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# COGENT

CONSULTING



## Access to Capital is Complicated for Small Businesses in Chicago

A REPORT COMMISSIONED BY THE FUND FOR  
EQUITABLE BUSINESS GROWTH

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## Executive Summary

In early spring 2023, the Fund for Equitable Business Growth engaged Cogent Consulting PBC to uncover the challenges surrounding access to capital for small business owners in Chicago, especially under-resourced owners, including women, people of color, and new immigrants. The aim was to gather data and feedback from key stakeholders, including Business Service Organizations, funders, and capital providers to identify gaps and barriers in the capital access landscape.

The Chicago Community Trust joined other institutional funders to create the Fund for Equitable Business Growth (FEBG) and advance their shared mission to reduce the Chicago region's racial and ethnic wealth gap. FEBG was created to bring funders together in support of a shared mission to reduce Chicago's racial and ethnic wealth gap.

Business Service Organizations (BSOs) offer technical support to entrepreneurs at all phases of their business life cycles. They are often community-based organizations. Support often comes in the form of classroom sessions, one-on-one counseling, and mentoring. That can include basic financial skills and financial statement creation, bookkeeping, marketing, IT training, scaling a business, and others.

### METHODOLOGY

To achieve the research objectives, Cogent employed a multi-faceted methodology. This included researching local and national models, surveying four foundations, and conducting 17 interviews with Business Support Organizations, capital providers, and business owners. This report is informed by past small business landscape exploration work of Cogent Consulting, PBC, and previous Chicago-based capital sources research by Next Street.

### OVERVIEW

The report narrative provides a deeper analysis of the three intersecting finding areas summarized below, each with two recommendations to move forward in Chicago.

#### Finding Area 1

##### CAPITAL ACCESS IS IMPROVING BUT STILL DIFFICULT FOR BIPOC LED SMALL BUSINESSES; PROMISING LOCAL SOLUTIONS ARE BEING TESTED

1. Within the Chicago business services network there are effective capital providers for small businesses. Those most accessible tend to partner with Business Support Organizations or offer BSO services themselves, some with important industry-specific expertise.
2. Interviewees named ten existing sources of capital as strong partners to BSOs and effective with BSO-served small businesses: venture capital funds, Community Development

Financial Institutions (CDFIs), and small regional banks. Many of these partners have plans to expand.

3. BSOs are working to build stronger partnerships with banks and Community Development Financial Institutions (CDFIs) or are exploring becoming CDFIs themselves. These partnerships were strengthened during the pandemic as they worked together to deploy available federal dollars.
4. New, nontraditional financing models are underway, such as revenue-based loans and capital targeted to micro-businesses<sup>1</sup>.
5. Many entrepreneurs seeking capital are not ready and get turned away by lenders. Capital providers report that these entrepreneurs need BSO help first to complete a business and financial plan, and to build the key business services they need to operate. A few BSOs and business consultants provide direct technical assistance for expanding their access to capital.
6. Small businesses need small amounts of capital<sup>2</sup> for longer time frames than is customary in banking. This need can be difficult as many banks do not make small loans, nor are they interested in businesses that do not have sufficient collateral. New models are being tested to address this challenge.

## RECOMMENDATIONS

1. Strengthen existing and emerging alternative capital sources; solidify their relationships with BSOs and national organizations that fill gaps.
2. Address small businesses' lack of capital readiness by adding services focused on financial and capital preparedness.

## Finding Area 2

### UNDERSTANDING AN ENTREPRENEUR'S PERSPECTIVE IS KEY TO ENSURING INCLUSIVE SMALL BUSINESS SERVICES & EFFECTIVE CAPITAL ACCESS

1. Owners of smaller businesses need assistance to unlock capital.
  - a. These businesses range from sole proprietorships managed by one person to around 14 employees, typically generating \$250,000 to \$500,000 annually.
  - b. Most often these businesses are restaurants, hair salons, barbershops, auto shops, retail stores, etc. Their local economy-sustaining role is critical to neighborhood stability and connectivity.

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<sup>1</sup> Micro-businesses are businesses operated by less than 10 people and earn less than \$250,000 in annual revenue.

<sup>2</sup> For the purposes of this report, small amounts of capital are defined as \$50,000 or less.

2. Many owners are not ready to seek capital and are turned away as they lack a business and financial plan or collateral expected by lenders.
3. Negative past experiences with banks and false “experts” reduce owners’ willingness to trust, increasing wasted effort when they attempt to self-finance or use instant lenders<sup>3</sup>.
4. Most business owners are first-generation owners who do not have easy-to-access advisors that others find in their family and friends networks. At the same time, owners find it hard to find the help they need and may not know what they need.
5. Small business owners struggle to find capital independently. Many business owners exhaust personal resources before considering external funding options. As a result, they often find themselves needing credit card/debt consolidation, or other resources, impairing their readiness for additional capital.

### RECOMMENDATIONS

1. Add systems navigators that can provide a culturally respectful roadmap to reduce the barriers that small business owners face in accessing critical support.
2. Grow the number of business coaches and advisors assigned to businesses long term.

### Finding Area 3

#### BUSINESS SERVICES IN CHICAGO ARE ROBUST AND ARE INCREASINGLY COORDINATING THEIR SERVICES AND CONNECTIONS TO CAPITAL; HOWEVER, THERE ARE A FEW SPECIFIC GAPS

1. The Chicago BSO network is robust, and the demand for their services is strong. BSO services are crucial to small businesses.
2. Trust is a key factor for effectiveness. Building trust with entrepreneurs, especially members of historically marginalized groups, takes time, and it is hard to transfer that trust to others who can offer a needed service.
3. New service strategies are being tested in response to recognized needs, i.e., shared backroom services, communities-of-practice-peer learning groups, industry or critical skills specialization, etc. These need continued support and expansion.
4. There are missing services and a few identified gaps.
  - a. There is not an easy-to-use, up-to-date resource guide detailing BSOs and other key services for small businesses.

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<sup>3</sup> Instant lenders are characterized by their promise to fund a loan with no collateral, no credit check and often within 24-48 hours.

- b. An organized, easy-to-access means of connecting trusted advisors to businesses for long-term advisory roles does not exist.
  - c. Affordable, culturally respectful, and quality business-to-business services are hard to find. The most often mentioned business-to-business services were:
    - i. Accounting and legal services
    - ii. General contractors and trade professionals
    - iii. Technology installation and software application services
5. Collaboration work by the Fund for Equitable Business Growth is making a difference and needs more time and a few tweaks, including, but not limited to:
- a. Multi-year funding to incentivize deeper engagement
  - b. More expert collaboration facilitators assigned to each working group
  - c. More knowledge of who does what and ways to make referrals “sticky”

## RECOMMENDATIONS

1. Improve access to easy-to-use and up-to-date centralized information about BSO services for BSOs and small businesses seeking help.
2. Expand support for new, needed services being tested by BSOs and capital providers, and facilitate their integration into the BSO network.

## THE COGENT TAKE

There is positive momentum in Chicago and a collective will to address the barriers under-resourced owners, including women, people of color, and new immigrants, face in accessing capital. Targeted intervention, collaboration, and additional surgical funding will make a big difference.