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Lending a helping hand
Business schools reach out to small companies

by **Heather B. Hayes**
for Virginia Business
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Randy Andes tried to start a hardware store nearly 20 years ago, but he didn't even make it to the financing stage before giving up. "I had a lot of knowledge in the operations of the hardware business, but I found out real quick that there were a lot of things about the general business or starting and running a small business that I just didn't know," he says.

In the late 1990s, Andes retired as a store manager for a national hardware store and tried again to start his own business. This time, however, the resident of Timberville in Rockingham County turned to the Shenandoah Valley Small Business Development Center at James Madison University for help. The Small Business Development Center (SBDC) staff gave him information, access to university research and hands-on help. That assistance enabled him to write a business plan, perform a competitive analysis, find financing, negotiate a commercial lease and market his store to his target audience.

Randy's Do It Best Hardware Store opened in Timberville in 2001 and has been thriving ever since. The store has an 8,000-square-foot showroom, nine employees and annual growth rates in the double digits. Andes credits the SBDC with helping him to avoid costly mistakes and get under way quickly. "They prepared me for the questions that I wasn't expecting," he says. Andes expects to turn to the JMU program for advice again when he crafts a five-year strategic plan next year. "The help they gave me made all the difference." Luckily, such help isn't hard to find. Business schools increasingly are offering programs designed to tip the odds in favor of would-be business owners. SBDCs, which are found at five Virginia universities and 12 community colleges, are among the oldest programs. But there also are other, more niche-focused offerings, including the Franchise Center at Virginia Union University, the Virginia Family and Private Business Forum at Virginia Commonwealth University and the Business Technology Center at Virginia Tech.



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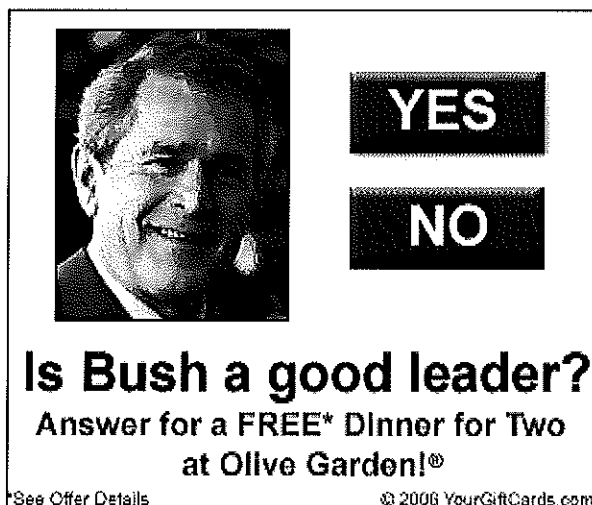
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Franchised businesses operate more than 767,000 establishments in the United States, employ nearly 10 million people in more than 800 industries and account for more than \$600 billion of economic output, according to a study by the International Franchisor Association Educational Foundation.

Still, the lack of easily available information about franchises has resulted in plenty of confusion, misunderstanding and financial losses for potential franchisors and franchisees, Connatser says. "The benefits to owning a franchise are that it is a proven model and they are typically a lot more successful than a normal startup, but at the same time, a lot of people get in and realize that it's not like they thought it was going to be."

The Franchise Center helps potential franchisees by providing advice on starting and running franchises. The center also offers the Franchise Management Certification Program. Here, successful franchisors and professionals in law, accounting, risk management, marketing and other fields answer questions such as: Is franchising right for you? How do you pick the right franchise? How do you raise capital? How do you turn your business into a franchise operation?

Gail Johnson, president of Rain-bow Station Child Care Center, a Richmond-based company offering early education and after-school care, agrees that business owners — especially potential franchisors — are in desperate need of this type of information. "You feel so lost," she says. From the time she decided to turn her business into a franchise operation, it took four years for her first franchise to open its doors. She has 12 franchises in operation, with two more on the way. "You can wander down a lot of rabbit trails and spend a lot of money while you're trying to figure it all out."

The Franchise Center also provides Virginia Union's business school with a new focus area. It is adding a franchise management class and incorporating study of the franchise model into longstanding classes on entrepreneurship, marketing and finance. "It is a way for us to create a greater awareness among our students that there are other career opportunities out there," Connatser says.

Family-owned businesses are another important employer, responsible for 78 percent of new jobs in the United States. But 70 percent of those businesses fail before the second generation takes over. The biggest reason for the high failure rate is not competition, operational challenges or low profits but the inability of families to plan for succession. That stark reality compelled VCU to start the Virginia Family and Private Business Forum in 1995. "If we can work with them to help them plan for who's going to take over, to truly understand the challenges they're going to face, and get the younger generation involved much earlier in the process, then the possibility of a successful transition is greatly enhanced," says Gallagher.

