

# Supporting Entrepreneurs: A Longitudinal Impact Study of Accion and Opportunity Fund Small Business Lending in the U.S.

*Accion  
Opportunity Fund  
Harder+Company Community Research*

## Abstract

For nearly 30 years, Accion and Opportunity Fund have offered business capital and advice to the small businesses often left behind by conventional lenders –women, people of color, and entrepreneurs with limited income, little or no collateral, or imperfect credit. This type of mission-based, small-dollar lending has grown in recent decades with the recognition of the strong repayment profile of these small business owners and the realization that small business lending acts as an economic development engine (Swack, Hangen, & Northrup, 2014). Mission-based lenders like Accion and Opportunity Fund do more than lend money; they often work with entrepreneurs to strengthen their businesses and help them succeed through business advising, financial education, and other services.

Measuring the success of this type of lending has generally focused on gathering such quantitative data as loan repayment rates, business survival rates, and job creation rates. While important, such results do not tell us about the social impact of these loans on household and family life, poverty alleviation, or community development.

In 2018, Accion, Opportunity Fund, and Harder+Company Community Research (2018) conducted a first-of-its-kind national, longitudinal, qualitative examination of these outcomes. The study reported on a nationwide cohort of 350 Accion and Opportunity Fund borrowers who were followed for as long as three years post-loan in order to understand the impact of small business lending services on their businesses, their personal financial security, and their overall quality of life. It also examined how business owners define success and how access to capital supports their goals.

That initial study found that entrepreneurs are diverse in terms of how they define success, their business acumen, and the support they need to be successful. It also highlighted several ways in which access to capital fuels growth for small businesses. Additionally, the research team utilized cluster analysis, an analytical technique that uses a set of multivariate analytic techniques to identify underlying groups within datasets based on a defined set of variables. The analysis identified five distinct groups of entrepreneurs based on reasons for starting their business, individual goals, and achievements since receiving their loan.

This article updates the initial 2018 report<sup>1</sup> and provides a detailed summary of the study design and methods, followed by a summary of the overall effects of mission-based lending on entrepreneurs across the nation. It then describes five types of entrepreneurs—a set of typologies that help explain how different types of business owners’ experiences change over time and offers further considerations for the community economic development field. Findings from this study not only identify opportunities for lenders to better meet the needs of entrepreneurs, they also provide evidence to other lenders, policymakers, and small business supports about the ability of micro- and small-business lending to transform lives.

## Study Purpose and Goals

Accion and Opportunity Fund partnered with Harder+Company Community Research (2018) to develop and conduct a first-of-its-kind national longitudinal examination of the impact of small business loans on business owners and their households, their businesses, and their communities.<sup>2</sup> The study captured the business and personal experiences of 350 entrepreneurs across the country for up to three years post-loan. It also built upon existing quantitative research, with an enhanced focus on qualitative measures, such as how business owners define success and how access to capital supports their entrepreneurial goals, financial health, and quality of life.

This study used a longitudinal, mixed-methods approach to create a comprehensive, national dataset<sup>3</sup> addressing three key questions:

- To what extent do borrowers move toward greater financial security—both real and perceived—after receiving a business loan?
- To what extent is small business lending associated with catalyzing positive change for individual borrowers, their businesses, and their communities?<sup>4</sup>
- To what extent do a borrower’s personal relationships and community engagement change after receipt of a business loan?

This multi-year effort harvested fresh insights into the long-term consequences of mission-based lending in the small business ecosystem. Its results revealed opportunities to strengthen the benefits of mission-based lending, suggested ways lenders may better meet the needs of entrepreneurs, and informed policymakers and industry thought leaders about the efficacy of small and micro loans both regionally and nationally.

It is worth noting that this study was conducted over the course of three economically stable years (2015, 2016, and 2017) compared to the business climate of 2020. The methods and insights detailed in this report do not reflect our current COVID-affected reality. The vulnerable business owners that Accion, Opportunity Fund, and other CDFIs serve are

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1 For supplementary research methods and exhibits, please see original report (Accion, Opportunity Fund, and Harder+Company Community Research, 2018).

2 The initial 2018 study was made possible through lead funding from the W.K. Kellogg Foundation and the JPMorgan Chase Foundation, with additional support from S&P Global.

3 Participants were selected within the geographical regions that Accion and Opportunity Fund serve.

4 The team refined the study design over time and did not fully explore community-level impact.

particularly hard-hit by the instability and uncertainty of 2020, but it is outside the bounds of this study to provide perspective on those specific negative impacts. Nonetheless, the findings contained in this report still remain relevant for practitioners and policymakers in the small business space today.

The study examined six key domains (Exhibit 1). The original intent of the study was to examine the impact of each of these domains on individual business owners, their businesses, and their communities. Early on, it became clear that the three-year study period was best suited to measure medium-term impacts, with a particular focus on changes experienced by entrepreneurs and their businesses. Community-level impacts, such as neighborhood revitalization, take longer to occur and therefore are not fully explored in the study.

### *Exhibit 1. Evaluation Domains*

<b>Domain</b>	<b>Explanation</b>
1. Business Growth and Viability	Exploring the ways in which lending services enabled borrowers to sustain or expand their businesses.
2. Mission Achievement	Examining the extent to which lending services enabled borrowers to realize their personal and business goals.
3. Financial Health	Establishing the ways in which lending services improved borrowers' financial security, ability to address financial obstacles, and capacity to prepare for long-term opportunities.
4. Financial Practices	Identifying the ways in which borrowers changed their financial practices after receiving a loan.
5. Relationships and Networks	Evaluating whether and how extensively borrowers' relationships and personal networks changed as an apparent consequence of financing.
6. Quality of Life	Determining the ways in which lending services affected borrowers' perceived well being, sense of control over daily schedule, and work-life balance.

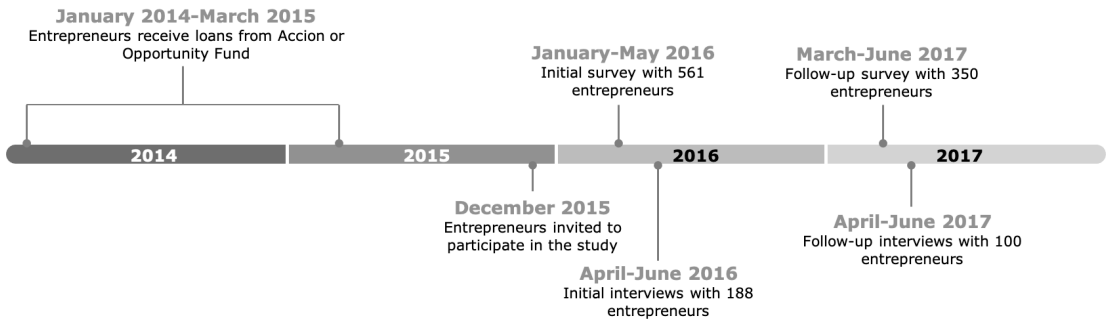
## **Research Methods**

Surveys and in-depth phone interviews tracked small business owners for more than a year. Small business owners who received a loan between January 2014 and March 2015 and were in loan repayment as of December 2015 were eligible to participate, ensuring a meaningful amount of time had passed following loan receipt to observe change.<sup>5</sup>

The study used a combination of closed-ended survey questions and open-ended interviews to explore each domain. The first round of data collection in early 2016 engaged 561 entrepreneurs across the country via survey; 188 of those also participated in in-depth interviews (Exhibit 2).

<sup>5</sup> Throughout this report, small business owners who participated in the study are interchangeably referred to as both "borrowers" and "entrepreneurs".

### Exhibit 2. Impact Study Timeline



A year later, the research team successfully reconnected with 372 of these entrepreneurs (a 66.3% response rate) and completed a follow-up survey with 350 of them.<sup>6</sup> The research team also conducted follow-up in-depth interviews with 100 entrepreneurs to learn how they and their businesses were faring one year later.

One unique aspect of this study was the opportunity to follow entrepreneurs over time to observe how their experiences changed. The following chapter highlights key trends observed across the study sample.

This final report builds upon the preliminary findings released in January 2017, which explored responses from entrepreneurs who participated in an initial survey between 9 and 24 months post loan. This report examines how entrepreneurs' experiences changed after another year. This chapter covers study methodology. The second chapter summarizes the overall effects of mission-based lending on entrepreneurs across the nation. The third chapter describes five types of entrepreneurs—a set of typologies that help explain how different types of business owners' experiences change over time. The final chapter summarizes study insights and offers further considerations for the community economic development field.

**Key Findings about the Impact of Small and Micro Loans** Microloans resulted in a variety of benefits to business owners, even up to three years later. In 2017, this study's preliminary findings painted a broad picture of small business owners one to two years post-loan. The follow-up survey and interviews explored changes entrepreneurs had experienced over an additional year. The findings, presented here, reveal a clearer picture of how microloans affected entrepreneurs and their businesses over time across all six evaluation domains.

This study provided evidence that Accion and Opportunity Fund entrepreneurs are thriving two to three years after receiving a loan. By the end of the study, 94.1% of entrepreneurs in the sample were still in business, most (61.4%) for five years or more.<sup>7</sup> Nationwide, only half

<sup>7</sup> Results are based on a sample of 372 borrowers who responded to the follow-up survey. Of those, 22 borrowers (6.3%) reported their businesses had closed at the end of the study. An additional 23 borrowers had closed businesses at the time of the initial survey.

of small businesses survive for five years, according to the latest Bureau of Labor Statistics data (Bureau of Labor Statistics, 2016).

### **Entrepreneurs continue to see impact of mission-based lending years after receiving the capital**

In the initial survey, most entrepreneurs said their loan played a role in both their business and personal success, helping them start, maintain, and grow their businesses—a belief that persisted through the second round of data collection.

Other responses help parse out whether these benefits accrued from the influx of capital alone, or whether they stem, at least in part, from the guidance small business owners received from Accion or Opportunity Fund. In fact, entrepreneurs said access to capital enhanced their confidence about achieving their goals and allowed them to make tangible business improvements, such as staff expansion or new equipment purchases. But they said the financial and business advice they received helped them make improvements in their business practices, such as how they track their business finances or strategize to achieve goals. Both capital and advising services were valued, albeit for different reasons.

Many entrepreneurs appreciate the confidence and peace of mind their loan provided. In follow-up interviews, many said they felt validated by the loan, interpreting it as an indication of their potential and a sign that someone believed in them. Others said the loan provided an opportunity to expand their businesses, which gave them a renewed sense of purpose and increased personal satisfaction. “I feel better,” one entrepreneur said. “[The business] gives me something to do, give[s] me something to worry about. It gives me something to complain about; it builds your life, and it’s a good thing.”

Entrepreneurs said their loan helped them meet personal goals: improved credit and greater confidence in their ability to achieve goals (Exhibit 3). This perception remained stable from the initial survey through the follow-up survey. This theme was common in interviews, as entrepreneurs talked about being able to save a little money and reducing their stress level knowing that their business was financially stable. Loans also helped entrepreneurs reach their business goals. Loans helped business owners acquire new equipment, expand or modify products and services, increase sales, and improve cash flow (Exhibit 3). Entrepreneurs reported roughly the same level of perceived benefit in the final survey as they had at the beginning of the study.

*Exhibit 3. The lasting impact of lending services on entrepreneurs' personal and business goals*

*In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had "a lot" of positive impact.<sup>8</sup>*



### Access to capital fueled business growth

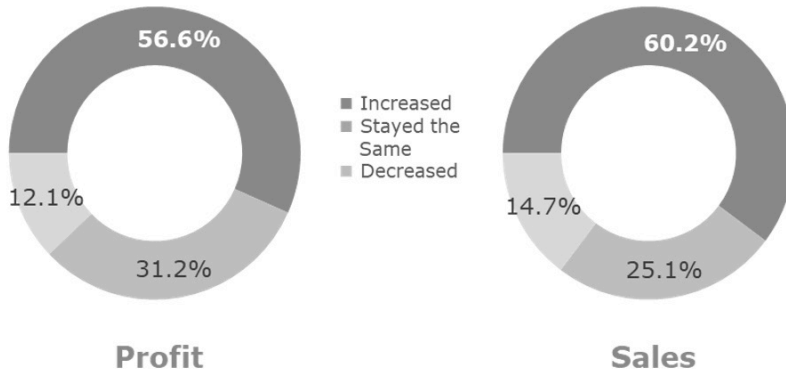
Loans helped businesses grow by providing needed capital to expand and modify services, move or add locations, and hire new employees.

#### *Many entrepreneurs saw increased sales and profits*

Survey respondents reported increases in sales and profit as businesses became established, an overall indicator of growth. More than half of business owners reported rising profit (56.6%) and sales (60.2%) in the final survey. Fewer than 15% of business owners reported a decrease in these indicators (Exhibit 4).

<sup>8</sup> Survey respondents rated items on a scale of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of entrepreneurs who ranked the loan impact as a 4 or 5. Changes from the initial study to the follow-up were not statistically significant, based on paired-samples t-test for difference in mean scores.

*Exhibit 4. Most entrepreneurs reported profits and sales increases in the six months preceding the final survey*



In interviews, business owners said their loan directly affected sales and profits. For some, a loan allowed the purchase of critical supplies or equipment. “[The loan] allowed us to grow and to provide a better service,” one business owner reported. “And somehow, that helped us to see something different.”

#### *Some business owners used their loan to increase business visibility*

One entrepreneur reported that the loan helped with exposure. In fact, increased marketing led to more clients, more business, and improved sustainability. A handful of entrepreneurs said the training and advising offered by Accion or Opportunity Fund assisted with their marketing and publicity efforts. An entrepreneur who attended an Accion class said it helped her business get media attention. “That was really interesting and helped me to be able to put together press releases to send out to the media to get myself a little bit of coverage.”

