Downtown Entrepreneurship in 2018

The Wisconsin Main Street program conducts regular surveys of participant communities to understand the small business climate across the state. Wisconsin Main Street programs include 34 communities in a wide variety of sizes, ranging from Cities and Villages with under 1,000 in population to urban neighborhoods in Green Bay and Milwaukee. In addition to quantifying the number and pattern of business openings and closures in downtown districts, periodic surveys of directors and business owners provide additional insights into opportunities, challenges and decision factors that lead entrepreneurs to make location decisions regarding their business. Past studies have examined the role that women entrepreneurs play in the community, as well as examining the market share of businesses, employee and spending in downtown districts relative to their respective cities.

This 2018 survey covered business opening and closing activity in the 2016-2018 period within Wisconsin Main Streets, exploring entrepreneur demographics and factors influencing business decisions related to startup timing, lease structure and industry trends. Key findings include:

- Business starts have increased year over year each of the three years in communities of all sizes and geographies.
- Service businesses remain dominant, although retail business activity has also increased.
- Non-traditional or multiple-sector businesses represent an increasing share of new businesses (i.e. businesses that combine multiple revenue streams or offer both retail goods and services)
- Women remain prominent in downtown entrepreneurship, representing more than 50 percent of startups. Women currently own or manage 35 percent of all Wisconsin Main Street businesses.
- First-time entrepreneurs represent the bulk of new business activity (2/3 of new businesses), but second-career entrepreneurs are also a key group of downtown business owners (1/3 of startups)
- Property availability generally, and the availability of for-lease versus for-sale arrangements in some communities, seem to influence the type of entrepreneurs and businesses that open. The amount of capital required to purchase properties, and/or open improvement-intensive businesses such as restaurant or entertainment establishments may impact the pool of entrepreneurs available in some areas.

Overall Startup Activity

In the past three years, a total of 478 new businesses opened their doors in Wisconsin's 34 Main Street communities. These businesses collectively represent 1,444 employees working in Main Street districts. On a net basis, 340 new businesses were added in these communities during the three-year period, after factoring in the 18 percent of study businesses that closed or relocated in this time as well as other existing business closures. This represents a 10 percent increase in the number of businesses operating within Wisconsin Main Street districts over three years.

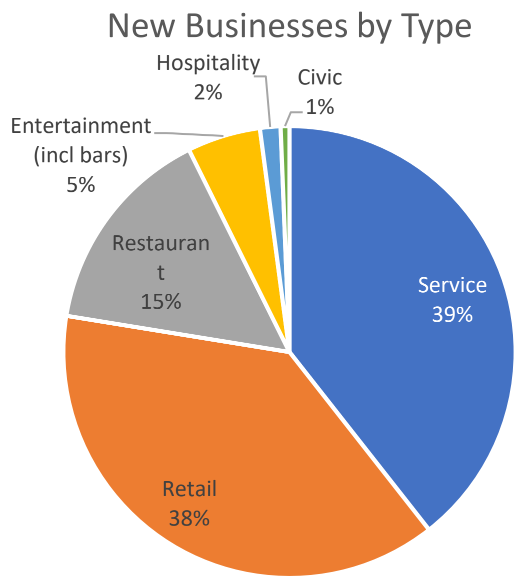
Entrepreneurship Overview

New business starts have increased year over year for each of the past three years, growing from 128 in 2016 to 144 in 2017 and 206 in 2018. This is likely a reflection of broader continued economic growth and increasing capital availability across many geographies.

The crop of new businesses featured 188 new service businesses, the largest single category of use. These are split evenly between personal services and professional services. Personal businesses were dominated by health, beauty and fitness offerings, while professional services featured a complement of insurance and real estate providers. A third category of service businesses offering rental/hosting of meeting and event space has gained prominence, responsible for 27 of the new service businesses.

Although the national narrative states that retail is dead, the second largest share of new downtown businesses are retail establishments (38%). Included in this number are traditional clothing and accessory shops (20%), gift and specialty stores (15%), home furnishings and accessories (10%), food and wine stores (9%), hobby/toy/craft businesses (7%) and used merchandise (7%) – although it should be noted that the used category now includes not just consignment clothing but repurposed and refinished home goods stores, which is a growing industry. However, it is important to keep in mind that retail businesses can be anything but 'traditional' as retailers offer additional services and experiences ranging from craft nights, trunk shows and fashion shows to makeovers, personal shopping and customizable items.

While it is too early to predict the long-term sustainability of these new businesses, 82% are still in business within their respective Main Street district as of January 2019, with an additional 6 percent successfully relocating or expanding to non-downtown spaces during the period. The remaining 12 percent closed or sold and are no longer operating. Not surprisingly, the closure rate was higher for older businesses, with 81 percent of businesses opened in 2016 or below still open, and more than 90 percent of those opened more recently.



Startup Profile: The Boardwalk, Rice Lake

The Boardwalk, which opened in downtown Rice Lake in 2018 by Peter and Rachel Metzger is billed as a tabletop café. The business combines traditional retail sales of board and card games with a café space offering food and beverages. The business also offers numerous events and game nights to bring customers from different walks of life together. While gaming businesses are not new, The Boardwalk offers more diverse retail lines and emphasizes events and dining in addition to gaming activities.

Entrepreneur Profile

While the type of new businesses attracted to downtown tells us much about the spending habits of local consumers, the ownership profile of the entrepreneurs behind these efforts is equally compelling.

