



CITY OF BELLEVUE

In Partnership with the
University of Washington

LONG-RANGE PLANNING RECOMMENDATIONS FOR STARTUP 425

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LIVABLE
CITY YEAR

Livable City Year 2018–2019
in partnership with
City of Bellevue
www.washington.edu/livable-city-year/



The student team celebrates with university and city leadership following their final presentation on December 11, 2018. From left to right: Sandeep Krishnamurthy, UW Bothell Business School Dean; Josef Nazarchuck; Yosuf Kushan; Project Lead Jesse Canedo, Chief Economic Development Officer, City of Bellevue; Max Peaslee; Kento Burke; Anthony Gill, Economic Development Analyst, City of Bellevue; and Dravida Seetharam. TERI THOMSON RANDALL

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ABOUT LIVABLE CITY YEAR

The University of Washington's Livable City Year (LCY) initiative is a partnership between the university and one local government for one academic year. The program engages UW faculty and students across a broad range of disciplines to work on city-defined projects that promote local sustainability and livability goals. Each year hundreds of students work on high-priority projects, creating momentum on real-world challenges while serving and learning from communities. Partner cities benefit directly from bold and applied ideas that propel fresh thinking, improve livability for residents, and invigorate city staff. Focus areas include environmental sustainability; economic viability; population health; and social equity, inclusion and access. The program's 2018–2019 partner is the City of Bellevue; this follows partnerships with the City of Tacoma (2017–2018) and the City of Auburn (2016–2017).

LCY is modeled after the University of Oregon's Sustainable City Year Program, and is a member of the Educational Partnerships for Innovation in Communities Network (EPIC-N), an international network of institutions that have successfully adopted this new model for community innovation and change. For more information, contact the program at uwlcyc@uw.edu.



ABOUT CITY OF BELLEVUE

Bellevue is the fifth largest city in Washington, with a population of more than 140,000. It's the high-tech and retail center of King County's Eastside, with more than 150,000 jobs and a skyline of gleaming high-rises. While business booms downtown, much of Bellevue retains a small-town feel, with thriving, woodsy neighborhoods and a vast network of green spaces, miles and miles of nature trails, public parks, and swim beaches. The community is known for its beautiful parks, top schools, and a vibrant economy. Bellevue is routinely ranked among the best mid-sized cities in the country.

The city spans more than 33 square miles between Lake Washington and Lake Sammamish and is a short drive from the Cascade Mountains. Bellevue prides itself on its diversity. Thirty-seven percent of its residents were born outside of the US and more than 50 percent of residents are people of color, making the city one of the most diverse in Washington state.

Bellevue is an emerging global city, home to some of the world's most innovative technology companies. It attracts top talent makers such as the University of Washington-Tsinghua University Global Innovation Exchange. Retail options abound in Bellevue and artists from around the country enter striking new works in the Bellwether arts festival. Bellevue's agrarian traditions are celebrated at popular seasonal fairs at the Kelsey Creek Farm Park.

Bellevue 2035, the City Council's 20-year vision for the city, outlines the city's commitment to its vision: "Bellevue welcomes the world. Our diversity is our strength. We embrace the future while respecting our past." Each project completed under the Livable City Year partnership ties to one of the plan's strategic areas and many directly support the three-year priorities identified by the council in 2018.



BELLEVUE 2035: THE CITY WHERE YOU WANT TO BE

Long-Range Planning Recommendations for Startup 425 supports the Economic Development target area of the Bellevue City Council Vision Priorities and was sponsored by the City's Community Development team.



ECONOMIC DEVELOPMENT

Bellevue is known as a hub for global business. We attract the best — a highly educated, entrepreneurial, and talented workforce. The best choose Bellevue — we are home to headquarters for global businesses as well as innovative startups that are moving beyond the garage.

The city does all the things it needs to provide an attractive business environment. Infrastructure is ample and in excellent condition, including roads, rails, high-speed data, reliable electricity, and clean water. Business regulation is fair and the tax structure is attractive. The city, region, and state offer appropriate incentives to locate business in Bellevue. Affordable and flexible workspaces nurture small businesses, start-ups, and entrepreneurs.

We provide the lifestyle, amenities, and institutions that attract the next generation of business leaders and innovators: high-end entertainment, outdoor recreation, exceptional K-12 and higher education, high-capacity transit, and a green and sustainable environment. Our educational institutions inspire innovation and train the talent needed to support our high-tech sector right here in Bellevue.

We foster a diversified suite of business activities. We support our existing and traditional sectors including retail, auto sales, financial services, aerospace, and light industrial businesses. We are a growing center for a broad range of technologies, including software, mobile communications, and medical devices and services. Our arts and cultural opportunities, shopping, and proximity to major recreational activities make us a premier destination for tourism and conventions.

BELLEVUE 2035: THE CITY WHERE YOU WANT TO BE

*Bellevue welcomes the world. Our diversity is our strength.
We embrace the future while respecting our past.*

The seven strategic target areas identified in the Bellevue City Council Vision Priorities are:



ECONOMIC DEVELOPMENT

Bellevue business is global and local.



TRANSPORTATION AND MOBILITY

Transportation is both reliable and predictable. Mode choices are abundant and safe.



HIGH QUALITY BUILT AND NATURAL ENVIRONMENT

From a livable high-rise urban environment to large wooded lots in an equestrian setting, people can find exactly where they want to live and work.



BELLEVUE: GREAT PLACES WHERE YOU WANT TO BE

Bellevue is a place to be inspired by culture, entertainment, and nature.



REGIONAL LEADERSHIP AND INFLUENCE

Bellevue will lead, catalyze, and partner with our neighbors throughout the region.



ACHIEVING HUMAN POTENTIAL

Bellevue is caring community where all residents enjoy a high quality life.



HIGH PERFORMANCE GOVERNMENT

People are attracted to live here because they see that city government is well managed.

For more information please visit: <https://bellevuewa.gov/city-government/city-council/council-vision>

EXECUTIVE SUMMARY

In this report, we address the economic health of Washington and the US in general by exploring business survivability and the ways that it can be improved. We find that business survival rates have declined in the state of Washington, and that the two root causes for this decline are inadequate business education and insufficient resources. Because 60% of business owners have difficulty understanding business regulation and law, and only 15% of them have business degrees, the theory behind business practices is often misunderstood. A lack of resources also hinders the development of small businesses, as the owners of these businesses need access to guidance—in the form of networks and mentors—as well as to a wide variety of funding organizations, in order to sustain and grow their businesses.

Startup 425, as a business development program with the goal of regional economic development, can make a positive impact when it comes to economic health, by providing the services that are needed by these entrepreneurs. The four main services that it can provide are incubators, accelerators, workshops, and co-working spaces. All of these services are viable sources of revenue for Startup 425. Additionally, we found that programs that offer these services successfully do so by maintaining a strong organizational mix with support from entrepreneurs, funding organizations, academic institutions, and community organizations. We recommend that the City focus on identifying the needs of the region by examining the local economic system, which encompasses the relationships between all entities involved in the economy. From this examination, the City can facilitate the creation of an organizational network and the development of economic infrastructure by providing resources to entrepreneurs. The primary business development functions of Startup 425, such as the incubator or workshop, can be viewed as the relative center of the economic system where business inception and growth occur. After following a seven-step process, which we list in this report, Startup 425 can begin to offer its first major services, and later expand by using grants, revenue streams, and corporate funding. We recommend that the first services to be offered are workshops and classes. From these workshops and classes, entrepreneurs will be able to gain business savvy and bolster their educations, which will help improve business survivability in the region in the long run.

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CITY OF BELLEVUE

INTRODUCTION

Washington State is experiencing a decline in the rate of business survivability. When looking at five- and 10-year timelines of business survivability, Washington State, on average, has a 10% lower survivability rate than that of the US national average. Furthermore, the rate of business closures surpassed the rate of business openings in Washington State between 2011 and 2013. Inadequate business education and insufficient access to resources are the root causes of these problems. There is an opportunity for organizations like Startup 425 to address these current problems in the economic health of the State.

