

6

Northeast Entrepreneur Fund (NEF)

INTRODUCTION

The Northeast Entrepreneur Fund (NEF) serves the mostly rural distressed region of northeastern Minnesota (Figure 6.1). The region historically has been economically dependent upon the “Three Ts”—taconite, timber, and tourism. NEF seeks to promote self-employment in an area long dominated by companies whose owners tend to live elsewhere.

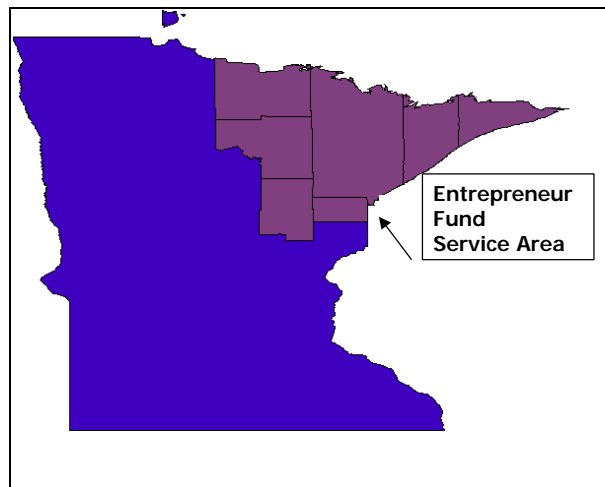


Figure 6.1 Minnesota Region served by Northeast Entrepreneur Fund

DEMOGRAPHIC AND ECONOMIC BACKGROUND

The northeastern region of Minnesota includes seven counties: Atkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis. The Minnesota Office of Planning has designated this region the Arrowhead Development Region.

Since the late nineteenth century, the region's economy has been dependent on the mining of iron ore, initially high-grade ore and since the 1950s low-grade taconite (Reid 1984). Mining on the Mesabi Iron Range began around the turn of the century. The quality of the ore, its easy accessibility, and a ready-made harbor in Duluth led to rapid development along the entire range (Wohl 1987, 49). The economy of the region seems to have peaked in the early 1920s (p. 50).

While the mining industry has always been cyclical, the sharp decline in the early 1980s was seen more as a structural shift. Given the region's heavy dependency on mining, the overall prospects for the local economy were bleak. Unemployed workers on the Iron Range are predominantly miners who have been laid off as a result of reduced demand for steel, and subsequently for taconite. However, given the overall downturn of the economy on the range, the area's unemployed include many from mining-related industries as well as from other basic industries (Wohl 1987, 47). Wohl notes, for example, that the small town of Babbitt had an unemployment rate in excess of 80 percent during the winter of 1983–1984. Unemployment across the region reached a rate of 33 percent in spring 1983 (Dewar 1986, 291).

A general economic shift away from such sectors adversely impacted the region in the early 1980s; the structural shift continues to affect the local economy. In 1994, these seven counties had twice the unemployment rate of the entire state—approximately 7 percent compared to a statewide average of 4.1 percent.¹ Recently, the overall economic boom in the economy has lowered rates in both the region and the state; these rates are significantly lower than national averages, but a gap still remains between this region and other parts of the state. Table 6.1 illustrates recent unemployment rates in the region.

TABLE 6.1
Unemployment Rates in Region, by County

<i>Jurisdiction</i>	<i>1990</i>	<i>1994</i>	<i>1995</i>
<i>County</i>			
Atkin	10.8%	10.3%	9.4%
Carlton	7.6	7.7	7.0
Cook	9.1	5.6	5.8
Itasca	10.7	11.6	9.4
Koochiching	7.1	9.7	8.7
Lake	6.8	6.1	5.2
St. Louis	6.6	6.4	5.7
<i>State</i>			
Minnesota	4.9%	4.0%	3.7%

Source: Bureau of Labor Statistics

Educational attainment for the region is below state averages. The most recent (1990) Census data reveal that 79 percent of those over 25 had attained a high school diploma compared to an 82 percent statewide average. Only 15 percent of those sampled were college graduates, compared to a statewide average of 22 percent. Atkin, Carlton, and Koochiching counties impact significantly on these figures. While the other four counties are roughly comparable to the rest of the state, these three have high school diploma attainment rates of 70.5 percent, 75.1 percent, and

1. Compiled from *County Business Patterns* data, 1996.

73 percent, respectively. In terms of college graduates, the rates are 9.5 percent, 12.2 percent, and 10.4 percent.

