

TESTIMONY
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Subcommittee on Rural Development, Entrepreneurship & Trade
Hearing on “Legislative Initiatives to Modernize SBA’s
Entrepreneurial Development Programs”
April 2, 2009

New jobs, revitalized communities, additional tax revenue, and an increased tax base are the goals of those charged with the responsibility for the economic future of this country. Growth in new and existing businesses will fuel the economic recovery needed during the trying economic times we face. Small Business Development Centers (SBDC’s) provide the guidance necessary to capture these growth opportunities.

SBDC Services:

SBDC’s work with both start up and existing businesses, providing a wide array of services. In addition to providing assistance with business plans necessary to access bank and investor capital, SBDC’s give advice on low cost marketing ideas, analyze the feasibility of new business ideas, and assist with human resource management problems. Most SBDC counselors are adept at performing a very detailed analysis of a company’s financial statements, identifying cash flow blockages, and providing solutions to inventory and accounts receivable management problems.

Because SBDC counselors are intimately aware of their community resources, they are often called on to provide referrals to skilled service providers on issues not handled by the SBDC. Training programs on business management topics are part of every SBDC’s service delivery goals. Finally, an SBDC counselor is often the ONLY confident a business owner has. They are reluctant to share business problems with employees, competitors, their banker or CPA, and often, not even their spouse.

Some states have established specialized SBDC’s that focus exclusively on government procurement, international trade assistance, and technology entrepreneurship.

Return on Investment:

During trying economic times, government must make sure it receives a reliable, consistent, and predictable return on the investment of taxpayer dollars. The SBDC program has historically provided a substantial long-term, proven, and documented return on tax dollars. For calendar year 2008, the SBDC program has returned \$2.87 for every \$1 invested by government. Some states perform much higher than the average. My home state, Illinois, produced a return of \$5.98 on every \$1 invested.

The ROI numbers mentioned above are not estimated or projected figures. Each year, the national association for SBDC’s (ASBDC) hires Dr. James Chrisman of Mississippi State University to perform the ROI analysis. Year after year, the SBDC program proves that

it is one of the wisest and most certain investments the government can make. In light of our recent, shared learning experience about the speculative nature of investments, it is comforting to find an investment that is virtually a sure thing.

Economic Impact of SBDC Services:

SBDC's are required to gather reliable data on the impact of their services on the clients they serve. The data gathered includes new jobs created, existing jobs retained, new business starts, debt and equity financing obtained, and business expansions. For certain specialized SBDC's, data is gathered on government contract dollars obtained and new export sales assisted. To guarantee the accuracy of the impact, SBDC's are required to obtain a signed statement from the client attesting to the impact.

In 2008, the Illinois SBDC programs alone produced the following documented results:

- More than 12,000 clients served
- The creation of 5,840 new jobs
- The retention of 10,500 existing jobs
- Debt and equity financing acquired in excess of \$160 million
- 370 new businesses
- \$1.1 billion in government contracts received by clients
- \$205 million of export sales assisted

For calendar year 2008, the SBDC program produced the following economic impact nationally:

- More than one million clients served
- More than 80,000 new jobs created
- Saved more than 95,000 existing jobs
- Debt and equity financing acquired in excess of \$3.5 billion
- More than 13,000 new businesses started

Additionally, SBDC clients experience more than 17 times the job growth of non-SBDC client businesses, and sales growth of 20.2% compared to 5.2% for businesses in general..

The "real" impact of SBDC services lays in the client success stories. Sofi's Stitches is a great example of how a close relationship with an SBDC can dramatically affect a company. The owner, Valerie, first visited the Illinois SBDC at Bradley University in 2001. She had started a part-time business at her kitchen table, using an old sewing machine borrowed from her grandmother. Valerie would create authentic reproductions of clothing worn in medieval times. When she had produced enough inventory, she would load it in her van and drive to a renaissance festival somewhere in the Midwest. She would sell her clothing in the parking lots of the fairs she attended.

Valerie's dream was to turn her business into a full-time endeavor. I met with Valerie dozens of times throughout the next 8 years, advising her on business plans, growth strategies, performing financial analysis, and securing student teams to perform market research for her at no cost. By 2007, her little business had grown to employ 12 workers, with sales exceeding \$1 million. She now owns permanent booths at renaissance fairs in

14 states, has a vibrant web and mail order business, and has secured three distributors in Europe.