Startup 425 is a small business development program that aims to expand entrepreneurship across communities in the Eastside area of the Puget Sound region. This program offers business education classes that are hosted in King County Public Libraries. Currently, Startup 425 is solely funded by grants, and does not feature any methods to generate revenue. With this in mind, the managers of the program are exploring what a sustainable revenue model could look like, as well as how the City can be involved in developing and offering these services. This gives Startup 425 an opportunity to improve regional economic health by directly addressing the root causes of economic problems in a sustainable and innovative manner. Through our research and this Livable City Year report, we outline regional economic challenges and potential solutions to these issues. We then make several recommendations for Startup 425's revenue model and long-term plans.

Startup 425 is a small business development program that aims to expand entrepreneurship across communities in the Eastside area of the Puget Sound region.



Project Lead Jesse Canedo, Chief Economic Development Officer, introduces students to the project. Presenting with him are Project Leads Nicholas Matz, Community Development, and Colin Walker, Parks and Community Services. (From right to left: Nicholas Matz, Jesse Canedo, Colin Waker, and Renee Lico, with Kinder Konnection). TERI THOMSON RANDALL



Instructor Michael Ervick with students. TERI THOMSON RANDALL

METHODS

In order to effectively address Startup 425's need for a sustainable revenue model that promotes entrepreneurship on the Eastside, our team used three main questions to guide our research:

1. What are the root causes of business failure?
2. What services can Startup 425 provide to address these root causes?
3. What are some successful practices in small business development, and how are these practices implemented?

We began our research with a literature review of relevant publications. The Babson College *The State of Small Business in America* report gave our team insight into the state of small businesses in America, common entrepreneurial challenges, and root causes for these challenges. We then used various incubator feasibility studies in order to fully understand the critical requirements for successful business incubators and accelerators. The US Small Business Administration's economic profiles provided us with information and data regarding the economic health of individual US states, as well as business opening and closure statistics. Our team also used a United Nations report on the economic roles of cities to gain insight into how cities can be involved in economic development.

We found two cities to model successful practices: Austin, Texas, and Redmond, Washington. We chose these two cities for their business survivability rates, as well as their business growth and development capabilities. Austin, Texas is widely regarded as America's best city for small businesses. Redmond, Washington has the healthiest small business economy in the Eastside area of the Greater Seattle region.

We also looked into which business development programs have been successful in Washington State to find common denominators in the practices of these programs. Surveys soliciting information about practices and challenges were distributed to various small business development programs, and our team received responses from CoMotion, Galvanize, Everett Community College Accelerator, and Cambria Grove. The information we gathered from both primary and secondary research allowed our team to address Startup 425's main obstacles, namely its problematic revenue model, and its unaccomplished goal of regional economic development throughout the community.



CITY OF BELLEVUE

FINDINGS

Washington State has a 10% lower rate of business survivability when compared to the US average.

BUSINESS SURVIVABILITY AND REGIONAL ECONOMIC HEALTH

Business survivability refers to the length of time during which a business is open. Regions with high business survivability rates—meaning the businesses are open and actively running for longer periods of time—indicate a healthy economy. It is understood that small businesses are the backbone of economies. Small businesses, which are defined as having 500 employees or fewer, comprise 99% of firms in the US. When an economic recession occurs, regions with well-developed small business economies face fewer negative impacts compared to regions with lesser-developed small business economies. Alternatively, regions dominated by large businesses generally rely on these large firms for employment, which can negatively affect economic health when employment is reduced. Because these large firms gain most of their value from production, they are able to cut staffing, which can result in thousands of jobs lost in a region. Small businesses, however, utilize human capital as their main source of value creation. For example, servers and cooks at local restaurants are vital for the survivability of these small businesses. Regions with healthy small business economies are thereby able to better retain employment throughout recessions.

Washington State has a 10% lower rate of business survivability when compared to the US average. Over a five- and 10-year timeline, the survival rates of businesses in Washington State are 40% and 30%, respectively. National rates are higher at five and 10 years, at 50% and 40%, respectively. The Small Business Administration's economic profiles indicate that exit-rates, or closures, surpassed startup rates, or openings, of businesses in Washington State between the years of 2011 and 2013, a timespan that followed a significant housing market crash (See Appendix A). This trend continues in 2018. States with healthy small business economies, such as Texas, show a divergence of these two rates with increasing startup rates and decreasing exit rates. Texas experienced relatively few negative impacts from the 2008 housing market crash when compared to Washington State and the rest of the US. For this reason, we chose Texas as our case study state, and specifically looked at the city of Austin, which is widely regarded as the best American city for small businesses (See Appendix B). For a comparative model city in Washington, we used Redmond, due to its high rates of small business growth and development (See Appendix A).

ROOT CAUSES OF BUSINESS FAILURE AND CHALLENGES OF ENTREPRENEURSHIP

There are two root causes that lead to business failure: a lack of appropriate business education, and a lack of resources or ability to find resources. About 60% of business owners report having difficulty understanding business regulations and law, and 85% of business owners do not have business degrees. These statistics are especially important to consider in states where regulations for businesses are relatively more complicated than those of states like Texas. Washington State is in the top 10 most heavily regulated states for running a business. On average, business owners spend 200 hours per year working to understand business regulations and complete taxes. Entrepreneurs can also face challenges with regards to the utilization of technology and patents during business startup and growth. Keeping up with modern technologies may be too expensive or difficult to understand and implement. This is detrimental in regions, like the Puget Sound, where technology is one of the biggest drivers of economic growth. Therefore, helping business owners understand where to find affordable and accessible technology will help them find more value in the use of technology. Under these circumstances, appropriate business education becomes critical for long-term business survivability. Education can also improve workforce development, another challenge that business owners often face. Business owners report that finding qualified individuals to hire is becoming increasingly difficult, as growth occurs at a higher rate than workforce development (Babson College 2016).

About 60% of business owners report having difficulty understanding business regulations and law, and 85% of business owners do not have business degrees.

Entrepreneurs also report having difficulty navigating the capital environment. The majority of business owners apply for funding through banks, and, on average, receive only 40% of the amount they request. This deters entrepreneurs from applying to banks for funding, as shown in the Small Business Administration's state economic profiles, which note a decline in the number of banks reported as funding sources over recent years. An alternative to bank funding is funding from Community Development Funding Institutions (CDFIs), e.g. scholarships. Babson College reports a 57% increase in entrepreneurs seeking funding from CDFIs after participating in an educational program that includes finance as part of its curriculum (Babson College 2016). In this sense, owners are able to better navigate the capital environment once they have gained insight on the various resources they can use to access funding. Access to networks and mentors is also an important resource for entrepreneurs. The need for guidance in the business environment increases exponentially when business owners are not appropriately educated in business theory, understanding regulations and law, and navigating the capital environment (Babson College 2016).

These entrepreneurial challenges are often exacerbated in underserved communities. While the root causes of these entrepreneurial challenges continue to include inadequate access to business education and resources, entrepreneurs in underserved communities also report access to funding as one of their biggest obstacles. Bridging the gap between entrepreneurship and underserved communities by providing necessary resources and appropriate education will help improve the economy. Higher diversity in the general workforce as well as in business ownership allows businesses to capture a larger share of the consumer market

***Babson College* reports a 57% increase in entrepreneurs seeking funding from CDFIs after participating in an educational program that includes finance as part of its curriculum.**

through connections to community diversity. A diverse workforce also allows for business owners to access a larger pool of talent and foster innovation and creativity.

Entrepreneurs and business owners are in need of educational services that address the root causes of business failure. Startup 425 has the opportunity to address these challenges by offering services that assist in the development of businesses and entrepreneurs. These services include business incubators, accelerators, co-working spaces, workshops, and classes.

DEVELOPING BUSINESSES THROUGH INCUBATORS AND ACCELERATORS

The definition of business incubators and accelerators are often blurred, as many programs offer services that engage both functions. For this report, we will be referring to incubators as business development programs that take an idea; refine a business plan, core product, and market; establish appropriate funding; and educate entrepreneurs in the basics of running a startup business. The main purpose of the incubator is to help guide a company through its early stages of development. The general timeframe for participating in an incubator is usually one to two years, and generally no more than three years. Small business accelerators are programs that promote rapid growth in a company or assist in moving out of periods of stagnancy. Accelerator programs focus heavily on funding and networking, and are often paired with advanced-level workshops. The timeframe for accelerator programs is targeted to be around three to nine months, and no more than one year.

