

# Key Data on the Scale of Business Development Services

April 2010

**Authors:**

**Elaine L. Edgcomb, Director**  
**William Girardo, Research Associate**



**FIELD**  
Microenterprise Fund for  
Innovation, Effectiveness,  
Learning and Dissemination

**The Aspen Institute**  
*Microenterprise Fund for Innovation, Effectiveness,  
Learning and Dissemination (FIELD)*  
**1 Dupont Circle, NW, Suite 700**  
**Washington, DC 20036**  
**Phone: (202) 736-1071      Website: [www.fieldus.org](http://www.fieldus.org)**

Funded in part through a grant award with the U.S. Small Business Administration.  
All opinions, conclusions, or recommendations expressed are those of the authors and do  
not necessarily reflect the views of the SBA.

Additional support is provided by the C.S. Mott and Citi Foundations.

## Introduction

When entrepreneurs and aspiring entrepreneurs approach microenterprise development organizations (MDOs) for assistance, they can access financial and non-financial resources. Those non-financial resources, which include training and technical assistance, access to markets services, technology services, and a wide array of others, are designed to help entrepreneurs start and grow their businesses, and are called business development services (BDS). With funding from the U.S. Small Business Administration's PRIME (Program for Investment in Micro-entrepreneurs) program, FIELD is exploring how MDOs can scale up their business development services in order to serve many more microentrepreneurs, and serve them more effectively. For years, the industry has identified scale as one of its principal challenges. Estimates made by FIELD suggest that 10 million entrepreneurs and potential entrepreneurs face barriers to accessing mainstream capital and other business development services.<sup>1</sup> How many actually need these services, and which ones, is harder to determine but most observers believe that the number is greater than the several hundred thousand estimated to receive these services annually through MDOs.

On the one hand, MDOs have been more successful delivering business development services to entrepreneurs than financing them. Since FIELD has tracked industry data, starting with the first directory of nonprofit programs in 1992, the majority of clients served by MDOs have received these services. Microloan recipients have always been in the minority. Even so, leading business development services practitioners have expressed less a sense of satisfaction in the aggregate number of individuals they have served, and more a sense of how challenging it has been to reach those that they have, and to serve even more. As this document will show, most serve just a few hundred individuals each year.

The intent of this document is to present the current institutional landscape with respect to business development services and scale. It will summarize data from the recently completed field-wide survey of U.S. microenterprise programs, which collected performance data for 2008. As part of the survey process, FIELD identified 696 organizations that offer some form of microenterprise development services. The survey captured data on 369 of these programs, and of that number 266 reported providing business development services.<sup>2</sup> The intent of the document is to describe overall

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<sup>1</sup> See Elaine L. Edgcomb and Joyce A. Klein, *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*. (Washington, D.C.: The Aspen Institute/FIELD, February 2005), 16.

<sup>2</sup> The field-wide survey was completed with the support of 16 institutional partners whose names can be found at <http://www.fieldus.org/projects/fieldwidesurvey.html>. A summary analysis, reviewing data on all reporting organizations and industry performance with respect to both microfinance and business development services, will be forthcoming at [www.fieldus.org](http://www.fieldus.org). Additional analyses drawing on survey data also will be forthcoming, along with a directory of programs.

industry performance as well as to identify some of the characteristics of those institutions that appear to be leaders in scale. A future document will explore the practices that some of these leaders use to achieve the scale that they have and lessons they have learned. However, to understand their achievements, it is helpful to understand the current state of the practice — at least in terms of the data — and where the leading edge may be.

The first part of this document will provide a statistical look at the whole group of reporting organizations. The second part will explore the characteristics of the largest organizations in the survey, and compare them to the other respondents.

## Characteristics of All Respondents

### **BDS Organizations, Their Age and Geographic Location**

The organizations that provide business development services are varied in their institutional form. Some are institutions whose sole purpose is to provide microenterprise development assistance. Many others are embedded in organizations with broader missions. They include community development finance institutions that provide financing and technical assistance for multiple purposes; educational and human services organizations; place-based community development corporations; and others. The survey captured data from all these types of institutions. Within the dataset, 117 organizations identified themselves as having a separate microenterprise development program within their structure, suggesting that at least 44 percent of institutions offering BDS services represented organizations with broader missions. Some organizations consider business development services their lead service for microenterprise development. Others are credit-led institutions that offer business development services as a complement to their financing.<sup>3</sup> It is important to keep that breadth of institutional form in mind when reviewing the data.