If Valerie's story ended there, it would be a good one. It doesn't end there, however. Almost one year ago, a company that manufactured custom men's suits suddenly closed, putting 80 people out of work. The impact on the small community of 2,000 was devastating. I contacted Valerie after recalling her desire to expand into a new line of business. I suggested that perhaps she could reopen the business as a complement to her medieval clothing business. After several planning sessions with the SBDC, Valerie purchased the assets of the closed company, with the assistance of an SBA guaranteed loan. She has rehired 20 of the displaced workers and, if she receives an anticipated government contract, plans to hire 80 additional workers within the next 6 months to produce dress uniforms for the U.S. Army. Stories like Valerie's abound throughout the SBDC program.

Increased Demand For SBDC Advice:

Layoffs have sparked an interest in new business start ups. Since January 2009, SBDC's have seen a dramatic influx of new clients requesting business advice. At the same time, existing businesses in financial trouble are seeking advice on how to survive difficult times. This increase has stretched many SBDC's beyond their capacity to provide timely and complete service. To adequately serve an increased number of clients requires additional counselors and the funding to hire them.

Job Loss Crisis Among Small & Mid-sized Companies:

Our small to mid-sized clients (those with fewer than 500 employees) are laying off workers at a startling pace. Much of the national attention has focused on job losses at large companies and threatened job losses at the big three automakers. While not diminishing the importance of those difficulties, a much more severe job loss epidemic is occurring among smaller companies.

Payroll processing giant, ADP, just completed a "National Employment Report", studying a one month period from January to February 2009. They determined that the total job loss that month was 697,000. Of this total, 576,000 were from employers with fewer than 500 workers. That is a staggering 82.6% of the total jobs lost.

Because of the bleak job loss numbers detailed above, small businesses need the help of expert SBDC counselors more than ever. SBDC's can show business owners how to squeeze more cash out of their balance sheets, giving them an avenue to stem the tide of layoffs.

SBDC Funding Crisis:

For many of the past years, the funding for the SBDC program did not increase, yet demand for services and center operating costs did increase. There was an increase in funding for the SBDC program last year for the first time in several years. Most states, however, cannot operate their SBDC program with only federal funding. Most states supplement the federal dollars with state dollars, and in fact are required to do so by the

SBA. Strained state budgets have made it much more difficult to provide supplemental funding for this program. So, the proposed federal increase represents the only viable solution to place additional operating funds in the hands of individual sub-centers.

With smaller companies in more financial trouble than in recent history, now is the time to increase the capacity to assist them through their difficulties.

Proposed Modernization Initiatives:

I commend Congressman Shock and this committee on their foresight and creativity in proposing SBDC programmatic enhancements that are both appropriate and timely. The types of specialized programs for which new funding is proposed, address the needs I see every week when meeting with clients.

- a) An increase in funding level for general SBDC program operations is sorely needed. The proposed increase in funding to \$150 million in fiscal year 2010, and \$160 million in fiscal year 2011, will help SBDC's meet the increased demand for their services.
- b) Access to capital has always been one of the main obstacles for those wishing to start or expand a business. Conservative lending environments, larger than normal debt balances, and increasingly damaged credit ratings have magnified this obstacle recently. Programs that will help entrepreneurs repair damaged credit, access non-traditional financing, and education programs will enhance the ability of business owners to obtain the financing needed to survive and grow.
- c) The "greening" of America will require educating people on new ways to do business and new industries in which to start businesses. Those who provide business advice will need resources to assist these clients. The proposed program enhancement will help SBDC counselors to answer this call.
- d) With a large federally funded infrastructure program looming, the need for assistance in accessing government contracts will grow rapidly in 2009 and beyond. SBDC's have already seen a large increase in requests for advice on government procurement opportunities. Greater demand for assistance will require an expansion of capacity to provide that assistance. Additional funding for procurement advisors is sorely needed.
- e) Main street businesses are suffering, and in many communities - disappearing. Companies in the greatest financial distress require significant personal attention and time from advisors if they hope to survive. The enhancements proposed will help provide funding to develop new resources needed to increase the effectiveness and efficiency of the type of intensified business assistance needed by at-risk companies.

- f) Educational institutions are just as financially strained as many businesses today. The demand for entrepreneurship programs and curriculum has seen a dramatic rise in the past five years, yet the funding needed to meet that demand has been difficult to find. The enhancement proposed will help SBDC's and educational institutions respond to market demand for more business education programs. Certificate and mini-MBA programs are a couple of examples of the types of programs that could be created with the new funding.

Summary:

The SBDC program has proven to be one of the most impactful and fiscally responsible programs created to spur business growth. A guaranteed positive return on investment, job growth, new business creation, and expanded export sales are the results achieved by SBDC counselors every day. Enhanced programs and increased funding are vital to the continued existence of this valuable resource for our business owners.