

Business Start and Survivability: 2008 MicroTest Outcomes

The MicroTest fact sheet series profiles key data points from client outcomes surveys conducted by MicroTest members. This fact sheet is the second to explore data collected in 2008. The data examines business start and survival rates.

The first section of this fact sheet provides an overview of the business status of clients when they first enrolled in the microenterprise development organization (MDO) as well as subsequent business start and survivability rates. Section two discusses business starts and factors that influence start rates (and non-starts). Section three profiles the business outcomes of clients who enrolled in an MDO with a business – tracing clients with surviving businesses in 2007.

Strong Business Start and Survival Rates

Among the 1,392 clients surveyed by MicroTest members in 2008, 52 percent (730 clients) had a business when they enrolled in the microenterprise program. Forty-one percent (570 clients) had not yet started a business. See Figure 1.¹

¹ For 92 clients (7 percent), business status at enrollment was not known.

2008 MicroTest Outcomes Survey

Methodological Summary:

- Through its members, MicroTest annually conducts a survey of the business, household and individual outcomes of microenterprise clients.
- The survey includes information about the client when entering the microenterprise development organization (MDO) and the client's status approximately one year after receiving services.
- Only clients, those who received significant services from the MDO (training, loan, grant, etc.), are eligible to participate in the MicroTest Outcomes Survey.
- Only clients who received services in 2006 were eligible to be surveyed about their outcomes in 2007. The survey was conducted in 2008.
- Surveys were conducted in person, by telephone, by mail, and on-line.
- While this fact sheet presents longitudinal information on changes achieved by clients and businesses, there are no claims of causality or reporting of the net benefits of the microenterprise development organizations, because there is no comparison group data. There is evidence, however, that clients found value in program participation, and that the information and skills they received were used to run their businesses. As a result, it is likely that at least some of the changes observed are attributable to the services they received.

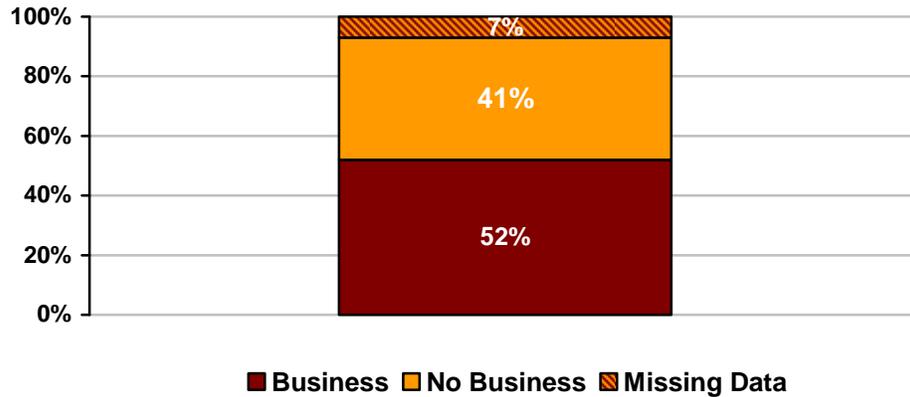
Diagnostics:

- 51% survey response rate
- 1,392 completed interviews
- 25 participating MDOs

Major Indicators:

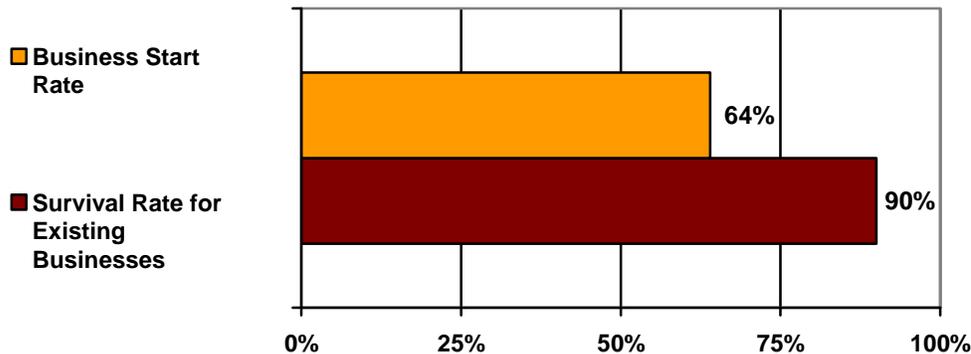
- Business start and survivability rates
- Business growth
- Job creation from business
- Contribution to household income
- Health insurance status

