Colorado Springs Regional Business Alliance
2013-2014 Entrepreneurship Survey

Introduction

This report represents a cumulative analysis of two surveys of the Pikes Peak region's entrepreneurial businesses conducted by the Colorado Springs Regional Business Alliance, the CSRBA entrepreneurship survey and the Synchronist existing business survey. Both surveys were conducted during the same period of time and were conducted as face-to-face interviews. Although the design of the two survey instruments are different, the results are comparable. Seventy four businesses in total were interviewed. Eleven of those seventy-four were interviewed for both surveys; however, the individual companies were not interviewed in the same session or by the same person for both surveys. Comparing the overall responses of the two surveys and, more specifically, the responses of the eleven businesses that were interviewed for both surveys, the Colorado Springs Regional Business Alliance is reasonably confident that the survey results are similar enough to be analyzed as a whole.

The first survey was conducted by Dr. Gary Tuckman through a contract with the Colorado Springs Regional Business Alliance. The survey instrument was prepared jointly by Dr. Tuckman and the business development division staff of the Regional Business Alliance. For the purpose of this survey, entrepreneurs were loosely defined and were not limited by a specific "time in business."

The second survey was conducted by the Colorado Springs Regional Business Alliance staff between October 9, 2012 and October 8, 2014 using the Synchronist existing business survey instrument. Synchronist is a nationally validated business retention survey tool developed by and licensed from Blane Canada, Ltd. For this report, entrepreneurial businesses are defined as those businesses that have been in existence for five (5) years or less. This analysis represents the entrepreneurial responses which were identified by the Synchronist data and were sorted by companies that are 1 to 5 years old.

This section is a composite of the responses from both surveys.

Entrepreneurship Sector Team:

During the later stages of the survey process, the Colorado Springs Regional Business Alliance formed its Entrepreneurship Sector Team, a diverse group of entrepreneurs and entrepreneurial program service providers from across the region. That team is providing direction, mission clarity, and a very ambitious goal toward creating an innovation climate in Colorado Springs that is world-class and that will enable Colorado Springs to organically grow those headquarter operations that the region is sorely missing.

The Entrepreneurship Sector Team is focused on fast-growth, scalable primary sector start-up businesses. Unfortunately, this clarity of definition came after the survey process was completed. The surveys were not focused solely on the fast growth entrepreneurial companies that match the definition identified by the Entrepreneurship Sector Team.

Definitions (Terminology)

- Region: For the purpose of this report, the terms Colorado Springs, the Colorado Springs Metropolitan Statistical Area (MSA), the Colorado Springs region, and the Pikes Peak region are interchangeable names for the geographic region composed of El Paso and Teller Counties.

- Primary business: A primary business is a business that annually sells 50% or more of its products or services outside of the Colorado Springs MSA.

Surveys Results

Demographics

Almost one hundred percent of the entrepreneurial businesses surveyed are independent headquarters that represent single location operations. With the exception of a few non-profits, these businesses are privately owned and are not publically traded. The companies surveyed are primary businesses, with seventy-nine percent (79%) identifying their primary market as outside of the Colorado Springs MSA. From the Synchronist survey, thirty-one percent (31%) identified the international market as their primary market, an encouraging statistic.

As expected, the entrepreneurs surveyed represent small business. Almost three-fourths have an annual revenue below $5 million and only approximately twenty percent are experiencing annual revenues above $10 million, the benchmark income stream that normally supports significant job creation. Encouragingly, almost three-fourths of the companies interviewed reported annually increasing revenues with only three percent identifying decreasing revenues. Unfortunately, the survey questions did not request enough detail to be able to identify the businesses that match the fast growth entrepreneurship profile identified by the Entrepreneurship Sector Team goal.

The employment size reported further classifies the entrepreneurial businesses as small businesses, whether or not they want to be classified that way. Most entrepreneurial businesses want to be classified as young, fast growth companies, not as small business. Their desire is to quickly grow out of the small business category and their needs correlate to supporting explosive growth. However, the U.S. Department of Commerce and the U.S. Department of Labor classify small business as a company with 500 or fewer employees. Of the businesses surveyed, over fifty percent had between one to six employees, almost one-third employed between seven and twenty individuals, and virtually all employed less than one hundred employees. By definition, these are small businesses. The companies are creating jobs. Only one of the thirty-eight businesses interviewed in the Synchronist survey identified a net loss of jobs over the last three years, down six employees. Thirty-seven report a gain of 183 jobs during that time for a net gain of 177 jobs. Almost ninety percent reported expansion plans for the next three years. The historical and anticipated growth in both revenues and employment identified by the entrepreneurial companies in these surveys signify a healthy entrepreneurial climate in the Pikes Peak region.