Downtown entrepreneurs include a significant share of women business owners, attracting both first-time business owners and second-career entrepreneurs, along with more experienced owners. While the 2016 women business study identified 39 percent of all downtown business owners as female (statewide average), more than half of businesses opening in the past three years were owned or managed by women. The figure would be even higher taking into account the additional 12 percent of businesses operated as partnerships or by couples. By the number of business establishments, the ownership profile is as follows (may total more than 478 businesses if owners identify in multiple categories):

- 241 women-owned businesses
- 101 jointly owned businesses (couples/partners, married or otherwise)
- 4 veteran-owned businesses
- 35 minority owned businesses
- 200 first-time entrepreneurs
- 97 second-career entrepreneurs

While not an overall large number of businesses, the 7% minority ownership is roughly equivalent to the statewide minority small business percentage (9% per SBA 2018).

Startup Profile: The Exchange, De Pere

Couple Sonny and Shawn Hennessy restored a historic stable in downtown De Pere into The Exchange Coffee, Mercantile and Eatery. The Exchange boasts signature coffee roasts, a café featuring locally grown food, a mercantile offering artisan home goods and accessories and a salon/barber shop next door. Upstairs are two AirBnB units which offer amenities catering to out of town and often big-city visitors. Additionally, a portion of the profits supports the Eye Heart World charity which fights sex trafficking. The business highlights several trends – not only does it combine multiple revenue streams and embrace a social cause, but Sonny and Shawn are second-career entrepreneurs, already running a successful church in town. Too, this project could not have been accomplished by many, as the cost of renovation and conversion to a multi-use space was nearly $250,000.

Geographic Comparison

Due to the large number of rural districts in the Main Street program, rural startup businesses outnumbered urban businesses in the study by 50 percent (rural communities are designated using the USDA definition of under 50,000 population and not adjacent to a metro area). Logically, there are few differences in the nature of startup activity between urban and rural districts. Primarily, the customer base and number of available storefronts in downtown districts is significantly smaller in most rural areas, limiting the number of new business opportunities within a given district. However, overall business startup activity per capita as well as the breakdown of business types was consistent among communities. One notable exception to this rule were retail shops, which were significantly more common startup ventures in urban areas (more than half of the total new retailers were in urban districts). A second trend was the increased likelihood of property ownership in rural areas (73% of all new rural entrepreneurs own), with lower property values making ownership a more feasible prospect.

New Business Logistics

This survey included a previously unasked question regarding the length of time it took for new businesses to pass from the planning phase (when a business first contacted local representatives) and occupancy/opening. While not all businesses engaged local stakeholders prior to opening, this information was available for half of all reported new businesses. While the average business tackled the multiple processes (permitting, buildout, financing) required to open in a 4-month period, 7 percent took more than one year, and 18 percent took between six months and one year. Not surprisingly, entertainment and restaurant concepts took longer to open, likely because of more extensive tenant improvements and licensing. Entertainment uses took an average of 8 months, while restaurants took 5 months, in contrast to the 3-month average for retail and service uses.

Not surprisingly for new businesses, a majority (72%) rent rather than own their spaces. However, entertainment and restaurant businesses were significantly more likely to own rather than rent (46% of each are owned facilities), another implication of the high cost of renovations required. Second career entrepreneurs are also more likely to own their new business location (44% do), as these entrepreneurs are more likely to have additional capital and to see the property as an investment opportunity.

Startup Profile: Pidder Padder Paws

While Pidder Padder Paws is not a startup, it is a new business to downtown Watertown. Formerly located in an industrial district on the edge of town, the business had wanted to relocate downtown for some time, but a lack of suitable improved spaces available for lease was a limiting factor. It wasn't until the purchase and renovation of the Schempf building that owners Lisa and Larry Falk were able to relocate the business downtown and implement their expansion plan, improving their retail mix and expanding service offerings while attracting new customers with their increased streetfront visibility.

While property ownership is generally a positive trend, providing cost efficiencies (such as the ability to live above one's business) and increasing financial stability by minimizing rent increases and/or introducing additional revenue streams, the tendency toward ownership in rural areas may not always be by choice.

In many small communities, the availability of suitable properties for new business ventures is limited. Older properties in need of maintenance coupled with cash-strapped property owners often require new rental tenants to make significant investments in space upgrades, introducing both cost and uncertainty into the opening process. Where possible, purchasing a property creates future upside returns from such investments. Additionally, new entrepreneurs, especially those in rural areas, may have limited financing options, with lenders requiring collateral (in the way of property) against business capital loans. For the average entrepreneur with limited capital, this makes property ownership a requirement for many types of businesses which may require custom tenant improvements.

Local Impact

While the number of startups and/or sustainability of locally-owned businesses are oft-cited measures of local prosperity, the true economic impact of these businesses is often overlooked. Locally-owned businesses generate revenue for property owners, business service providers and contribute to the local tax base. According to 2017 data from the Brandow Company, a typical 2,000 square foot retail business spends \$8,000-\$10,000 annually on (non-rent, non-salary) goods and services that can be purchased locally. These businesses also create a daytime population base which supports restaurant and retail spending. Although individually they employ only a handful of individuals, the collective impact is significant, with Wisconsin downtowns accommodating 16 percent of all business entities within a given municipality. A 2012 employee spending survey by the International Council of Shopping Centers, determined that the average rural downtown employee spends an average of \$119 per week on retail and restaurant spending, including 23% on food and beverage, 20% on entertainment, and 33% on services, with the remainder as retail purchases. Therefore, the average 2-5-employee downtown business contributes \$20,000-\$40,000 annually in direct retail spending within the local economy, in addition to rent, taxes, utilities and other variable spending. This also does not include the higher spending multipliers typically applied to locally owned establishments, which typically expend a larger percentage of revenues locally than corporately owned businesses.