We will begin by exploring the process that creates startup businesses: a small business incubator. Our main comparable incubators are Galvanize, Y-Combinator, and CoMotion. These incubators have shown great success, as they have produced well-known companies and created significant regional economic impact. CoMotion is the model incubator for Startup 425 to reference, as it is run by a non-profit university, and is one of the leading incubators in Seattle, with a high rate of startups exiting the program and positive economic impact. Looking at these three

incubators, we found that they each offer services that can be found in the critical requirements of successful incubators described in feasibility studies (Aspen Institute 2013). These services include the following:

- **Business planning** - This service assists in the development of a business plan and core product.
- **Networking, mentoring, and coaching** - This service helps entrepreneurs develop their networks in the business world, and provides personalized assistance throughout the business development process.
- **Marketing and financial advisory** - This service assists the business owner(s) in getting their product to the market, assuring product-market fit, and managing finances in a startup environment.
- **Introductory classes and workshops** - Although every service in the incubator educates entrepreneurs in business development and the startup environment, these classes and workshops more significantly help entrepreneurs to understand the legalities and regulations of the business environment, especially when it comes to regional contexts.
- **In-house services** - These include administrative services, such as reception and accounting, and are provided by a third party firm or the incubator program itself. This service is not always considered critical, but we nonetheless recommend that this service is offered, as it allows entrepreneurs to focus on developing the business plan and core product, rather than on administrative work, which can often take up a large portion of time for businesses in the development phase.

Small business accelerators serve as a critical resource for companies participating in them. Most companies use an accelerator when seeking to grow or to avoid stagnancy. An accelerator should offer three major services in order to effectively promote rapid growth: financing, networking, and mentorships. Startups in accelerator programs can be financed through several common sources, namely venture capital firms, banks, seed funding (through the accelerator itself), and corporate partnerships. Venture capital firms generally fund business in return for equity, which is essentially partial ownership of a business. Banks provide business loans for a return on investment through interest, or in other words, in return for interest payments. Seed funding through an accelerator can either act as a grant for the company, or the accelerator may ask for equity or a return of the seed money amount (essentially a loan with 0% interest).

Corporate partnership is another common method of funding for organizations in accelerators. Successful business development programs and accelerators throughout the nation, such as Y-Combinator, Galvanize, and CoMotion, share the common practice of partnering with large corporations that help fund startups. Large corporations are often motivated to participate in funding because they are burdened by bureaucracy when it comes to innovation, while startups have much more freedom to innovate. Many companies that come out of incubators and accelerators are acquired by larger corporations, which perpetuates a cycle of corporate support. For the purpose of regional economic development, it is important to find companies that have a stake in the health of the local economy. Companies with a stake in the local or regional economy will be affected by how well the economy is doing. This provides an incentive for these companies to assist in the development of startups, which then generally promote economic growth.

The third major service that accelerators should provide in order to promote growth is access to resources. Resources can come in the form of human capital and other beneficial services for the organization participating in the accelerator program. The efficiency of these services is critical, as the timeline of accelerator programs is rather short, and there is generally much to accomplish in this small timeframe. The accelerator program can either provide in-house services, similarly to the structure of incubators, or partner with third party services that provide these resources. For example, one common resource is a service that provides companies with a website through which to perform e-commerce. Other resources include recruiting platforms, which allow companies to hire employees quickly, and customer service platforms, which help companies to improve their customer relations.

Lastly, good accelerators provide mentorships and networking as a service for participating companies. This service delivers the necessary guidance and education for managers and employees in rapidly growing companies. When scaling a company up or down, the function and roles of management change, and the degree of change depends on the size of the scaling. This concept will be discussed in the Workshops and Classes portion of this report, but to summarize, companies experience seven stages of growth during development, and these stages are based on the number of employees in the company. Understanding the leadership roles during each stage is critical to effectively finding solutions to upcoming challenges. While participating in an accelerator program,

access to mentorships and networks can greatly alleviate these challenges for entrepreneurs. Networking can additionally help businesses secure extra sources of funding or novel resources. Similarly, in a sustainable model, an accelerator program can serve as a possible source of revenue.

THE BENEFITS OF COWORKING SPACES

Coworking spaces are large, open-desk working spaces usually occupied by multiple companies simultaneously. Individuals working in these spaces are generally not employed by a single organization. Coworking spaces are often used by startup companies as a physical workspace because they do not require high rental payments, as an office building would. In the Puget Sound region, where real estate and rental costs are relatively high, coworking spaces have seen much success. There are a number of benefits that come with providing coworking spaces for startup companies and entrepreneurs. The most significant benefits are the following:

- **The opportunity** to work alongside others, rather than in an isolated environment. There are numerous studies showing that an open working environment is beneficial for innovation and idea-making. In fact, many of the most technologically innovative companies are changing their office spaces to reflect the more open coworking model.
- **Access to networks and resources in an open space.** By working in the same space as others, entrepreneurs are able to more easily build networks and access new resources through these connections.
- **Accelerated ideas.** Working alongside others creates a distinct dynamic, where entrepreneurs can exchange ideas at an expedited rate.

BUSINESS EDUCATION THROUGH WORKSHOPS AND CLASSES

Workshops and classes are educational training sessions that focus on entry-level to advanced business topics and serve the purpose of assisting and educating an individual or company. These services often focus on practical learning or business theory, and can be executed as a 'one-off' event, or as a 'start-to-finish' program.

Startup 425 currently offers free classes, but the program could expand these to create a more significant, positive impact on the economic

health of the community. For example, Startup 425 could offer a new array of courses, some of which could charge a small fee for participation. Basic classes, like foundational accounting and marketing, could count towards a business skills certification, and could be offered for free. One existing example of such a program is the City of Austin's government-owned business development program, which partners with the University of Texas to offer certificates and classes to local entrepreneurs. Classes teaching slightly more advanced topics, such as taxes and real estate, could charge a small fee. Because these more advanced classes follow the free, base-level courses, individuals would be incentivized to complete the full course sequence in order to gain a more complete understanding of business development.

We recommend the instructors for future developed workshops and classes are drawn from both the SCORE program, a program that offers mentoring and education, as well as from an affiliate academic institution, so that Startup 425 can access diverse perspectives in business education. SCORE instructors will provide the perspective of business experience, while university instructors will provide knowledge of applicable business theory. The combination of the two will provide the appropriate business education that is needed in the entrepreneurial community.

As mentioned previously, education is key to alleviating declining rates of business survival. That being said, we recommend that more advanced workshops and classes are based on the concept of the seven stages of small businesses. These stages—also called strata—were developed by James Fischer, Founder of the Origin Institute, and are currently used at Flashpoint, an executive training program. The seven stages of growth are based on a study of entrepreneurial companies over a six-year period as well as interviews with more than 650 CEOs, and serve to improve understanding of the dynamics of growth and challenges within a company. An organization can be categorized into a stage based on its number of employees. The main objective of the seven stages is to show that the managers of a business should understand the unique challenges that their organization faces at each stage, in order to create tailored solutions, and adapt to any managerial or cultural changes the organization may face during growth. Following these guidelines helps organizations to foster sustainable business practices and persevere through scaling changes. Each strata has a different dynamic between management, employees, and company operations. To develop beneficial workshops and classes for businesses in the region, Startup 425 must identify the economic makeup of the region, namely which stages local businesses tend to fit into. This will allow Startup 425 to focus its efforts in stages that present the most need.

THE SEVEN STAGES OF SMALL BUSINESSES

From Fischer, James. Navigating the Growth Curve.

The main dynamics of the Seven Strata are:

Stage Zero – Pre-Startup (zero to 10 employees)

Dynamic: CEO-centric

- The CEO or founder of the company is primarily responsible for the ideation of the core product.
- The CEO and their team focus on generating capital to fund development.
- The CEO and their team members must perform all marketing tasks.

Stage One – Startup (zero to 10 employees)

Dynamic: CEO-centric

- Generating, tracking, and preserving cash should be a primary focus for startups.
- The startup should focus resources on two to three offerings to create core products.
- The hiring process should consider first how potential new employees fits, and how competent they are second. Startups should embrace the chaos involved with developing business ideas.
- Managers need to consider and receive consistent feedback from all parties involved to further develop the company and product.

