Rooting Wealth Through Entrepreneurship

Facilitator: Ines Polonius
Focus: Doing Entrepreneurship Differently

Intent: Interactive Session to share best practices in business development

Process:
- Suggest topic
- Participants share best practices
- Facilitator provides additional approaches from the field
- Story
Who is in the room?

In 30 seconds:
• Name
• Organization
• One sentence about how you engage with entrepreneurs
A Quick Introduction

Timeline

• 1998 began this work as alt.Consulting providing technical assistance to rural-based businesses
• 2009 began making working capital loans / became CDFI in 2011
• 2014 merged with Community Resource Group to become Communities Unlimited to serve larger geography, have deeper community impact and scale

The Numbers

• Serve 170 to 200 businesses per year
• 9 full-time management consultants “plus”
Entrepreneurship model built in the Arkansas/Mississippi Delta

Now serving TX, OK, LA, AR, MS, TN, AL

60% of persistently poor counties in US

Purpose:
Root wealth and jobs in rural communities with few other opportunities.

Recruitment *not* an option!
Rooting Wealth

Wealth Building Principles at Work:

1. Create new opportunities for local ownership
2. Create more than financial wealth, through skill and knowledge building
3. Build lasting livelihoods for those on the margin through intentional capacity building and lending practices
Topic 1: Target Population

- Which type of entrepreneur do you serve and why?
- In whom do you invest the majority of your resources (time, capital etc)? Why?

Ideation
Start-Up
Growth Businesses
Transitioning Businesses
Turnarounds

Low-income entrepreneurs
Bankable entrepreneurs
Rural entrepreneurs
Small city entrepreneurs
Urban entrepreneurs

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The Delta is losing 100s of viable businesses to “Aging Out” every year!

Entrepreneurs see their business as a personal source of income and not a “community asset”

Communities are losing sales taxes as local retailers “age out”

Entrepreneurs left with no retirement income

Strategy: “Keep” wealth local!
We are **not** a business broker!

- Risk Assessment of Existing Business – Is it viable?
- Full financial analysis – Is it healthy?
- Valuation of business – Reality check for owner
- Strategy to strengthen and grow business
- Inclusion in database with owner’s permission
- Creation of Prospectus about business
Maintain database of interested entrepreneurs

Identify potential entrepreneur:
- Manager within business
- Returning “youth”
- Local customer or vendor

Provide managerial assistance to prepare entrepreneur to take over business
Closing the Gap: Capitalizing the Deal

- Owner financing keeps owner engaged
- Determine loan size based on business cashflow
- Engage investors from community

**Next Step:**
Raise equity capital to enable investment in and control of venture until new entrepreneur is ready to take over.
Since initiative started in February 2013 (24 months):

- Successfully transitioned 9 businesses to new owners
- Saved 45 full-time jobs
- Created 11 new jobs through growth of transitioned businesses
- Saved $3.5 million in annual economic activity and corresponding sales taxes
- 9 families turned small business into retirement income and intergenerational wealth
- Enabled 4 low-income individuals to own viable businesses
- Currently working with 3 businesses in various stages of transition
The Numbers:

- Karen Worthen – a single Mom with no assets and no income
- Becomes store Manager at Meineke in Pine Bluff, AR
- Owner wants to retire to another state
- Owner financed $75,000
- Communities Unlimited financed $45,000
- Since 2013, Karen has grown the business by 7%, it is profitable and has never missed a payment
- Established a reserve account of approximately $10,000 and has maintained a balance to help in the event of any unexpected problems

Impact: Meineke in Pine Bluff, AR
Topic 2: Building Capacity

How are you building the capacity of the entrepreneurs you serve?
Building wealth through skills and knowledge

Average engagement: 53 hours per client

At site of business

Focus:
- Change management
- Problem solving
- Skill building – financial management, marketing

40 easy to use management tools

Client has skin in the game:
- Sliding scale: $10 to $75 per hour
- 0% financing of engagements
Health Food Retailer in White Hall, AR (Pop 5300)

Scope of Services:
• Feasibility study
• Business plan
• Financial projections
• Cashflow management tool
• Product profitability analysis
• Starter loan to purchase inventory and build credit: $1000

Impact:
• Created 2 full time jobs
• Sales for 2014 were $115,000 with a $10,000 net profit
• Created shopping destination for surrounding towns

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Which best practices in small business lending have you implemented?
Topic 3: TA First, Loan Second

- Impact: Creating livelihoods for low-income individuals
- No room for traditional lending:
  - No to weak collateral because of non-functioning real estate market
  - No to weak credit scores
- Client need for working capital for growth drove decision to add lending component
- Manage risk on front end of loan through TA
  - Financial projections determine amount of loan business can cashflow
  - TA allows us to see cycle from loan to sales to profits to repay loan
- Starter loans: $500 to $1000 to build credit
Impact: Body Shop

**The Numbers Since 2009:**
- 55 loans = $734,881
- One write-off
- Created 31 new jobs
- Sustained 87 jobs

**Body Shop in Parkin, AR (Pop 1079)**
- **Scope of work:**
  - Set up accounting system
  - Financial management training
  - Financial projections
- **Loan:** $50,000 for inventory for retail expansion; leveraged $76,000 in bank financing
- Grown from 2 owners in 2006 to 20 employees
- Sales exceed $1.2 million per year
COMMUNITIES Unlimited  Doing Entrepreneurship Differently

- Incorporate entrepreneurship practices in our work with communities
  - Transition businesses to next generation
  - Grow existing businesses
  - Start-up businesses to fill gaps
- Help entrepreneurs start businesses as part of Delta BioEnergy value chain

Wealth Building Principles at Work
- Create new opportunities for local ownership
- Create livelihoods for low-income families and individuals through intentional capacity building and lending practices
- Create more than financial wealth, through skill and knowledge building

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Thank You!

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Visit our web site at www.CommunitiesU.org

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