The 266 reporting organizations also varied in age. Among those that reported their starting year (n = 253),

- 75 programs are “young” programs, starting in 2002 or later,
- 52 programs are “experienced,” that is they started between 1998 and 1999, and
- 126 programs are “mature,” that is, they started before 1998.

The oldest program reported starting in 1952. Three reported starting in the 1960s; nine in the 1970s; and 31 in the 1980s. The largest number, 83, reported starting in the 1990s, which corresponded to a period of great support for the microenterprise movement from the federal government, complemented by strong philanthropic interest. Nevertheless, the emergence of 75 programs in the last decade demonstrates the continuing attraction of

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<sup>3</sup> For ease of reference, all organizations that offer business development services as part of their portfolio will be called BDS organizations. However, it is important to keep in mind that a number of them would not be characterized as that by their leadership.

microenterprise development as a strategy for poverty alleviation, job creation and community economic development.

Almost half (49.6 percent) report serving urban areas, and almost half (47.2 percent) report serving rural areas. Forty-eight organizations (13 percent) report providing services statewide, and only 21 organizations (5.7 percent) serve individuals in multiple states. The states with the largest number of business development service providers among the survey respondents are:

California: 31 providers	Ohio: 10
Georgia: 16	Oregon: 16
Minnesota: 12	Pennsylvania: 11
Nebraska: 11	Virginia: 10
New York: 21	Washington: 11

### **Individuals Served with Business Development Services**

The majority of these programs are small. The survey asked respondents to report the total number of individuals assisted with training or technical assistance services in 2008, including anyone who received any level of service from the organization.<sup>4</sup> One-hundred eighty-four organizations answered that question, and for that group, the median number of *total* individuals assisted by these organizations was 138; the mean was 336 (n=184). The range was from 0 to 4,646.<sup>5</sup> In all, these organizations reported providing technical assistance and training to 61,833 individuals.<sup>6</sup>

### **BDS Services**

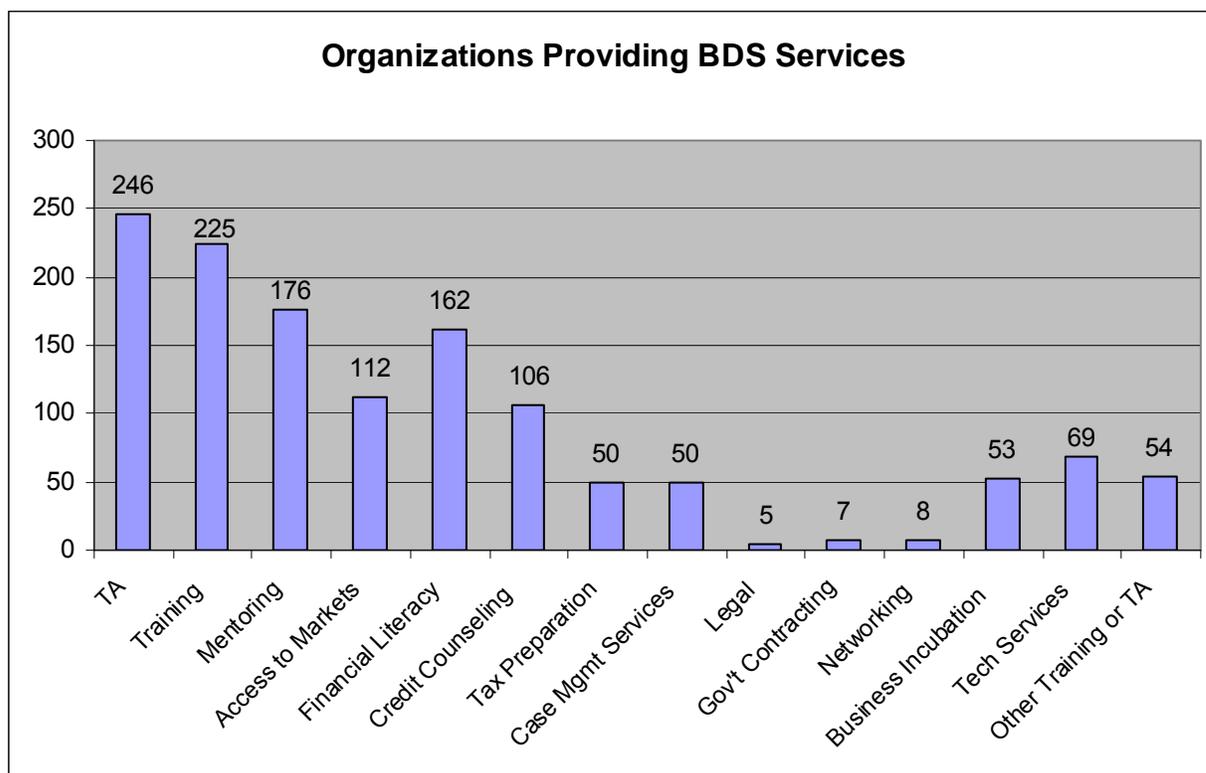
Business development services organizations provide a large number of services. The chart below shows them in order of their prevalence:

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<sup>4</sup> FIELD, under its performance measurement project, MicroTest, asks organizations to distinguish between *participants*, those who receive any level of service, and *clients*, those who receive a microloan or other financing product, or who receive a *substantial* amount of service in a year. While MDOs define substantial in terms of their own program offerings, the rule of thumb is ten hours or more in a given fiscal year. The survey did not ask respondents to classify assisted individuals in this way. Therefore the number should be understood as including individuals receiving all levels of service from the most limited to the most comprehensive.

<sup>5</sup> A zero response would mean that the organization says that it offers these services, but did not do so in 2008.

<sup>6</sup> These organizations may have served other individuals with other business development services or with microfinancing products. Training and technical assistance, however, are the dominant business development services offered and the majority of individuals would have received these services.



Other includes: loan packaging, leadership development, ESOL, inventor and entrepreneur clubs, natural disaster training, forestry and energy sector support, etc.

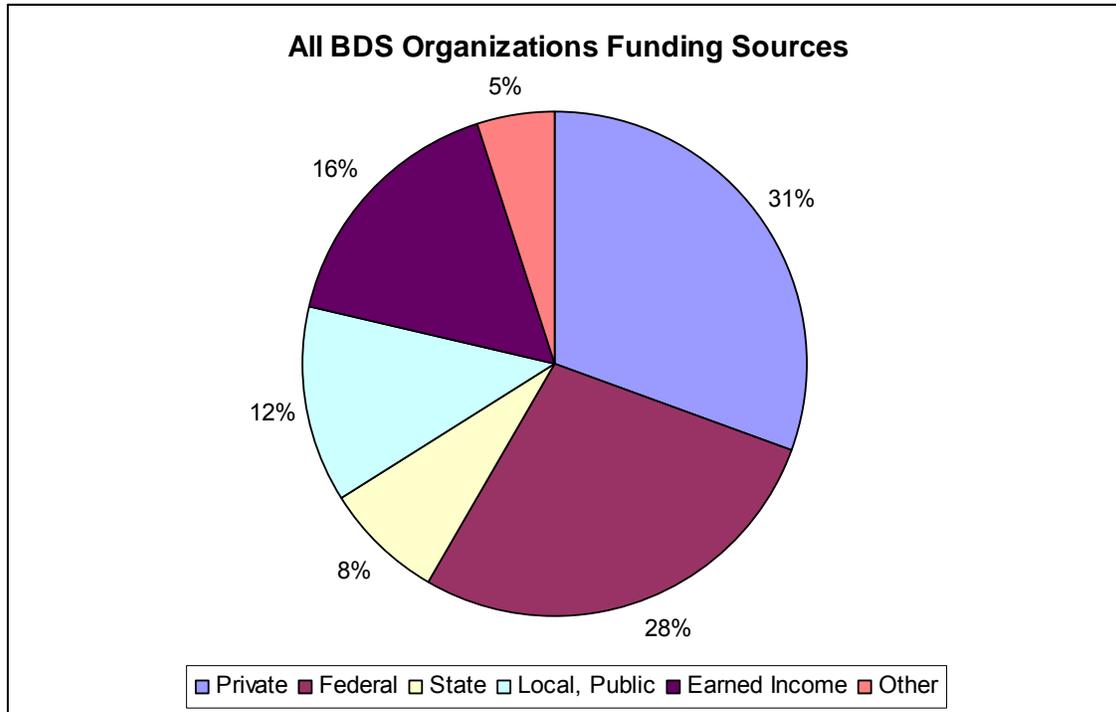
The majority of organizations report offering fewer than 20 hours of business development services to each individual. The table below indicates the number and percent of organizations reporting the average number of hours of assistance per individual assisted in each category. A third of the organizations report offering nine or fewer hours of service per individual assisted, and almost two-thirds (63.5 percent) report offering 20 or fewer hours per individual.