The program, partly funded by First Market Bank, LeClair Ryan and RSM McGladrey, provides counseling and holds seminars on issues such as succession, strategic planning and family conflicts. One program participant is Joseph Kelleher, president of Kelleher Corp., a family-owned heating and cooling company that he started in 1968 with his parents and brother, Pat. Kelleher says that the program has helped his family develop a strategy for gradual transfer of leadership. The company also has an oversight structure that includes a family council and a board of directors made up of family and non-family members.

"To be honest, before I got involved with this, I didn't even know what the issues were for passing the business down to the next generation — all we had was a buy-sell agreement," Kelleher says, noting that three of his brother's children are involved in the business. "But we now have an understanding to do a transfer plan that was reached through a consensus with all three generations during our family council meetings, and we're working out the details now. It's a much better way of ensuring that everybody is aware and understands the way the process works and the reasons for it."

Business school officials believe that demand for small-business assistance will continue to grow as entrepreneurs face an increasingly complex regulatory and tax environment. Daugherty says the greatest benefit that these programs offer may not be information but objectivity. "If we can't find any evidence that something is going to work, we will say so," he says. "It's always very difficult to tell someone that their baby is not beautiful, but we'd rather do that than see them lose their shirt with a bad business idea."



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Why are b-schools interested in providing free advice to small businesses? Some of the motivation is clearly altruistic — part of a larger, historic mission to reach out to the local community. But the push to help small businesses is a relatively new trend, prompted in part by research conducted in the late 1980s by R.G. Cooper, a marketing professor at McMaster University in Hamilton, Ontario. In investigating why some new companies are successful and others are not, Cooper concluded that "predevelopment" effort was a critical factor. Companies that did a poor job of researching their market and finding the right technology succeeded just 30 percent of the time. Those that did a moderately diligent job on their homework pushed their chances for success to nearly 70 percent, while those that did a superb job succeeded nearly 80 percent of the time.

"We all saw those numbers. It became fairly obvious that either we help people do that initial homework or we keep new business development at a 30 percent success rate," says Dick Daugherty, director of the Business Technology Center, a part of the Pamplin College of Business at Virginia Tech.

The small-business trend, however, is also motivated by self-interest. "We're trying to ensure that our graduates have good jobs when they graduate," says Chuck Gallagher, director of the Virginia Family and Private Business Forum.

Of course, community-based assistance for small business owners has long been available through programs sponsored by local chambers of commerce, community colleges and SCORE (the Service Corps of Retired Executives). But programs linked with universities offer a different level of aid, including access to the latest research and the ability to interact with faculty members and students. Businesses can tap student power, so to speak.

For example, when a Staunton restaurateur considered opening a second location, the SBDC at JMU suggested that his business could serve as the subject of a semester-long student project. The owner met with a class of 25 students studying entrepreneurship. He discussed the details of his business and challenged the students to determine the feasibility of starting the second restaurant. The students were divided into five teams to tackle the project. Each team conducted a survey, studied the competition, evaluated menus and pricing, and developed marketing strategies. The students then created presentations detailing their findings.

"The business owner walked away with five incredibly well-researched plans from which he could pick and choose and make his decision, and the students got some invaluable real-world business experience," says Henry Reeves, director of the SBDC at the university. "It's a win-win for everyone involved."

The Business Technology Center calls upon Virginia Tech's wide-ranging expertise to help its clients, who primarily are technology-based companies and firms trying to decide how to utilize technology in their day-to-day operations. One recent client was an inventor trying to start a business around a new hearing device. Daugherty sent him to Tech's Industrial Engineering Department for help in building a prototype. Tech experts also helped the owner of a budding software company identify a market area that would steer his product away from a head-to-head competition with IBM.

"We helped him find about 50 customers in different market segments that could use his product and, to date, he's going gangbusters," Daugherty says.

In most cases, business assistance programs are designed to deal with the needs of would-be entrepreneurs. They typically provide information on creating business plans, conducting market analysis, finding financing, and setting up accounting systems and marketing strategies.

"An awful lot of what we do is helping companies whittle down their big 10,000-foot-high idea into a few really focused nuggets so they can communicate their business idea to financial institutions and to their potential customers," says Jody Keenan, the director for the Virginia SBDC Network, which includes programs at George Mason University, Longwood University, Radford University and the University of Mary Washington in addition to JMU.

A growing number of business schools, however, are using their outreach programs to explore overlooked niche areas in the small-business market. Virginia Union University's Franchise Center, opened just a year ago, offers help on the legal, financial and personal complexities of buying, creating and managing franchise businesses.

Larry Connatser, an associate professor of entrepreneurial studies at the Sydney Lewis School of Business at Virginia Union, is the center's executive director. He notes that franchises have had a bit of a stigma in traditional academic circles because the business model tends to conjure up images of fast food and low-paying jobs. As a result, little study has been devoted to franchise operations. But franchising has become too prevalent to ignore, he says.