 to \$24,999	35.1
\$25,000 to \$49,999	12.4
\$50,000 to \$99,999	12.4
\$100,000 to \$149,999	7.2
\$150,000 to \$199,999	4.1
\$200,000 to \$249,999	2.6
\$250,000 to \$299,999	2.6
\$300,000 to \$499,999	4.1
\$500,000 to \$749,999	6.2
\$750,000 to \$999,999	3.6
Greater than \$1 million	9.8

How do you rate your Internet affordability and reliability? (figures in percentage)

	<b>Not True</b>	<b>Somewhat True</b>	<b>Often True</b>	<b>Very True</b>	<b>N/A</b>
<b>Reliable (N= 326)</b>	2.5	10.4	29.1	54.3	3.7
<b>Affordable (N = 326)</b>	6.4	28.5	25.8	34.7	4.6
<b>At the Needed Speed (N= 322)</b>	12.7	20.2	25.2	38.2	3.7

What types of technology are typically used in your business or the businesses with which you work? Multiple answers allowed.

<b>Response</b>	<b>Number</b>
e-mail (personal)	266
e-mail customer	201
e-commerce (sales and purchases)	104
e-business (business activities and processes)	104
Business website	181
Social media	104

*Businesses are vulnerable to many hazards including natural or human-caused disasters. These unplanned events can have a devastating effect on business operations and the regional economy. How prepared do you feel in operating your business in the event of a disruption or disaster?*

<b>Response</b>	<b>Pct.</b>
<b>Totally unprepared</b>	14.7
<b>Somewhat unprepared</b>	23.4
<b>Somewhat prepared</b>	53.2
<b>Totally prepared</b>	8.7

*Do you offer health insurance benefits to your employees?  
Businesses with employees only.*

<b>Response</b>	<b>Pct.</b>
<b>Yes, and I pay full premium</b>	8.7
<b>Yes, and employees pay a portion of premium</b>	11.3
<b>Yes, and employees pay full premium</b>	0.7
<b>No</b>	79.3

*I do not offer health insurance benefits to my employees because (businesses with employees only and who answered “No” to the previous question):*

<b>Response</b>	<b>Pct.</b>
<b>It is too expensive</b>	45.9
<b>My employees are covered by Other plans</b>	27.6
<b>Other</b>	26.5

*Are you (business owner respondent) covered by health insurance?*

<b>Response</b>	<b>Pct.</b>
<b>No</b>	14.1
<b>Yes, individual plan</b>	30.0
<b>Yes, group plan offered by my business</b>	10.1
<b>Yes, through group plan offered by another household member</b>	33.0
<b>Yes, through a public plan</b>	11.5
<b>No, but my children are</b>	1.3

*I (business owner respondent) currently do not have health insurance because (those not covered in previous question):*

<b>Response</b>	<b>Pct.</b>
<b>Too expensive</b>	57.8
<b>Not offered or available due to health reasons</b>	11.1
<b>Choose to remain uninsured</b>	2.2
<b>Other</b>	28.9

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## **ABOUT THE CENTER FOR RURAL AFFAIRS**

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

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