Average Number of Service Hours		
	Number of Organizations	Percent
0 - 9 hours	90	33.83
10 - 20 hours	79	29.70
21 - 30 hours	20	7.52
31 - 40 hours	11	4.14
41+ hours	19	7.14
Don't know	10	3.76
<i>Subtotal</i>	<i>229</i>	<i>86.09</i>
Missing Data	37	13.91
<b>Total</b>	<b>266</b>	<b>100.00</b>

### Operating Budgets and FTEs

The median operating budget is \$268,500, and the mean is \$518,417 (n =162). The median number of FTEs is 3 and the mean is 4.08 (n =218). The small size of programs in terms of financial and human resources is consonant with the relatively small number of individuals served by most organizations.

For 162 organizations reporting, the percent of their aggregate budgets for each of the following sources is indicated in the pie chart below.



The median for earned revenue was \$6,415, with almost 40 percent reporting no earned revenue at all. The mean was 16 percent, and the range was from 0 to 100 percent<sup>7</sup> (162 MDOs reported this data).

### Social Enterprise

Thirty-five organizations (13.2 percent of the group) reported having social enterprises, which were defined as business ventures designed either for a social purpose — producing direct benefits for clients and generating financial returns to cover their costs - or earned income operations designed to provide revenue to support general program operations. The mean earned revenues for those organizations (n = 33) was 32 percent,

<sup>7</sup> Three organizations reported 100 percent earned revenue. Each served fewer than 50 individuals and reported operating budgets ranging from \$5,000 to \$275,000. Data is not available on the sources of earned revenue that each organization reports, but only two report offering microfinance, indicating that the earned revenue comes from other sources.

but the median was 13 percent. The effect of social enterprise on overall earned revenue appears mixed, although the data is not sufficient to determine the relationship of that earned revenue to the specific enterprise that generated it. Certainly, the data suggests that the role of social enterprises in generating adequate revenues to sustain organizations is, in many cases, limited.

## Characteristics of Large-Scale Respondents

### Individuals Served and Target Markets

Among the 266 business development services practitioner organizations, there were 38 that reported that they provided *business development training and technical assistance to over 500 individuals* in 2008. The table below compares their scale with the 140 others that reported data on the number of individuals assisted and provided training and technical assistance to 500 or fewer individuals. (Eighty-two of the respondents did not provide data on individuals served.)

<b>Number of Individuals Served by Large-Scale and Small-Scale BDS Organizations</b>		
	Large-Scale Organizations ( $\geq 500$ individuals served in 2008) N = 38	Small-Scale BDS Organizations ( $< 500$ individuals served in 2008) N = 140
Mean	1,169	124
Median	921	89
Minimum	506	2
Maximum	4,646	433
Total Served	44,409	17,424

As the data indicate, the largest 38 organizations served 72 percent of all individuals assisted by reporting organizations. Some of these organizations are large microlenders that offer technical assistance along with their lending. Others are large organizations whose focus is predominantly on providing business development services. Training and technical assistance are the primary BDS services that most institutions offer. But, as discussed above, many BDS organizations offer other services as well, and so their scale may, in some instances, be even larger than indicated here. Nevertheless, the size of their training and technical assistance programs is a good proxy for the overall scale of these organizations with respect to individuals served.