DESCRIPTION OF CASE PROGRAM

History, Mission, and Philosophy

As discussed above, the regional economy of northeastern Minnesota historically has been dependent upon natural resources—particularly mining and timber. While these sectors had always been economically cyclical, the bust of the mining industry in the early 1980s was fundamentally different. Mary Mathews, president of NEF, recalls:

In 1979, 16,000 people in the region were employed in the mining industry, and the same number were in the indirect industries that supported it. Then, all these firms realized that they had to become more competitive. We have a highly educated region—second-generation immigrant families make sure their children attend college. But after college, they went to work in the mines because the wages were better. . . . After all these technological changes, there were few general labor jobs available. Today, mining production is nearly the same as in 1979, but they're doing it with 5,000 workers.

This restructuring of the industry left local economic development officials struggling for ways to diversify the regional economy. In 1985, the Blandin Foundation (a local nonprofit) organized a regional leadership forum to identify regional strengths, discuss what was needed, and lay the groundwork for implementing such programs. After these discussions, Blandin began funding local initiatives designed to meet those needs.

Nick Smith, an attorney from Duluth, saw the need for equity and venture capital in the region to spur growth. Blandin provided Smith with resources to conduct research into this area, and he spent the next two years exploring various development financing mechanisms around the country. Upon completing this research, Smith founded two organizations, Northeast Ventures Corporation (NVC) and the Northeast Entrepreneur Fund—which together form Northeast Ventures.

According to a June 1997 business plan:

The Northeast Entrepreneur Fund was created in 1989 as part of a coordinated effort to rebuild and diversify the economic base of a rural, seven-county region of northeastern Minnesota. NEF's mission is to foster an entrepreneurial spirit and encourage economic self-sufficiency through the growth of small business and self-employment opportunities in northeastern Minnesota.

Mary Mathews, when asked about this mission, said, “It’s creating role models by concentrating on one business at a time. Through their experiences, and how we talk about them in the region, it helps other people think more broadly about their possibilities.”

Many of those interviewed noted the lack of entrepreneurial spirit in the region. Mark Phillips, Director of Economic Development for Minnesota Power, remarked, “We had a whole lot of absent ownership in this region. You don’t develop much of an entrepreneurial culture in that environment.” At the same time, many were positive about the potential for small-business development in the region. Henry Hanka, executive director of the Arrowhead Regional Development Commission, notes, “In northeast Minnesota, there’s a whole lot of people with wonderful ideas, [who] tinker away at them. . . . People here are fiercely loyal, fiercely independent, and great tinkerers.” One goal of NEF is to help people turn these ideas into successful businesses.

Methodology

Application and Screening Process

Customer² contact with NEF begins with an introductory workshop. This free three-hour session includes an introduction to the organization and its mission. “We then talk about personal housekeeping issues, and then the business process, and then we give them some information about our loan fund,” notes business consultant Barbara Myers. The individual is subsequently asked to decide if NEF would be the best agency to serve them. If the customer decides to continue with the organization, they are asked to bring a personal budget and credit report—so that any personal finance issues may be addressed—and they can sign up for a workshop.

Target Population

NEF, according to its 1997 business plan, sees its targeted population as:

- inexperienced or experienced entrepreneurs without access to traditional sources of technical assistance (TA) and financing;
- women;
- low-income individuals;
- minorities; and
- residents of the region whose businesses will be located in the region.

However, NEF does not engage in any specific targeting. According to Mathews. “The targeting we do is general towards the market. We don’t do an income screen, but we do use a sliding scale to charge for services. That’s by design. We’ve never hung a sign on the door that says ‘low income.’ But by the way we market ourselves, and talk about ourselves, that’s the way it happened.”

Training

The training provided by NEF has changed over time. Originally, in an effort to serve the entire seven-county region—not just the Duluth area—all training was one-on-one counseling.

2. NEF prefers the term “customer” to “client.” When asked why, Mary Mathews said, “Clients is a social service term. Customer is different—they are paying for services from us.”

However, as the program grew, that system became unmanageable. Mathews noted, “Unfortunately, we were trying to be all things to everyone, and that only worked for a while. We got too big to handle it like that.”

Group introductory workshops were then held at various sites around the region, including Grand Rapids, Virginia, and Duluth. An all-day business-planning workshop was introduced. Eventually, a series of seven workshops was developed, which were supplemented by individual consulting sessions.