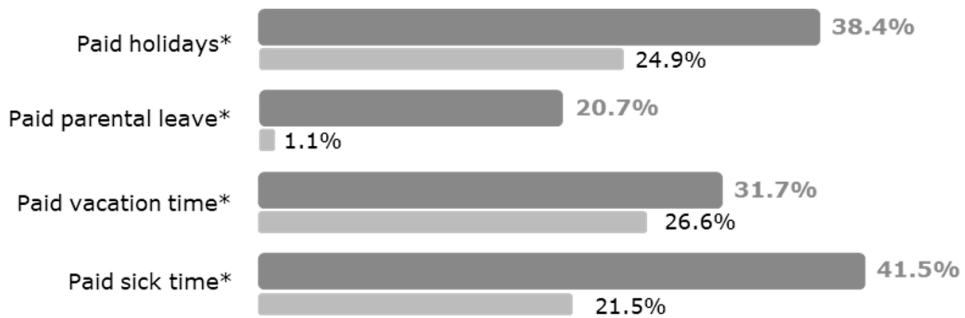
#### *Entrepreneurs added employees and improved worker benefits*

The number of paid employees increased during the study. Nearly 40% of respondents (38.3%) added employees during the study period—a total of 334.75 new FTEs. Just over 40% (43.1%) of businesses in the study had no paid employees (other than the owner) through the study period. A small number of business owners (18.6%) reported fewer employees at the end of the study, some of which may be due to the seasonal nature of some businesses.

In follow-up interviews, business owners said that hiring new workers enabled them to expand business capacity. One entrepreneurs said, “Once we got in the new staff, that opened up the whole possibility to us of adding more services into the facility.” Another said adding new staff meant he now has “more time to take care of our clients, new clients.” While the study did not delve into the community-wide outcomes of small business lending, businesses in this study are creating jobs in their community, helping to strengthen their local economies.

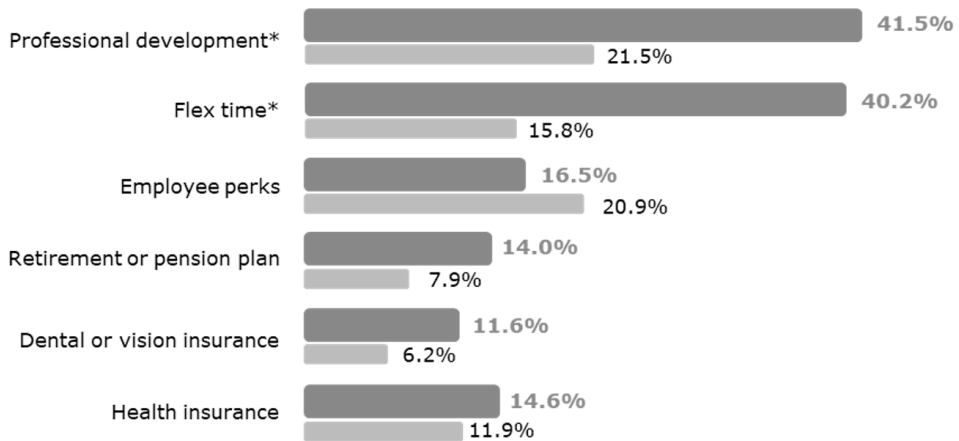
The number of business owners who offered no employee benefits during the study period fell by more than half, from 48% at the beginning of the study, to 22% by the study end.<sup>9</sup> Among those who offered at least one benefit at the beginning of the study, 54.3% had added at least one more a year later. Benefits ranged from sick time and paid holidays to professional development (Exhibit 5 and 6).

*Exhibit 5. Business owners increased paid employee benefits  
Percent of business owners that offer paid benefits.*



\*Change from initial to follow up is statistically significant at  $p < .05$

*Exhibit 6. Business owners increased non-monetary employee benefits  
Percent of business owners that offer non-monetary benefits.*



\*Change from initial to follow up is statistically significant at  $p < .05$

<sup>9</sup> The change from initial to follow up survey is statistically significant at  $p < .05$ .



Accion- and Opportunity Fund-supported business owners clearly prioritize the well-being of their employees—the biggest increase in types of benefits were paid parental leave, paid sick time, professional development opportunities, and flex time.

### *Microloans may help entrepreneurs avoid high-cost credit*

By offering business owners increased financial stability through the provision of a loan, Accion and Opportunity Fund help them avoid borrowing money from family and friends, relying on high-interest credit card debt, or falling prey to predatory lenders. Many entrepreneurs said they would seek financing from Accion and Opportunity Fund again - a very common occurrence once an initial loan is paid in full.

One consequence of this increased financial stability among Accion and Opportunity Fund entrepreneurs may be increased access to credit cards: the proportion of entrepreneurs who reported having a business credit card rose during the study period from 58.2% to 65.2%,<sup>10</sup> perhaps an indicator that expanding success brought expanding credit access. In interviews, many entrepreneurs mentioned they have received no-interest credit card offers; however, few had used the cards. This could signal that lending services from Accion and Opportunity Fund help entrepreneurs avoid more expensive credit and that entrepreneurs are not taking on unnecessary debt.

In fact, it does not appear common for entrepreneurs to seek funding outside of Accion or Opportunity Fund. In the follow-up survey, slightly more than a quarter of entrepreneurs (26.3%) reported applying for additional financing—not including credit cards—beyond Accion or Opportunity Fund. When entrepreneurs did seek funding elsewhere, they went to a bank, credit union, or online lender.<sup>11</sup>

### **Entrepreneurs find financial security gradually**

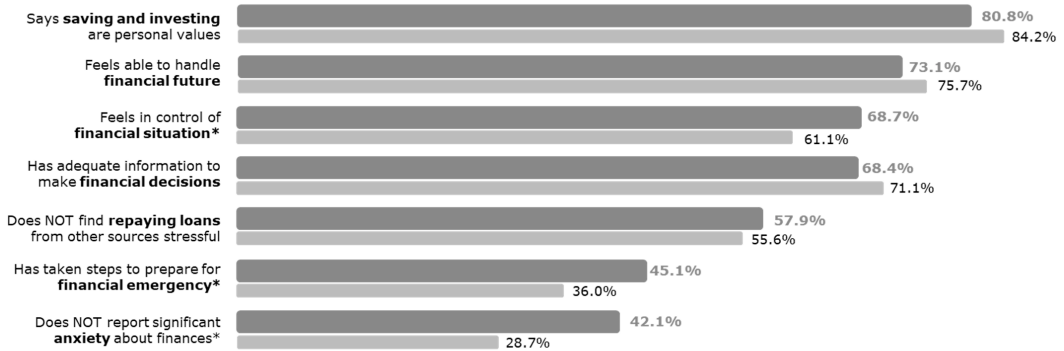
The immediate focus of many entrepreneurs was financial stability as opposed to fast growth, the 2016 preliminary survey showed. That emphasis was even stronger in the final survey, with more entrepreneurs agreeing with statements acknowledging a need for increased financial stability (Exhibit 7). The preliminary findings emphasized that many entrepreneurs were underprepared for a financial emergency. One year later, entrepreneurs were significantly more likely to report that they took steps to prepare for a financial emergency. They also said they were less worried about finances and felt more in control of their financial situation. A portion of business owners have yet to reach financial stability: more than half of entrepreneurs did not report preparing for a financial emergency, and they continue to worry about their finances.

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10 The change from initial to follow up survey is statistically significant at  $p < .05$ .

11 Of those 91 business owners that applied for additional financing, 47.3% applied with a bank or credit union and 37.4% applied with an online lender.

*Exhibit 7. Entrepreneurs felt an increased sense of financial stability across a variety of indicators by the study's end<sup>12</sup>*

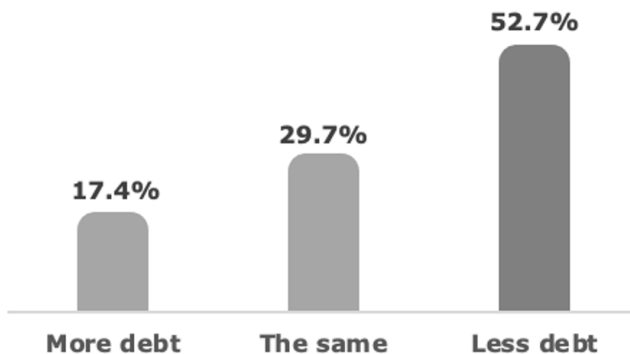


\*Change from initial to follow up is statistically significant at p<.05

*Business owners were comfortable with their level of business debt by the follow-up survey*

While most business owners (72.7%) reported they were somewhat or very comfortable with their level of debt, more than a quarter (27.2%) were somewhat or very uncomfortable. Most business owners (69.7%) reported having less than \$25,000 in business debt at the end of the study. And while most of those (80.1%) said they were comfortable with that amount, others found even a little bit of debt stressful. Of those who reported business debt at the end of the study, 17.4% reported being in more debt than they were a year ago (Exhibit 8). Regardless of the amount of business debt, most business owners reported little difficulty paying their business loans (60.9%), although a small percentage (7.4%) said it was extremely difficult.

*Exhibit 8. Half of entrepreneurs had less business debt at the end of the study (n=299)*



12 Survey respondents rated items on a scale of 1 (not at all true) to 5 (very true). Values shown in this exhibit represent the combined percent of entrepreneurs who ranked each statement as a 4 or 5. Changes from the initial study to follow-up were measured using paired-samples t-test for difference in mean scores.

### *Entrepreneurs track expenses carefully but do not always plan for unexpected costs*

Business owners were slightly more likely to track their finances after receiving services from Opportunity Fund and Accion, indicating they were moving away from informal tracking practices, such as noting expenses in a notebook or checkbook, and instead adopting financial software or other tools.<sup>13</sup> Follow-up interviews showed that although most entrepreneurs track their business expenses and income very closely on a daily basis, few were equipped to use that information to project costs or plan for financial downturns.

### *Entrepreneurs report flexible schedules and better quality of life*

During the follow-up survey, 42.0% of entrepreneurs reported dedicating 40-59 hours per week to their business; 26.0% reported working more than 60 hours per week. Nearly a quarter of entrepreneurs (28.9%) also had a job outside of their business. The proportion of respondents working more than 40 hours per week or having an outside job did not change appreciably between the initial and follow-up survey.

However, business owners said during the follow-up interviews that their schedules were increasingly flexible. Many said this flexibility allowed them more time to focus on marketing and increasing sales rather than just dealing with the day-to-day operations. Others said that they used this increased flexibility to attend their children's sports events, go on a vacation, or take a quick break from work. Often, gaining this kind of flexibility was an important reason people started businesses. Many business owners said their loan improved their quality of life. As a food truck owner in New York said, "[receiving the loan] has changed my lifestyle. I go on family vacations. I have savings. That kind of stuff. ... Yes, life is better."

### **Accion and Opportunity Fund's support has been vital for entrepreneur success**

The preliminary report highlighted business owners' overwhelmingly positive feedback about working with Accion and Opportunity Fund. A year later, most continued to feel positive about their experiences. Many pointed to the transparent and easy loan process. "The process was quick," one business owner said. "It was so streamlined, it was easy." Many commented on the support they received from their loan officer. "She made it extremely easy for me," another business owner said. "I'm just so grateful to her. That I can call her and, even if she's busy, she gets back to me, returning my phone calls—I can't tell you about a better relationship."

Entrepreneurs said they appreciated that Accion and Opportunity Fund would work with them again should they face new challenges. "There were some situations where I needed a couple more days, and they were very flexible," one business owner said. "It isn't like today is the due date, and it is today. You can reach an agreement with them."

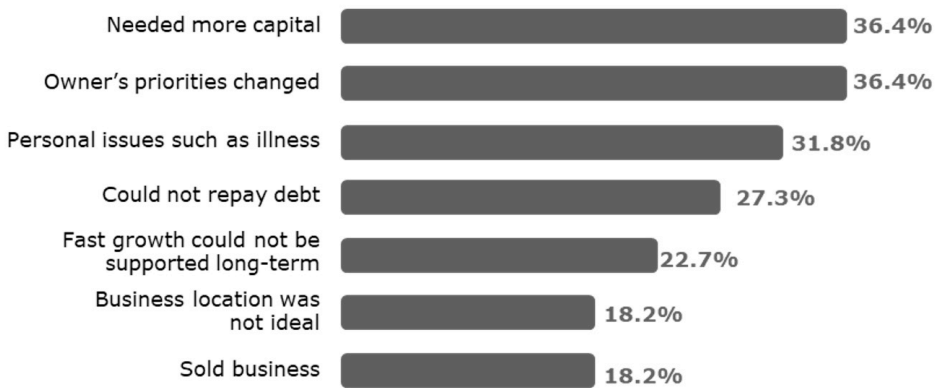
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13 The change from initial to follow up survey is statistically significant at  $p < .05$ .

### *Drilling down: business closures*

Twenty-two owners closed their business during the same time period of the study. These businesses closed after receiving loans from Opportunity Fund or Accion and most of those closed businesses shared they closed because they needed more capital (Exhibit 9).

*Exhibit 9. Reasons Businesses Closed (n=22)<sup>14</sup>*



There were no apparent trends among the type of business, location, age or other identifying factor. Business types included construction, educational services, food services, health care, manufacturing, retail, transportation, and wholesale trade.

Half (50.0%) of business owners, however, said more capital would have saved their businesses. Yet more than a third (36.3%) said access to capital had no bearing on their decision to close, noting external factors that funding couldn't touch.

### **Cluster Analysis**

Entrepreneurs vary in terms of the types of businesses they run, the reason they obtain loans, and the amount of capital they need. Yet any overall analysis of the effects of lending necessarily obscures the smaller currents that move one entrepreneur in one direction, and another somewhere else.