The size of these organizations may in some ways be related to the markets that they serve. Eight of the organizations are based in California, three each are in New York and Texas, all states with large populations. They also tend to serve urban centers more (68 percent compared to 60 percent for the other MDOs). A greater proportion of the large-scale MDOs report statewide service areas (34 percent versus 13 percent), and multi-state service areas (16 percent versus 6 percent).

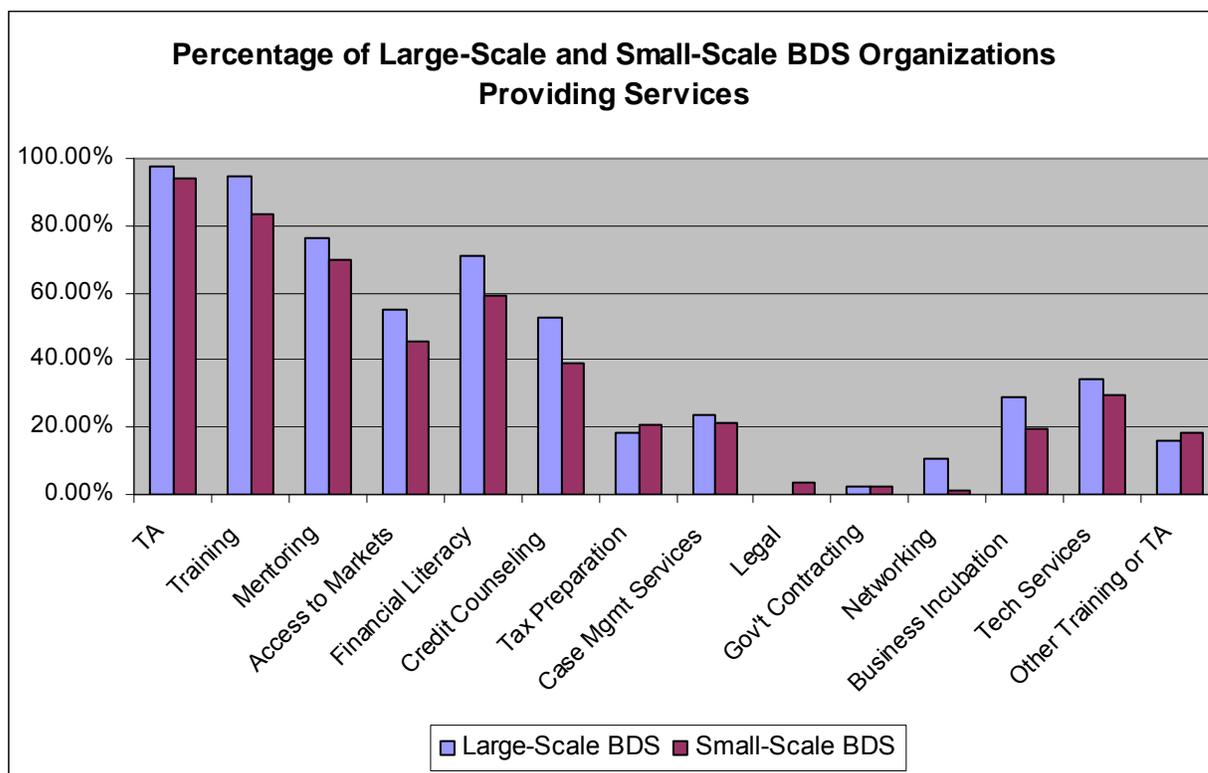
### Institutional Age

Another factor influencing size may be the age of the organization. Thirty-three of the large-scale group, or 87 percent, are mature organizations, that is, they started before 1998. Only 46.4 percent of the small-scale organizations (n = 136) started during the same period. It can be assumed that longer-lived organizations have developed the capacities to sustain themselves and to grow.