Stage Two – Ramp Up (11 to 19 employees)

Dynamic: CEO-centric, small shifts in company culture

- The startup should hire quality people and let go of those that the company has outgrown or no longer needs. There should be a focus of improving sales and generating revenues for company growth. The Startup should not squander resources and should make sure cash is tracked weekly at a minimum.
- Leaders should communicate with their team and close the leadership-staff gap.
- Due to limited capital and growth, having a working business model is important.

Stage Three – Delegation (20 to 34 employees)

Dynamic: CEO letting go, delegating responsibilities

- CEO burnout may occur at this stage due to heavy stress and workload. This leads to delegating management positions and responsibilities.
- Staff are resistant to change due to some cultural and operational norms being established at the initial stages of business development.
- With the growth of business comes difficulties in managing organizational and operational structures.
- Staff Revolution
 - » Bringing key people into the fold and making sure that all employees are involved with establishing core values is important for company culture.
 - » The leadership team must establish their leadership style to fit the company's core values/agenda.
 - » Management should tap into the intelligence of every person and give them a chance to succeed.

Stage Four – Professional (35 to 57 employees)

Dynamic: All about internal focus and internal processes

- The company focuses on internal challenges, such as operations, administration, and organizational structure, to assure that it is running efficiently from the inside.
- There may be disproportionate levels of management directed to employees without an efficient bureaucratic system in place, which may lead to weak project management.
- Numerous changes to the company may result in employee turnover.
 - » The company will thereby need to customize benefits to retain employees.

- Making sure that everyone in the organization understands the company mission and core values is important to assure all parties are on board with the company direction.
- Surrounding the management team with experienced and qualified people in order to obtain the best possible input will improve feedback for the leadership.

Stage Five – Integration (58 to 95 employees)

Dynamic: Integrating teams and processes, relying on key managers

- The company can improve sales by focusing on cementing relationships with current customers and developing opportunities with new customers or projects.
- There will be difficulties forecasting problems, especially when the company is growing larger, because issues can go unnoticed. This tends to happen as more bureaucratic processes are put in place.
- Making sure employees are feeling valued under management is important for company growth, as it is easy for employees to feel undervalued. Managers need to align worker goals with company goals.
- Companies need to evaluate profit design by examining value exchange, organizational structure, business development, operating systems, and knowledge management.
- Management must make sure that there is sufficient training for all staff concerning the company mission, goals, and values.

Stage Six – Strategic (96 to 160 employees)

Dynamic: Established patterns, behaviors, and processes

- As the company grows larger, management should take the company into a more challenging and competitive environment by developing new products that may be market disruptors, or by further developing current products to compete at the top of the market for more market share.
- Changing the organizational structure will ultimately impact staff orientation and possibly staff satisfaction. The management and human resources teams need to make sure that staff are satisfied, and that the management has the support of staff.
- Value and vision should be clarified and drive behavior for company staff.
- The company needs to make sure that a powerful strategic plan is in place, especially when it comes to the management and allocation of resources when entering a new market. This involves all major departments, such as marketing, finance, and management.

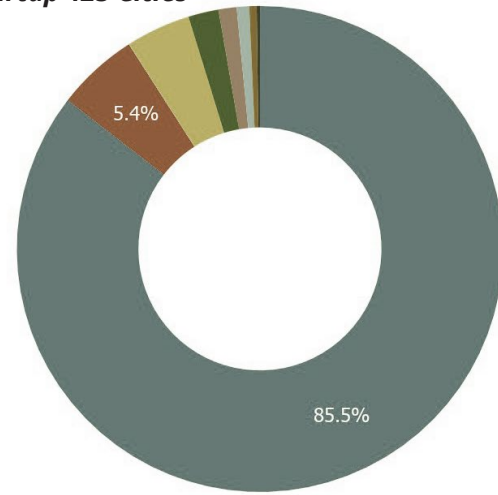
Stage Seven – Visionary (161 to 500 employees)

Dynamic: Transitioning into a large organization without losing core entrepreneurial culture and values; layers of bureaucracy

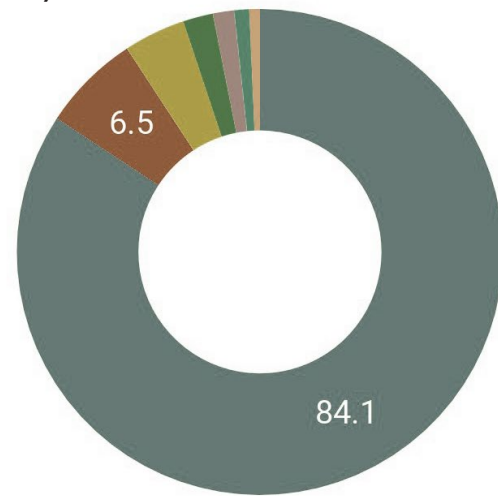
- Management needs to assure that all employees are aware of what needs to be accomplished to prevent them from pursuing projects that are not in line with company goals and values.
 - » Companies should empower and educate employees about the new vision and make sure they feel valued within the growing organization.
- Management should create a corporate culture that promotes internal entrepreneurship, for instance, through innovation initiatives. Companies of this size tend to gravitate towards safety and strategies that have been working, which result in incremental changes.
 - » Organizations should allow for mistakes and make failure into learning experiences.
 - » Additionally, companies should encourage and inspire radical innovation.
- Some challenges include: weak product development and differentiation, inadequate profits to expand the company, a need for improved profit design, and customers and markets changing too quickly. These tend to occur as bureaucratic processes slow down decision making. Company infrastructure is also in place, so quickly changing markets become challenging to deal with.
- Management should prioritize recapturing the entrepreneurial energy to promote innovation and exploration. Setting up cross-departmental teams and pro-innovation company policies to drive company innovation become important to remain competitive.

DISTRIBUTION OF SMALL BUSINESS STAGES

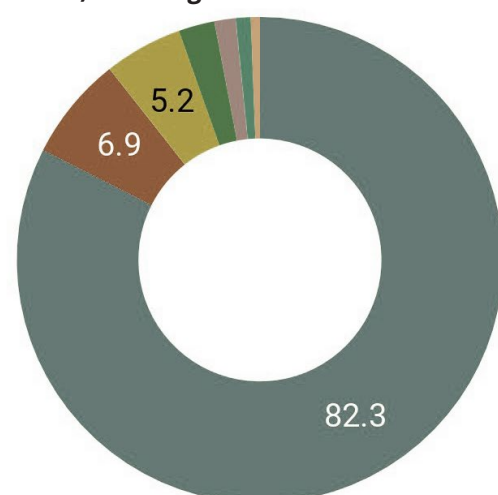
Startup 425 Cities



Austin, Texas



Redmond, Washington



Stage	Employees
0-10	0-10
11-19	11-19
20-34	20-34
35-57	35-57
58-95	58-95
96-160	96-160
161-500	161-500

The charts to the left display the breakdowns of business stages in various cities. The first chart shows the percentage of small businesses in each stage of growth within the five eastside cities that Startup 425 partners with (Bellevue, Kirkland, Renton, Issaquah, and Redmond). The majority of small businesses in these cities fall in the first stage and pre-startup stage of growth. Because the general market is relatively larger, these businesses have significant growth opportunities. The second and third chart show the breakdowns of businesses in each strata for Austin, Texas and Redmond, Washington. These two cities have a lower percentage of businesses in the first stage and a higher percentage in the second and third stages. This indicates that these cities are successfully fostering business development, such that businesses move from the first stage of growth into the second and third stages, which in turn increases employment in the region.

In order to organize and manage such development, there should be a partnership between multiple organizations to act as an infrastructural support network for entrepreneurial communities. The City is generally one of the entities spearheading this type of economic development initiative.

THE CITY'S ROLE AND ORGANIZATIONAL MIX

For Startup 425, we recommend that the City of Bellevue plays an umbrella role of facilitating services and developing an infrastructure of resources for startups. This umbrella role can, more specifically, take the following forms: identifying projected and emerging needs of the region; identifying services that need improvement within the region; maintaining and developing relationships and partnerships within program services; and centralizing the services of the program for ease of access and convenience. We will break down each of these roles, in order to clarify how the City can be involved in developing Startup 425's infrastructure and facilitating the delivery of its services.