Last year, NEF decided to drop the workshops in favor of a classroom-based course. This ten-week program would cover the same curriculum as the workshops, but in a sequential order. Previously, workshops could be taken whenever a customer wanted, and in any order. Part of NEF’s motivation was to reduce the burden on its staff by lowering some of the logistical costs; one course is easier to administer than seven workshops. An additional motivation was to provide entrepreneurial training to a broader audience. “We know that self-employment training enhances employability, even if you don’t start a business. Self-employment training gives people a broader sense of what is possible than other training,” remarked Mathews.

This new approach has been met with some skepticism by NEF staff. One staffer remarked that it actually creates more work for her. There seems to be a general sense that a balance between the workshop and classroom structures should be sought in the future.

However that balance is struck, all of those interviewed stressed the importance of training and technical assistance for NEF customers. Mathews notes, “We started as a loan fund and discovered that without training, there are very few good borrowers. Some places will say that they are credit led or training led. I think that we’re a credit-led trainer.”

Lending

NEF was created at the same time as its affiliate, Northeast Ventures Corporation (NVC), a for-profit community development venture capital fund. Nick Smith, the founder of both organizations, saw a need for venture capital in the region in order to spur growth and thereby diversify the economy.

Tom Renier, director of the Northland Foundation, served Smith in an advisory capacity as these organizations were established. Later, Renier served on the board of NEF. On the relationship between Northeast Ventures Corporation and NEF, he notes:

Some people don’t see that connection between the for-profit, high-end venture capital thing, and then the microenterprise thing. While they could exist independently if they had to, they really do have a lot in common. Both seek to provide capital where the private markets are not able to do so. What makes them different is the amount of work that’s needed for those very small loans. . . . As it evolved, it was realized that the best way of doing this [microloans] was not to give people money and walk away. Their [NEF’s] process is very labor intensive, nurturing, counseling, and with a bit of money to get things going. I said that this is the right way to do it [microloans]. These are people who aren’t ready without the training.

The Northland Foundation also makes direct loans to businesses, but on a much larger scale. According to Renier, “We’ve got an \$8 million loan program with one loan officer. We do

loans, not technical assistance. People come to us who are bank ready.” He sees the work of NEF as a “crucial link.”

Table 6.2 summarizes the lending activity of NEF over the past five years. Only three of ten customers receive a loan, and customers must have completed several workshops and a business plan before a loan is considered.

Since its inception, NEF has made 129 loans to 91 businesses in amounts ranging from \$125 to \$25,000. Loan volume has averaged \$120,400 (17 loans) per year. The average loan size has been \$6,800, and a typical term is 3.5 years.

NEF has made 52 percent of its loans to women, 84 percent to low-income borrowers, 29 percent to welfare recipients, and 9 percent to minorities. The geographic distribution of loans reflects the population concentrations in the region: 26 percent in the city of Duluth, 41 percent in non-Duluth St. Louis County, and the remainder spread across the rural counties.

TABLE 6.2
Summary of NEF Lending Activity

	1993	1994	1995	1996	1997
Number of loans disbursed	9	24	25	13	20
Number of businesses financed	9	20	20	11	20
Percentages of start-ups financed	44%	65%	60%	64%	33%
Total dollars loaned	\$22,768	\$153,700	\$177,216	\$146,400	\$199,692
Active borrowers at year end	28	30	33	34	39
Total outstanding principal	\$98,197	\$166,079	\$279,855	\$341,238	\$400,712
Loan loss reserve	\$21,917	\$32,350	\$43,500	\$51,200	\$58,650
Average loan size	\$2,530	\$6,603	\$7,089	\$11,262	\$9,885
Portfolio at risk	11%	0%	6.3%	20.5%	32%
Percentage of loan loss (annualized)	31%	5.5%	.58%	4.58%	4.6%
Total loan capital	\$423,944	\$552,446	\$530,781	\$709,234	\$781,425

Source: Data provided by program

Recently, NEF shifted its lending strategy. Previously, the largest loans made were \$25,000. In the past year, NEF increased its loan ceiling to \$100,000. According to Mathews, there were several motivations for this change. First, customers who had been in business for a few years still experienced difficulty in accessing the traditional credit markets but often needed additional capital for expansion of their businesses. To serve these customers and to promote the growth of their businesses in the region, NEF sought to continue its “mission to diversify the regional economy.” A second reason for offering loans on a larger scale was NEF’s need to generate income to sustain its technical assistance and training programs. Mathews notes, “We’ve been blessed with a couple of funders who have provided general operating support. But those days are running out. We need to figure out how to support our operations internally, as well as with grant funding.” NEF believes that larger loans will not only generate more income but will do so with lower technical assistance costs. In the future, lines of credit and purchase order financing may be added to these larger term loans.

