
EXAMINING THE UNIQUE OPPORTUNITIES AND NEEDS OF RURAL SMALL BUSINESSES

Entrepreneurship is a proven pathway for Americans from all walks of life to build income, independence and financial security for themselves, their families, their employees and their communities. Rural entrepreneurs start businesses at higher rates than their urban counterparts and have higher five-year business survival rates, and these businesses play a particularly vital role in rural America, creating roughly two-thirds of new jobs and supporting the economic and social wellbeing of their communities.¹ Nationwide, small business owners generate more local economic benefit than larger corporations, a fact that holds true for rural entrepreneurs as well.

Despite the importance of local businesses to rural communities, little research has been done to try to understand the unique strengths and challenges faced by rural small business owners. Understanding how to better stimulate and support rural entrepreneurship can help policymakers, philanthropic organizations and economic development organizations implement new policies and programs that would promote more economic growth. Rural communities have struggled to recover economically from the Great Recession, lagging behind their urban and suburban counterparts. Indeed, a 2016 report from the U.S. Department of Agriculture found that while the national unemployment rate has returned to pre-recession levels, it is still well below pre-2008 levels in rural areas.² Stimulating rural entrepreneurial activity could help reverse these trends and create more economic opportunity for rural residents.

To better understand the state of rural small businesses, Small Business Majority conducted a three-pronged research project to explore the unique needs and challenges of small business owners in rural communities (for the purposes of this study, small businesses were defined as fewer than 100 employees). We held focus groups with small business owners in rural communities in Georgia, Mississippi, New Mexico and Texas, and we held roundtable discussions with key stakeholders including Small Business Development Centers (SBDCs), chambers of commerce, economic development organizations and local officials within these rural small business ecosystems. We supplemented these qualitative findings with a national poll of rural (defined by U.S. Census codes) small business owners across America. Our general knowledge of small business owners nationwide helped us in identifying which findings were unique to rural small business owners.

What we learned from our polling and discussions with rural small business owners and other community stakeholders is small businesses play a key role in all facets of life within rural communities. Small business owners in rural towns are civically active and their successes and challenges are very aligned with the strengths and weaknesses of their communities. While these entrepreneurs represent great potential, they often face different challenges than those in metropolitan areas, including geographic isolation, spotty broadband services, ailing infrastructure, a reluctance among major companies, banks and healthcare providers to serve the area, difficulties in hiring and retaining qualified workers and barriers in accessing capital to build their businesses. Still, they see themselves as the backbone of the community, invest heavily in their towns and are interested in shaping local and state policy.

This summary outlines key opportunities and challenges facing small business owners in rural communities. For more information about rural small business ecosystems, demographics, general views on business ownership, more detailed findings and policy recommendations to meet the needs of rural entrepreneurs, please see the full version of this report.

¹ <http://theconversation.com/six-charts-that-illustrate-the-divide-between-rural-and-urban-america-72934>

² <https://www.ers.usda.gov/publications/pub-details/?pubid=80893>

KEY FINDINGS

Rural small business owners are optimistic about economic conditions

Rural small business owners surveyed in the national survey were asked to rate the current economic conditions for small businesses like theirs in their community today on a scale of zero to ten. Sixty-eight percent rated their local economy as a 6 or better, indicating generally positive economic outlooks among these business owners. A majority of respondents (56%) said the current economic climate in their community is better than the economic climate of five years ago.

Access to capital is particularly challenging for rural entrepreneurs

Small business owners in focus groups and stakeholder roundtables identified access to capital as a major challenge for rural small business owners, while the poll results indicated it was more of a moderate issue for rural entrepreneurs. Roughly 1 in 5 rural small business owners surveyed in our national survey rated access to capital as one of the top three challenges to maintaining or growing their business in their community. Four in 10 poll respondents reported accessing capital is a personal problem for them.

Rural entrepreneurs need more information and assistance in navigating access to capital; identify various solutions

Results from the poll, small business focus groups and stakeholder roundtables identified some discrepancies regarding awareness of local technical assistance providers and education around small business financing. According to the poll, 73% of respondents reported they are very or somewhat confident they know all the loan and capital options available in their community. However, a significant majority of 59% also agreed they need more information on the types of capital sources out there that their business might benefit from. Community stakeholders were generally aware of a wide variety of state and local programs to provide resources to small business owners around funding, but did feel there is a lack of awareness of these programs among the rural entrepreneurs they serve.