Identifying projected needs of the region and services that need improvement is tied to the functions of incubators and accelerators. The purpose of the incubator in economic development is to foster the growth of in-demand companies or identify emerging industries in order to create new businesses that can enter these emerging markets. The accelerator comes into play when a city identifies services that need improvement or expansion within a region. For example, if the City identifies that small businesses need an increase in a specific human

The keystone of building a strong infrastructure is developing and maintaining relationships within the system.

capital resource, the City may develop a partnership with a third party program that offers this resource. Alternatively, the accelerator may develop its own in-house service to meet that need. As another example, if there is a need to improve channels of funding, the City could develop accelerator partnerships with this in mind. That being said, there needs to be an effective way to identify these needs. When it comes to identifying regional needs, we recommend that Startup 425 partner with a university, in order to research which areas to focus on. We found that the most successful small business development programs across the nation have affiliations with academic institutions, and that these partnerships offer numerous benefits to startups and entrepreneurs.

Once the needs of the economic system have been identified, we recommend that the City create an infrastructure to support the development of the system. The keystone of building a strong infrastructure is developing and maintaining relationships within the system. The center of the system is the service offered, such as an incubator, accelerator, or workshop. These services are primary functions and will be the main source of revenue for Startup 425. Surrounding the center functions are four supporting functions: academic institutions, community resources, funding organizations, and entrepreneurs. Partnerships are essential to sustaining the center functions. Recent research shows that nonprofit-private partnerships are becoming a successful organizational method (Alboher 2008). Other potential partnership opportunities are displayed in the figure below. We recommend that Startup 425 partner with an academic institution, a funding organization, business-to-business service organizations, and corporations.

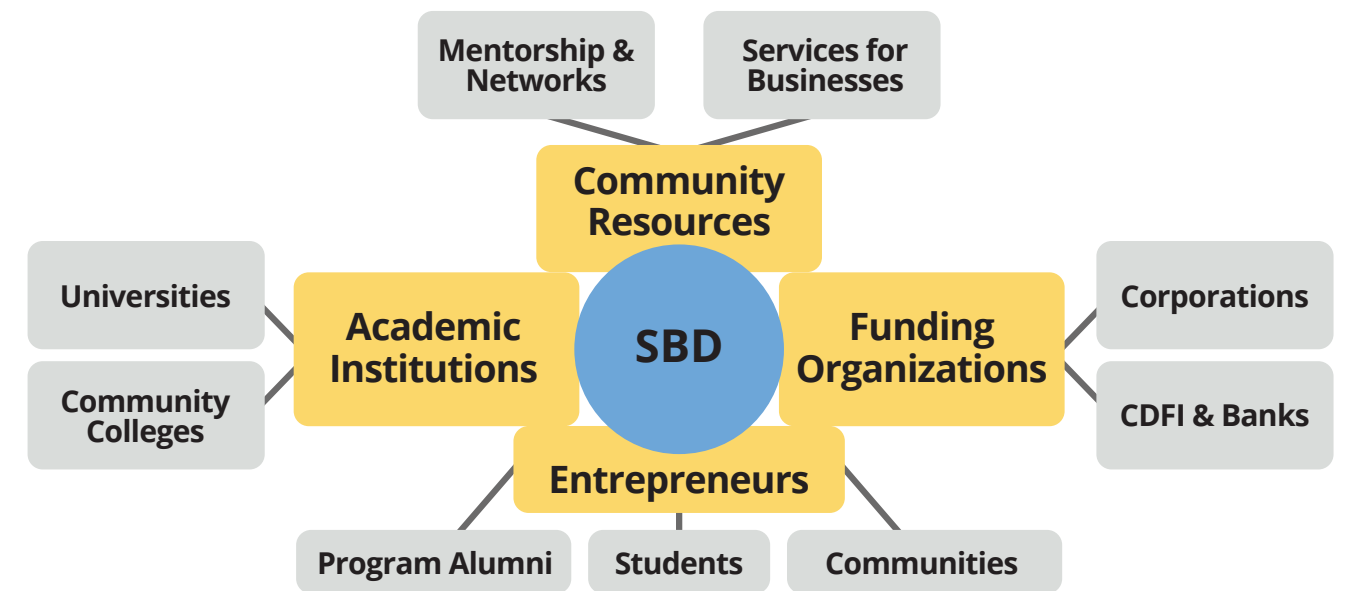
We will begin with academic institutions. When examining Small Business Development Centers (SBDCs), non-profit incubators, and for-profit or privatized business development programs, the majority of these organizations have some sort of affiliation with an academic institution. Academic institutions, like universities, are able to partner with regional economic researchers, and can provide a wide range of resources, namely physical spaces and human capital (via instructors for the program's workshops and classes). Universities are additionally able to provide degreed advisors and instructors who understand business practices and theory. This partnership, combined with a partnership with a program like SCORE, whose instructors often have experience running a business, can make for highly effective workshops and classes.

Community resources are also critical to the system. These resources

mainly come in the form of networks, mentorships, and the aforementioned resources that accelerators provide. It is important to note that the university plays a role in this function, as it helps to identify the specific current and future resource needs of businesses in the region. Many partnerships must be created in order to support Startup 425's services effectively, and developing these relationships early on is critical to its success. For example, a partnership with a minority-oriented service like the SBA's VBOC, a government program that assists entrepreneurs in underserved communities, could be beneficial when it comes to providing resources and services to those in underrepresented communities.

Developing partnerships with specific organizations is also important, particularly because it can lead to funding and capital acquisition. As mentioned previously, corporate partnerships for funding are a rather common and successful practice for business development programs, whether they are incubators or accelerators. Many corporations will fund startups in business development programs because it leads to mutual benefit. For instance, Microsoft may help fund a startup that they are looking to acquire in the future. Funding can also be gathered through banks and venture capital firms. This does not create partnerships, but

PARTNERSHIP OPPORTUNITIES FOR SMALL BUSINESS DEVELOPMENT PROGRAMS



We recommend that Startup 425 partner and foster relationships with a variety of actors, including academic institutions and funding organizations. LCY STUDENT TEAM

nonetheless can be recommended to entrepreneurs looking for funding. We recommend that Startup 425 also keep a library of referable funding resources like scholarships and grants that entrepreneurs can apply for. This will be especially useful for those in underserved communities, as there are numerous scholarships and grants that are offered specifically to this demographic.

Entrepreneurs are the last relationship that should be developed. These entrepreneurs are the business owners and employees participating in business development programs like Startup 425, and it is important to understand their particular resource and development needs. Having the necessary resources available will provide strong value proposition, which refers to the main aspects of a product or service that customers will perceive to be of value when used. Startup 425 can also engage in a similar practice to CoMotion, where university students are incentivized to use business development programs through discounted rates.

Each of these involved organizations must be able to interact symbiotically for the economic system to be sustainable. For the purpose of regional economic development, we recommend that Startup 425 adopt a nonprofit status, as this would allow excess funds to be used for scholarships and grants. This will facilitate an effective partnership with a local academic institution, such as the University of Washington Bothell, which will be able to provide a number of beneficial resources as well as commitment and support. We additionally recommend partnering with corporations that have a stake in the regional economy, as these organizations will not only be able to provide funding, but also support and commitment.

Providing the appropriate education and resources to the participating entrepreneurs of Startup 425 will afford them with insight and knowledge to make informed decisions in the operation and administration of their business.

Lastly, we recommend that Bellevue focus on agglomerating Startup 425's services, or in other words, developing these services to be localized and easily accessible in one area. This will provide efficiency to those using the services and allow for a more effective system when it comes to the dynamic between the different program functions. In order to do so, the City should find a physical location to host its services. We recommend either partnering with private building owners, or finding locations to develop buildings. If partnered with an academic institution, that institution's

TRACKING SUCCESS

The first step in tracking success is defining what constitutes success for a small business development program. If the goal of Startup 425 is to develop the regional economy through community, then it must successfully address the root causes of business failure. Providing the appropriate education and resources to the participating entrepreneurs of Startup 425 will afford them with insight and knowledge to make informed decisions in the operation and administration of their business. To re-emphasize, incubators, accelerators, workshops, classes, and co-working spaces are not only services that will provide education and resources, but could also serve as revenue sources for the program.