Relationships with Other Organizations and Institutions

In general, those engaged in economic development in northeastern Minnesota have a very strong and positive working relationship. Key to this is the Arrowhead Growth Alliance. This informal group works to coordinate and facilitate activities between the various public and private agencies that operate in the region. “Sometimes it’s heavy issues, often it’s information sharing,” notes Renier.

All of the agencies interviewed for this project commented that each program has a fairly well-defined niche. “Everyone has carved out pretty specific goals, so we all do our own things,” Renier continued. Henry Hanka of the Arrowhead Regional Development Commission (ARDC) asserted, “We don’t try to cross roles. They [NEF] have a specific goal, and we don’t try to duplicate what the other does. They run a good solid program, and we’re not going to monkey with it. They have a different clientele.”

“Back in 1985 and 1986, everyone wanted to be a hero, and it was really competitive,” notes Robert Palmquist, who runs the ARDC loan fund. “Now, we network and see the need for coordination and leveraging.” A local banker, in discussing why he would refer someone to either NEF or a Small Business Development Center, also expressed this sentiment. “Often it may just boil down to personalities and how a service is delivered. It’s just like coming to a bank. We all offer about the same kinds of products, but the exact details, and how they are actually provided, will determine where someone is best served and feels most comfortable.”

Changes in Mission and Methodology Since Inception

When asked, Mary Mathews states that the mission of NEF has remained constant over the program’s nine-year history. “We are still committed to diversifying this region’s economy by promoting an entrepreneurial spirit,” she notes. “But this is always a learning process. We have a strong commitment to evaluation and learning, and try to learn as much as our customers do. We are consistently trying to improve what we do.”

As illustrated above, this learning and evaluation process has resulted in changes to NEF’s methodology. Training has moved from a strict one-on-one format to a combination of one-on-one and classroom-based learning. Lending activity has expanded in an effort to generate additional revenues and provide greater programmatic support. And relationships have been developed with other service providers in the region.

Funding

Current Sources

In the original design of Northeast Ventures, the revenue from the venture capital and microloan activities would support the technical assistance programs of NEF. However, it quickly became evident that the technical assistance and training elements could not be wholly supported by these sources. As with most other microenterprise programs, NEF relies heavily on outside grant support for its technical assistance programs. Table 6.3 lists secured sources of income for the program’s 1998 budget.

TABLE 6.3
NEF's Income Sources

<i>Source</i>	<i>Amount</i>
Ford Foundation	\$50,000
Northwest Area Foundation	59,000
Rural Business Enterprise Grant (RBEG)	25,000
SBA — Microloan	55,000
CDBG, St. Louis County	55,000
CDBG, Duluth City	37,500
Mott Foundation	50,000

Source: Data provided by program

In addition to these sources, several grantors provided support in 1997, and were expected to continue to provide support in 1998. They include the Iron Range Resources and Recovery Board (IRRRB) and the U.S. West Foundation. With earned income from other contracts to provide training, as well as income generated from loan service, NEF is predicting an income of \$815,750 in its budget for 1998. As a basis for comparison, in 1997 the program's actual total income was \$647,642.

Sources over the Last Five Years and Explanation of Changes

According to Mary Mathews, funding for NEF has diversified over time. "It used to be totally private foundations," she recalls. "The Northwest Area Foundation, Mott, and Ford were the original large supporters. The government sources have grown over time—like the contract with the City of Duluth." Currently, NEF has contracts with both the City of Duluth and St. Louis County to provide entrepreneurial training. Those contracts utilize Community Development Block Grant (CDBG) resources.

Outputs

Number of People Trained

From the inception of the program in 1989 through the end of 1997, NEF received 4,667 inquiries from customers, resulting in a total of 2,436 customers served. As mentioned above, this training historically had been one-on-one assistance but has moved toward more group-oriented learning in recent years, first with the development of workshops and then with the introduction of a classroom-based course in 1997.