Facilities

Approximately three-fourths of the businesses surveyed reside in leased facilities, an expected response since most entrepreneurs are investing their equity in product development and expanding inventory, staff, and other capacity-building activities that allow the entrepreneurs to rapidly grow their business. Approximately one-fourth either own the facility or operate from home. When asked if the business has a need for more space, over half responded that there is adequate space in the facility in which they are now operating. However, approximately one-third identified a need for more space. This one-third represents businesses to which the Regional Business Alliance and its partners should offer services in order to keep the business in the community. For a number of reasons, entrepreneurial companies are easy to relocate to communities outside of the region. The entrepreneurial businesses that will soon need more operating space represent high risk for relocating outside of the region.

Based on the age, condition, and ability of the facility to meet the business' technical needs, the businesses appear to be located in adequate facilities. Over three-fourths of the companies are in facilities that are less than 25 years old and over eighty-five percent report the buildings are in good or excellent condition.

Entrepreneurs Personal Information

Of the entrepreneurs interviewed, over two-thirds (69%) had prior entrepreneurial experience, starting one or more businesses prior to the one the entrepreneur is currently operating. Over half (59%) have an exit strategy in place.

Products & Services

The responses generated by the surveys regarding product life cycle and research and development budgets are typical of what is expected of fast growth, innovative companies. The businesses' products and services are in the growth phases of the product life cycle model. Ninety-two percent (92%) of the respondents to this question identify their products or services in the emerging or growing stages of the product life cycle. This response corresponds with the typical early stage, high growth start-up company's standard profile and correlates with a healthy start-up position. Virtually all of those responding to this question have introduced new products or services in the last five years. Since these are start-up companies one to five years old, the response is no surprise, but reinforces that these are innovative companies that are bringing new products to market. Ninety-one percent of the respondents to this question are continuing their innovation activities and are planning to introduce new products to the market in a rapid time frame of two years or less.

From an R&D perspective, the companies interviewed are R&D oriented and expend a greater percentage of their budget on research and development than the average primary business. The normal response for primary industries in the United States is allocating 3% - 6% of their annual budget for R&D. Eleven percent (11%) of the entrepreneurs responding to this question are in the "typical" or "3% - 6% category", while fifty percent (50%) are spending more than the typical budget percentage and are considered heavy R&D entities. The sixty-one percent (61%) responding with 3% or greater of their budget allocated to R&D are innovative companies banking on rapid growth based on new product or service introduction. These companies fit the normal profile for fast growth entrepreneurial companies. Typical of fast growth start-ups, fifty-five percent (55%) are spending more than twenty percent of their R&D on *new product development* with almost a quarter (24%) spending more than seventy-five percent of their R&D budget on *new product development*. This response reinforces the entrepreneurs' focus on innovation and the desire to grow by bringing new products to the market. The majority of the respondents (63%) spend less than 20% of their R&D budget on *improvements to their existing products*. The vast majority (87%) of the entrepreneurs spend less than 20% of their R&D budget on *production improvement*.

Financing

The entrepreneurs' companies have been primarily financed through equity, either from the entrepreneur, family and friends, or angels. None reported receiving venture capital financing. Only eighteen percent (18%) reported debt financing and all of those were also financed through owners' equity. Over half (57%) do not feel constrained by capital, or the lack thereof. Only 27% are seeking additional equity financing, with the majority of those seeking to finance between $1 million and $5 million. A much smaller percentage (18%) are seeking debt financing, with an equal split between seeking less than $1 million versus $1 million - $5 million.

Challenges Regarding Growth Potential

Of the entrepreneurs surveyed, approximately half identified that they have challenges expanding their customer base, both locally and outside of the Pikes Peak region.

Approximately one-third (37%) of the entrepreneurs surveyed have considered relocating their businesses. Some of the entrepreneurs interpreted the question as expansion rather than relocation, citing their strategic plans to fill the Colorado Springs facilities, then expand elsewhere. Over a quarter of the responses (28%) indicted they may be required to relocate in order to secure capital. Both information technology and aerospace and defense companies identified Denver and Huntsville as possible relocation destinations.

A question on each survey sought to identify the challenges that entrepreneurs were facing regarding growing their businesses in the Colorado Springs region. Workforce availability was identified as the main challenge in both surveys. The responses differed from there. In the Synchronist survey, the entrepreneurs identified labor force availability, inadequate community business services, negative community leadership, and poor infrastructure as the major barriers to growth. Other than workforce availability, the main challenges focused on the community's ability to provide services. In the other survey, the entrepreneurs identified four main growth challenges: workforce availability, access to capital, increasing revenue and cash flow, and effective marketing. With the exception of workforce, the other challenges to growth are associated with the ability to grow cash in order to finance growth.

Throughout the surveys, entrepreneurs consistently identified the need to increase revenue, identifying revenue-increasing opportunities including sales and marketing as consistent themes.