Startup 425 should look for three key elements to analyze the impact it has had on its participants and the regional economy: revenues, employment rates, and business survival rates. An increase in all three of these areas over a long period of time would indicate that the program is beneficial to the regional economy. The research required to adequately analyze such impacts is generally done in partnerships with universities.

RECOMMENDATIONS

With all of this in mind, we propose the following model to address Startup 425's current lack of a sustainable revenue model that promotes regional economic growth and tracks program success. A revenue model generally consists of three elements: a provided service, the value that comes from this service, and the pricing of this service.

The main potential sources of revenue are the incubator, the accelerator, and the workshops and classes. These three services will act as the center of the economic system that Startup 425 supports. A company

or entrepreneur may choose to participate in all three of these services, or any combination of them. Therefore, we recommend that Startup 425 include an incubator, accelerator, and workshops and classes, in order for it to benefit the most. We also recommend that Startup 425 establish relationships with organizations that will assist in developing the economic system, in order to provide the necessary resources to those using the program. Because Startup 425 will be a nonprofit program with the purpose of economic development, we recommend that the City establish partnerships with an academic institution, corporations, funding organizations, and similar programs that are interested in economic development. A possible academic institution to partner with is the University of Washington Bothell, due to its eastside presence, available resources, and potential for commitment. Corporations and companies that have a stake in the local economy, like Microsoft or Amazon, may find mutual benefits in a partnership with Startup 425. Lastly, existing organizations interested in economic development, like the Small Business Administration, Ventures, or the Kauffman Foundation, could provide resources for participants of Startup 425.

As mentioned in our key findings, we recommend that the City provide Startup 425's services in a central location. This creates a need for physical locations in which to provide services. In the long term, some of these services may be hosted at venues provided by the organizations that Startup 425 has partnered with. If Startup 425 does not have its own physical spaces, it could use spaces and venues provided by its partners to host workshops and classes, through which entrepreneurs and business owners will be able to obtain the necessary education to make informed business decisions. Startup 425's current workshops and classes can serve as a foundation on which to build.

With workshops and classes as Startup 425's primary source of revenue, the pricing of the services should be competitive. We suggest the following pricing structure, which is based on competitive rates of similar business development programs:

- Beginners Workshops: \$50 to \$100 per class, per head
- Intermediate Workshops: \$200 to \$500 per class, per head
- Advanced Workshops: \$500 to \$1000 per class, per head

NEXT STEPS: A VISION OF AN EASTSIDE SMALL BUSINESS DEVELOPMENT GUILD

We recommend that Startup 425 follow seven steps to successfully develop and implement services that will benefit the regional economy:

Step 1: Gain Stakeholder Support

Startup 425 should start a conversation with all potential stakeholders, such as local CEOs, officials, corporate representatives, community members, and funding organizations.

Step 2: Identify Community Assets

Startup 425 can partner with a university to complete research that identifies gaps in the local economy that can be filled.

Step 3: Collaborate

Startup 425 should develop strong relationships, because these will be necessary for the long-term success of the program. Partner organizations need to consistently provide strong commitment and support to guarantee long-term success.

Step 4: Establish Operations

With such a complex network of organizations, operative and administrative roles must be established. This entails establishing managerial and operational roles.

Step 5: Identify a Target Audience

Research with a university may also be done in this step. Startup 425 should look at the small business ecosystem and determine what kinds of businesses it will target.

Step 6: Develop Infrastructure

Startup 425 should ensure that resources, funding, mentorship networks, and physical spaces are available and ready to be used.

Step 7: Implement Services

Once the aforementioned steps have been established, services can be implemented. We like to refer to Startup 425 as a "small business development guild," because it provides both necessary resources and theoretical and practical business knowledge. This is a holistic approach to business development, driven by entrepreneurs and community (ICMA 2010).

CONCLUSION

There is a need for regional economic growth in the state of Washington, as the area is experiencing a decline in small business survivability. The root causes of this decline are a lack of business education and appropriate resources. Startup 425 is a small business development program with the goal of regional economic development through community building. This program can successfully provide education and resources to entrepreneurs through incubators, accelerators, workshops, and classes. We suggest that Startup 425 adopt a revenue model that prioritizes providing workshops and classes, because this service is the fastest way to provide education and resources to entrepreneurs. By adopting our recommendations, Startup 425 can become a small business development guild, and can serve the east side of the Puget Sound region as a program that can develop a business from its inception, while providing necessary stability. Startup 425 will be able to make a lasting positive impact in the regional economy by successfully developing businesses through community.



Project Lead Jesse Canedo, Economic Development Manager, introduces the project to the students. TERI THOMSON RANDALL

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APPENDICES

APPENDIX A: WASHINGTON STATE ECONOMIC PROFILE 2016

Note: The content on pages 37-40 is derived from the same report.

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF ADVOCACY
REGULATION • RESEARCH • OUTREACH

SMALL BUSINESS PROFILE

WASHINGTON

555,285
98.0%
Small Businesses
of Washington Businesses

1.3 million
51.7%
Small Business Employees
of Washington Employees

EMPLOYMENT
43,690
net new jobs¹

DIVERSITY
29.9%
increase in minority
ownership²

TRADE
89.9%
of Washington
exporters³

OVERALL WASHINGTON ECONOMY

- In the third quarter of 2015, Washington grew at an annual rate of 0.8% which was slower than the overall US growth rate of 1.9%. By comparison, Washington's 2014 growth of 5.1% was up from the 2013 level of 3.0%. (Source: BEA)
- The employment situation in Washington improved. At the close of 2015, unemployment was 5.8%, down from 5.9% at the close of 2014. This was above the national unemployment rate of 5.0%. (Source: CPS)

EMPLOYMENT

- Washington small businesses employed 1.3 million people, or 51.7% of the private workforce, in 2013. (Source: SUSB)
- Firms with fewer than 100 employees have the largest share of small business employment. See Figure 1 for further details on firms with employees. (Source: SUSB)
- Private-sector employment increased 3.1% in 2015. This was below the previous year's increase of 3.3%. (Source: CES)
- The number of proprietors increased in 2014 by 1.4% relative to the previous year. (Source: BEA)
- Small businesses created 43,690 net jobs in 2013. Among the seven BDS size-classes, firms employing 100 to 249 employees experienced the largest gains, adding 10,553 net jobs. The smallest gains were in firms employing 250 to 499 employees which added 3,547 net jobs. (Source: BDS)

Figure 1: Washington Employment by Firm Size

Firm Size	Percentage
>500 Employees	48.3%
100-499 Employees	14.3%
20-99 Employees	17.1%
1-19 Employees	20.4%

The Small Business Profiles are produced by the US Small Business Administration's Office of Advocacy. Each report incorporates the most up-to-date government data to present a unique snapshot of small businesses. **Small businesses are defined as firms employing fewer than 500 employees.** Hyperlinks to data sources and report generation information are provided in Table 3.

^{1,3} Net small business jobs change and exporter share are based on newly released 2013 BDS and 2012 ITA data.

² Diversity statistic tracks changes between 2007 and 2012 based on the Survey of Business Owners (SBO) 2015 release.

Washington Small Business Profile, 2016
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SBA Office of Advocacy

INCOME AND FINANCE

- The number of banks reported in the Call Reports between June 2014 and June 2015 declined. (Source: FDIC)
- In 2014, 118,364 loans under \$100,000 (and valued at \$1.5 billion) were issued by Washington lending institutions reporting under the Community Reinvestment Act. (Source: FFIEC)
- The median income⁴ for individuals who were self-employed at their own incorporated businesses was \$48,320 in 2014. For individuals self-employed at their own unincorporated firms, this figure was \$22,829. (Source: ACS)

⁴ Median income represents earnings from all sources. Unincorporated self-employment income includes unpaid family workers, a very small percent of the unincorporated self-employed.