Most (2,351) of these customers have attended the Introductory Workshop, which is one of the requirements for a loan. The Market Planning workshop was attended by 502 customers, and 107 customers took the Cash Flow Planning workshop. Other workshops include Operations (60), Record Keeping (88), Selling Skills (54), and Packaging / Promotions (33).

The 2,436 customers who received technical assistance from NEF since 1989 were responsible for 205 businesses being started, stabilized, or expanded. Table 6.4 shows that the number of customers served has risen steadily in the past five years. The majority of businesses served have been start-ups, but that number has been declining. According to Mathews, in 1989

only 5 percent of businesses served were not start-ups. Today, as many of their customers' businesses have matured, NEF's relative share of start-up businesses has declined.

TABLE 6.4
Customers Served

	1993	1994	1995	1996	1997
Number of TA customers served	344	398	433	483	542
Resulting number of businesses started, stabilized, expanded	30	39	50	64	59
Percentage start-ups	87%	74%	76%	82%	70%
Jobs created, retained	39	73	102.5	124.5	128

Source: Data provided by program

According to NEF, a total of 660 jobs have been created or retained since the program inception in 1989. This, and the employment figures given above for the study period, may seem relatively unimportant to the regional economy. However, given that half of NEF's customers live in small rural towns (populations of less than 5,000), the impact of a small number of jobs in such places is more significant than in more urban places.

Outcomes

Types of Businesses Started

Roughly half of the businesses started by NEF's customers are in services (Table 6.5), which is typical for microenterprise programs and the region.

TABLE 6.5
Businesses by Sector, 1993 to 1997

Type of Business	Retail	Manufacturing	Services
Total	83	87	174
Percentage	24%	25%	51%

Source: Data provided by program

To illustrate the range of businesses started by NEF customers, below is a listing of business starts from 1997, based on data provided by NEF.

Businesses Started in 1997 by NEF Customers

Candy/Fudge Retail	Etching and Engraving	Mortgage Broker
Child Care (2)	Fastener Distributor	Outfitter/Guide
Children's Clothing	Farrier	Pet Products
Computer (2)	Finance Company	Photography

Consulting Services		Florist	Real Estate (2)
Crafts (3)		Furniture Manufacturing	Reel/Rod Repair
Custom Embroidery		Graphic Design (2)	Resort Directory
DJ/Promo		Hair Salon	Restaurant
Dog Grooming		Inventory Control	Taxi Service
Drywall/Stucco		Lawn Maintenance	Tile Setter
Engine Repair		Massage Therapist (2)	Transmission Repair
			Uniform Store

Findings from Client Side

Typical Client

When asked to describe the typical client, Mary Mathews responded:

It's hard to describe, because we serve a wide variety of people. However, most of our customers are low-income. Half are women. Our customers want to live in northeastern Minnesota, but their job options are limited. While most of our customers want their business to be the primary income source for their family, increasingly self-employment is part of an income patching strategy, combined with part time employment. They have little or no business experience; most have never known anyone who has owned a business. Most have some education beyond high school. They are skilled and usually have experience producing their product or service.

Geographically, NEF's customers reflect the population of the seven-county region. Of the program's 1997 active customers, 63 percent (343) live within St. Louis County, which includes the city of Duluth. Most customers (66%) are between the ages of 30 and 50.

Of 1997 active³ customers, one-third described their primary source of income as self-employment, more than one-fourth (26 percent) a full-time job, and less than 15 percent cite AFDC or Social Security as their primary income sources.

In 1997, 53 percent of all active customers were women. The annual household income of these customers, given in Table 6.6, illustrates that more than half (55 percent) earn less than \$20,000 each year.

TABLE 6.6
Household Income of Customers

<i>Annual Household Income</i>	<i>Number</i>	<i>Percent</i>
Less than \$10,000	148	27
\$10,000 to \$19,999	151	28
\$20,000 to \$30,000	86	16
Greater than \$30,000	121	22

3. "Active" is defined as having requested some service within the prior six months.

Unknown	36	7
---------	----	---

Source: Data provided by program

According to CDBG Income Guidelines⁴, 65 percent of these customers were low-income, with an additional 8 percent designated as moderate-income.

Range of Clients Served

As mentioned above, NEF has a specific target population. This includes low-income individuals, minorities, and women. Over the five-year study period, the program seemed to be reaching its target population, as indicated in Table 6.7.