### BDS Services

With their growth has come greater complexity. In all instances but two, the percentage of the large-scale organizations offering each business development service is greater than the percentage of small-scale organizations that do. The table and chart below illustrate the difference:

Services Provided by Large-Scale and Small-Scale BDS Organizations				
	Large-Scale BDS Organizations N = 38		Small-Scale BDS Organizations N = 140	
	%	N	%	N
Technical Assistance	97.4%	37	94.3%	132
Training	94.7%	36	83.6%	117
Mentoring	76.3%	29	70.0%	98
Access to Markets	55.2%	21	45.7%	64
Financial Literacy	71.0%	27	59.3%	83
Credit Counseling	52.6%	20	39.3%	55
Tax Preparation	18.4%	7	20.7%	29
Case Management Services	23.7%	9	21.43%	30
Legal	0.0%	0	3.5%	5
Gov't Contracting & Procurement	2.6%	1	2.1%	3
Networking	10.5%	4	1.4%	2
Business Incubation	29.0%	11	19.3%	27
Technology Services	34.2%	13	29.3%	41
Other	34.2%	13	18.6%	26

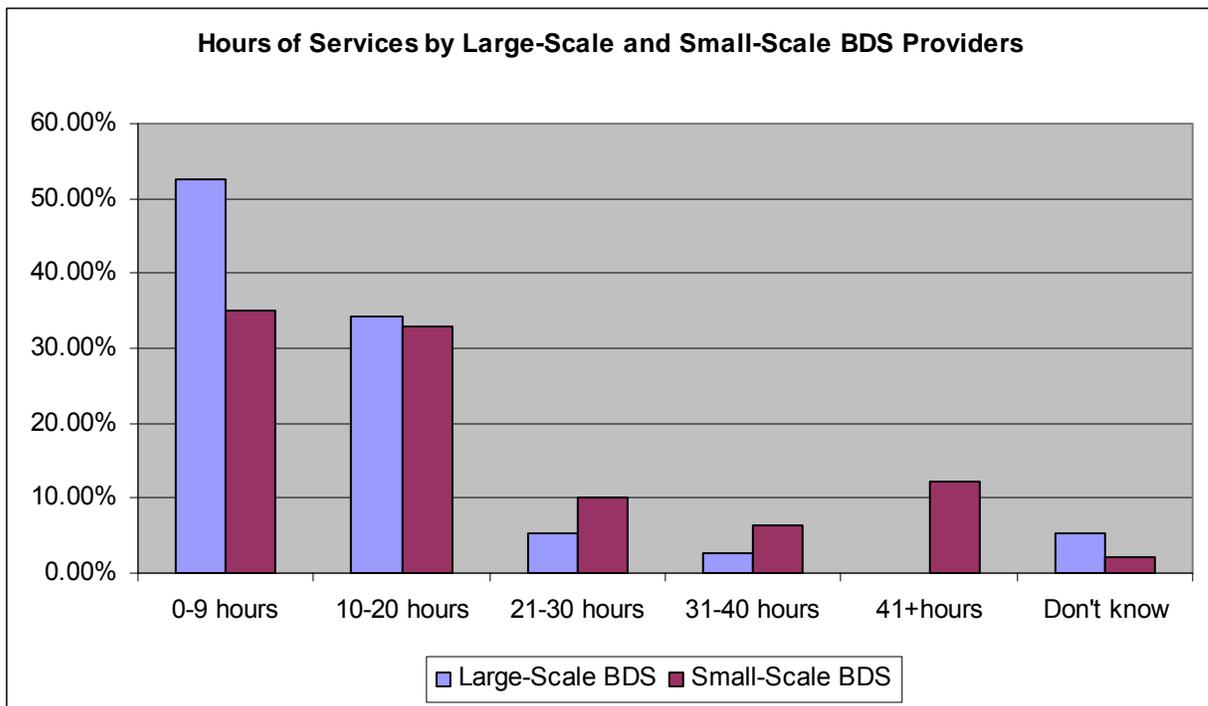


Other includes: loan packaging, leadership development, ESOL, inventor and entrepreneur clubs, natural disaster training, forestry and energy sector support, etc.

This suggests that growth has come for these organizations, not just by extending core products and services, but by adding services to their program. Growth, in part, comes from aggregation, rather than massification, of services. This type of growth is more challenging as it requires adding new capacities, and sometimes structures, to deliver the new services. Investments in technology, incubators, and access to market services, in particular, demand substantial resources to do well.

