City of East Palo Alto/
Enterprise Foundation
Small Business Assistance Program Report

BUSINESS NEEDS & CAPACITY ASSESSMENT

Executive Summary

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I. ASSESSMENT BACKGROUND

The City of East Palo Alto (EPA) and its collaborative partner, the Enterprise Foundation (the Foundation), are interested in establishing a Small Business Assistance Program (SBAP). To begin the process of implementing such a concept, the Foundation contracted with Paul Terry & Associates to conduct a business needs and capacity assessment of all licensed EPA small businesses. To help complete the survey, plan the approach and conduct the analysis with realistic feedback, both an initial SBAP "planning team" and "assessment team" were assembled to review the issues and results.

The goal for the SBAP assessment process was to collect accurate information from ninety, licensed EPA business owners to help the City and the Foundation identify the fiscal, marketing and management information currently available to these businesses. It was expected that this information would indicate specific services that might need to be developed or enhanced to support the continued economic development of small businesses in EPA.

II. *APPROACH AND METHODOLOGY*

An initial pilot study of EPA small businesses was completed in June 1999. Based on recommendations from the SBAP Assessment Team, the initial pilot study targeted fifteen , licensed small businesses at Four Corners and other selected locations. The objectives were to test the SBAP survey instrument, the willingness of owners to be interviewed, the range of questions being asked, the time needed to complete the survey, and the comprehensiveness of the results. This pilot study was completed, reviewed by the SBAP Assessment Team and modified as appropriate, resulting in a decision to proceed with the second stage.

In the second stage, the remaining licensed businesses were surveyed and all results compiled into a final report, listing key findings and recommendations for establishing a Small Business Assistance Program. The second stage study of EPA small businesses was completed in August 1999. This second and final stage included all other licensed businesses in EPA, except businesses located in University Circle, who were judged to be in transition and requiring special services.

In order to capture accurate, timely information, the following strategies were employed:

1. Letters were sent to all business owners from the project sponsor, the Enterprise Foundation, announcing the SBAP survey and supporting the effort.

2. Trained surveyors called in advance for an appointment and were persistent in following-up.

3. A well-designed survey was compiled with input from the SBAP Planning and Assessment Committees.

4. Ethnic and language concerns were addressed by all three surveyors as well as built into the design and delivery of the SBAP survey.

5. There was full support and cooperation from the staffs of both the City and the Foundation.

6. There was direct support and direction as necessary from the City Manager and Foundation Director.

A. General Findings

The interviewing process targeted over ninety, licensed businesses during two phases - the pilot phase and the second stage. By the end of the process, 48 surveys (50+%), were completed. A few interviews were completed by phone as the only way to reach some of the business owners. Every business owner who was willing to be surveyed completed a survey for the study. A very diverse population was interviewed - by business size, length of time in business, types of businesses, ethnicity, business ownership, etc. The survey included franchises and/or employee-owned companies that do business nationally as well as some who work on a business-to-business basis. A majority of owners interviewed were positive about the interest from the City/Foundation, appreciated being able to participate, were happy about getting a visit on site, and were hopeful that the results would help improve the overall business climate in the City of East Palo Alto. Other owners did not participate due a lack of time, not being available or not being interested.

1. Key Survey Results

This *Executive Summary* highlights an overview of the key results. There are two perspectives used in the analysis: one perspective is based on quantitative facts or aggregate data while the other perspective is a breakdown by categories on key issues. These perspectives help us understand the variety of responses expressed from all businesses.

The next paragraphs will summarize the **Basic Aggregate Data** which was collected, including key data that could be easily measured and compared in the aggregate.

a. *Type of Business*

A majority of businesses interviewed were retail, service businesses with the remainder comprised of manufacturing businesses. Percentages are noted below.

Business Types	%/ Total
Retail: Groceries and bakeries	19%
Retail: Restaurants and fast foods	15%
Retail: Other	12%
Service businesses (beauty/barbers)	36%
Manufacturing	17%

b. *Business Ownership*

The majority of the businesses were sole proprietorships (60%), 30% were corporations and 10% were partnerships. Most of the businesses surveyed (60%) have been in business for more than 7 years. However, only 28% of the businesses own their property.

In order to determine more details, the businesses were segmented by consumer and/or commercial markets, gross sales and number of employees. For this analysis, there are four **categories** (the actual numbers by category are listed):

1) **Large commercials** or businesses with greater than $200,000 in sales (23%).
2) **Large consumers** or businesses with greater than $200,000 in sales and more than 5 employees (16%).
3) **Large consumers** or businesses with greater than $200,000 in sales but less than 5 employees (11%).
4) **Small consumers** or businesses with less than $200,000 (50%).

