



# Rural **RESEARCH REPORT**

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**Serving Entrepreneurs in Rural Areas: MyEntreNet**

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Rural regions across the United States have undergone dramatic changes during the past decade, resulting in a fundamentally different economic landscape and an entirely new set of issues to address. Declines in traditional American industries, such as natural resources extraction, agriculture, and rural manufacturing, have left rural economies with only a fraction of the employment base present at the beginning of the 21st century.

On both coasts, mining, fishing, and logging industries have neared the tipping point in many regions. In the Midwest, a long, slow decline in family farming and rural manufacturing has plagued states like Iowa since the 1980s. Nearly every rural county in Iowa lost population in the 1990s. Since 2000, these county losses have continued to accelerate at an alarming rate.

In 2000, for example, a Sarah Lee plant closed in northeast Iowa, eliminating more than 600 full-time jobs. The annual payroll at Sarah Lee was \$16 million, and the company paid \$330,000 in property taxes each year. In a community with a population of 3,600, a loss of 600 jobs is substantial (Krebs 1999). Not far away, Fredericksburg, Iowa (pop. 950), lost the AMPI (Associated Milk Products Inc.) cheese operation shortly thereafter. The plant, owned by Con Agra, employed 375 people in Fredericksburg but steadily divested itself from the facility over a period of four years (International Dairy Foods Association 2003). Con Agra opened new facilities the same year in California, Mexico, and on the East Coast with advanced production technologies. These new factories produce 3 million pounds of Mozzarella cheese with 50 employees in the same amount of time that 1 million pounds was produced in Fredericksburg by 150 employees (International Dairy Foods Association 2003).

Many experts explain the mass exodus of Midwestern manufacturing jobs by pointing to a skilled labor shortage in rural America; a lack of infrastructure and connectivity to the global marketplace; and the existence of new, lower-cost regions around the globe for site manufacturing such as China and Indonesia (Davidson 1990).

In 2004, The Northwest Area Foundation provided a planning grant to the Community Foundation of Waterloo to assess poverty trends in a 10-county rural region of northeastern Iowa, including Chickasaw County. The Foundation conducted focus groups and interviews with nearly 3,500 rural Iowa residents. Among the conclusions were the following:

[T]he jobs lost from the manufacturing sector in the region were often positions paying well above the local average wage. Layoffs flooded the area's labor markets, forcing many to leave or accept significantly lower paying positions. Residents in sectors at risk of poverty suddenly found themselves competing for entry level and minimum wage jobs with laid off workers. As a result, demographic indicators, such as median age, have increased in these rural counties by an average of 4%. (Northwest Area Foundation 2006)

The study concluded that unless these trends are reversed, we will continue to see reduced workforce participation, including job bumping, aging demographic trends, and a declining tax base coupled with increasing demands for human services throughout rural regions (Northwest Area Foundation 2006).

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## New Directions

Transforming declining rural areas, such as Iowa, into thriving regional economies requires a different approach to economic development. Economic development practitioners nationwide have long relied on a three-pronged approach, including business recruitment, business retention, and business creation. For decades, development efforts have focused primarily on business recruitment based on the previously successful branch plant recruitment and retention model.

Successful economic development in the 21st century requires a multifaceted approach, however—one which continues to attract larger businesses but also devotes resources and programs to fostering local business creation and expansion. The main issue is whether all three approaches can compete for scarce resources, especially in rural areas. If not, then the business creation approach seems least likely to be funded simply because the number of jobs created—or the amount of investment—is usually small, even when the programs succeed compared with the promise of attracting a large company. Even though the chances of successfully attracting a large company may be small, development practitioners and their local boards

often adhere to the traditional development philosophy, unwilling to forego it to pursue a new, seemingly unproven strategy.

At the same time, entrepreneurship has gained national recognition as an important strategy for regional revitalization (Walzer 2007). According to the Center for the Study of Rural America, small, locally owned firms diversify the mix of business and industry, insulating the economy from economic flux (Drabenstott 2003). Local business ownership generates local wealth and creates a context for business decisions that legitimizes community needs.