To dig deeper into what really changed for entrepreneurs over time, and why these changes occurred, the research team employed a data analytic technique called *cluster analysis* to distinguish several different types of entrepreneurs based on their responses in the follow-up survey conducted in 2017—two to three years after receiving a loan. Cluster analysis uses a set of multivariate analytic techniques to identify underlying groups within datasets based on a defined set of variables. In this case, groups were identified by the following key variables:

<sup>14</sup> Borrowers were able to select multiple reasons for closing their business; percentages add up to more than 100.

1. Change in sales and profit during the past six months
2. Change in personal/household savings during the past six months
3. Employment outside of business
4. Ability to draw a salary from the business in the past six months
5. Business financial stability (i.e., sufficient revenue to cover expenses and withstand a financial emergency)
6. Personal and business financial services used such as business savings account, credit card, insurance, retirement account
7. Business tracking tools used
8. Comfort with current level of business debt
9. Personal financial security, such as financial stress and ability to plan

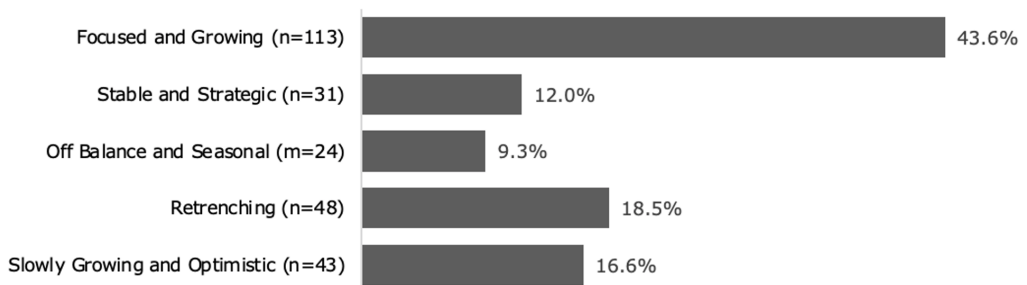
Only businesses that were open at the time of the follow-up survey and that responded to all cluster analysis questions were included in this data analysis (n=259).

Five distinct “clusters” or groups of entrepreneurs emerged from the analysis. The groups differ from one another in terms of why they started their businesses, what their goals are, and what they achieved during the study. Quantitative measures from the borrower survey, as well as additional detail from borrower interviews, created the basis for each cluster profile in this report.

Each profile explores how the entrepreneurs in the cluster changed over time and provides specific insights into the distinct successes and challenges experienced by each group.

As distinct as these clusters are in many characteristics, they do not differ substantially in terms of industry sector, business revenue size, or along demographic lines including age, sex, and ethnicity or average loan size. That is, there is roughly equal diversity of such characteristics in each of the clusters.

*Exhibit 10. Breakdown of all entrepreneurs by cluster (n=259)*



The following sections explain what makes each cluster unique. Each section provides an overview of cluster characteristics, what the impact of their loan has been, how entrepreneurs in each cluster are planning their future, and the implications of these findings. First, we look at the largest of the clusters, Focused and Growing, then move on to Stable and Strategic, Off Balance and Seasonal, Retrenching, and last to Slowly Growing and Optimistic.

## Cluster 1: Focused and Growing

The largest of the clusters, the Focused and Growing group is made up of 113 entrepreneurs dedicated to expanding their businesses.<sup>15</sup> These business owners have experienced recent financial success and are poised to continue this trajectory. This group has the largest percent of business owners reporting increases in sales and profit, as well as a rise in personal take-home pay during the study period. In fact, they started strong and remained strong, reporting growth at the beginning of the study and going on to continue expanding their businesses because of their loans. Members of this cluster are generally full-time entrepreneurs. By the end of the study, none of the business owners in this cluster held a second job. Several trends set this cluster apart.

### *Focused and Growing businesses saw early success*

The majority of entrepreneurs in this cluster (73.2%) experienced growing sales at the time of the preliminary survey, and a similar number (71.7%) saw growth in profits during the same period. An entrepreneur with a carpentry shop in Colorado said that he went to Accion after suffering a difficult year and saw gains within a year of his loan. “[The loan] helped us to be able to pay off some of our vendors and our accounts,” he said. “It helped tremendously on our cash flow.” During his first interview—a year after he received his loan—the carpentry shop owner said he saw sales well on their way to doubling the previous year’s. “[It’s May and] we’ve had \$250,000 in sales ... last year our entire production was \$360,000,” he said. “We had a tough year, so we’re really ramping up, and it feels really good.” The vast majority of entrepreneurs in this cluster (90.8%) drew a salary from their business at the start of the study; only a small number (12.5%) relied on a second job. By the end of the study, none had another job.<sup>16</sup>

### *Business owners in this cluster were goal- and growth-driven since the launch of their business*

As the name of the cluster indicates, Focused and Growing business owners saw themselves on a growth trajectory even before applying for their first loan. Many of those interviewed cited goals for business expansion and saw their loans as opportunities to help accelerate that growth. An entrepreneur with a video production company in New York illustrated this trend. The owner sought a loan “[to] purchase high-end cinematography equipment. [But] the main goal was to get into more significant professional production work.” For those with brick-and-mortar businesses, growth meant moving to a larger location, hiring more employees, or adding locations. A fitness studio owner in Florida explained it this way: “[My goal is] to expand it a little bit more and be able to have a space double ... the one I have now.” For solely owned and operated businesses, such as consulting practices, growth goals included attracting larger projects and bigger and more stable clients. Many hoped to add employees. An Illinois-based accountant exemplified this trend. “2016 [was] about growth;

15 Thirty-two of the 113 borrowers in this cluster also participated in in-depth interviews.

16 The change from initial to follow up survey is statistically significant at  $p < .05$ .

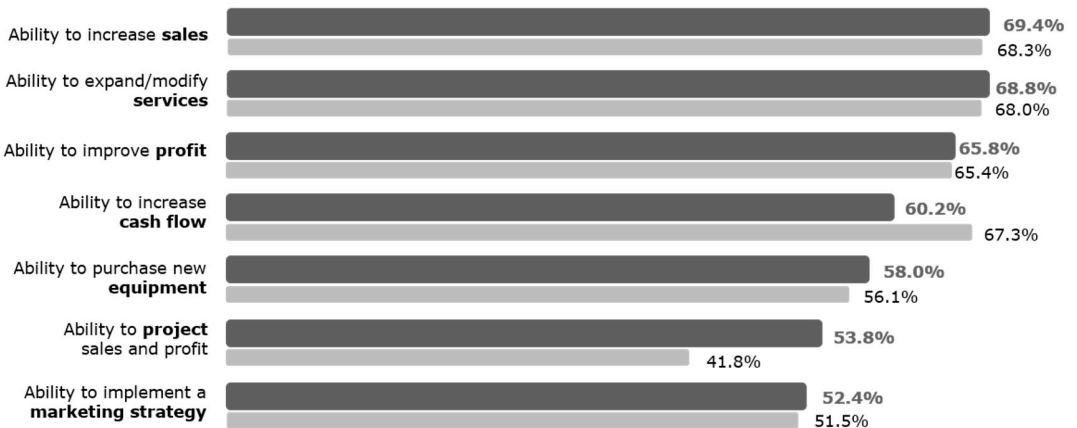
it [was] about establishing my brand for my business, [and] getting prepared to hire people. Long term, 2017 and 2018, I want to increase my revenue stream at least by 100%. And I am trying to bring in more people to work for me as well as a partner for my business.”

*Microloans had a long-lasting positive influence on these entrepreneurs and their businesses*

Entrepreneurs in this cluster sought loans for two principal reasons: to expand their businesses (41.1%) or continue them (46.4%) by maintaining inventory or paying general and administrative expenses. Loans obtained from Accion or Opportunity Fund helped entrepreneurs and their businesses in key ways. Entrepreneurs said that loans helped them feel more confident that they could achieve their goals. Loans contributed to a sense of financial stability and made entrepreneurs feel surer of their ability to improve their credit. Business owners said that their loan significantly improved their ability to expand or modify services, increase sales, increase overall business profit, and improve cash flow (Exhibit 11). For some items, the impact of the loan increased from the initial survey to the follow-up one a year later. For example, at the start of the study, 41.8% of business owners said their loan had a lot of impact on their ability to project sales and profit; in the follow-up survey, 53.8% said the same—nearly a 30% increase.

**Exhibit 11. Lending services had a strong and lasting impact on these entrepreneurs and their businesses**

*In the categories listed below, the percent of entrepreneurs who said Accion and Opportunity Fund had “a lot” of impact.<sup>17</sup>*



<sup>17</sup> Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of borrowers who ranked the loan’s impact as a 4 or 5. The chart lists only those items where at least half of all borrowers in this cluster rated it a 4 or 5 in either the initial survey or the follow-up. Changes from the initial survey to the follow-up were not statistically significant based on paired-samples t-test of the difference in mean scores.

A clothing boutique owner in New York expressed this increased sense of impact at the time of the follow-up survey. “As a result of the loan, I was able to buy more inventory, which in turn gave me more revenue from different revenue streams, which then meant my cash flow was healthier, which then allowed me to bring on employees. It’s a trickling effect.” Several interviewees noted this effect, some attributing the improvement not only to the increase in capital, but also to the advice and networking opportunities made available through Accion and Opportunity Fund.

***Loans had the most impact on business owners who leveraged their capital***

Interviewees in this cluster fell into three categories when it came to loan benefits. About a third said they saw little or no meaningful impact from the loan. Another third used the loan for discrete, necessary expenses and saw moderate impact. The remaining third leveraged their loan for larger impact.

*Some entrepreneurs would have been fine without a loan.* About a third of entrepreneurs said that the loan on its own was not the reason for their success. This was especially true of those entrepreneurs who were approved for less capital than they applied for, and thus were unable to accomplish the goals they originally set out to achieve. Most said that they could have built their businesses without the loan by looking for other ways to support growth. Two entrepreneurs felt that getting a loan was a mistake; their businesses were not ready for the influx of capital and they were unprepared for the responsibility of paying it back.

*Some entrepreneurs used their loan for one-time purchases.* Business owners who used their loan for one-time expenses reported only moderate overall impact. For example, some borrowers used loans to repair equipment, to bring equipment into regulatory compliance, or to purchase additional inventory. Although the loan made a big difference at a specific moment for them, business owners did not attribute their long-term success to it.

*Some business owners leveraged their loans for larger impact.* For a portion of entrepreneurs, the loan played a pivotal role in launching or expanding their businesses. Often, the loan came at just the right time. Without it, these business owners said they might have missed an opportunity (to buy a new business, for example). These entrepreneurs also leveraged their capital for the maximum impact. One entrepreneur used his loan to create a marketing campaign that led to a three-fold sales increase.

***Entrepreneurs in this cluster improved financial record keeping***

At the end of the study, entrepreneurs in this cluster had significantly improved their financial tracking practices. They attributed this directly to their involvement with Accion and Opportunity Fund. At the beginning of the study, 30.6% of entrepreneurs said they had changed their business finance tracking at least somewhat because of Accion or Opportunity Fund loans or financial advising. By the study’s end, this increased by a third to 40.7%.<sup>18</sup> Most entrepreneurs (75.2%) had adopted moderate or advanced business financial tracking practices by the study conclusion, meaning they used accountants, software, or other formal



means of tracking cash flow. This was an increase from 65.5% in the initial survey.<sup>19</sup> Before her loan, one entrepreneur said, her business tracked expenses in a notebook. “We wrote everything in books. And now, yes, it is different because there is more income and movement, and little by little, we’re learning how to manage things better.” About a quarter of business owners continued to track finances informally, using a notebook or a checkbook. Those who use informal tracking said it worked best for them. Some have very small businesses that don’t warrant complex tracking, and others don’t feel comfortable enough using technology.

Several interviewees said the loan application process itself inspired a new focus on financial details, including financial tracking practices, organized record-keeping, and overall financial management. In her second interview, a graphic designer in New Mexico noted the incremental improvements she had made. “I’m tracking [my business finances] weekly at least. I keep track of how much profit I’m making and how much I’m about to put away.”

### *These borrowers are job creators*

By the end of the study, two thirds of the business owners in this group (67.3%) had employees, an increase from about half (52.2%). This group was more likely to have employees than business owners in other clusters, and they were more likely to hire additional employees from start to the end of the study. The average number of full-time equivalents (FTEs), excluding the business owner, increased from 2.1 at the time of the initial survey to 3.4 during the follow-up survey—an average increase of 1.3 FTEs per business.<sup>20</sup> In fact, businesses in this cluster alone added 166.75 FTEs during the study, which accounts for 49.8% of the FTEs added across all entrepreneurs in the study.<sup>21</sup> Interviewees said they hired employees so they could focus on the strategic aspects of their businesses and, eventually, work fewer hours themselves. In some instances, business owners hired temporary employees to meet peak-time demand. A custom clothing maker in New Mexico was in this group. “I have seasonal, temporary employees when I do sign the big contracts,” she said. The rest of the year, she needs far fewer workers. While the study did not delve into the community-wide outcomes of small business lending, businesses in this cluster are creating jobs in their community, helping to strengthen their local economy.

### *Businesses experienced increased financial stability*

Three out of four business owners (77.0%) in this cluster saw increases in sales and profit from the time they received their loan through the end of the study. Correspondingly, these entrepreneurs demonstrated the highest levels of financial stability (Exhibit 12) among the clusters. Many made changes that led to a greater sense of control over both their current<sup>22</sup> and future finances.<sup>23</sup> These business owners developed financial plans, separated business

19 The change from initial to follow up survey is statistically significant at  $p < .05$ .

20 For the purposes of this analysis, we treated all reported part-time employees as 0.5 FTE and all reported full-time employees as 1.0 FTE, although hours range from employer to employer and not all part-time employees are exactly at 0.5 FTE status. The change from initial to follow up survey is statistically significant at  $p < .05$ .