Figure 1: Business Status of Clients at Enrollment



By the end of 2007, 362 clients, or 64 percent of those without a business at enrollment, had started a business. Further, among the 730 clients who had a business at enrollment, follow-up surveys revealed that 656, or 90 percent, of them were still in business in 2007.²

Figure 2: Business Start and Survival Rates



New Business Started After Intake

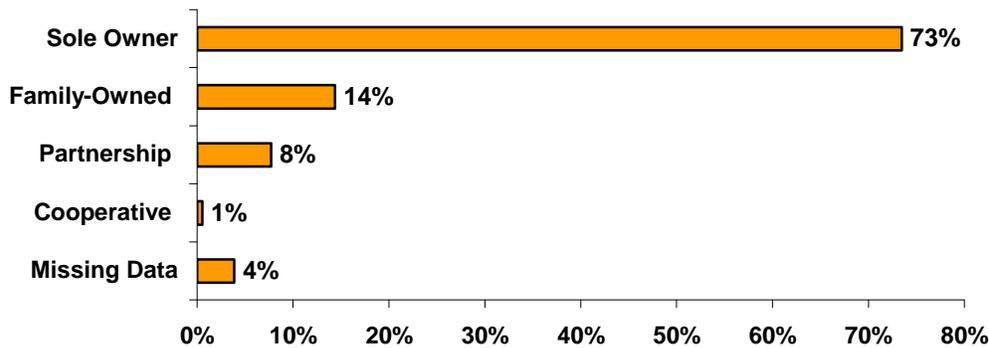
This section focuses on those 362 new businesses started by emerging entrepreneurs after receiving microenterprise development services.

New Businesses Largely Individually Owned

New businesses started by clients were most likely to be solely owned by the client (73 percent), although 14 percent started family-owned businesses. Only 9 percent of the new businesses started were partnerships or cooperatives. See Figure 3.

² The business survival rate could be affected by survivor bias. In theory, owners of closed businesses could be less likely to participate in the survey than businesses still open at the time of survey. We are unable to test for this potential bias in the current data.

Figure 3: Business Ownership

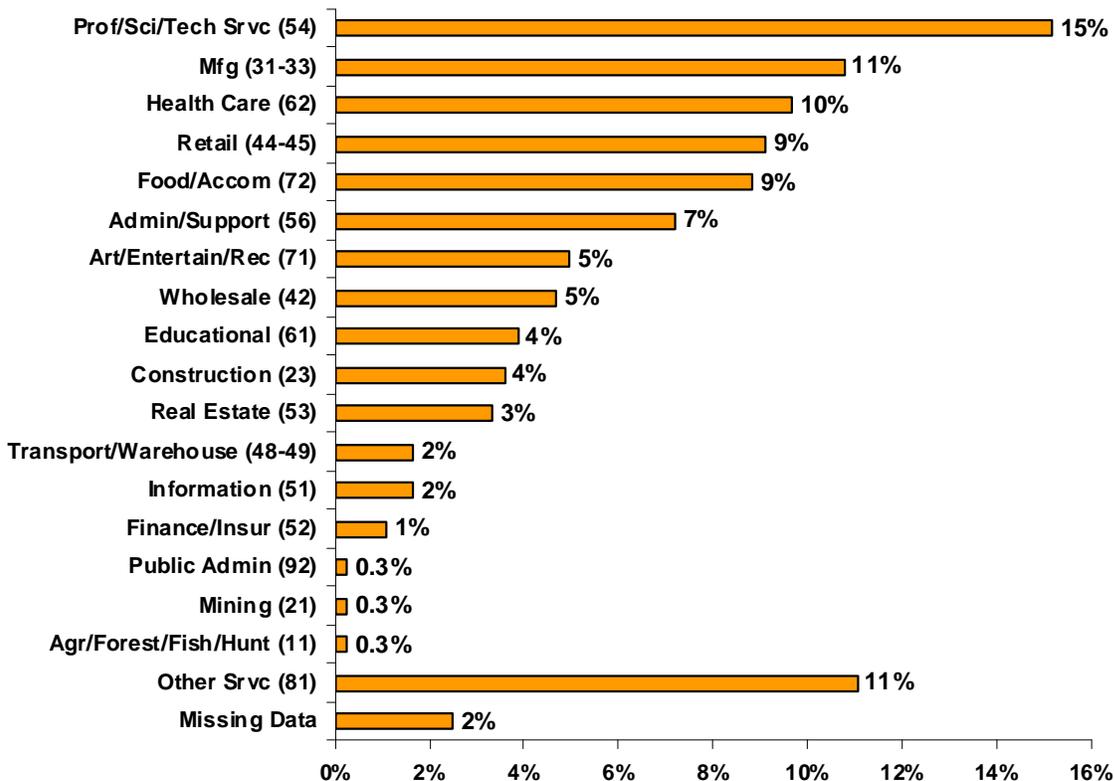


Clients Start Professional, Scientific and Technical Businesses in Largest Numbers