At the same time, large-scale organizations tend to offer fewer hours of service than small-scale organizations. The table below compares these institutions. The majority of large-scale providers report offering nine or fewer hours of services to clients. This is not surprising as the group includes some high-volume microlenders that provide technical assistance in conjunction with microloans. But it does not mean that intensive services are not offered to some individuals; it does mean that the individuals engage with the programs at different levels of intensity depending on their interests and needs, and that such participation may vary over the length of their connection to the MDOs. Because large-scale organizations offer many options, they also offer varying degrees of interaction to program participants.

Average Service Hours of Large-Scale and Small-Scale BDS Organizations				
	Large-Scale BDS Organizations N = 38		Small-Scale BDS Organizations N = 140	
	%	N	%	N
0 – 9 hours	52.6%	20	35.0%	49
10 – 20 hours	34.2%	13	32.9%	46
21 – 30 hours	5.3%	2	10.7%	15
31 – 40 hours	2.6%	1	6.43%	9
41+ hours	0%	0	12.14%	17
Don't know	5.3%	2	2.1%	3
Missing Data	0%	0	2.14%	1



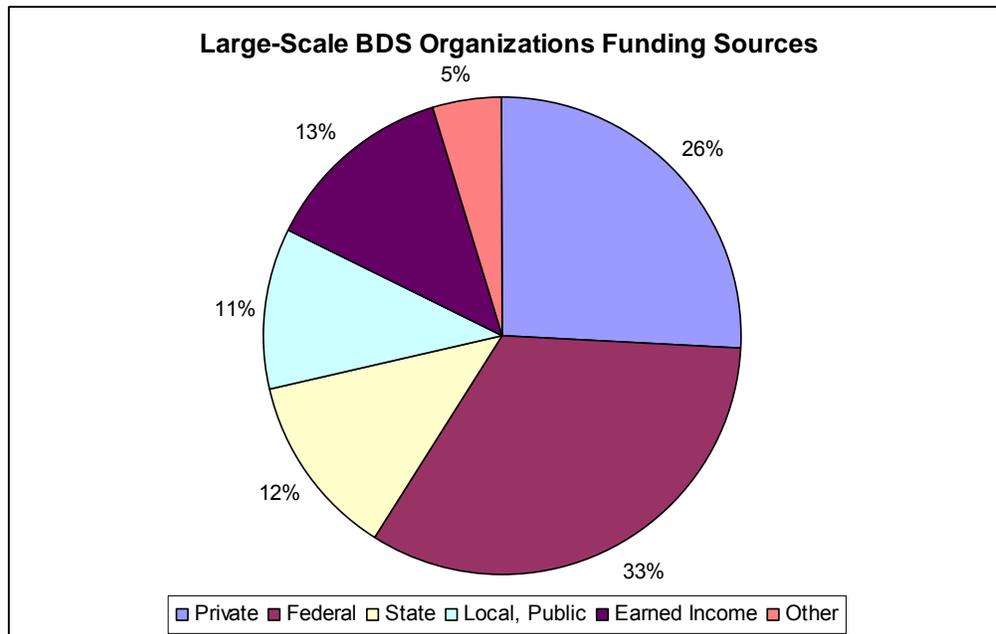
### Operating Budgets and FTEs

Large-scale organizations have large-scale budgets. As the table below shows, the largest MDOs offering BDS have operating budgets that are more than four times larger than the budgets of other organizations on mean, and on median.

<b>Operating Budgets and FTEs of Large-Scale and Small-Scale BDS Organizations</b>		
	Large-Scale BDS Organizations N = 30 for budget; N = 34 for FTEs	Small-Scale BDS Organizations N = 103 for budget; N = 132 for FTEs
Operating Budget		
Mean	\$1,456,915	\$ 301,928
Median	\$ 853,084	\$ 192,500
FTEs		
Mean	10.2	3.0
Median	6.3	2.5
Earned Revenues		
Mean	19.1%	13.4 %
Median	9%	0.01%

This represents a substantial resource mobilization challenge for large-scale BDS providers, as earned revenues represent a small portion of overall budgets. The chart below shows the percent of their aggregate budgets by source. The mean earned income is 19.1 percent for these organizations, compared to 13.4 percent for small-scale organizations. Even with the somewhat higher rates of revenue generation, the funding that large-scale organizations must raise from external sources is considerable. BDS-providing MDOs face this challenge year after year.

