

Supporting underserved entrepreneurs

Karen E. Klein

Goldman Sachs' initiative to help small business has drawn headlines. Here are some programs targeting microenterprises and inner-city entrepreneurs.

Goldman Sachs (GS) announced last week that it is teaming up with Berkshire Hathaway (BRKA) CEO Warren Buffett to launch 10,000 Small Businesses, a \$500 million initiative aimed at assisting low-income entrepreneurs.

Goldman is hardly alone in investing in small business. There are thousands of organizations—private, public, nonprofit, and hybrid—whose primary mission is to mentor, train, educate, and fund entrepreneurs.

One group reaching out to struggling entrepreneurs in distressed communities is Rising Tide Capital. The Jersey City (N.J.)-based nonprofit, founded by Alfa Demmellash and Alex Forrester when they were classmates at Harvard University, offers one-on-one business coaching and a 10-week entrepreneurship course called the Community Business Academy.

Since it was founded in 2004, Rising Tide has worked with more than 250 individuals, mostly single mothers, in Jersey City. "We noticed that there was a gap in the services provided, particularly to low-income entrepreneurs living in distressed inner cities. A lot of the established groups, such as SCORE and the U.S. Small Business Development Centers, focus on entrepreneurs further along in their journey," Demmellash says.

Far from aid: inner-city entrepreneurs

She and Forrester recognized that many micro-entrepreneurs, such as mothers offering home day-care services, did not consider themselves small business owners and did not tap into existing educational and coaching services. Even if they were aware of such resources, she says, they tend to be delivered in far-off suburbs and office parks remote from an inner-city population that often lacks transportation.

"These groups were struggling to find people to lend to, but they were not accessible to the population they were targeting," Demmellash says. "Our idea was to be on the ground in the community."

Another disconnect that Rising Tide discovered is that traditional entrepreneurial training programs frequently focus on formal business plan writing, a daunting prospect for entrepreneurs with limited educational backgrounds. "A lot of people we work with are coming out of an educational system that hasn't been invested in for decades. They can't fathom spending six to eight weeks trying to write a business plan," Demmellash says.

Her group focuses on helping entrepreneurs organize their businesses so that a working business plan often results, she says. Rising Tide markets its programs by partnering with such existing organizations as National Urban League and Dress for Success. Flyers about the academy are even mailed out with monthly welfare checks, Demmellash says.

Entrepreneurs and would-be entrepreneurs interested in Rising Tide are invited to an orientation session where they evaluate their status to determine if they are ready for the program. Everyone who is selected to participate in the academy gets a full scholarship.

Can Rising Tide replicate elsewhere?

Initially, Rising Tide offered its educational seminars for free but found it didn't get the response or commitment it had hoped for. "Free generally implies 'without value,' so we changed the dynamic and made the program selective. It's amazing to offer someone an educational opportunity who has never before been offered an investment in their future," Demmellash says.

As it achieves successes in Jersey City, Rising Tide hopes replicate its model in other disadvantaged cities throughout the U.S. and around the world, she says.

Another organization focusing on underserved, inner-city businesses is Next Street Financial, a merchant bank founded near Boston in 2005. While it operates on a for-profit basis, the bank has a "double bottom line," says Tim Ferguson, who, like Next Street co-founder Ron Walker, is a long-time banker.

"We're here to make money for ourselves, our shareholders, and our clients, but everything we do also has to have an economic development component to it. We want to know that we are having an impact on job creation in the inner-city marketplace," Ferguson says.

In contrast to Rising Tide, Next Street targets established companies that have revenues between \$1 million and \$100 million, with most clients operating in the \$4-million-to-\$60-million range, Ferguson says. The bank, based on a European model, operates holistically, providing access to capital as well as advice on strategy, management, and marketing.

"There's an enormous gap between what traditional financial service providers offer and what smaller businesses actually need. And it's been going on for a decade or longer," Ferguson says. "Banks have consolidated and adopted a 'check the box' approach to credit. Denial rates for African-American and Hispanic business owners are five to six times what they are for a white-owned business."

No ownership—just brutal honesty

Walker and Ferguson, who met on a nonprofit board and dreamed up Next Street over what they call "a magical cup of coffee," aim to provide Fortune 500-level consulting and mentoring to small business owners who could not afford that quality on their own.

Their typical client is an established company—most have been around 15 or 16 years—with an experienced CEO who is willing to embrace partnership with Next Street. The bank does not take an ownership stake in its clients, but "we will be brutally honest about their status and our opinions; they have to embrace us and not ignore our advice," Ferguson says.

Companies that participate pay monthly retainers of \$15,000 to \$25,000 or work with Next Street on a project basis, in which case fees can range from \$5,000 to \$100,000. In the past three years, about 50 companies have become Next Street clients, Walker says, and two have gotten loans of \$1.5 million. Next Street has helped an additional six companies raise capital from other sources.

Next Street is looking for clients in New York and Boston. Like Rising Tide, its founders hope to expand to other cities, including Chicago, Los Angeles, San Francisco, and Miami. Companies that are minority- or female-owned and fit their revenue range, but operate outside of the Northeast, can apply for Next Street's help at its Web site.

Because there is no definitive clearinghouse listing every organization that aids entrepreneurs, there are some gulfs between small companies that need help and the groups that provide it. Here are some possibilities for entrepreneurs looking to find help with education or funding:

The official Web site of Global Entrepreneurship Week lists events sponsored by the more than 1,100 organizations that participated in GEW activities from Nov. 16-20. The events—searchable by city, state, and country—have concluded, but the groups sponsoring them may serve as local starting places for entrepreneurial resources.

The Association for Enterprise Opportunity represents microenterprise development organizations. It also has a searchable resource library.

The Boston-based Initiative for a Competitive Inner City focuses on small business development in underserved areas. (Read an interview with the founder and learn more about the group in this special report.)

Los Angeles-based Operation Hope undertakes entrepreneurial and anti-poverty initiatives around the world.

The Accion Network is a microlender and microenterprise development organization that operates around the world and in the U.S.

Boston-based InnerCity Entrepreneurs sponsors a nine-month "StreetWise MBA" program and partners with the U.S. Small Business Administration in its educational initiatives.

Goldman's 10,000 Small Businesses is planned as a five-year program modeled on the firm's 10,000 Women initiative, which helps women entrepreneurs in 18 countries around the globe.

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