New businesses were most frequently opened in the following five areas (Figure 4):

- *Professional, scientific and technical services, 15 percent.* Examples of businesses in this category include: consulting, independent marketing service, translation services, graphic design, legal services, and accounting and bookkeeping.
- *Manufacturing, 11 percent.* Examples of manufacturing businesses include: jewelry-making, wedding dress designer and alterations, manufacturing and selling bath and body products, and custom-made diaper bags.
- *Health care, 10 percent.* Examples of health-care related businesses include: child care businesses, herbal medicine and natural body care product sales, adolescent residential care facility, acupuncture and herbal medicine practitioners, and chiropractic care.
- *Retail, 9 percent.* Examples of retail businesses include: grocery stores, clothing store, gift shop, antiques store, bookstore, florist, and bike shop.
- *Food and accommodation services, 9 percent.* Examples of businesses in this category include: catering, restaurants, and gourmet cookies and gift baskets.

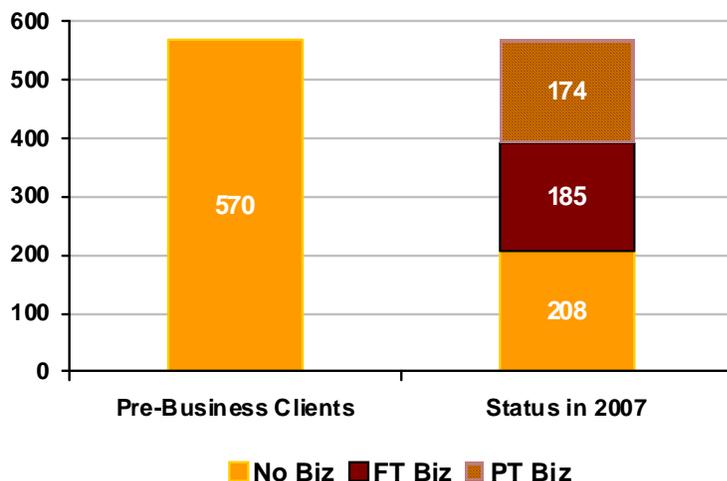
Figure 4: New Business Types ³



New Businesses Almost Evenly Split Between Part-Time and Full-Time Ventures

Of the 362 new businesses, 174, or 48 percent, were operated part time by the business owner, 185, or 51 percent, were operated full time and it was undeterminable whether 3 businesses, or 1 percent, were operated full or part time (Figure 5).⁴

Figure 5: Change in Business Status



³ The two-digit NAICS (North American Industry Classification System) codes for each category are included in parentheses after the title of the category.

⁴ Full time is defined as at least 35 hours of work per week.

New Full-Time Businesses Generate Substantial Revenues

New full-time businesses generated median revenues more than six times that of part-time businesses. The median business revenue for full-time businesses was \$40,000 (154 clients reporting). However, the part-time businesses generated much lower revenues, with median revenues of only \$6,500 (147 reporting). See Table 1.

Table 1: Mean and Median Revenues by Business Status, 2007					
	Median	Mean	Min	Max⁵	N=
FT Businesses	\$40,000	\$120,399	\$0	\$3,000,000	154
PT Businesses	\$6,500	\$28,908	\$0	\$780,000	147
All Businesses	\$22,000	\$75,221	\$0	\$3,000,000	303

What Affects Business Start Rates?

Table 2 (below) summarizes the key factors that affected business start rates in this sample. Clients with wage jobs in addition to their business, females, people of color and other ethnic minorities and those with large households⁶ were less likely to start a business. Please note that this does not imply that a small number of minorities started businesses. In fact, 54 percent of clients starting businesses were minorities. However, because 58 percent of minorities in the sample started businesses, compared with 72 percent of non-minorities who started businesses, in relative terms minorities were less likely to start businesses.⁷ Clients who completed business plans were more likely to start businesses. Other factors, such as size of household income, or whether the entrepreneur received a business grant, training, or asset development services, did not have any significant effect on whether a client opened a business. For detailed information on the results of the regression analysis conducted, please see the Appendix at the end of this fact sheet.