More recently, the Internet and burgeoning E-commerce have made it possible for anyone to seek business information or services and to tap into the global economy as a way to start or expand innovative companies. Revitalizing rural communities means that we must depart from traditional economic development strategies and look to new innovations to reverse outmigration; break our reliance upon declining industries; and re-create diverse, healthy rural economies.

## MyEntreNet

*MyEntreNet* is a rural entrepreneurship development system, first launched in northeast Iowa, that serves entrepreneurs outside of urban regions by linking them with advanced technical and marketing assistance (in part through technology). It develops community support networks and financial resources to help rural entrepreneurs create, successfully operate, and expand businesses in rural areas. Through a competitive selection process, MyEntreNet regions also receive local capacity-building assistance to support entrepreneurial development.

MyEntreNet was developed at the University of Northern Iowa (UNI) Regional Business Center (RBC), a Small Business Development Center (SBDC), in 2002 after a 60% budget cut by the Iowa Legislature forced the RBC staff to rethink their service delivery, especially the services offered in rural northeastern Iowa. “On one hand,” RBC Senior Program Manager Mike Hahn said, “we had a huge budget cut to manage. On the other hand, we had this overwhelming crisis unfolding in rural parts of the state. It led to some creative thinking.”

The UNI RBC launched a Beta test of a comprehensive entrepreneurship development system in four Iowa cities, including the depressed community of New Hampton, which had experienced a dramatic job loss only a year before. Funding from a U.S. Department of Agriculture Rural Business Opportunities Grant provided seed capital to bring together best practices for entrepreneurial success, including building community capacity to support entrepreneurship, customizing business technical assistance and training, creating a sense of place for entrepreneurs to network, and improving access to basic support and capital.

In the initial Beta test of MyEntreNet, 129 participants received baseline services during the first 24 months. *Baseline services* are defined as more than four hours of one-on-one counseling from an SBDC (or regional professional service provider) or participation in a comprehensive training program such as the Kauffman Foundation’s Fast Trac® training, NxLevel™ training, or an ISED Ventures micro-enterprise course (ISED Ventures 2005).

The 129 individuals went on to start or expand 31 companies, create 121 full-time jobs, and leverage \$4.6 million in new commercial/equity investment into their companies. The promising results associated with the northeastern Iowa Beta test attracted the attention of the Iowa Board of Regents, which approved funds from the Grow Iowa Values Fund (Delaney 2006) allocated to the University of Northern Iowa to formalize the system and expand the reach of MyEntreNet into other rural counties around the state.

The Grow Iowa Values Fund was an economic development stimulus initiative of Iowa Governor Thomas Vilsack, which continues today by providing seed capital to companies and projects throughout Iowa to accelerate economic

development. Initial MyEntreNet program development relied heavily on the research and policy recommendations of Lyons, Lichenstein, and Kutzhanova (2007), but with a substantial twist since the researchers had not incorporated the Internet into the delivery of their program.

The resulting program for MyEntreNet is based on the following three key principles: (1) create a supportive place for entrepreneurs to do business; (2) provide a simple single door for entrepreneurs to access the full array of services and resources available to help them start or grow small companies; and (3) create a robust online community to foster innovation and link entrepreneurs with their peers, service providers, and the global economy.

### **Building Community Capacity**

Community capacity building is based on the premise that long-term entrepreneurial success is more likely to occur in a region where entrepreneurship is culturally and socially supported. For that reason, community leaders, volunteers, and entrepreneurs receive customized services and resources, creating a community-wide ethos for entrepreneurship while facilitating the development and growth of new innovative companies.

The community capacity component of MyEntreNet provides community leaders, over time, with the skills and understanding they need to support new and existing business development, and, in doing so, it creates a place for entrepreneurship to flourish. In an entrepreneurial community, a business failure is not a reflection of a person's skill or worth to that community, but it is a learning experience that can be drawn upon to create a stronger business in the future.