Business Type	No of Businesses	> 5 years	< 5 years
Large Commercial	10	9	0
Large Consumer > 5	7	7	0
Large Consumer < 5	5	3	2
Small Consumers	22	16	6

c. *Employment*

Eight of the businesses surveyed employ more than 25 employees. However, a majority of the businesses (65%), employ between 1 and 5 employees. The actual numbers by category are listed below.

Category	0	1-5	6-10	10-25	>25
Full Time	3	31	50	4	8
Part Time	28	9	1	0	1
Sub Contractors	36	3	3	0	1

d. *Customers*

The customers were reported by many businesses as encompassing all ages (45%). Owners were asked to estimate if more than 50% of customers fell into specific categories. Percentages are noted below.

Ethnicity of Customers	
Chicano/Mexican	23%
Latino	21%
African American	23%
Euro American	8%
Other/Undeclared	25%

e. *Ethnicity/Residence*

The business owners represented a range of ethnicities including Chicano/Mexican/Latino, Black/African-American, White/European-American, Middle-Eastern and Asian/Pacific Islander. It is important to note that the majority of business owners (69%) do not live in the City. Ethnicity percentages are listed below.

Ethnicity of Business Owners	
Chicano/Mexican/Latino	33%
African American	25%
Euro-American	21%
Arab/Middle Eastern	10%
Other/NA	8%

f. *Business Income/Profits*

Based on revenues and profits reported, over 45% of the businesses generated greater than $200,000 in total annual revenues, with 21% generating sales of over $1.0 million. Over 79% reported significant profits and 92% indicated that they were generating sales at a more than break-even level.

2. Analysis by Key Issues

The key issues affecting small business have been detailed below. This includes financing, impact of the developments, business assistance that is needed, other infrastructure problems, and interest in collaboration.

a. *Source of Start-up Financing*

The majority of all businesses were initially financed through personal savings or through family and friends (more than 75%). The smaller businesses used a range of start-up financing sources including micro-loans, owner carry-back and business loans.

Smaller businesses tended to use business loans more frequently for start-up financing. The actual numbers by category are listed below.

Response: Stated Business with:	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
Savings	4	3	2	18
Family/Friends	1	1	1	9
Job Income	3	1	0	23
Bank Loan	1	2	0	23

b. *Impact of Development Projects*

The survey examined three development impacts including the helpfulness of various development projects to small businesses, the specific impact of the Gateway project, and business reaction to various development projects. The results of this analysis are listed below.

1) *Helpfulness of Various Development Projects*

Response	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
University Circle	2	1	1	4
Gateway 101	5	1	0	8
Ravenswood	4	0	0	3
Not Applicable	4	2	1	7

2) *Impact of the Gateway Projec:*

Response	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
No Impact	4	2	1	4
Increase Traffic	1	2	2	9
Decrease Traffic	2	2	1	2
Change Customer	2	2	2	5
Force a Move	1	1	0	4

3) *Business Reaction to Various Development Projects*

Response	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
Upgrade Appearance	4	4	0	10
Expand Business	1	1	0	8
Increase Marketing	1	1	0	7
Relocate Business	2	2	1	5
Nothing	5	2	1	2

In measuring the impact of the three development projects (University Circle, Gateway 101, and Ravenswood), *Consumer Businesses* were much more likely to anticipate an impact and create a plan to respond. This may be due to the fact that consumer businesses, unlike commercial businesses, often serve customers far from the area, the same type of people who will be drawn by the new development.

Gateway 101 was the development project seen as most helpful (36%) to the ***Small Consumers.*** The most likely responses on the part of the ***Small Consumers*** will be to upgrade appearance (45%), add new products and services (36%), and expand their businesses (36%).

The ***Large Commercials*** businesses were not anticipating a significant impact from the various development projects, other than a need to upgrade their appearance. The ***Large Consumers*** businesses listed an increase in traffic (33%) and a change in customer profile (33%) as the likely impacts on their businesses. The most frequently anticipated response by ***Large Consumers*** businesses was to upgrade their appearance (33%). ***Small Consumers*** businesses listed an increase in traffic (41%), a change in customer profile (23%) or being forced to move (18%) as the likely impacts on their businesses. Many anticipate that the development projects will bring in more consumers from outside the area (either shoppers or workers) resulting in a broader spectrum of customers to serve than they do now.

4) Anticipated Impact on Revenue of Various City Development Projects

Response	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
Increase Revenue	3	3	1	8
Decrease Revenue	1	0	1	2
No Impact	2	1	1	3
Not Applicable	1	0	0	0

Regarding impact on revenue, eight (36%) of ***Small Consumers*** businesses anticipated an increase in revenue, while only two (9%) anticipated a decrease in revenue. Eight (36%) responded that they did not know what kind of impact may occur on their revenue.

c. Business Assistance Needs

All of the business categories placed a much higher priority on improving infrastructure services (improved police services, visual improvement program, storefront facade improvements, etc.) than on services that might be provided through business training or technical assistance (i.e. business plan assistance, financial management, employee management, etc.).