Table 2: Factors Affecting Business Start up		
	More Likely to Start a business*	Less Likely to Start a Business*
Minority		✓
Female		✓
Household Size		✓
Had a Business Plan	✓	
Had a Wage Job		✓
*Statistically significant at 5% level		

⁵ The new business with 3 million dollars in total sales was a wood and beam kit manufacturer employing 17 full-time and 4 part-time employees. The part-time business with \$780,000 in total sales was an Indian restaurant. Although the client entered the MDO in 2002 without a business, he started the restaurant later that year. So while this represents a business start in terms of this survey (which measures change since intake), the business had been in operation for 5 years by the time of the survey.

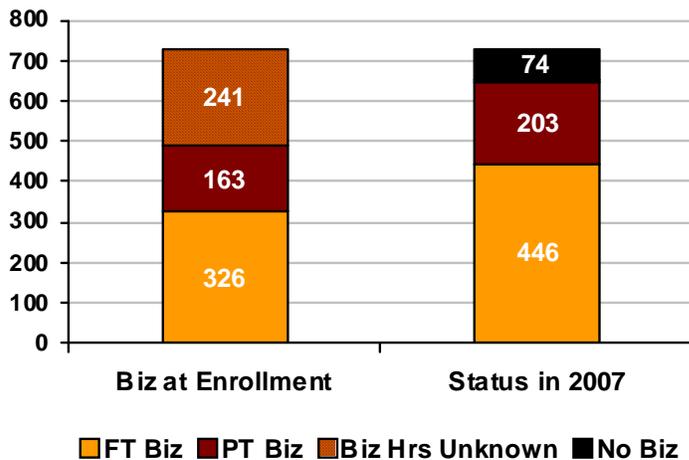
⁶ For each additional household member a client was less likely to start a business. For example, a client with a household size of 5 was less likely to start a business than a client with a household size of 4.

⁷ MicroTest does not collect minority status information in discrete categories. Therefore, we are unable to explore whether various minority sub-groups were more or less likely to start a business.

Business Survival

Ninety percent of clients with a business at enrollment were still operating their business in 2007. More than two-thirds of the 656⁸ surviving businesses were operating full time in 2007.⁹ See Figure 6.

Figure 6: Business Survival



Clients Enrolled in MDOs with Largely Existing Businesses

The age of surviving businesses ranged from 1 to approximately 41 years with a median of slightly less than 5 years.¹⁰ As half the businesses were 5 years or older when entering the MDO, their priorities for assistance focused on stabilizing and improving their business (42 percent) or substantially growing their business (21 percent). Slightly less than one-third of the businesses came to MDOs for early stage business assistance, such as help in formalizing their informal or home-based businesses. See Figure 7.

⁸ Of the 656 surviving businesses, 203 were operating part time; 446 were operating full time and business hours were not known for 7 businesses.

⁹ Because there were a large number of cases with missing data on hours worked at business, it's not possible to tell if most of these businesses were full time when their owners enrolled in the program, or if they began working more hours at their business after receiving services from microenterprise programs.

¹⁰ Business age was calculated as of December 31, 2007. If the business had closed, age was calculated as of the closing date. Business age could not be determined for 36 businesses.

Figure 7: Assistance Priorities



Professional, scientific and technical services businesses most likely to survive

Figure 8 shows surviving businesses categorized by industry type. Fifteen percent of the overall pool of surviving businesses was classified as retail, followed by: health care (10 percent); manufacturing (10 percent); professional, scientific and technical services (9 percent); and administrative and supportive services, and waste management and remediation services (9 percent).