It should be noted that the minority population of the region is about 3 percent, primarily Native Americans, with some black and Latino. As NEF notes in its 1997 business plan, “The level of current participation indicates a high level of poverty and lack of economic opportunity among minority populations.”

4. CDBG guidelines define low-income as individuals earning less than 80 percent of the local median household income.

TABLE 6.7
Customer Demographics

<i>Customer Demographics</i>	<i>Women</i>	<i>Minorities</i>	<i>Low Income</i>	<i>Public Assistance Recipients</i>
Training and TA Participants	48%	10%	70%	13%
Resulting Business Owners	49%	10%	76%	17%
Loan Customers	52%	9%	84%	29%

Source: Data provided by program

Definitions of Success/Client Goals

Most NEF customers interviewed for this research expressed self-sufficiency as a their primary goal. One AFDC recipient, who had participated in the SEID program, said that his goal was:

to generate enough income to support my family. Neither my wife or me are very materialistic. We just want to be able to support ourselves, and take care of our family. It's very important to teach kids responsibility.

Another customer, who had worked in retail most of her life, also expressed self-sufficiency as a primary motivation.

I would like to have my own house. Financially, I would like to be better off. To be able to provide for myself and my kids. To stand on my own and say "Here I am." I don't know if I'll ever be well-off, but I'd like to be on my own.

Most customers expressed this type of sentiment; they did not desire great wealth from their business, but had more modest goals. Another customer with a home-based business noted her need to reevaluate her goals:

When I started, my goal was survival, and I did. Now I'm setting new goals. Maybe I'll have a little shop. . . . [Success will be] when I'm making enough money to live comfortably without worrying. Teaching others to benefit themselves by what I know, and giving them the knowledge they need.

In terms of long-range goals, most customers maintained these modest aspirations. One successful business owner commented:

Ever since the business started, we've had slow but steady growth. I'd like to maintain that. I have no dreams of being the next L.L. Bean.

Another customer, who recently opened a business with her sister, saw the long-term growth limitations on her business as a result of its location in a small town:

In the long term, I want to retire in five years. My sister is a glutton for punishment. Knowing her, she'll keep the business until she dies. The business will increase, and we'll be able to make a living off of it, but it will stay small, since this town is small.

Reasons for Pursuing Self-employment

Most, if not all, of the customers interviewed for this research cited the economy as a factor in their decision to pursue self-employment. Due to its dependence upon resource extraction industries, the regional economy in northeastern Minnesota was devastated by the decline in the mining and timber sectors in the early 1980s. One business owner, capturing the sentiment of many, recalls:

When I started the business ten years ago, the mines had just shut down. To give you an idea: When I was looking for a house 11 years ago, 15 of the ones I looked at were under \$15,000. People were just walking away. I wanted to live here, but there weren't any jobs at all. So I wanted to get a business going. It was the only way.

Many of those interviewed expressed this strong desire to stay in the region, preferably in their hometowns. A strong sense of community was detected in NEF customers.

Additional reasons for pursuing self-employment were cited. Some customers, like this artist, were simply looking for a change:

I started this particular business as a midlife crisis, in a sense. I had worked in other employment for eight years and was at a point of burnout. I wasn't going to spend the rest of my life in that job.

Others stated that they had always wanted to start their own businesses, and the timing was now right for it. This business owner started her own business in October of 1996:

I've been in retail for 20 years. I've always wanted to have my own store, and I've been toying with it for five years. Four years ago, I went to an NEF seminar. My kids were old enough, and I was young enough, and I had a lot of practical experience.

Advantages/Drawbacks of Self-Employment vs. Mainstream Work

One of the most commonly cited advantages of self-employment over waged work was the challenge. While this was also mentioned as a drawback, the business owners interviewed

generally enjoyed the challenges they faced as entrepreneurs. The artist mentioned above remarked:

I like the challenge of figuring it out. The possibility of creativity, to say, “Let’s do it this way,” and not have the bureaucratic structure on top of you. And there’s a certain kind of pride when I look at something I’ve made. . . . I can get the instant reaction from someone who’s seen my work and the glow in their face when it touches them. I don’t think I’ve ever had a job where I see that on the other side of the table.

Another NEF customer noted:

I like self-employment better. The challenge of it—there are so many different things you have to do. I kind of like the stress and the opportunity of better income down the road.