21 “Net FTEs added” refers to the total of all new FTEs minus those lost.

22 The change from initial to follow up survey is statistically significant at  $p < .05$ .

23 The change from initial to follow up survey is statistically significant at  $p < .05$ .

and personal finances, and invested more in savings. Most said business revenue was sufficient to cover expenses and adequate to withstand emergencies. To address emergencies, most said they had personal and business savings, or could use credit. A small group of interviewees said they would return to Accion or Opportunity Fund for help in an emergency. Nearly all (92.9%) said that they are somewhat or very comfortable with the amount of debt they carry; with many saying they carried little or no balance on cards or lines of credit.

*Exhibit 12. Entrepreneurs felt more financially stable by the study's end*

Category	% that reported "most of the time" or "always"
Monthly revenue is sufficient to cover operating costs	98.3%
<b>Able to meet business debt and other obligations on time</b>	<b>98.2%</b>
Able to pursue growth opportunities for business	83.1%
<b>Able to predict monthly take-home pay</b>	<b>82.3%</b>
Able to withstand negative events	79.5%
<b>Cash reserves sufficient to withstand financial</b>	<b>67.9%</b>

Entrepreneurs also reported increases in their personal and household savings. By the study's conclusion, 53.1% noted an increase in personal or household savings, compared to 43.1% reporting such an increase in the preliminary survey.<sup>24</sup>

As noted earlier, Focused and Growing is the only cluster in which all business owners drew a salary from their businesses, and most (90.8%) had been doing so before the start of the study.<sup>25</sup> By the study's end, more than half saw their take-home pay increase. Although the extent of the increase isn't known, some interviewees said it allowed them put more money into household savings, feel more at ease with day-to-day expenses, and take family vacations for the first time in years.

*Business owners in this cluster continue to focus on expanding their businesses*

Most projected increased sales (86.9%), rising profit (85.0%), greater personal and household savings (74.1%), and a rise in take-home pay (74.1%). A smaller number of business—less than half—anticipated hiring more employees, either full- or part time. Generally, those who expected rising sales, profit, and savings at the beginning of the study

<sup>24</sup> The change from initial to follow up survey is statistically significant at  $p < .05$ .

<sup>25</sup> The change from initial to follow up survey is statistically significant at  $p < .05$ .

went on to report increases in these areas in the follow-up survey, showing their predicting and planning ability.

Growth and stability bring personal benefits to entrepreneurs in this cluster. The New York-based food truck owner is planning to expand to different locations and adopt new cuisines. At the time of his second interview, he was in the process of buying another food truck. Increasing profits allowed him to hire more employees, freeing him to focus on his growth strategy. Like many other entrepreneurs who have experienced growth over the last few years, he noted that improved business also meant improved life quality. “I go on family vacations and have savings,” he said.

The general success of Focused and Growing business owners suggests that although their loans served as an accelerant for their growth, other factors also played a role. Entrepreneurs in this cluster may benefit from support that can catalyze business growth in ways that manage and minimize risk. For example, while this group of entrepreneurs can generally handle instability in sales and revenue, and some feel they could handle a financial emergency, not all possess sufficient business savings or financial plans to manage larger scale financial challenges.

The Focused and Growing cluster is characterized by a strong beginning and continued trajectory toward growth. Business owners in this cluster differ from other groups in their solid foundations and feelings of confidence, which they are more likely to attribute to Accion or Opportunity Fund than other groups. Business owners in this group face the unique challenge of defining their goals for success and finding a path toward meeting those goals through safe, smart financial and business decisions.

## **Cluster #2: Stable and Strategic**

Similar to businesses in the Focused and Growing cluster, business owners in this group are generally doing well. Most experienced increases in revenue, take-home pay, and household savings in the six months prior to the end of the study. What makes this cluster unique is that all 31 entrepreneurs<sup>26</sup> have another source of income outside their business. Some have formal “second jobs,” while others maintain other ventures as hobbies, second businesses, or informal “gigs.” Business owners in this cluster are careful planners focused on strategic and careful growth.

### *Stable and Strategic business owners have additional income sources*

At the start of the study, most of these entrepreneurs (80.6%) held a job outside of their business. By the study’s completion, all had another job.<sup>27</sup> For some in this cluster, the “other” job is the primary source of income. Others have successful small businesses as their primary source of income and maintain outside freelance or part-time work for additional financial security. In fact, there is an important distinction to be made within this cluster: some of its members are serial entrepreneurs and intend to always have multiple income sources. Others would rather focus solely on their business and hold outside jobs out of necessity.

26 Nine of the 31 borrowers in this clusters participated in in-depth interviews.

27 The change from initial to follow up survey is statistically significant at  $p < .05$ .

### *Some business owners are serial entrepreneurs*

Take the case of a roadside motel owner in New Mexico. He and his wife already operated a network engineering consultancy firm when they decided to add a business. “About five years ago, my wife and I decided that we’d come back to New Mexico and rebuild the motel,” which has been in his family for decades. They used an Accion loan to pay for work on the motel. And it became a great success. “In March of 2015, our income [from the motel] was \$14,000. Our income at the same time this year [2016] was \$27,000. ... We are very profitable. We’re now looking at building new businesses, which is fun because we have enough cash flow to do that.”

A New York-based music producer said he also acts on the side and intends to continue. A women’s empowerment life coach in Boston also works regularly as an interpreter. “I get a pretty good amount of money from that,” she said.

### *Some hold second jobs out of necessity*

One New Mexico entrepreneur in this group works two accounting jobs in addition to running a small Chinese medicine and acupuncture practice, which she bought with the support of her microloan. As her acupuncture client base has grown, she’s decreased her accounting hours. “I was doing accounting four days a week,” she said. “Now I shifted to where I do acupuncture five days a week and accounting maybe 12 hours a week instead of more like 30.” The owner of a speech therapy clinic in Southern California said she plans to leave a part-time job as her clinic expands.

Some keep their outside jobs because their businesses are seasonal. Others hang onto jobs for the benefits. A golf charity fundraiser in Illinois said he has a part-time, off-season job to offset his warm-weather business. “I’ve got this income coming in the winter months now, and that will afford me to still have some time to make sales calls and [do] marketing things for the following golf season,” he said.

Some of the entrepreneurs in this cluster are on the threshold of going full-time with their businesses. Although the number of people with second jobs increased during the study,<sup>28</sup> the hours spent at their second job generally decreased.

### *Loan capital helped entrepreneurs solidify progress and grow*

The majority of business owners sought a loan in order to maintain or expand their current business operations (as opposed to launching a new business). Stable and Strategic business owners said that their loans helped them expand and modify business services, purchase new equipment, and increase sales and cash flow (Exhibit 13). Their loans also helped entrepreneurs personally; most (63.3%) said they felt more confident about achieving their goals, and about half (56.7%) felt more financially stable.

In general, entrepreneurs perceived greater benefit from the loan during the preliminary survey than they did later. For example, in the preliminary survey, more than three-quarters (76.7%) believed that their interactions with Accion or Opportunity Fund contributed

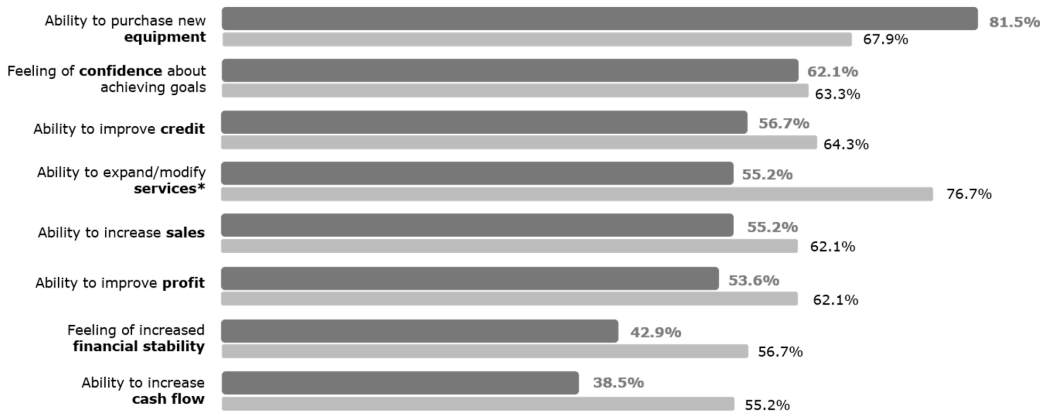
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28 The change from initial to follow up survey is statistically significant at  $p < .05$ .

markedly to their ability to expand or modify products and services; in the final survey, just over half (55.2%) felt that way.<sup>29</sup> This may be because these business owners received their loan as they worked to turn side gigs into more stable businesses, so the sense of benefit came immediately after they had the money to pursue their goals.

***Exhibit 13. Lending services had a strong initial impact***

*In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had “a lot” of impact.<sup>30</sup>*



\*Change from initial to follow up is statistically significant at p<.05

***Access to capital bolstered entrepreneur confidence and supported business investment***

The capital and accompanying business advice from Accion and Opportunity Fund improved confidence and created a greater sense of financial stability for most of the interviewed borrowers.

Capital allowed entrepreneurs to make strategic investments in their businesses. Unlike businesses in other clusters that sometimes used their loans to cover gaps in cash flow, the majority of interviewees in this cluster shared that they were targeted about their spending. For instance, the Illinois business owner who organizes golfing fundraisers for charities used his loan to develop a game that fuses miniature golf with poker—an innovation that increased his sales. An Illinois-based transportation entrepreneur used her loan to buy her first 15-passenger van, which led to a dramatic increase in her business’s capacity to take low-income individuals to work and seniors to medical appointments.

Loans led to a domino-effect of good feelings for business owners. The majority of Stable

29 The change from initial to follow up survey is statistically significant at p<.05.

30 Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of borrowers who ranked the loan’s impact as a 4 or 5. The chart lists only those items where at least half of all borrowers in this cluster rated it a 4 or 5 in either the initial survey or the follow-up. The statistical significance of any difference in mean scores from the initial to the follow-up survey was determined using a paired-samples t-test.

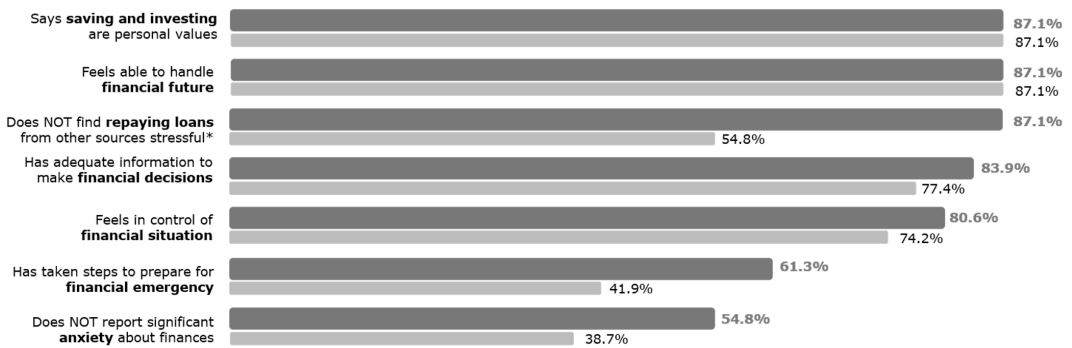
and Strategic business owners told interviewers that loans played a role in bolstering their self-assurance. For many, like the women’s empowerment life coach, one good thing led to the next. “The revenue of my business has definitely grown because I have a more clear brand and a very clear strategy of how to grow my business, and that was all due to the loan,” she said. “The biggest thing has been the confidence that I’ve gained in myself. ... I’m really proud of it.” The New York music producer had a similar experience. “Accion helped me tremendously to give me the confidence to keep my business going,” he said.

***Loans helped increase business financial stability.***

Entrepreneurs in this cluster experienced increases in sales, profit, and take-home pay, similar to entrepreneurs in the Focused and Growing cluster. In the follow-up survey, most Stable and Strategic entrepreneurs (64.5%) reported that their sales and profit rose in the six months prior,<sup>31</sup> and 54.8% said their take-home pay had increased in that period.<sup>32</sup>

Stable and Strategic entrepreneurs also reported increased financial stability at the end of the study, saying they had sufficient resources to cover expenses and the ability to withstand a financial emergency.<sup>33</sup> Most reported they were comfortable with their debt level, had a plan for financial emergencies, and were generally in control of their financial situation (Exhibit 14).

***Exhibit 14. By the end of the study, most entrepreneurs in this cluster felt financially stable across myriad of indicators<sup>34</sup>***



\*Change from initial to follow up is statistically significant at p<.05

One of the biggest changes for this cluster was related to comfort with business debt. In the initial survey, about half (54.8%) said that they were comfortable repaying loans from

31 The change from initial to follow up survey is statistically significant at p<.05.

32 The change from initial to follow up survey is statistically significant at p<.05.

33 This is based on the composite score of survey items concerning financial stability. Stable and Strategic business owners increased their average financial stability score from the initial survey (M=3.84, SD=0.69) to the follow-up (M=4.17, SD=0.61). The increase in the average score is statistically significant at p<.05.

34 Survey items were ranked on a scale of 1 (no impact) to 5 (a lot of impact). Values indicate the combined percent of borrowers who ranked impact as a 4 or 5. Change from initial to follow-up was measured for statistical significant using a paired-samples t-test for difference in mean scores.

sources other than Accion or Opportunity Fund. This increased to 87.1% by the final survey. This also reflects the overall low levels of debt held by these businesses. Most entrepreneurs (77.4%) said they owed less than \$25,000. Of those with any amount of debt, about half (51.6%) reported they are very comfortable with the amount.