1) Helpfulness of Specific Business Services (Businesses that rated this highly)

Assistance Type	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
Visual Improvement	6	6	4	18
More Police Service	5	5	4	19
Store Facade Improve	5	5	4	19
Improve Sanitation	4	4	5	16
Bldg/Rehab Loans	3	2	3	17
Coord Advertising	1	2	4	18

2) Ranking of Business Assistance Services Requested

Response	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
Marketing/Promo	1	2	1	13
Loan App Assistance	1	1	1	9
Business Assistance	2	2	2	6

Small Consumers businesses were more likely to express a need for technical assistance with their business. The surveyors determined that these types of businesses may still be struggling with the challenges of start-up, lower gross sales, and have less money to spend on the outside professional assistance resulting in a need to seek such services from a public or non-profit agency.

The ***Large Commercials*** businesses expressed interest in such services as a visual improvement program (60%), storefront facade improvements (50%), and improved police services (50%). The ***Large Consumers*** businesses were most interested in a visual improvement program (83%), improved sanitation services (83%), improved police services (75%), and storefront facade improvements (75%). This group also expressed interest in coordinated promotions (50%) and building improvement and rehab loans (42%).

The ***Small Consumers*** were the group most likely to express a need for the services listed in the survey. However, even businesses in this group were interested in improved police services (86%), storefront facade improvements (86%), and coordinated promotions (82%). ***Small Consumers*** businesses were also very interested in building improvement and rehab loans (77%), improved sanitation services (73%), access to commercial loans (63%), and assistance with general legal issues (63%).

d. Factors and Problems Affecting Business Owners

Of the important issues affecting businesses, "location" was listed as the most important factor for doing business in East Palo Alto by all business categories. In addition, "weather" was the most frequent addition to the list by the businesses surveyed. For the ***Large Commercials***, location was most often rated as important (90%) with freeway access (70%) and weather (30%) the next in line. For the ***Large Consumers***, location (50%) and affordable rent (42%) were the most highly rated factors for doing business in East Palo Alto. The ***Small Consumers*** most often rated affordable rent (56%) as the most important factor for doing business in East Palo Alto, with location (50%) and freeway access (27%) next in line (actual numbers are listed below).

1) Important Factors for Successfully Doing Business In EPA

Response	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
Location/Weather	12	3	3	11
Affordable Rent	2	2	3	12
Freeway Access	7	2	1	6

Of the issues affecting small business owners, it is "drugs" that was most often rated as a significant problem by all the business categories (73%). Crime was also often rated as a significant problem (64%). Other important problems were loitering (57%), public image of the city (55%), high rents (45%) and unattractive appearance of buildings (45%)(actual numbers are listed below).

2) The Problems for Businesses in EPA

Response	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
Drugs	5	5	4	18
Crime	4	3	3	18
Public Image	4	2	3	15
Loitering	2	3	3	17
Building Fronts	2	1	2	15

e. **Interest in Collaboration**

Over 80% of the businesses expressed an interest in collaborating with other businesses and/or building a network. Establishing a chamber or business association was the most frequently selected way to collaborate (72%).

Interest In Collaborating with Other EPA Businesses

Response	Large Commercial	Large Consumer >5	Large Consumer >5	Small Consumer
Build a Chamber	6	4	4	18
Joint Marketing	1	4	2	10
Joint Purchasing	3	3	1	8
General Networking	6	6	5	19

60% of the ***Large Commercials*** businesses were interested in collaborating, with building a network or chamber as the most preferred method for collaboration. 92% of ***Large Consumers*** businesses were interested in collaboration, with 66% of these being interested in building a network or chamber and 50% interested in joint marketing. 86% of the ***Small Consumers*** businesses were interested in collaboration, with 82% of these being interested in building a network or chamber and 45% interested in joint marketing.

III. RECOMMENDATIONS

The key survey results summarize the most critical issues for the EPA businesses surveyed. All businesses surveyed listed improved city infrastructure (police services, storefront facades and improved sanitation) ahead of any "traditional" business training or technical assistance services. Obviously, the City of East Palo Alto will need to continue to focus on all these areas.

This survey has also helped identify some of the specific priorities and support which is eeded by the small business community as well as the small business services that can be provided by a SBAP. Therefore, recommendations cover four areas.