Others, like this health industry worker, experienced frustration with traditional waged jobs:

I was working for a program in Carlton and Lake counties for a while, but it became bureaucratic. I didn’t go to college for six years to be a pencil pusher. I was trained to help people, and that wasn’t what most of my time was spent doing. . . . So I decided to leave and open my own business. . . . I’m much happier. I’m free. I do what I like without all the rules and regulations.

Still others noted that they would have continued to work in a waged job, had circumstances been different:

The place I was in right before this—it could have been a lucrative thing, had they been willing to do what was needed. I would have stuck with it, too, if they did. . . . Running a store is something I’ve found I’m capable of. I’m more of a leader than a follower; I’m better at setting the direction. And, having my own store is something I’ve always wanted to do.

Relationship with NEF

All of the customers interviewed had positive relationships with NEF, although the experiences of each customer varied depending on that customer’s needs and prior knowledge of business. One woman, who had been a housewife for most of her adult life, said:

NEF has been a help to me. You’re a housewife, and you don’t know how to do it. And they’re real supportive of how a business should work. I wasn’t used to making decisions before. They help you out and point you in the right direction. You work with a personal consultant, and that was helpful. You put your trust in them, and they earn it by showing you how to do things. And they know how to help you. . . . They really got the ball rolling when I

wouldn't know where to go or what to do. . . . Sometimes, people start businesses that are handed to them, or they can stumble through and learn along the way. That just wasn't an option for me.

Many customers came to NEF with nothing more than an idea for a business. Working with consultants, these customers were able to take that idea and turn it into an operating enterprise, as this couple, who run a horse-shoeing business, explained:

We needed to talk to someone about this idea. We saw the market for it in Minnesota. NEF showed us how to organize it, market it, advertise it, and look professional at it. We got an 800 number and that really helped. We started with a really big concept, and Suzanne helped us cut it down. We had the skill, but NEF showed us how to market it. They showed us to be sensible in the planning stage. The classes helped us take the useless stuff out. So we targeted our market, and learned what contacts to make. It really helped us to get things down.

All the customers spoke of the workshops they had attended, although they couldn't always remember the details of what topics were covered, or when they took those classes. But almost all expressed satisfaction with the one-on-one technical assistance they received from a particular consultant. This business owner spoke of the intense assistance she received in the planning stages of her restaurant business:

We started talking about it [buying a restaurant], called a real estate agent, got hold of Suzanne Cunningham, and had a one-on-one consultation. I saw her five or six times before deciding if we wanted to go into the restaurant business. All summer we worked on the business plan. We kept going back to Suzanne, and she'd critique it—she'd say, "You need more information here," and things like that. She was very positive. . . . [Without NEF, we'd be] in the hole, hurting real bad. They've been a great help. I don't think we could have made it through the year. We wouldn't have done a cash flow. And if Suzanne didn't insist that we went back for more research, we'd be real surprised on what the business needed.

Other customers who had specific training in their trade, but who had little business experience, spoke of feeling overwhelmed. This woman sought help from NEF:

I knew nothing about being in business, so that's when I contacted Barbara Myers. I would be speaking with someone, and they'd throw around all these terms and letters, and assumed I knew the difference between a C-Corp and an S-Corp. I had a master's degree, but I became overwhelmed with all of this. I didn't want to make any mistake with the business, so I looked for help.

For others, working with NEF helped build confidence. A mortgage broker asserted the following:

For me, I was pretty well-versed in the business; I knew what I was doing. NEF helped me to understand how to deal with obstacles, how to plan for the

worst case, and how to plan for the best case, and make planning a part of the ongoing business process. There's a whole list of things that they helped me with, but if I had to sum it up, they gave me the confidence to know that my niche was right, my convictions were right, and that I was headed in the right direction. All I needed was to fine-tune parts of what I needed.

While only three in ten NEF customers apply for loans, assistance with financing and the financial aspects of their businesses were an important part of the training and technical assistance provided. Some customers in nontraditional businesses experienced resistance from commercial credit institutions, and NEF was able to help them. A licensed massage therapist noted:

I had the training, and the idea for the business. I had called three banks, and they laughed a bit. I thought that I could borrow the money from some friends, but I didn't want to do that. I heard about NEF from some friends who had installed their phone system.

The operator of a home-based residential adult-care center had some problems with access to commercial credit:

Without NEF, we wouldn't have made it. No bank would touch you. You'd already have to have a house that's already set up. So they helped us with the classes, and getting the loan together.