Capacity building extends into the primary and secondary classrooms as well, creating an environment where entrepreneurship can be embraced as something to aspire toward upon graduation as a reputable, relevant career choice for young adults. Community capacity begins with the development of a local task force. The task force is comprised of business professionals, bankers, community leaders, educators, faith-based representatives, neighborhood association members, and entrepreneurs. This group carries the regional banner for entrepreneurship development and is a key local referral agent of entrepreneurs in the system. During the first year, the task force creates a regionwide strategic plan for entrepreneurship, including milestones and focal areas of entrepreneurial development. The community can measure its success by these milestones at the end of the two-year launch period.

### **Business Technical Assistance and Training**

Business technical assistance uses scarce state resources effectively by bringing together the state's existing service providers and asking them to work in tandem to serve a specific region of the state with a planned, well-rounded array of services for entrepreneurs at every stage of business development.

Entrepreneurs engaged at the start of the initiative are individually polled during the initial networking event concerning the kinds of technical assistance and training needs they have and would be willing to engage in during the launch phase of MyEntreNet. This research is collected from entrepreneurs who are then encouraged to choose

from several training programs, workshops, and technical assistance services. Existing training programs are promoted, and opportunities for new and innovative training programs are continually explored through direct communication with local entrepreneurs concerning what they need from the service providers to succeed.

Business assistance begins with the identification and recruitment of business service providers from throughout the region and then creates a clear and consistent roadmap for how and where entrepreneurs can access assistance for their businesses. This entrepreneur-centered approach recognizes that business owners are less concerned with

who provides assistance than the quality, consistency, and accessibility of services.

Teams of business coaches, called *Navigators*, are recruited from the ranks of regional professionals in the areas of law,

accounting, banking, insurance, human resources, marketing, technology, mental health/wellness, and general business. These volunteer teams provide e-mail counseling via the MyEntreNet Web application and onsite assistance during topical workshops and business courses.

## Capitalization

Entrepreneurs in rural regions have traditionally lacked adequate access to capital (Markley 2007). Commercial lending is more difficult to obtain in rural regions since rural lenders are not typically large enough to adequately distribute risk, and small rural firms have higher failure rates than their urban counterparts. When rural lenders have limited experience with small commercial loans, they may be prone to decline loan opportunities that their urban counterparts may embrace.

Another challenge facing rural regions is managing rural revolving loan funds. The boards of directors for revolving loan funds often include local lenders since they are the resources in the community with lending experience.

These funds may boast lending criteria, which mimic the local lenders' guidelines, defeating the purpose of a revolving loan fund as a gap financing tool, earlier stage financial instrument, or a loan to capitalize a more risky endeavor or individual.

MyEntreNet works with the local task force to conduct an inventory of existing capital to ensure that the right kind of capital is available to entrepreneurs at the right stage of their business life cycle and to link the task force with statewide resource partners to identify and develop new capital resources as needed (e.g., a community foundation or a regional angel investment network).

## Networking

Business owners sometimes see their businesses as "operating in a vacuum" because of remoteness and lack of technical expertise. Some rural entrepreneurs can go their entire business life cycle without any significant interaction with their peers. At the same time, innovation occurs when like-minded individuals are networked. Geographical isolation of business owners has long been a barrier to business innovation, hampered communications, and a limited growth of companies in rural regions. Networking businesses with other entrepreneurs, the community at large, business suppliers, and industry peers is a critical component of MyEntreNet.

MyEntreNet creates an opportunity for a multitude of networks to develop—some organic and some in formalized community settings. These networks are critical to sustaining the supportive cultural environment needed for entrepreneurship development over time, and they provide needed synergy for individual entrepreneurs to share and learn in a community of practice, no matter where they are located.

Networks developed in a community setting can take many forms, such as Entrepreneur Luncheons, CEO

clubs, E-Exchanges, Peer Mentoring Roundtables, and Cooperative Sales Networks, but they all serve the same purpose: to legitimize the entrepreneurial experience, offer a supportive culture within the community, and provide a sharing and learning forum to advance the betterment of rural businesses.