BUSINESS OWNER DEMOGRAPHICS

Figure 2: Washington Changes in Business Ownership by Demographic Group

African American-owned	-
Asian-owned	23.2%
Hawaiian/Pacific Islander-owned	53.7%
Hispanic-owned	37.3%
Native American/Alaskan-owned	13.0%
Minority-owned	29.9%
Nonminority-owned	-4.3%

Figure 3: Washington Self-Employment within Demographic Group

Demographic Group	Female	Male	Minority	Veteran
African American-owned	-	-	-	-
Asian-owned	8.7%	10.8%	-	-
Hawaiian/Pacific Islander-owned	-	-	10.0%	-
Hispanic-owned	-	-	6.8%	-
Native American/Alaskan-owned	-	-	-	-
Minority-owned	-	-	-	-
Nonminority-owned	-	-	-	-

- Figure 2 displays the change in overall firm ownership for each demographic group from 2007 to 2012 based on the Survey of Business Owners (SBO) for Washington, released in December 2015.
- Figure 3 displays the percent of each demographic group identified as self-employed according to the 2014 American Community Survey (ACS) 5-year estimates.

BUSINESS TURNOVER

- In the second quarter of 2014, 4,480 establishments started up⁵ in Washington and 8,495 exited.⁶ Startups generated 14,864 new jobs while exits caused 20,527 job losses. (Source: BDM)

Figure 4: Washington Private Startup and Exit Rates

Year	Exit Rate	Startup Rate
2005	3.6%	3.6%
2006	3.4%	3.4%
2007	3.2%	3.2%
2008	3.0%	3.0%
2009	2.8%	2.8%
2010	2.6%	2.6%
2011	2.4%	2.4%
2012	2.2%	2.2%
2013	2.0%	2.0%
2014	1.8%	1.8%
2015	1.6%	1.6%

⁵ **STARTUPS** are counted when business establishments hire at least one employee for the first time. The BLS terms these **births**, as distinct from the BLS **openings** category which includes seasonal re-openings.

⁶ **EXITS** occur when establishments go from having at least one employee to having none, and then remain closed for at least a year. The BLS terms these events **deaths**, as distinct from the **closings** category which includes seasonal shutterings.

Washington Small Business Profile, 2016
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SBA Office of Advocacy

APPENDIX A: WASHINGTON STATE ECONOMIC PROFILE 2016 CONTINUED

INTERNATIONAL TRADE

- A total of 12,646 companies exported goods from Washington in 2013. Among these, 11,365, or 89.9%, were small firms; they generated 24.2% of Washington's total known export value. (Source: ITA)

SMALL BUSINESSES BY INDUSTRY

Table 1: Washington Small Firms by Industry, 2013
(sorted by small employer firms)

Industry	1 – 499 Employees	1 – 19 Employees	Nonemployer Firms	Total Small Firms
Construction	19,610	18,370	29,855	49,465
Professional, Scientific, and Technical Services	18,675	17,255	76,665	95,340
Health Care and Social Assistance	16,048	14,385	32,056	48,104
Other Services (except Public Administration)	15,012	14,064	50,444	65,456
Retail Trade	13,977	12,507	37,765	51,742
Accommodation and Food Services	12,942	10,724	5,120	18,062
Administrative, Support, and Waste Management	7,866	7,153	27,818	35,684
Real Estate and Rental and Leasing	7,469	7,090	51,293	58,762
Wholesale Trade	6,995	5,638	7,579	14,574
Manufacturing	6,233	4,904	8,748	14,981
Finance and Insurance	4,640	4,239	11,203	15,843
Transportation and Warehousing	3,923	3,361	18,764	22,687
Arts, Entertainment, and Recreation	2,569	2,113	27,117	29,686
Educational Services	2,418	2,016	13,637	16,055
Information	1,864	1,523	7,123	8,987
Agriculture, Forestry, Fishing and Hunting	1,376	1,264	7,704	9,080
Utilities	180	158	324	504
Mining, Quarrying, and Oil and Gas Extraction	117	99	231	348
Total	141,914	126,863	413,446	555,360

Totals for Tables 1 and 2 differ from SUSB's statewide tallies due to firms with establishments in more than one industry and the omission of industry classifications not reported by NES. (Source: NES and SUSB)
s Indicates samples deemed too small to represent the population according to SUSB.

SMALL BUSINESS EMPLOYMENT BY INDUSTRY

Table 2: Washington Employment by Industry and Firm Size, 2013
(sorted by small firm employment)

Industry	Small Business Employment	Total Private Employment	Small Business Employment Share
Health Care and Social Assistance	183,017	375,679	48.7%
Accommodation and Food Services	162,622	240,639	67.6%
Retail Trade	122,512	312,494	39.2%
Construction	118,825	137,831	86.2%
Professional, Scientific, and Technical Services	116,816	193,509	60.4%
Manufacturing	107,234	246,382	43.5%
Other Services (except Public Administration)	93,727	109,597	85.5%
Wholesale Trade	76,074	124,713	61.0%
Administrative, Support, and Waste Management	63,513	139,248	45.6%
Arts, Entertainment, and Recreation	39,633	60,590	65.4%
Finance and Insurance	35,640	98,936	36.0%
Real Estate and Rental and Leasing	32,840	45,375	72.4%
Transportation and Warehousing	32,767	86,375	37.9%
Educational Services	31,391	53,095	59.1%
Information	24,861	123,018	20.2%
Agriculture, Forestry, Fishing and Hunting	10,623	12,763	83.2%
Utilities	1,501	s	-
Mining, Quarrying, and Oil and Gas Extraction	1,045	2,361	44.3%
Total	1,254,641	2,362,605	53.1%

Figure 5: Washington County-Level Job Changes, 2015 (CEW)

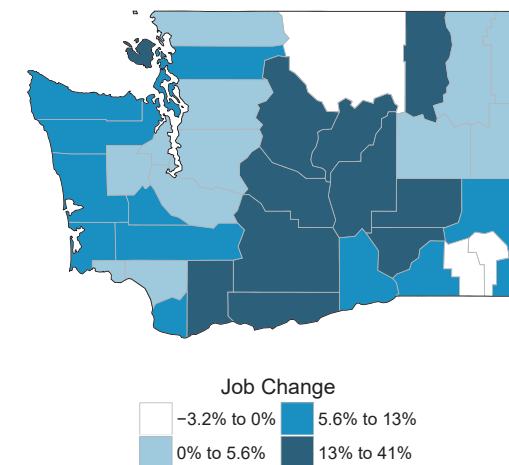


Table 3: Abbreviations and Resources

ACS	American Community Survey, US Census Bureau
BEA	Bureau of Economic Analysis
BDM	Business Employment Dynamics, BLS
BDS	Business Dynamics Statistics, US Census Bureau
BLS	Bureau of Labor Statistics, US Department of Labor
CES	Current Employment Statistics, BLS
CEW	Census of Employment and Wages, BLS
CPS	Current Population Survey, BLS
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
ITA	International Trade Administration
NES	Nonemployer Statistics, US Census Bureau
SBO	Survey of Business Owners, US Census Bureau
SUSB	Statistics of US Businesses, US Census Bureau

All profiles, source data, methodology notes, and county-level employment statistics are available at <http://go.usa.gov/cfKMd>



APPENDIX B: TEXAS STATE ECONOMIC PROFILE 2016

Note: The content displayed on pages 41-44 are derived from the same report.

U.S. SMALL BUSINESS ADMINISTRATION

SMALL BUSINESS PROFILE

OFFICE OF ADVOCACY

REGULATION • RESEARCH • OUTREACH

TEXAS

2.4 million
98.6% Small Businesses
of Texas Businesses

4.4 million
45.6% Small Business Employees
of Texas Employees

EMPLOYMENT
152,231
net new jobs¹

DIVERSITY
48.0%
increase in minority
ownership²

TRADE
93.2%
of Texas exporters³

OVERALL TEXAS ECONOMY

- In the third quarter of 2015, Texas grew at an annual rate of 0.1% which was slower than the overall US growth rate of 1.9%. By comparison, Texas's 2014 growth of 5.5% was down from the 2013 level of 7.3%. (Source: BEA)
- At the close of 2015, unemployment was 4.6%, up from 4.5% at the close of 2014. This was below the national unemployment rate of 5.0%. (Source: CPS)

EMPLOYMENT

- Texas small businesses employed 4.4 million people, or 45.6% of the private workforce, in 2013. (Source: SUSB)
- Firms with fewer than 100 employees have the largest share of small business employment. See Figure 1 for further details on firms with employees. (Source: SUSB)
- Private-sector employment increased 1.4% in 2015. This was below the previous year's increase of 4.0%. (Source: CES)
- The number of proprietors increased in 2014 by 1.4% relative to the previous year. (Source: BEA)
- Small businesses created 152,231 net jobs in 2013. Among the seven BDS size-classes, firms employing 100 to 249 employees experienced the largest gains, adding 30,166 net jobs. The smallest gains were in firms employing 5 to 9 employees which added 15,618 net jobs. (Source: BDS)

Figure 1: Texas Employment by Firm Size

Firm Size	Percentage
>500 Employees	54.4%
100-499 Employees	14.0%
20-99 Employees	16.1%
1-19 Employees	15.4%

The Small Business Profiles are produced by the US Small Business Administration's Office of Advocacy. Each report incorporates the most up-to-date government data to present a unique snapshot of small businesses. **Small businesses are defined as firms employing fewer than 500 employees.** Hyperlinks to data sources and report generation information are provided in Table 3.