Many customers cited the incremental, personal, and one-on-one approach of NEF as key to their success. In comparing her experiences with other business consultants, this business owner noted the advantages of NEF's approach:

There's a big need for what they're doing out there. I've been to other places—business consultants and the like—but it never worked. They [NEF] really helped me develop what was in my head: where the business was going in both the short and long term. They also helped me think about the financing. The other places were always real vague. They'd give me a worksheet to work on financial projections, but I didn't know how to do that. I was trying to put food on the table and make sales, so I didn't have time for those papers. So they would end up in a pile on my desk, and when I cleaned up, I'd find them and say, "Oh yeah. I was going to do that." With NEF, they were never pushy. They worked with me on very short-term goals, like when do you plan on coming in next, and what are you planning on having done. So it made me work at it a bit harder.

While most customers were very positive about their experiences with NEF, two issues were raised during the interviews. The first questioned the relevance of NEF training to particular sectors. One retailer, while discussing the potential location for her store, found it frustrating that her consultant didn't shop at a mall and couldn't relate to the impulse nature of her business. A health industry worker notes:

My only criticism about NEF is that they are really geared towards products, and not services. The curriculum, the example, they just didn't apply to my kind of business. The general help was great, but there are things like taxing and the like that are different—very different—for health care providers.

A second issue, mentioned only by one customer, mirrors sentiments expressed by NEF staff. This customer noticed that the staff seemed to be more stressed than in the past. She, like some of the staff, believes that more consultants need to be hired, or the customer base reduced.

When they upgraded the training this year...it seems to be a bit harder on the staff. They are a very tired staff now. Watching them as workers, it reminds me of when I was back at [her previous job]. It's an okay idea to increase training, but I think they need to increase the staff. This staff is very good, and can carry it, but I worry about them burning out in a few years. The training, and mentoring, and the one-on-one relationship—it's been good for me to have that. But I see her getting tired too. I see her as a person getting pulled in a lot of different directions. They need to have more staff, or fewer clients.

What Makes This Program Unique

When asked to describe what makes this program unique, NEF president Mary Mathews cited three factors. First, she noted NEF's strong one-on-one technical assistance component. "We have a very strong one-on-one approach to providing technical assistance, which makes it very expensive, but we have a very high success rate. Ninety-four percent of the businesses are around two years after we work with them." A second factor she mentioned was NEF's commitment to evaluation and learning. As mentioned above, this has led to a constant refining and updating of its curriculum and the means by which it is presented. Finally, she noted the difficulty in providing service to a large rural region, but believes that NEF is "successful in providing ready access in a dispersed rural region."

NEF is not the only provider of business technical assistance and training in the region. As in other parts of the country, this microenterprise program operates side by side with Small Business Development Centers (SBDCs). One banker, in describing whom he refers to each agency, said:

NEF is for someone with no skill levels. [Someone with] a great idea, but have had a waged job, and no high degree of other skills. The SBDC is better for people that have a little higher degree of skills. Someone who goes to an SBDC, they're looking for a lower [less intensive] level of service [than they would receive at NEF].

Yet it appears that NEF is the only service provider for this particular niche of clientele—low- and moderate-income individuals with little or no formal business training who desire highly personalized assistance. NEF is well suited to these individuals.

Program Challenges/New Directions

The primary challenge identified by NEF staff is program sustainability. As discussed earlier, two methods are being implemented to reduce costs and increase revenues. First, a sequential, classroom-based curriculum has been added to the workshop-based training. One goal of this shift is a reduction in administrative costs. However, as mentioned, this new method is under scrutiny by NEF staff who question its savings potential. Since this new curriculum has only recently been put in place, it is too early to judge its impact.

A second method adopted to improve program sustainability is diversification of the loan portfolio. Specifically, this will be implemented by offering loans in the \$25,000 to \$100,000 range—a market previously served by Minnesota Power (which has since stopped making such loans). It is too early to judge how this increased loan activity will impact NEF's budget and whether these larger loans will generate significant additional revenues.

As mentioned above, these changes have impacted staffing. Both customers and NEF consultants have noticed an increased burden on program staff. One noted, "I'd say that in my first few years, there was a really high turnover—and not all of it voluntary. Part of it, too, is that you can only do it for a while since it doesn't pay as well as the private sector."