MyEntreNet creates a sense of place for entrepreneurs via an online community at [www.myentre.net](http://www.myentre.net). This robust Web application offers entrepreneurs and communities alike a unique, but soon familiar, doorway to their peers, resources, classes, and counseling on an ongoing basis. After enrolling, clients complete a user survey listing their name, community, stage of business, gender, industry, and optional photos or other shared information of their choosing. The Web application is then customized to the individual user, featuring different articles concerning their industry or stage of business each week, local community news, and countywide demographic/psychographic and business data. A peer chat network and listserv connect rural entrepreneurs with other rural business owners anywhere. These online resources, coupled with local network support, have been identified by initial MyEntreNet participants as being crucial to their success.

In spite of the solid research base and a promising comprehensive approach, MyEntreNet got off to a rocky start. While the MyEntreNet system was based on sound research, many problems arose in serving rural regions because of their geographic isolationism. A new method had to be found to reach geographically isolated entrepreneurs consistently and cost effectively. MyEntreNet now knew what they needed, but couldn't quite deliver it.

Prior to MyEntreNet, Internet connectivity in rural regions of the state was spotty, mostly dial-up, and rural residents were years behind their urban counterparts in embracing technology in everyday business practices. Technology, however, was the only cost-effective means on the horizon that would begin to bring rural entrepreneurs access to services and resources needed to start and successfully grow businesses in rural parts of the state. Those working with MyEntreNet believed that they were right in creating a method of "touching" geographically isolated entrepreneurs through the Internet, even if they weren't quite ready to be touched. The philosophy has been that rural entrepreneurs are not exempt from the technological revolution; in fact, it is technology that will bring rural regions into the global marketplace. MyEntreNet was just early in the game.

The UNI RBC's first foray into technology-driven service delivery occurred in New Hampton in partnership with

the local economic development office. The New Hampton Economic Development Corp's office, located across from the vacant Sarah Lee plant, had installed DSL connectivity in its office and was eager to use it.

The RBC placed cameras in the Waterloo office and another office in the New Hampton facility. A group gathered to watch as an SBDC counselor greeted a local entrepreneur from New Hampton online using a camera at the RBC. The excitement of the moment was quickly deflated when the entrepreneur started laughing: "He told us that he just couldn't take the SBDC counselor seriously when the picture was so jerky. He said it was like talking to a guy doing the '70s robot dance."

It was back to the drawing board, and online counseling was put on the back burner for several months. Since then, regular surveys of entrepreneurs have helped the RBC staff develop online resources that are relevant and work for the clients served. Among the most popular online features of MyEntreNet are the weekly Webinars, first introduced in 2005. Using technology called *TogetherNow*, developed by a MyEntreNet client, both rural and urban entrepreneurs can attend live, interactive presentations every Monday night on topics of interest to small business owners. These sessions have video and audio capabilities for both a speaker and facilitator and a chat function for questions and answers.

### Next Steps

A new Web community is planned for late 2008, including exciting new features for rural entrepreneurs such as a classified section, a business directory, a high touch/high tech referral system, and an enhanced Navigator section connecting entrepreneurs with business professionals in their region.

Rural areas will continue to be poised for a significant transformation as high petroleum prices cause the demand for grain and resulting prices to soar. These prices will bring substantial increases in income to agricultural producers that will spread throughout the rural economies. A difference from previous times is that many of the supporting businesses that formerly were in small towns are gone. The result is that rural residents increasingly purchase supplies in remote regional centers.

It will become increasingly important that rural areas embrace an active entrepreneurship program to replace many of the jobs that have been lost to foreign competition and other areas. Starting small businesses using entrepreneurship strategies must supplement the industrial attraction strategies that formerly were the mainstay of local development. MyEntreNet is the first initiative of its kind to bring together critical elements of venture creation and to deliver them through a combined onsite and online system. This approach offers a glimpse into how the talent and innovation of rural entrepreneurs might be assisted to foster the development of globally driven regional economies in rural Iowa.

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