Business owners in this cluster are prudent. They are also planners. This may be one factor that leads them to prioritize financial stability. The Illinois transportation businesswoman exemplified this value. “Because of [my loan from Accion], I actually created a cushion within my account where we’ll always have enough money to take care of any kind of expenditures that come from accidents,” she said.

### *Stable and Strategic entrepreneurs saw improved quality of life*

Some business owners discussed improvements to their work-life balance, each saying the loan was the reason. The entrepreneur who provides van transportation said, “I’ve been able to pay for my daughter to go to the college. ... We actually took a family vacation in 2016, which was the first real family vacation that we’ve been able to take since 2009.” The Southern California speech therapist had a similar experience. “[I am] spending more time with my family ... that definitely has been a big win,” she said. Another entrepreneur said that the loan allowed her to hire, giving her more time with her family. Another noted that the loan helped her expand services, which led to increased sales, which led to more take-home pay, which meant she could buy things to improve life for her family.

Most of these entrepreneurs reported that their businesses are also their passion, giving them a deep sense of personal satisfaction. “When you love to do what you do, it’s not really work,” the music producer said. An owner of a sun tan lotion business expressed a similar sentiment: “It gives me joy to continue with my company.”

### *A solid business plan is critical for these business owners*

Stable and Strategic business owners value planning. In the follow-up survey, 58.1% reported having a business plan, and in interviews, they talked about using business plans to guide their decisions. In fact, in interviews, many business owners in this category said that the single best advice they could give to an aspiring entrepreneur was to formulate a good business plan.

Most entrepreneurs in this cluster have businesses that are growing slowly, and this is reflected in their realistic and strategic growth plans. “I would like to see ... a 3-5% increase in business each year,” the van transportation provider said. The Chinese medicine practitioner shared a similar pace of growth. “[Last year] business growth increased a little bit, probably 5%,” she said. The women’s empowerment life coach from Massachusetts added, “Right now, I have a financial goal for this year to make \$50,000 net.”

Members of this cluster are among the most likely to talk about the value of a long-term plan. However, only some have strengthened their financial tracking practices. Compared to 6.5% of business owners reporting advanced tracking on the initial survey, 12.9% employed

advanced tracking practices by the end of the study.<sup>35</sup> Those who employed moderate business tracking decreased from 64.5% to 45.2%, suggesting that many of those who have strengthened their business tracking already had moderate practices at the start of the study.

### *Stable and Strategic entrepreneurs identify different ways of reaching success*

This group's multiple business ventures and consistent additional employment set them apart from other clusters. But they differ among themselves in how they want to attain financial success. Some want to succeed by expanding their primary business and eliminating the need for a second job; others hope for multiple successful businesses, even at a small scale. But all were concerned about moving forward carefully, at a safe, steady pace. The owner of a speech therapy clinic voiced such caution. "Basically, it's my goal to grow, but to find out how to do that carefully," she said. "I don't want to grow ignorantly and unnecessarily. I want to make sure that I have a consistent amount of healthy profits before I make such moves."

This cluster exemplifies that not all entrepreneurs with multiple income sources want to focus on one business venture. Although a small and vocal minority from the interviews cite a desire to quit their second job, not everyone shares this priority, and many in this group prefer to have other jobs and businesses. The interviews illuminated how a second job can provide ongoing financial stability, putting the entrepreneur in a better position to pay their loan. With prudent planning, these business owners can continue their multi-faceted approach to long term success.

### **Cluster #3: Off Balance and Seasonal**

Recent financial distress is a key characteristic for this small and hard working group of 24 entrepreneurs.<sup>36</sup> They are struggling and are the only group to report falling sales and profits throughout the study. They also reported low levels of financial stability. They own seasonal businesses and often have another job; only half draw a salary from their business. Although their debt level is low, it feels burdensome. Perhaps it's no surprise, then, that this group was less likely than other groups to say that their loans benefited their business, and less likely to expect business growth.

### *External factors challenge these entrepreneurs*

Many of these entrepreneurs were faced with unanticipated challenges outside of their control and unrelated to the capital they accessed through Accion or Opportunity Fund. The problems they faced took time and attention from their businesses and meant owners didn't reap the benefit of their efforts. For example, a Northern California entrepreneur who provides work space and start-up business support to other aspiring entrepreneurs lost ground when he was sidelined by an injury and had to close up shop for four months.

A woman who runs an electronic medical billing company in Florida had to deal with

<sup>35</sup> The change from initial to follow up survey is statistically significant at  $p < .05$ .

<sup>36</sup> Seven of the 24 borrowers in this cluster also participated in in-depth interviews.



electronic theft, which took time away from her work with clients. “Someone got into my account unauthorized and grabbed some money from the account, and I had to close that account and reopen a new one,” she said. To complicate matters, changes to her clients’ health insurance policies meant she wasn’t paid promptly for her services.

### *They have seasonal businesses*

Entrepreneurs in this cluster often operate businesses with highly seasonal and/or unpredictable revenue cycles. In the preliminary survey, these entrepreneurs reported that they didn’t expect year-round business activity, and none anticipated much revenue during the winter. About a third (29.2%) said that most of their revenue came during a single season.<sup>37</sup>

Of the seven entrepreneurs in this group who participated in interviews at the beginning and end of study, five talked about the challenges of seasonality at length. A Colorado-based landscaper called it “feast or famine.” He added, “The seasonality of the business probably is the hardest part.” Other businesses in this group, including a traveling craft vendor in New Mexico, a horseback riding camp in also in New Mexico, a motorcycle mechanic in Northern California, and a paint-your-own pottery company in Arizona, explained similar challenges.

### *The benefits of microloans are fleeting for these business owners*

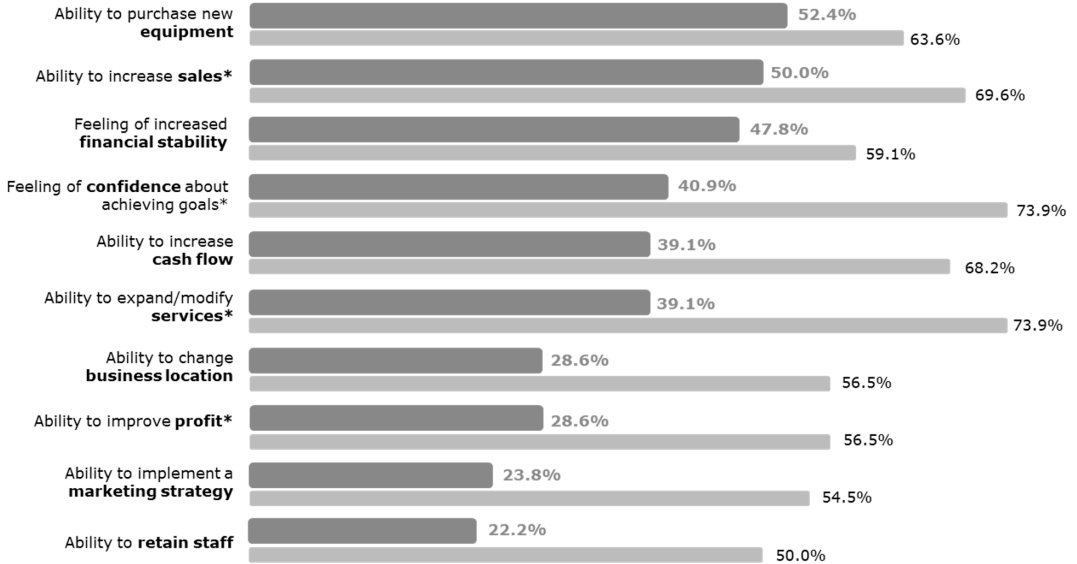
About half of the entrepreneurs in this cluster (54.2%) sought a loan to maintain their business operations. The other half included entrepreneurs who hoped to expand their businesses (33.3%) or launch a new business (12.5%). They reported that access to additional capital provided an initial boost, but by the end of the study, the benefit was little more than a memory. In the initial survey, they reported that their loan was an obvious asset, letting them expand and modify services. They felt confident that they could achieve their goals and increase their sales (Exhibit 16). By the follow-up survey, those feelings had cooled. Unlike entrepreneurs in other clusters, these business owners no longer reported the benefits they originally identified.

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<sup>37</sup> Seasons are defined as follows: winter (December, January and February), spring (March, April and May), summer (June, July and August), and fall (September, October, November).

**Exhibit 15. Microloan benefits are short-lived for these business owners**

*In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had “a lot” of impact.<sup>38</sup>*



\*Change from initial to follow up is statistically significant at  $p < .05$

**Loan impact varies by use of loan**

Entrepreneurs provided more nuanced explanations of the perceived benefits of their loans in interviews. A few interviewees noted little or no impact from their loan, while others saw moderate or significant effect.

A small number said they had other options to access capital. Two business owners who participated in both the initial and final interviews said they could have borrowed from other sources; therefore, their loans had little or no impact beyond what they might have accomplished on their own. The owner of an Arizona-based paint-your-own pottery studio used her loan to invest in a second retail location. Although her sales increased, at the follow-up interview, she wondered if she had picked the wrong spot for a second location.

Some business owners used their loans for strategic spending and saw moderate benefit. Three interviewees said that, without their loans, they might have missed an important business opportunity or might have made choices that weren't favorable in the long run. One

<sup>38</sup> Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of borrowers who ranked the loan's impact as a 4 or 5. The chart lists only those items where at least half of all borrowers in this cluster rated it a 4 or 5 in either the initial survey or the follow-up. The statistical significance of any difference in mean scores from the initial to the follow-up survey was determined using a paired-samples t-test.

entrepreneur reported that he might have sought credit from a “loan shark” and potentially damaged his credit. Instead, his loan enabled him to buy needed equipment, cover a cash shortage, and build a stronger credit history. Another entrepreneur in this small group used the loan to bolster marketing, achieve a “more professional” look, and purchase equipment.

Still, entrepreneurs sometimes wondered whether getting a loan and running a struggling business was truly the best choice for them. Two additional businesses shared they are struggling and not sure whether obtaining a loan was the best idea at the time. One business owner is thinking about taking a hiatus from the business if things do not turn around quickly; another hopes to get his business in good enough shape to sell.

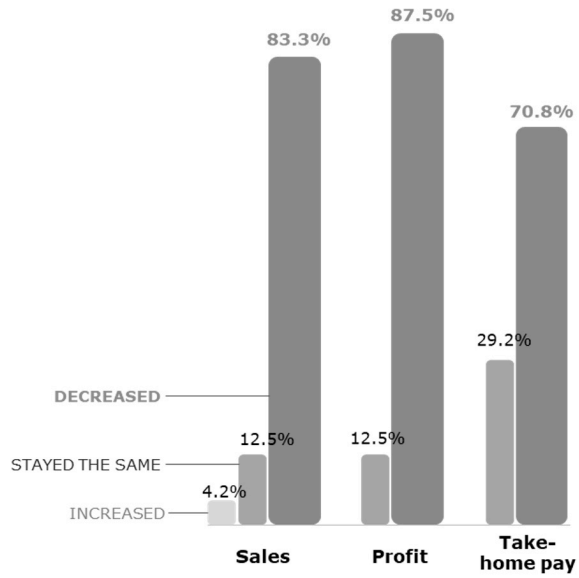
***Off Balance and Seasonal business owners have benefited from advice and support outside of access to capital***

While most entrepreneurs came to Accion and Opportunity Fund looking for capital, interviewees said that the advice they received helped them weather external challenges. Several entrepreneurs said they were able to restructure their loan repayments when sales or profit decreased drastically. Others spoke about being able to contact Accion and Opportunity Fund with questions as they encountered challenges. In addition, Accion and Opportunity Fund provided entrepreneurs with connections and networking opportunities. Despite other challenges, the owner of the horseback riding camp spoke of how she changed her business model after contact with an Accion connection. “The summer program that I run was the idea of my mentor that Accion [connected] me with,” she said. By replacing individual riding lessons with group lessons, she changed the trajectory of her business. “I make so much money during the summer doing it that it pays for almost all my expenses during the year. It’s fantastic.”

A motorcycle mechanic said he benefitted from the experience of Opportunity Fund staff. “When you talk to them, they just understood, because I’m sure they deal with a hundred different business ideas and people every day.” He advises other entrepreneurs to take advantage of this gold mine of experience. “If you have needs, let people know you have them because they’re out there willing to help ... there’s a lot of information ... that you’ll receive if you ask.”

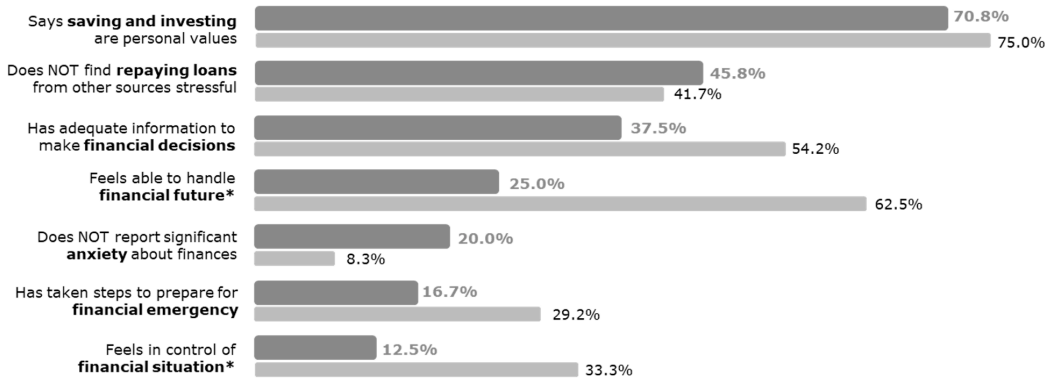
***Off Balance and Seasonal business owners wrestled with financial volatility***

Business owners in this cluster are worried. They are worried about an emergency they cannot cover. They are worried about declining revenue and profit. And they are worried about their inability to predict take-home pay. Many feel like they must count every penny to keep their heads above water. Business owners said profit, sales, and take-home pay had all fallen recently (Exhibit 16).