^{1,3} Net small business jobs change and exporter share are based on newly released 2013 BDS and 2012 ITA data.

² Diversity statistic tracks changes between 2007 and 2012 based on the Survey of Business Owners (SBO) 2015 release.

Texas Small Business Profile, 2016
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SBA Office of Advocacy

INCOME AND FINANCE

- The number of banks reported in the Call Reports between June 2014 and June 2015 declined. (Source: FDIC)
- In 2014, 421,254 loans under \$100,000 (and valued at \$6.2 billion) were issued by Texas lending institutions reporting under the Community Reinvestment Act. (Source: FFIEC)
- The median income⁴ for individuals who were self-employed at their own incorporated businesses was \$51,624 in 2014. For individuals self-employed at their own unincorporated firms, this figure was \$21,803. (Source: ACS)

⁴ Median income represents earnings from all sources. Unincorporated self-employment income includes unpaid family workers, a very small percent of the unincorporated self-employed.

BUSINESS OWNER DEMOGRAPHICS

Figure 2: Texas Changes in Business Ownership by Demographic Group

African American-owned	●	40.9%
Asian-owned	●	36.3%
Hawaiian/Pacific Islander-owned	●	85.6%
Hispanic-owned	●	53.6%
Native American/Alaskan-owned	●	16.8%
Minority-owned	●	48.0%
Nonminority-owned	●	-8.7%

Figure 3: Texas Self-Employment within Demographic Group

Demographic Group	Percentage
Female	7.2%
Male	11.3%
Minority	10.4%
Veteran	7.9%

- Figure 2 displays the change in overall firm ownership for each demographic group from 2007 to 2012 based on the Survey of Business Owners (SBO) for Texas, released in December 2015.
- Figure 3 displays the percent of each demographic group identified as self-employed according to the 2014 American Community Survey (ACS) 5-year estimates.

BUSINESS TURNOVER

- In the second quarter of 2014, 14,990 establishments started up⁵ in Texas and 13,100 exited.⁶ Startups generated 62,607 new jobs while exits caused 51,770 job losses. (Source: BDM)

Figure 4: Texas Private Startup and Exit Rates

Year	Exit Rate	Startup Rate
2006	2.7%	3.1%
2009	2.7%	2.9%
2012	2.5%	2.9%
2015	2.5%	2.9%

⁵ **STARTUPS** are counted when business establishments hire at least one employee for the first time. The BLS terms these **births**, as distinct from the BLS **openings** category which includes seasonal re-openings.

⁶ **EXITS** occur when establishments go from having at least one employee to having none, and then remain closed for at least a year. The BLS terms these events **deaths**, as distinct from the **closings** category which includes seasonal shutterings.

Texas Small Business Profile, 2016
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SBA Office of Advocacy

APPENDIX B: TEXAS STATE ECONOMIC PROFILE 2016 CONTINUED

INTERNATIONAL TRADE

- A total of 41,558 companies exported goods from Texas in 2013. Among these, 38,735, or 93.2%, were small firms; they generated 34.9% of Texas's total known export value. (Source: ITA)

SMALL BUSINESSES BY INDUSTRY

Table 1: Texas Small Firms by Industry, 2013
(sorted by small employer firms)

Industry	1 – 499 Employees	1 – 19 Employees	Nonemployer Firms	Total Small Firms
Professional, Scientific, and Technical Services	57,781	53,529	257,225	315,006
Health Care and Social Assistance	50,305	43,720	152,725	203,030
Other Services (except Public Administration)	44,319	40,477	310,339	354,658
Retail Trade	44,292	40,454	171,486	215,778
Construction	38,182	33,622	258,109	296,291
Accommodation and Food Services	33,979	25,697	38,199	72,178
Wholesale Trade	24,498	20,328	34,462	58,960
Administrative, Support, and Waste Management	21,404	18,043	220,392	241,796
Real Estate and Rental and Leasing	19,323	18,096	167,731	187,054
Finance and Insurance	18,765	17,113	69,614	88,379
Manufacturing	16,520	12,241	32,327	48,847
Transportation and Warehousing	12,835	10,971	113,168	126,003
Mining, Quarrying, and Oil and Gas Extraction	6,842	5,645	38,541	45,383
Arts, Entertainment, and Recreation	5,732	4,891	83,735	89,467
Educational Services	5,584	4,457	46,601	52,185
Information	4,183	3,412	23,072	27,255
Agriculture, Forestry, Fishing and Hunting	1,011	949	19,435	20,446
Utilities	917	779	2,571	3,488
Total	406,472	354,424	2,039,732	2,446,204

Totals for Tables 1 and 2 differ from SUSB's statewide tallies due to firms with establishments in more than one industry and the omission of industry classifications not reported by NES. (Source: NES and SUSB)
s Indicates samples deemed too small to represent the population according to SUSB.

SMALL BUSINESS EMPLOYMENT BY INDUSTRY

Table 2: Texas Employment by Industry and Firm Size, 2013
(sorted by small firm employment)

Industry	Small Business Employment	Total Private Employment	Small Business Employment Share
Health Care and Social Assistance	652,108	1,360,812	47.9%
Accommodation and Food Services	560,550	1,021,740	54.9%
Construction	402,297	587,842	68.4%
Professional, Scientific, and Technical Services	376,994	647,105	58.3%
Retail Trade	371,004	1,206,760	30.7%
Other Services (except Public Administration)	356,100	431,924	82.4%
Manufacturing	336,496	789,812	42.6%
Administrative, Support, and Waste Management	311,879	945,320	33.0%
Wholesale Trade	271,583	500,704	54.2%
Finance and Insurance	154,933	491,299	31.5%
Transportation and Warehousing	137,630	390,221	35.3%
Real Estate and Rental and Leasing	110,769	176,674	62.7%
Mining, Quarrying, and Oil and Gas Extraction	95,550	234,893	40.7%
Educational Services	91,587	172,075	53.2%
Arts, Entertainment, and Recreation	72,914	124,710	58.5%
Information	54,378	226,590	24.0%
Utilities	13,117	50,050	26.2%
Agriculture, Forestry, Fishing and Hunting	5,932	6,706	88.5%
Total	4,375,821	9,365,237	46.7%

Figure 5: Texas County-Level Job Changes, 2015 (CEW)

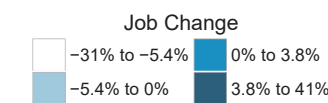
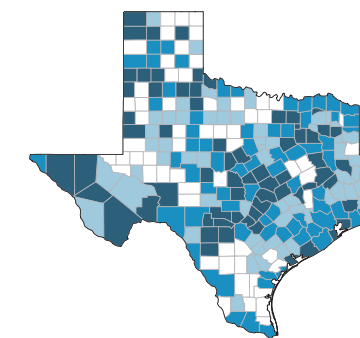


Table 3: Abbreviations and Resources

ACS	American Community Survey, US Census Bureau
BEA	Bureau of Economic Analysis
BDM	Business Employment Dynamics, BLS
BDS	Business Dynamics Statistics, US Census Bureau
BLS	Bureau of Labor Statistics, US Department of Labor
CES	Current Employment Statistics, BLS
CEW	Census of Employment and Wages, BLS
CPS	Current Population Survey, BLS
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
ITA	International Trade Administration
NES	Nonemployer Statistics, US Census Bureau
SBO	Survey of Business Owners, US Census Bureau
SUSB	Statistics of US Businesses, US Census Bureau

All profiles, source data, methodology notes, and county-level employment statistics are available at <http://go.usa.gov/cfKMd>