In FY2008, the larger-scale organizations acquired more federal resources than small-scale organizations to underwrite those budgets (33 percent versus 24 percent), and less private funding (26 percent compared to 35 percent). If winning federal grants is an indicator of institutional capacity, this is further evidence of the type of organizational competencies that the larger organizations have been able to develop and use to grow their program services.



The table on page 11 also includes data comparing the staff size of larger and smaller organizations. While the large-scale organizations have about three times as many staff as the small-scale organizations, it is interesting to note that mean and median staff size is not very high in most cases. (One institution reports 63 staff but the median is 6.3.) Comparing mean figures to each other, the ratio of staff to assisted individuals is 1 to 40 for the smaller organizations and 1 to 116 for the large-scale institutions. Some of the large-scale BDS providers are also microlenders and have developed relatively high levels of efficiency in delivering services. (And, in fact, 29 of the 38 organizations in the large-scale group do offer microloans.) This explains part of the difference between the groups, but it may not be all of the difference. Another cause of the difference may relate to the economies of scale that larger organizations are able to achieve in general.

### **Social Enterprise**

While some large-scale organizations generate a large portion of their earned revenues from interest and fees charged in their lending programs, a little over a fifth of the group (21 percent) also implemented social enterprises that generate revenue to support program operations. Only 14.2 percent of the small-scale BDS providers used social enterprise as a strategy to deliver services and generate revenues. These enterprises include incubators, retail stores and operations that provided services to other MDOs.

Among the large-scale BDS providers, having a social enterprise was associated with having higher earned revenues. The table below shows the advantage that a social enterprise provided to those institutions. As discussed earlier in the section on all BDS providers, the returns from social enterprises have not, in most instances, supported high rates of overall institutional self-sufficiency. Nevertheless, in the case of the large-scale programs, these returns have helped institutions inch closer to that end.

<b>Effect of Social Enterprise on Earned Revenues in Large-Scale BDS Organizations</b>		
<b>Earned Revenues</b>	<b>With Social Enterprise N = 6</b>	<b>Without Social Enterprise N = 23</b>
Mean	36.0%	12%
Median	20%	5.4%
Range	0 – 63%	0 – 43%

### **Conclusion**

The survey results indicate that only a small number of MDOs have developed programs that are reaching large numbers of aspiring entrepreneurs. Within the field, reaching 500 or more individuals a year with BDS training and technical assistance places an organization among the largest. Only 38 organizations out of 266 respondents reported serving at least that many in 2008. Of that group, 18, or half of them, served over 920, with the largest organization reporting that it provided training and technical assistance to 4,646 individuals. This data illustrates the scale that the nonprofit field has reached with respect to business development services.

The data also suggest several factors that have influenced the scale of organizations: geographic target market appears to matter, as does organizational age. The capacity to mobilize external resources year after year also appears critical as earned revenues are a small portion of organizational budgets. In addition, it seems that large-scale organizations have grown not only through extending core services to more individuals but also through integrating more types of services within their portfolios. A greater percentage of large-scale organizations report offering each type of BDS indicated in the survey, which suggests the increasing complexity of organizational structure and strategy that accompanies growth. In addition, 29 of them — 76 percent of the group — also offer microloans.

Finally, the data indicate the challenges that institutions face in underwriting the cost of services. Earned revenues play a limited role in financing relatively large, annual operating budgets, and most organizations implement their services with modest staff sizes. This requires them to be highly efficient within structures attempting to offer a large array of products and services.

How these large-scale organizations address these challenges, and how they continue to grow, will be the subject of a subsequent document that will draw on the experience of six leading organizations. That paper will further examine the organizational foundations of large-scale business development services providers, and address issues of mission, governance and management, product and service diversification, resource mobilization, geographic expansion, and sustainability, and summarize lessons learned. The paper will be forthcoming in September 2010.