Figure 8: Surviving Business Categories

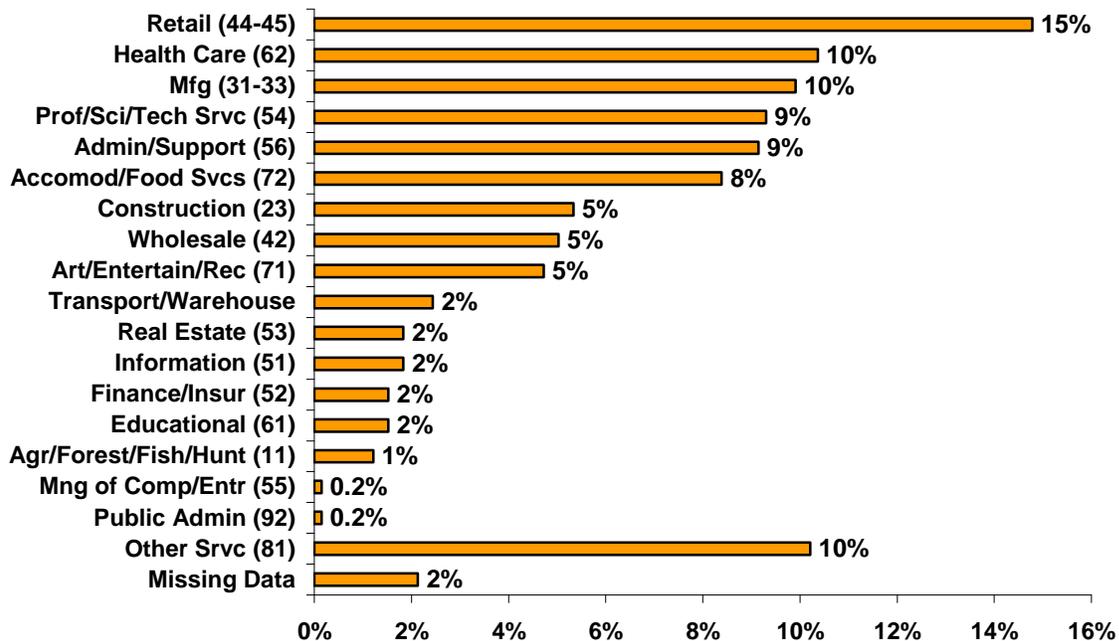


Table 3 shows the top five categories of businesses and the number and percent of surviving businesses in each category. Survival rates ranged from 88 percent to 98 percent. The professional, scientific and technical services category experienced the highest survival rate (98 percent). Examples for each category are provided below to give readers a sense of the types of surviving businesses.¹¹

Table 3: Survival Rate by Industry Type			
Industry	# of Surviving Businesses	Survival Rate	N=
Retail	100	88%	113
Health care	65	94%	69
Manufacturing	68	88%	77
Professional, scientific and technical services	60	98%	61
Administrative and supportive, and waste management and remediation services	56	95%	59

- **Retail:** Examples of surviving businesses in the retail category included: cell phone retail store, shoe and boot retail, party store, auto sales and repair shop, and clothing store.
- **Health care:** Included businesses such as: massage therapists, holistic therapists, day care/adult care providers, and medical transport services (EMS).
- **Manufacturing:** Businesses included: custom built furniture, natural beeswax candle manufacturer and distributor, glass art manufacturer and distributor, and hat manufacturer.
- **Professional, scientific, and technical services:** Examples included: architectural design services, accounting and consulting/tax services, computer consultants, and advertising agency.
- **Administrative and supportive, and waste management and remediation services:** Included businesses such as tree service, janitorial, lawn care, home cleaning services, landscaping, junk removal, travel agency, carpet cleaning, and pest control.

Surviving Businesses Experience Growth in Business Revenues

Businesses in operation when clients first entered microenterprise programs that were still operating in 2007 experienced median revenue growth of \$5,340. The median business revenues at intake were \$43,711 and by 2007 had risen to \$60,000. The median time between program intake and December 2007 was 2 years, the mean was 2.8 years. See Table 4.

Table 4: Median Revenues for Surviving Businesses				
	Median at Intake	Median in 2007	Median Change	N=
All Businesses	\$43,711	\$60,000	\$5,340	342

¹¹ The high survival rates could be affected by survivor bias, but we are unable to test given the current data.

Appendix

Factors Affecting Business Start-up				
	Coefficient	Standard Error	Test	Sig.
Female	-0.6355	0.2850	4.9732	0.0257*
Minority	-0.6582	0.2636	6.2371	0.0125*
Had a Grant	0.6584	0.5582	1.3912	0.2382
Household Income	0.0000	0.0000	0.1693	0.6807
Household Size	-0.2098	0.0883	5.6478	0.0175*
Training	0.3866	0.4476	0.7460	0.3878
Asset Development	0.4228	0.3196	1.7509	0.1858
Business Plan	0.8048	0.2572	9.7902	0.0018*
Wage Job	-0.6658	0.2636	6.3782	0.0116*
Constant	1.0611	0.6215	2.9148	0.0878
N		342**		
Hosmer and Lemeshow Test		5.259 (0.730)		
% Concordant		67%		
Dependent variable is Business start-up (1= started a business, 0 otherwise)				
Estimation is performed in SPSS using Logit model				
*Statistically significant at 5% level				
**Some variables have a large number of cases with missing data. Leaving the variables with large numbers of missing values, and re-running the regression in an effort to increase the number of observations included, does not affect the conclusions reached above.				

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The MicroTest Outcomes Fact Sheet Series reports findings from client outcomes data collected by a group of MicroTest member programs. The data include information on the changes clients have experienced related to their business, household income, wage employment, health insurance, and savings. The series provides a focused look at a few major findings from this extensive annual data collection effort.

For additional information about MicroTest and data collected on the microenterprise field see: <http://fieldus.org/MicroTest/pubs.html>.

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