Rural employers struggle greatly to maintain a qualified workforce

Across all focus groups, participants stressed that good employees are difficult to find and they can't compete for more educated or experienced employees. The poll found more evidence to support these beliefs, with 73% of respondents saying a lack of economic opportunity forces people to leave their community and more than 1 in 4 rural small business owners surveyed (26%) said they have been trying to hire more employees but are unable to find qualified workers. We also heard from focus group participants and poll respondents that finding candidates with the right level of professionalism and education was a barrier.

Healthcare costs and lack of providers are a significant concern of rural entrepreneurs

Small business owners and their employees nationwide routinely struggle with access to affordable health coverage, and this challenge is especially acute for rural small businesses. The poll found 7 in 10 poll respondents agreed that the ability to offer a comprehensive benefits package to employees was a barrier to retaining current employees. What's more, almost 1 in 3 rural small business owners (32%) rated healthcare costs as one of the top issues facing their business. This sentiment was further emphasized in the feedback we received in our roundtable discussions. In the Clint, Texas focus group, for example, every single participant said they go without insurance and instead pay for their care out of pocket. The remoteness of many of these communities means they also have very limited access to healthcare, with most focus group participants reporting they have to travel at least 30 minutes to access emergency care or routine services.

Taxes concern rural entrepreneurs, desire additional tax relief

Participants in the small business owner focus groups were asked to provide feedback on the availability of and experience with local or federal tax incentives to help their small business. While asked specifically about incentive programs, responses focused on the burden of local, state and federal taxes for small businesses, which many said are too high. This sentiment was reflected in the poll, which 40% of respondents chose as one of the top three challenges facing their business. Generally, we found skepticism among focus group participants about incentive programs, with many saying they are hard to utilize and often not worth the amount of time needed to receive them. There was mixed awareness about available incentives for small business, and a general feeling that it is much easier for big businesses to navigate tax incentives.

Lack of broadband and physical infrastructure is hindering rural small businesses

Participants noted a number of infrastructure needs that constrain their small businesses. Chief among these is the availability of reliable broadband. Roughly 1 in 10 poll respondents (11%) rated lack of reliable broadband as one of the top three challenges facing their business. Stakeholders also reported that lack of reliable broadband is a major challenge for the small businesses in their areas. Participants from groups like local chambers of commerce or economic development entities noted that broadband access is a major barrier to recruiting out-of-state or international firms to their rural communities, and a lack of access to reliable internet in residential areas prohibits the ability of individuals to take on freelance or independent work out of their homes. Multiple people added that lack of access to high-speed quality internet hurts efforts from technical assistance providers to establish programs for local entrepreneurs. Other small business owners noted issues with physical infrastructure, such as water systems, roads and bridges, which in many cases are beyond repair and cause challenges for transportation.

RESEARCH METHODOLOGY

The results and recommendations in this report are based on polling of rural small business owners nationally and qualitative feedback gathered through 21 informal “focus group” style discussions with small business owners and stakeholders including leaders of local SBDCs and business support organizations, local city officials and representatives from chambers of commerce, led by Small Business Majority staff. To design the study, we drew on our own considerable expertise as well as feedback from the Robert Wood Johnson Foundation. Local partners like the Rio Grande Council of Governments, the Harlingen Area Chamber of Commerce, the County of El Paso Economic Development Office and others also contributed significantly to the design of the roundtables and discussion groups. In identifying the rural communities to work with, we relied on the expertise, knowledge and established connections of these partners to identify areas sufficiently removed from metropolitan zones.

The national survey was a non-probability, online panel sample of 530 rural small business owners, conducted by Greenberg Quinlan Rosner from September 17 to September 25, 2018. The poll was restricted to small businesses with 1-100 employees, with a cap of 25% on sole proprietors. Respondents live in U.S. Census rural-designated areas, as identified by Census Federal Information Processing Standard Publication (FIPS) codes. Please see the full report for a more detailed explanation of the methodology, include the poll toplines.

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