*Exhibit 16. Financial health lagged in final survey**Business owners lack a sense of financial control*

Recent declines in several measures of financial health made these business owners nervous about the future. Although the influx of capital from Accion and Opportunity Fund served as a short-term boost in resources and confidence for them, by the end of the study, entrepreneurs said they felt less control over their financial situation and less able to handle their financial future. At the time of the initial survey, these entrepreneurs already had a low sense of control over their finances, with only a third (33.3%) saying that they felt in control. By the end of the study, only 12.5% felt in control (Exhibit 17).

*Exhibit 17. By the end of the study, business owners felt less financially stable<sup>39</sup>*



\*Change from initial to follow up is statistically significant at  $p < .05$

In the follow-up survey, more entrepreneurs expressed low confidence in their ability to predict take-home pay due to the unpredictability of business activity. Only about a third (29.2%) felt they could predict their monthly take-home pay. Given the seasonality of their businesses, interviewees said, it was difficult to predict revenue from month to month. This made for rising stress levels. A hair salon owner reported, “My life is more stressful, more accelerated. ... I feel like I used to be more comfortable doing my things before.”

*Entrepreneurs feel unprepared for financial emergencies*

Although these business owners consistently expressed their willingness to surmount any challenge and go forward, only 16.7% said they have sufficient cash reserves to withstand a financial emergency—the lowest among all the clusters. In the follow-up survey, a third (33.3%) reported their debt was higher than it had been a year earlier. The owner of the paint-your-own pottery shop felt stretched to the limits. “If I had something catastrophic, I’m not sure how I would deal with it,” she said. “I’m pretty tapped out financially.” The entrepreneur with the horseback-riding camp feared a serious vet bill. “If one of my horses gets sick ... I do not have anything in the bank ready to pay for that bill.”

Entrepreneurs in this group said they had not planned for a financial emergency. If faced with one, most said they would rely on a credit card. The landscaping business owner imagined a series of options. “I’d probably see if my credit cards can handle it first. If not, I’d probably go to friends or family. Third, to Accion or something like that.”

<sup>39</sup> Survey items were rated on a scale ranging of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of borrowers who rated the impact as a 4 or 5.

### *Business owners in this cluster are focused on today*

In the follow-up survey, most borrowers (70.8%) said their finances were a significant source of worry. Perhaps due to that worry, this cluster is much more attuned to the day-to-day cash flow than members of other clusters, and is more likely to employ a fairly high degree of advanced tracking. This held firm throughout the study, however closely monitoring finances did not result in better outcomes for this cluster.

Although in the final survey more than half of the members of this cluster (58.3%) said they had a business financial plan, no one participating in an in-depth interview had one. Interviewees instead emphasized consistent tracking of expenses and sales.

### *Despite challenges, off Balance and Seasonal entrepreneurs are committed to moving forward*

The motorcycle mechanic described small business ownership as a story of “ups and downs.” And that seemed to be the case for this cluster, where entrepreneurs weathered a downturn but were still working to reach financial stability. Off Balance and Seasonal entrepreneurs dealt with unanticipated expenses and revenue fluctuations, yet often lacked financial plans to address these challenges.

Despite the hardships, these business owners are committed to their entrepreneurial identities, but they need extra support. For instance, the business owner who provides workspace to aspiring entrepreneurs was forced to make big changes when an injury sidelined him for four months. “I had an injury and couldn’t run [my business] ... Accion stepped in and helped me a lot. ... They gave me a month off and then readjusted my loan amount and reassessed the time frame on the loan. ... From soup to nuts, they were willing to work with me and get through the situation,” he said. In the end, this business owner was able to cover his refinanced payments. “The money I had left from their loan helped me make that bridge of the four months, and I was able to stay in business that way,” he said.

The New Mexico horseback riding business is one outstanding example of how an entrepreneur can improve her business prospects. The advice she received from a mentor played a critical role in her success. “I actually didn’t really apply for the loan for the money. I applied, really, to get the services that Accion provides,” she said. She credits those services even more than the cash for her recent success. “I love the people at Accion,” she said. “They’ve made me part of their family. I really feel like I’m part of their family.” She advises peers to take advantage of what CDFIs and community resources offer. “Take classes. Go to Accion, go to [the] Small Business Development Center, the SBA.”

On the whole, Off Balance and Seasonal entrepreneurs feel uncertain about the future. Unexpected expenses and revenue fluctuations were common, as was the absence of a plan to manage them. Seasonal businesses present unique challenges and opportunities that require creative problem-solving and continued outreach for support to meet their fluctuating needs.

## Cluster #4: Retrenching

The Retrenching cluster is made up of 48 entrepreneurs<sup>40</sup> with businesses at a crossroads. Although most experienced success during the study—68.8% increased their sales and profit—the number of those who were able to take home a salary fell drastically, from 42.6% in the first survey to one business owner (2.1%) in the final survey.<sup>41</sup> The meaning of that decline is not entirely clear. It could be an indication that entrepreneurs in this cluster are consciously reinvesting in their businesses as many noted a focus on positioning their business to become more established. Entrepreneurs in this cluster report a sense of optimism about the future, both in terms of their personal financial security and their anticipated business success.

### *Entrepreneurs don't take a salary from their business (yet)*

As stated earlier, while more than half (68.8%) of these business owners reported improved sales or profits during the study,<sup>42</sup> only one entrepreneur in the entire cluster drew a salary at the time of the final survey, a drop from 42.6% in the initial survey.<sup>43</sup> Small business owners commonly forego paying themselves, especially soon after a launch or at key growth points. Some interviewees said that, although they don't draw a salary, they use business proceeds to pay rent or other personal expenses. Others said they didn't need a salary from their business, often because they have a second source of income. These owners reinvested their profits in the business. For example, an entrepreneur who operates a film festival with her spouse said that they don't earn any income from their business, as each year any profit is put back into the business or is used to pay debt from previous years.

### *Some entrepreneurs started their businesses as side gigs*

About half of the interviewees in this cluster started their business as a side job—a business that was only active seasonally, for a couple of days per week, or during the owner's free time. A video producer in Florida started his business with his brother as a side job because they were both good at it; the husband and wife who run a film festival started it as a way to make niche movies available to a Southern California audience one weekend per year; a swap meet toy vendor from Colorado started his business as a way to earn extra income on the weekends. Similar to some of the Stable and Strategic entrepreneurs, many of these business owners started their businesses exclusively to earn additional income, never intending them to be their full-time focus. For instance, the toy vendor, who can only sell toys on weekends when the swap meet is open, will continue to maintain a weekday job. Because the film festival only occurs one weekend per year, the owners will also continue to work regular jobs the remainder of the year.

40 Thirteen of the 48 entrepreneurs in this cluster participated in in-depth interviews.

41 The change from initial to follow up survey is statistically significant at  $p < .05$ .

42 This percentage is based on the share of entrepreneurs who said that either sales or profit had increased. In the final survey, most borrowers (58.3%) said sales had increased, and 56.3% said profit had increased.

43 The change from initial to follow up survey is statistically significant at  $p < .05$ .

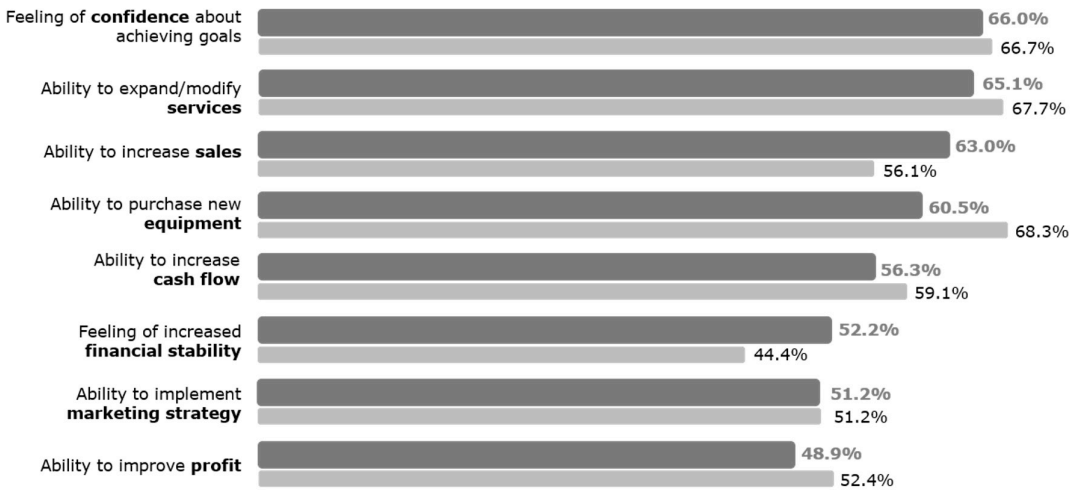
***Business owners in this cluster value microloans and felt significant initial boost from their loans***

This cluster has the largest percentage of entrepreneurs (25.0%) who obtained a loan specifically to launch a business. The loan made business dreams come true. That was the case for the owner of a uniform shop in Southern California. “My main goal when I went for the loan was to get the business started, and, with the loan, I was able to do that,” she said. Another 39.4% sought a loan to expand an existing business. About a third (35.4%) sought capital to maintain a business, for example, to pay general and administrative expenses or maintain inventory.

Support from Accion and Opportunity Fund—in the form of capital, advice, and networking—helped business owners make strides toward their goals. In fact, this cluster gave some of the highest ratings for the perceived overall impact of Accion and Opportunity Fund across several areas of business. Two thirds of the business owners in this group indicated that their loan played a major role in improving sales, acquiring new equipment, and expanding or modifying products and services. A similar number said that their loan helped them feel confident about achieving their goals (Exhibit 18).

***Exhibit 18. Lending services had an ongoing impact on business owners and their businesses***

*In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had “a lot” of impact.<sup>44</sup>*



44 Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values in this exhibit represent the combined percent of borrowers who ranked the loan’s impact as a 4 or 5. This exhibit shows only those items on which at least half of all borrowers in this clusters rated the item a 4 or 5 at either the initial survey or the follow-up. Change from initial to follow-up survey is not statistically significant based on paired-samples t-test of difference in mean scores.



### *Loans helped entrepreneurs feel like they had valid businesses*

Most interviewees said that the Accion and Opportunity Fund loans helped them purchase specific items that made them more competitive. The loan itself, the business advice, the accompanying networking opportunities, and the enhanced competitiveness resulted in a sense of increased legitimacy – a feeling that their enterprise was now the real deal.

Loans helped businesses increase efficiency and competitiveness. Most interviewees said their loans enabled them to make purchases that fundamentally improved their business output, elevating their sense of being “real players” in their field or community. The Florida video production business owners bought equipment to speed the editing process. “In this work, if you can finish faster, we can take care of more clients, so that will give us an advantage,” he said. An online variety store owner based in Florida said the loan led to an expanded product line. “Now I’m spending a lot more time working on the business than I was because ... the more money I make, the more products I buy.”

Others purchased commercial vehicles (e.g., construction truck), equipment, or property that they could use later for business expansion. Those who used the loan to increase inventory said it allowed them to better establish their markets. That was the experience of an energy drink distributor in New Mexico. “[Buying more inventory] helped me establish with the retailers that I’ll have the product, and that I’m able to buy more product along with it.”

The loan and accompanying lender services helped businesses become established and gain legitimacy. Entrepreneurs reported that their loans enabled them to accelerate their business growth, establish their operations as legitimate businesses, and focus their endeavors more tightly. The owner of an Illinois-based online tea shop said her loan led to “explosive growth.” “The loans have really pushed the company from this hobby ... into a legitimate online business.” A Northern California café and crêperie owner said that her loan capital enabled her to quit a second job and focus entirely on her own business. “Since I quit my job, the business improved considerably,” she said. Other entrepreneurs said that the quick turnaround between loan application and approval enabled them to take advantage of timely opportunities. “I got the loan right before Christmas, [which is] a good time to get a business going,” said the owner of an online variety store. The swap meet toy vendor said he has been able to focus his business, dropping a line of housewares and specializing in just toys. Because of advice from Accion, he even changed the name of his business to reflect this new focus.

Although all business owners sought a loan because they needed more capital, a small group of interviewees said that the networking and marketing support they received had an even greater impact on their businesses than the loan itself. The owner of a barbershop in Southern California said that his lender has a partnership with a local news station, which did a TV profile on the shop—a major marketing win.

### *Entrepreneurs use profit to further their business goals*

Many business owners in this cluster saw sales and profits increase, and improved their ability to meet their financial obligations. Many also strengthened financial tracking practices. However, at the end of the study, only one business owner in this group reported drawing a

salary. As noted earlier, interviewees said that when they didn't write themselves a paycheck, it was because they didn't need it (they had a second source of income), because they use their profits to pay their living expenses directly (did not separate their personal and business finances), or because they chose to reinvest any revenue back into the business.