Personnel / Workforce

With the exception of senior level sales and marketing managers, the entrepreneurs are finding adequate management talent in the Pikes Peak Region. From the non-management perspective, it is a different story. The entrepreneurs were about evenly split between having and not having difficulty finding non-management labor. Associated with the manufacturing responses, machinists, welders and assemblers are in high demand. From the information technology responses, finding programmers, cloud, software, and cyber developers is difficult. Associated with aerospace and defense and fairly unique to communities like Colorado Springs and Huntsville, Alabama that have a very significant aerospace and defense industry, project and government contracting managers are in short supply.

Forty-two percent (42%) rated the *availability* of the workforce in the Colorado Springs region as a five, six, or seven, representing the high end of the 1-7 satisfaction scale. An identical forty-two percent response came from those entrepreneurs that rated the *availability* of the labor force as a one, two, or three, the bottom portion of the satisfaction scale. This represents an even distribution between those who are satisfied and those who are not satisfied with the *availability* of the local workforce needed in order to support the companies' growth. Overall, labor force *availability* remains a concern.

Seventy-four percent (74%) of the respondents gave the *quality* of the workforce question an above medium rating (five or higher on the seven point scale). *Quality* of the workforce is not a concern with most of the respondents; however, it did show up as a major concern for twelve percent (12%) of the responses.

Eighty-one percent of the respondents gave the question of workforce *stability* a high satisfaction rating (five, six or seven). The *stability* of the workforce is a community strength.

One hundred percent (100%) of the respondents identified a high satisfaction rating for the *productivity* of the workforce. The *productivity* of the workforce question received the highest satisfaction rating of all of the workforce questions.

Community Resources

Of the community resources identified by the entrepreneurs surveyed as being of help, the seven (7) identified by over 10% of the respondents included: Colorado Springs Regional Business Alliance (29%), PTAC (13%), University of Colorado Colorado Springs (13%), the Colorado Springs Technology Incubator (11%) and its affiliated High Altitude Investors (11%), and the Small Business Development Center (11%).

Those service providers receiving the largest percentage of "High" rankings as to the *value* of assistance are High Altitude Investors, the University of Colorado Colorado Springs, the Small Business Development Center, and Middle Market Entrepreneurs, the Colorado Springs Technology Incubator, and Peak Venture Group, now organized as Peak Startup.

Community Services Satisfaction

Municipal services received both the highest and the lowest satisfaction ratings. The top four highest satisfaction ratings were fire protection, natural gas service, sewer service, and electric power service. The bottom four in satisfaction ratings were: city services, local streets and roads, public transportation, and airline passenger service. The entrepreneurs surveyed are satisfied with fire protection and the services provided by the Colorado Springs Utilities. They are not pleased with local transportation conditions.

On the survey conducted by Dr. Tuckman, of those services that received responses from 10 or more of the entrepreneurs surveyed and received an average score above a 5.0, High Altitude Investors scored the highest at an average score of 5.58, followed by the University of Colorado at Colorado Springs (5.25), and the Small Business Development Center (5.19).

Of the ten service providers receiving "High" rankings (6 or 7 on a 7 point scale in the data set above) were High Altitude Investors (67%), the Colorado Springs Technology Incubator (60%), and Peak Venture Group (55%), currently known as Peak Startup.

This question was a fill in the blank question. The entrepreneurs surveyed identified a number of areas of which they could use help from local community resources. Those additional services identified that were cited by more than 40% of the entrepreneurs were: business leads (54%), access to health insurance (43%), and marketing & sales (43%). Those identified by a minimum of 30% of the entrepreneurs include: accounting/tax advice (35%), grant availability and application (35%), legal advice (35%), mentorship & free consulting (35%), staffing & HR assistance (35%), intellectual property advice (33%), promotion & advertising (33%), and financial structuring advice (30%).

Conclusion:

According to the surveys, the typical entrepreneurial business in Colorado Springs is an independent, small, fast growth business that on average employs less than twenty people. The business leases its facility with the vast majority in a facility that is appropriately sized and technologically sufficient to support its short-term growth. Over two-thirds of the entrepreneurs have previous entrepreneurial experience.

The businesses' products and services are innovative, being categorized as in the emerging or growth phase of the product life cycle. The businesses are spending a significant amount of their revenue focused on new product development, but average or less than average of their R&D budget on product improvement or production process improvement.

The businesses were financed through equity injections from the owners, friends and family, and angel investors. None identified receiving venture capital funding. Few have received debt financing and those that do were primarily financed through equity investments, not debt financing.

The entrepreneurs identified two categories of challenges to growth: community challenges and internal challenges. The four primary community challenges were identified as workforce availability, inadequate community business services, negative community leadership, and poor public infrastructure. Internal challenges were identified as access to capital, need to increase revenue and cash flow, and an internal need for effective marketing. All of the internal challenges are associated with acquiring adequate cash flow to manage and accelerate growth.