A. Impact of Development Projects

Overall, the smaller businesses surveyed seem to believe that the new development projects will help increase business revenues. Recommendations regarding the impact of development projects include:

1. Provide current, accurate and timely information on the development process to all businesses to keep them fully informed and involved on the status and changes in current and future developments. Strategies: The City of EPA could provide a regular newsletter and e-mails to **business owners and community leaders.**

2. Help small businesses identify opportunities to do business with any developments and/or with the new businesses or customers being attracted by the growth. Strategies: The City of EPA could provide forums with **local service providers,** where these opportunities were discussed and information and assistance was available for any immediate needs.

3. Encourage larger businesses to look for collaborations with established small businesses. Strategies: The City of EPA could work with the **business community** to publicize and support an active and well-sustained business network or Chamber of Commerce.

4. Provide some detailed market information about new market opportunities and market gaps due to the developments and provide small businesses with market access to these opportunities. Strategies: The City of

EPA could fund a market study by university interns to identify new opportunities and gaps and then work with **community service providers** to help promote and encourage small business start-ups in this area.

B. Business Training, Technical Support and Assistance

Established and emerging small businesses need effective, on-going support services. They require help in understanding what technical assistance can be made available as well as determining what direction and implementation support they need to to follow-through on the advice and resources that are provided. Recommendations regarding training, technical support and assistance needs include:

1. Build a local "small business advocacy voice". Strategies: Empower local **small business providers** to take the lead in the community for funding and developing all business support services that may be needed.

2. Simplify the licensing and permit process. Strategies: **The City** could create a "one-stop shop" for all related small business services and partner with the Small Business Administration (SBA) to help build the appropriate infrastructure.

3. Help small businesses to understand the new customer base being created through the development and new business growth. Strategies: **The City,** with both the **business leaders** and the **non-profit service providers** could provide forums, seminars and websites that will assist with market research, strategies and bidding opportunities.

4. Encourage restaurant owners and food service providers to leverage a new opportunity to provide food products to business employees, commuters and new consumers. Strategies: **The service providers** could work with **business leaders** to develop an industry-specific network or dedicated business incubator to learn and leverage this market opportunity.

5. Encourage distinct collaborations and specific joint marketing between larger businesses and small developing businesses. Strategies: **The business leaders** and **Chamber members** can build relationships, create mentorships and get help from **the City** to stress/encourage joint venturing between new small business partners.

6. Provide access to small business loans **with** pre and post loan counseling so small businesses get access to capital and use the funds effectively for facade improvements, building rehab, lines of credit and/or working capital needs. Strategies: **The City** could facilitate a joint effort with the **SBA, HUD and the Redevelopment Agency** and work with **local service providers** to develop a dynamic lending agency.

7. Help facilitate the development of a dynamic and fully functioning "Chamber" as well as other small business network groups and business organizations. Strategies: **The City, business leaders and local service providers** can create these networks together.

C. Infrastructure/Communications

For all businesses surveyed, drugs, loitering and crime were the most important problems impacting small businesses in their ability to grow/sustain their businesses. Strictly speaking, these matters are not direct "business assistance" issues and therefore the survey team has no specific recommendations to alleviate these concerns. However, based on the interviews, businesses will need to continue to see improvements in police protection, traffic mitigation, and road repairs as well as bus and sanitation services. The City is obviously aware of these issues and is attempting to address these problems all the time. Based upon the information collected, the City could also help businesses by supporting initiatives which help businesses make visual improvements and/or facade repairs as well as by consistently enforcing existing business regulations.

The City is also aware of the importance of working with local businesses to help them solve their own problems through better communication and networking. The City could take the lead is encouraging small business participation in an organized business network so that local businesses and their owners will feel more a part of the community and involved in "owning" any solutions. Recommendations regarding improving communications and collaborations include:

1. Develop a public information initiative which focuses on local small businesses and provides data which encourages business owners to create a strong community. Strategies: **The City** could convene such a forum and provide administrative support to maintain this effort.

2. Develop better links with local schools, training centers and universities to support and or train businesss employees in specific areas of need and create forums for business owners to reduce isolation and encourage collaborative thinking and actions. Strategies: **The City** could incorporate this effort into its enhanced First Source Hiring training efforts.

IV. CONCLUSIONS

In implementing the recommendations developed as a result of the SBAP, the survey team noted that some common actions need to take place including:

A. Listen and respond to the business owners surveyed and make them part of any solution.

B. Start and support simple but effective small business success strategies.

C. Communicate any efforts to the business community so that they know they are available and that they are utilized.

D. Develop an effective mechanism for communication from the City to its business owners and from the business owners to the City.

E. Encourage participation and collaborations between businesses and develop specific forums for discussions on potential joint ventures and collaborations between businesses.

F. Be timely and immediate in all new business support strategies.

G. Measure and publicize all improvements initiated and completed.

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