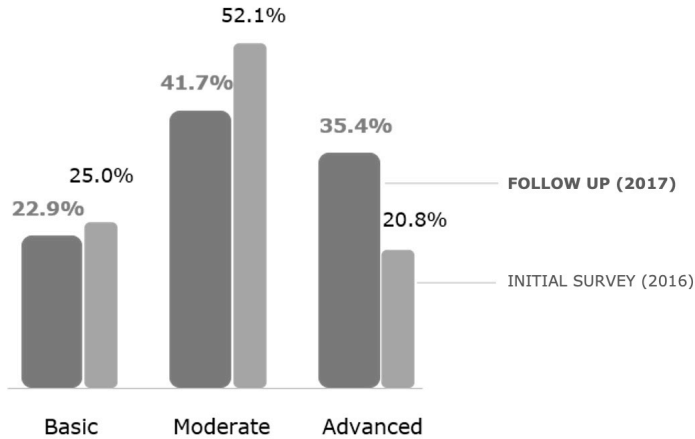
Although most entrepreneurs said in the final survey that they didn't take a salary from their business, about a quarter (22.9%) said their take-home pay increased in the same period. Many interviewees said that they don't always keep their business and personal finances separate, and often, take-home pay doesn't come in the form of a salary. Rather it is business revenue used to pay business and household expenses. This makes sense, especially for those entrepreneurs who started their business as a side gig or for newer businesses not yet making a profit. Some entrepreneurs, such as the Florida-based online variety store owner, said that they would rather re-invest earnings in the business. "I don't really have a salary because, at this point, I don't need it," she said. "I get money from Social Security and pension. I'd rather reinvest [business profits] into the company right now."

Some business owners may delay drawing a salary because they have payroll and other costs to cover. For example, the Florida video production business recently hired its first employee. The employee receives a paycheck every other week, but the brothers who own the business take only a quarterly commission after covering payroll and other costs.

### *Business owners have improved their financial tracking practices over time*

The portion of entrepreneurs who use advanced tracking practices increased from 20.8% on the initial survey to 35.4% in the follow-up survey (Exhibit 19). Despite this increase, few Retrenching entrepreneurs attributed the change to their interactions with Accion or Opportunity Fund. At the beginning of the study, more than half (59.6%) said they had not changed their business finance tracking because of the loan. A slightly larger number (62.6%) said the same thing at the end of the study. Interviewees indicated that when they did change their tracking practices—for example, moving from using a notebook to using Excel—it was to meet the needs of a growing business. With more things to keep track of, they wanted a more sophisticated tracking method.

*Exhibit 19. More business owners employed advanced tracking practices at the end of the study*



*Business owners can meet their financial obligations, but they may not be prepared for emergencies*

Given the nature of some of the “side gig” businesses in this cluster, entrepreneurs may experience unpredictable business activity. Yet, most are able to meet their financial obligations, paying bills and loans on time (Exhibit 20).

*Exhibit 20. Most business owners can repay current debt but are not prepared for emergencies<sup>45</sup>*

Category	% that reported “most of the time” or “always”
Able to meet business debt and other obligations on time	91.7%
Monthly revenue is sufficient to cover operating costs	77.1%
Business could withstand negative events	66.0%
Able to pursue growth opportunities for business	60.4%
Able to predict monthly take-home pay	52.2%
Cash reserves are sufficient to withstand financial emergency	39.6%

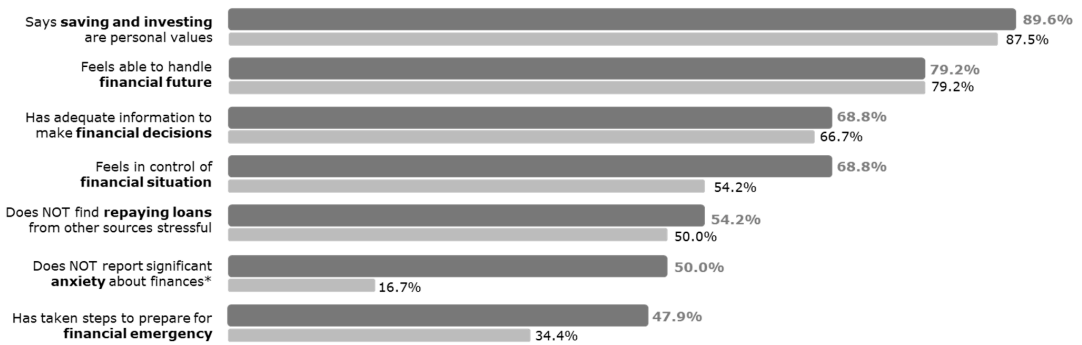
<sup>45</sup> Survey items were rated on a scale of 1 (rarely) to 4 (always or almost always). Values shown in this exhibit represent the combined percentage of borrowers who ranked the impact as a 3 (most of the time) or 4.

While most Retrenching business owners are optimistic about weathering negative events, only 39.6% reported that they could withstand a true financial emergency. Most said that if they faced a relatively small financial emergency, they could tap into savings. But for larger things, most said they would need outside help. The owner of a house cleaning service in Northern California said she had both personal savings and business reserves that she could dip into for small shifts in her business but she would go to Opportunity Fund if a significant emergency occurred. “In the event I have a significant expense, I know they’d help me.”

***Retrenching business owners are optimistic about the future***

Even though they are not taking home income from their businesses, entrepreneurs in this cluster expressed some of the highest confidence in their personal financial stability. They felt like they were in control of their financial future and they reported experiencing little stress over such financial obligations as loans (Exhibit 21). In the initial survey, Retrenching entrepreneurs were upbeat about all indicators except one: They found finances a significant source of anxiety. But by the final survey, things had turned around. In the first survey, only 16.7% of Retrenching entrepreneurs reported that they were not worried about finances. But by the final assessment, half (50.0%) said they were no longer worried.<sup>46</sup>

***Exhibit 21. Business owners feel capable of meeting their future financial needs***



\*Change from initial to follow up is statistically significant at p<.05

From the first survey, most Retrenching entrepreneurs anticipated increases in sales (89.6%), profit (91.7%), and take-home pay (63.8%). Interviewees said they hope to expand their businesses, so they would soon demonstrate increased stability.

***Retrenching businesses face unique challenges***

While Retrenching entrepreneurs often possess high commitment and optimism, they face unique obstacles. Some have dipped into personal savings to stay afloat. Others are

<sup>46</sup> The change from initial to follow up survey is statistically significant at p<.05.

unprepared for emergencies, and still others rely on a limited set of strategies without ever seeing success. The film festival owners typify this struggle. “We’ve lost money every year, but we’re working to get to year number five. Then I think we will be much more viable,” the festival owner said. Yet the results have been dispiriting. “Every year I sit down and try to make a budget, and every year it falls apart.” These entrepreneurs’ commitment to their businesses, regardless of circumstance, is a defining characteristic of this group.

### **Cluster #5: Slowly Growing and Optimistic**

Slowly Growing and Optimistic entrepreneurs have not let setbacks get in the way of their goal of future financial stability. Many of these 43 entrepreneurs<sup>47</sup> started their companies to fulfill a specific dream or out of a desire to be their own boss. They used their loans to purchase equipment, pay off debt, or move to a better location. Although many of these business owners appreciated the initial influx of loan capital, ultimately, this cluster reported the lowest impact from lender services. Although these business owners said they can meet their monthly financial obligations, they also reported the lowest level of comfort with the size of their business debt. Despite these challenges, entrepreneurs are confident about the future of their business, anticipating increases in take-home pay, sales and profit.

#### *Many operate “niche” businesses*

Numerous entrepreneurs in this cluster serve niche markets. There is a boutique serving women who have had mastectomies, an artisanal jam maker, an artist who restores religious imagery, and a sports program for people with special needs. Although some entrepreneurs created their businesses to fulfill a long-time goal of being their own boss, others turned a hobby into a small business. These businesses have a limited client base, requiring the entrepreneurs to adapt and expand their products and services to keep their clients engaged. The New York-based entrepreneur who restores religious imagery is focused on this need. “We are trying to grow; we are trying to innovate our markets.” The owner of the artisanal jam company had similar plans. “Our biggest goal for the year is to land an airline account and to launch our new product line.”

#### *Slowly Growing and Optimistic businesses are set apart by their income volatility*

Inconsistent cash flow was the principal factor interviewees in this cluster highlighted related to lagging business growth. Almost all interviewees reported unpredictable business activity, and unlike the Off Balance and Seasonal businesses where the low activity months were usually more cyclical, these entrepreneurs described more unpredictable ebbs and flows in income. More than half of the business owners in this cluster (60.5%) did report an increase in sales or profit in the final survey; however, some said they had drained their savings to some degree (18.6%), and others said they hadn’t been able to save more (79.1%). Although their businesses showed some growth, they often were not as profitable as owners would have liked, which put a crimp on financial independence and the entrepreneur’s sense of financial stability.

<sup>47</sup> Thirteen borrowers from this cluster participated in in-depth interviews.

The owner of a gutter and siding business in Colorado is a veteran of such ups and downs. “Last month and this month are two different things. Right now, they’re almost night and day.” A graphic designer in Southern California noted similar monthly fluctuation, with some long dry spells. “There are low seasons, months with very low income, and, especially, after the end of the year, production is really low because people don’t want to do much business.”

In the four years that the artist who restores religious images has been in business, he has seen his share of dramatic swings. “I have seasons when I can earn two, three times what I would make with a weekly paycheck. And then there are weeks when I don’t make much... So when I do well, it’s time to back myself up a little, to save in order to be able to survive the times when it gets difficult.” Because most business owners lack sufficient cash reserves to withstand the low periods, some won’t pay themselves in order to cover costs.

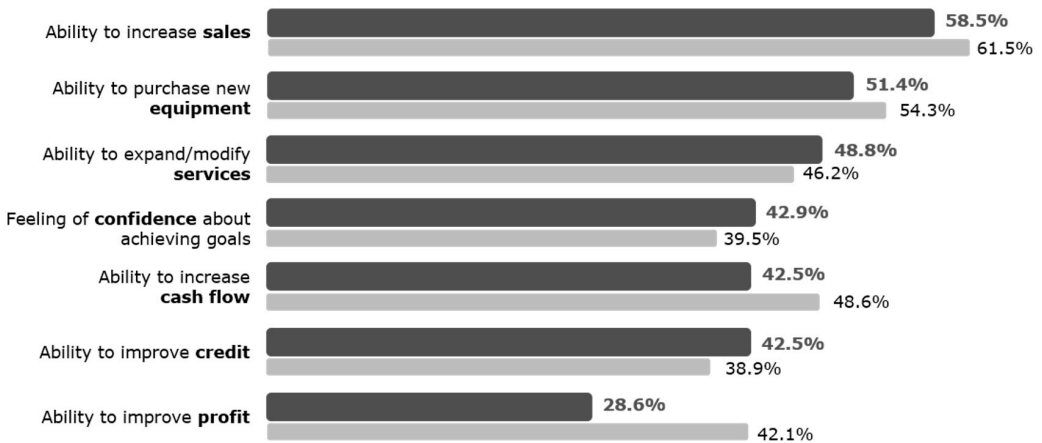
*Microloans have had some tangible impacts, but entrepreneurs don’t always see the role of the lender in their success*

About half of the entrepreneurs in this cluster (48.8%) sought a loan in order to maintain operations, and the other half (46.5%) borrowed to pay for an expansion. Only two (4.7%) sought capital to launch a business.

Compared to other clusters, a smaller number of these business owners rated lending services from Accion and Opportunity Fund as having a significant impact on their businesses. In both the initial and final survey, a little more than half reported that their loan significantly helped them increase sales or acquire equipment (Exhibit 22).

*Exhibit 22. Only some business owners said lending services had important effects*

*In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had “a lot” of impact.<sup>48</sup>*



48 Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values in this exhibit represent the combined percent of borrowers who ranked the loan’s impact as a 4 or 5. This exhibit shows only those items on which at least 40% of all borrowers in this clusters rated the item a 4 or 5 at either the initial survey or the follow-up. Change from initial survey to the follow-up is not statistically significant based on paired-samples t-test of difference in mean scores.

*Access to capital helped some entrepreneurs acquire needed resources; for others, it created breathing room*

Slowly Growing and Optimistic interviewees said they benefited from their loans in two key ways: access to capital gave them breathing room to focus on establishing their business; and, the loan helped pay for needed resources during crucial times in their businesses.

*Access to capital provided breathing room*

About half of the interviewees said that the loan gave them time to take stock. These entrepreneurs often used their loans to pay off debt or catch up on bills. Some set aside a bit of cash to ensure that they could focus on strengthening their businesses. Some of these entrepreneurs were approved for a smaller loan than what they had applied for, so they couldn't always use the money as they originally intended. For example, a San Francisco Bay Area owner of a carpet cleaning business sought a loan to repair the business's vans, but the loan amount was not enough to cover the repairs, so the owners used the loan to pay bills instead. "[The loan] gave us some breathing space with bills that were due: advertising bills, rent, and other bills that were piling up. It gave us a little more wiggle room to be able to concentrate more on the actual business instead of just paying off everything that we owed at the time. It gave us a good break." While this breathing space was significant at the time, most of these business owners said that the impact of the loan was not long-lasting, since they ended up with more debt and continued to have unpredictable cash flow that at times made repaying the loan difficult.

Two entrepreneurs felt that in hindsight, the influx of cash was not the best solution for them, particularly when their debt load was already high. The Southern California owner of an auto repair shop said she felt the loan added to her already existing debt without giving her enough capital to make a significant dent in it. She said, "nothing really changed. It was a \$10,000 loan. I owed about \$50,000 [in] other debt. I still had to juggle other cards."

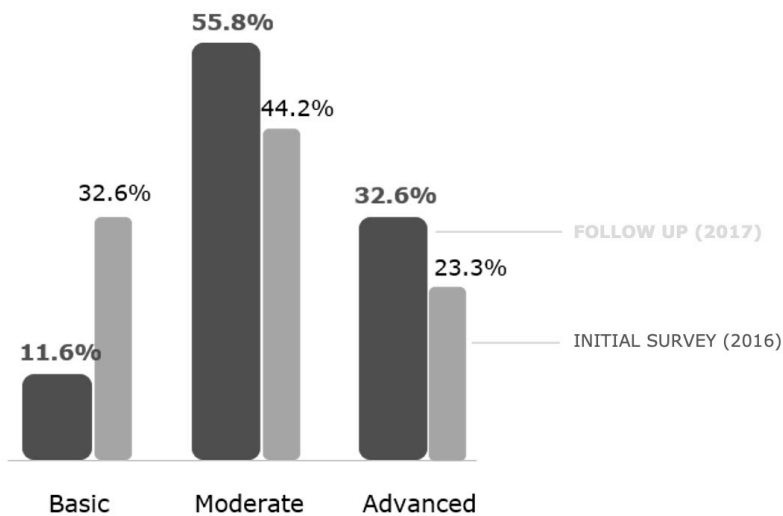
*Access to capital provided a boost at crucial times*

For the other interviewees, the influx of capital came at a pivotal moment. These Slowly Growing and Optimistic business owners used the loan to buy equipment they needed for growth, fix broken equipment, pay for business licenses, or launch websites to help better market their businesses. The owner of the Colorado gutter and siding business said using his loan for marketing led to an increase in business at a crucial time. "There was an upswing right after I got the website done," he said. The loan also covered signs on the business's trucks, which also helped. "[It] gave me a little bit more balance at home to spend time with my kids. They're getting older and getting ready to leave the nest, and so this year, having some of that other advertising out there full-time kept me from having to always go and pass out flyers and knock on doors and things like that, where I would never see the kids."

### *Slowly Growing and Optimistic business owners are formalizing their financial practices*

This group began the study least likely to use more than basic financial tracking; 32.6% reported such practices as using a notebook or checkbook to track business finances. However, by the final survey, 55.8% employed “moderate” practices and 32.6% reported “advanced” practices (Exhibit 23).<sup>49</sup>

*Exhibit 23. Almost all business owners now have moderate or advanced financial tracking practices*



The proportion of business owners who said they had substantially changed their business finance tracking as a result of the loan or interactions with Accion or Opportunity Fund was 12.5% on the initial survey and 11.7% on the follow-up survey—a smaller percentage than other clusters.

### *These entrepreneurs are good trackers, but not great planners*

Entrepreneurs in this cluster are meticulous about tracking their expenses and sales, whether on paper or by computer, but they are relatively inexperienced in projecting sales, profit, or take-home pay. Most interviewees, including a Northern California café owner, said that they track their expenses and sales almost daily—a common practice the evaluation team observed in small businesses with seasonal or unpredictable revenue. “I track it [my cash flow] every day, mostly through my cash register app,” the café owner said. The owner of the Colorado gutter and siding business said he sees tracking as “just simple basic accounting. I do it by hand on paper. I don’t use a computer program. I like to be able to look at the numbers.”

Although few businesses in this cluster have formal business plans, some are taking steps in that direction. The owner of the gutter and siding business said that he started to develop



a plan, but “in construction, it’s so hard to have a financial plan. The amount of work you have changes from week to week, month to month, and so [a] financial plan is very hard. ... It can change your whole scope of thinking, and now you’re just trying to survive.” On the other hand, a Florida entrepreneur who creates athletic programs for special needs children said that the influx of capital from her loan allowed her to plan for the future. “Our expenses are more balanced. They’re not as scattered as they were when we first moved into the location and got all the equipment. I think that if we didn’t have the loan approved at the time, we still would’ve been more in the red and a lot farther from that [break]-even point than we are now.”

*Some entrepreneurs in this cluster are prepared for surprises, just not big surprises*

In interviews, some said they are prepared to cover moderate expenses such as equipment repairs. The owner of an auto repair shop said she had faced financial emergencies in the last year, including a \$1,500 van repair bill. But, she had “some money in the bank” to cover it. The café owner faced similar expenses but did not see them as emergencies. “It’s more like expected.” However, it is clear that not all entrepreneurs in this cluster are well prepared. At the end of the study, only a quarter (25.6%) said their business could withstand a negative event, and an even smaller number (9.3%) said their businesses had sufficient cash reserves to withstand a financial emergency (Exhibit 23). Therefore, while some business owners have the funds to cover minor expenses, they do not have the cushion they need to handle larger challenges.

*Exhibit 24. Most business owners can meet their current debt but are not prepared for emergencies<sup>50</sup>*

<b>Category</b>	<b>% that reported “most of the time” or “always”</b>
Monthly revenue is sufficient to cover operating costs	76.7%
Able to pursue growth opportunities for business	50.0%
Able to meet business debt and other obligations on time	44.2%
Able to predict monthly take-home pay	37.2%
Able to withstand negative events	25.6%
Has sufficient cash reserves to withstand financial emergency	9.3%

<sup>50</sup> Survey items were ranked on a scale from 1 (rarely) to 4 (always or almost always). Values shown in this exhibit represent the combined percentage of borrowers who ranked an impact as a 3 (most of the time) or 4.

### ***Business owners in this cluster are uncomfortable with their level of business debt***

While nearly half of these entrepreneurs (44.2%) said they could meet their business debt and other obligations on time, they are far less comfortable with their debt level than members of other clusters. In the final survey, almost two thirds of these entrepreneurs (65.2%) said they were somewhat or very uncomfortable with their level of debt. Additionally, 72.1% reported difficulty paying their debt, indicating that it was a source of stress. The auto repair shop owner is in that group. “I still have debt...it’s killing us,” she said. This is surprising given that, by the end of the study, almost all Slowly Growing and Optimistic business owners reported they had the same amount of debt (41.9%) or less debt (46.5%) than they did a year earlier. Some Slowly Growing and Optimistic business owners told interviewers that their loan added more stress with few benefits.

### ***These entrepreneurs anticipate growth***

This cluster was among the least likely to experience changes in take-home pay. Most (67.4%) said that their take-home pay remained the same over the past six months. However, three-quarters (76.7%) anticipate an increase in their take-home pay in the coming six months.

The same is true for sales and profit. While less than half of business owners (41.9%) reported an increase in both sales and profit in the past six months, most (81.4%) anticipate increases.<sup>51</sup>

### ***Slowly Growing and Optimistic business owners need cash flow to achieve their goals***

Some Slowly Growing and Optimistic entrepreneurs are stuck; they want to hire more people, develop additional products, or purchase equipment to expand their businesses, but they aren’t able to yet. At the end of the study, nearly half of these entrepreneurs said they were rarely (11.9%) or only sometimes (38.1%) able to pursue business growth opportunities. The owner of the gutter and siding business was in this predicament. “I’m just a small company. I could take on more work if I had more people, but to have more people, I have to have more money.”

The interviews offer some insight into the strategies some entrepreneurs are implementing to improve their businesses. “I actually started going to school ... for music management,” an Illinois event and music planner reported. He is also managing a local band. The owner of the auto repair shop “signed up for some business coaching of someone who owns a successful shop.” And the café owner is constantly on the lookout for new locations for her business.

### ***Slowly Growing and Optimistic business owners need to open new doors to move from positivity to practicality***

Entrepreneurs in this cluster are particularly hopeful for the future. They have realistic goals that are focused on short-term improvements to their business, such as hiring additional

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51 At the beginning of the study, 92.3% anticipated increases in sales and profit. The change between the two surveys was not statistically significant at  $p < .05$ .

help or upgrading equipment or location. Yet some appear to be at an impasse, unable to afford the things they know would allow them to grow. They are also stressed about their debt and are not sure they could withstand a financial emergency.

Unlike Off Balance and Seasonal business owners, who generally know when their growth seasons occur, Slowly Growing and Optimistic entrepreneurs' "seasons" aren't truly cyclical. For example, the religious imagery restoration business owner may be hired for a large restoration that temporarily boosts his income. Revenue at the post-mastectomy boutique fluctuates with insurance payments, so sometimes the owner receives many payments at once, and other times she waits weeks.

Although some Slowly Growing and Optimistic entrepreneurs have long-term goals for their businesses (the entrepreneur who restores religious art dreams of becoming "a global wholesale seller of crafts"), they haven't necessarily developed a plan to achieve those goals yet. Many in this group aim to translate their overall optimism into a clear path forward for their business.

## Conclusions and Implications

CDFIs and other mission-based lending services play a crucial role in revitalizing distressed local and regional economies. Small business lending creates opportunities for low-wealth communities to participate in and benefit from financial services, disrupting structural and systemic causes of poverty (Pinsky, 2001). Microfinance in particular provides a way for new entrepreneurs to launch or grow a business, paving the way for women, people of color and immigrants to reach financial security for themselves and their families.

Among the challenges CDFIs face is the need to demonstrate that their strategies bring lasting change to communities (Theodos & Seidman, 2017). There is also growing interest in internally focused learning to continue to strengthen lending services (Ibid). This study is an important step forward in conquering that challenge. It explores the longer-term impacts of microlending on small business owners across the country and offers insights into how small business owners define success and the outcomes they achieve over time. These findings ultimately can be used to guide future investments in entrepreneurs, their businesses, and their broader communities.

## What did we learn?

### *Most entrepreneurs are thriving*

By many indicators, entrepreneurs are better off than they were at the beginning of the study and expect to continue their business success. Over one in four entrepreneurs in the study were Focused and Growing business owners, on a trajectory to continue to grow their sales and profits. Many entrepreneurs improved their financial management practices, are more financially stable, and have a more favorable work-life balance as a direct result of their loan.

***Success means something different to every small business owner***

Some owners want to expand, hire more workers, bring in more revenue, and multiply profits. Others intend to hold their secure “day jobs” and have a small business on the side for additional income. Others are happy with their current levels of sales and revenue. For entrepreneurs, success is personal: a sense of autonomy over life and livelihood. Understanding that success looks different to every entrepreneur can help ensure lending supports more small businesses to meet their goals.

***Small business owners have different needs***

Just as success has different definitions, this study provides empirical data showing the ways in which entrepreneurs’ needs differ. Although some small business owners benefit by devoting loan capital to specific uses, such as equipment purchases or investment in marketing, others benefit just as much from the technical assistance and guidance they receive from lenders. Business owners with a second business or second job have unique long-term planning needs, particularly if they wish to ultimately jettison that second job. Other entrepreneurs serve niche markets with unpredictable or seasonal demand and require technical assistance to gird them for this market instability.

***Small businesses create jobs***

These small business owners added over 300 new FTEs during the course of this study. Many small business owners were able to hire new workers and expand their benefits in meaningful ways.

***Short- and long-term loan impact varies by borrower type***

One key finding of the cluster analysis was that each cluster perceived the impact of their loan on their personal and business goals differently. While nearly all clusters initially found their loans highly beneficial, this perception did not persist for all groups. For some, tangible benefit faded once the capital was spent. The gain appeared to last longer for small business owners who had a targeted use for the loan, such as an equipment purchase, and for those not relying on Accion and Opportunity Fund’s loan alone to cover existing expenses.

***Microloans are a boon to business owner confidence and quality of life***

Microloans boost myriad business indicators: they improve cash flow, allow staff expansion, and make equipment purchases possible. But for many entrepreneurs, just as important was the lift in self-confidence the loan sparked, giving them the sense that someone took a chance on them. Loans gave small business owners determination and certainty about tackling their goals. Further, loans heightened their sense of legitimacy as entrepreneurs. While such holistic benefits are hard to measure, they are a clear indication of the personal worth of mission-based lending.

## **What's left to study?**

### *Research is needed to understand the effect of small and micro business lending on community level indicators*

Initially a large-scale goal of this study was to look at how microfinance affects communities. Tracking community-level metrics would include understanding how an entrepreneur's networks change and grow over time, generational impacts of entrepreneurship (i.e., how business owners' children relate to entrepreneurship), and how business owners contribute to wider neighborhood and community development. However, during study design, it was determined that long-term community-level outcomes were beyond the scope of this project. Community transformation takes time, and entrepreneurship is just one of many elements that can make a difference at a community level. Further exploration is needed to determine how microfinance interventions may link to longer-term community-wide development indicators such as neighborhood revitalization and poverty alleviation.

### *Additional objective measures of financial growth are needed*

The study was based heavily on entrepreneur self-report. Therefore, some financial indicators may suffer from bias, as it is only natural for respondents to paint a positive picture about their businesses. Although this study looked at self-reported change in measures such as take-home pay, revenue, and sales, it did not look at objective measures of such changes. Specific and accurate measurement of these changes can be difficult because small business owners track finances in a variety of ways. Determining how to collect such data remains an ongoing challenge. Yet an analysis of this information could deepen our understanding of how small and micro business lending affects financial health.

### *Ongoing exploration of the link between advising services and entrepreneur outcomes is needed*

Accion and Opportunity Fund provide affordable capital and support services to their clients. Support can vary from one lender to the next and is often based on individual entrepreneur needs. Matching the type and amount of support received to entrepreneur outcomes such as financial tracking, financial security, and quality of life could further demonstrate how advising services impact small business owners and help identify which services are needed to maximize these benefits.

## **How can this study's results support entrepreneurs?**

### *Financial volatility impacts small business owners differently depending on their levels of financial stability*

On average, small business owners were more financially stable and prepared to withstand financial emergencies at the end of the study than they were at the beginning. For several clusters, this meant their businesses were more profitable. Some entrepreneurs were able to project sales and revenue and save money to cover unexpected costs. But this was often not the case for entrepreneurs with high levels of financial instability, such as the seasonal

business owners in the Off Balance and Seasonal cluster and those still unable to draw a salary in the Retrenching cluster.

*Consider how entrepreneur clusters indicate business trajectories*

It is expected that most entrepreneurs will experience highs and lows over the course of their businesses. It is possible then that the clusters identified in this study represent phases that business owners may go through as they adapt to the challenges of entrepreneurship. Entrepreneurs in the Focused and Growing cluster may have been small and struggling to make ends meet at some point but were able to get their business ready for growth. Stable and Strategic entrepreneurs could face future challenges that cause them to course correct and slow down, similar to Retrenching entrepreneurs. Slowly Growing and Optimistic entrepreneurs may use their financial tracking abilities to achieve future stability. Recognizing these characteristics in entrepreneurs can help address their individual needs and help them move to a future path of success.

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