

Delaware's Small Business Landscape

February 2018

Prepared by

Troy Mix, Christopher Kelly, and Sean O'Neill

With research assistance from

Hannah Barr, Nicholas Konzelman, and Gerard Weir

Institute for Public Administration

School of Public Policy & Administration

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University of Delaware



In coordination with

Division of Small Business

Department of State

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Preface

As the director of the University of Delaware's Institute for Public Administration (IPA), I am pleased to present *Delaware's Small Business Landscape*. Funded by the Division of Small Business within Delaware's Department of State, this report provides a snapshot of small business activity in Delaware, an inventory of existing small business support services provided by public and non-profit organizations in Delaware, and an initial assessment of potential policy and program opportunities the state could pursue as part of future small business and economic development efforts.

IPA is committed to supporting the state's efforts to enhance economic development opportunities for all Delaware residents and the communities they call home. It is my sincere hope that this study sets the table for continued planning and policy development efforts aimed at enhancing Delaware's ability to support the retention and expansion of existing businesses and the development of new small businesses.

Jerome R. Lewis, Ph.D.

Director, Institute for Public Administration

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The project team appreciates the insights provided on best practices for economic development by Ellen Harpel of Business Development Advisors, Erik Pages of EntreWorks Consulting, Kenneth Poole of the Center for Regional Economic Competitiveness, and Mark White of George Mason University's Center for Regional Analysis. Additionally, the authors are very thankful for the research assistance provided by IPA Undergraduate Public Administration Fellows Hannah Barr, Nicholas Konzelman, and Gerard Weir. Lastly, the report design and editing assistance provided by IPA staff members Lisa Moreland and Sarah Pragg are also greatly appreciated. In short, this project depended upon the dedicated efforts of numerous contributors committed to assisting the state in its efforts to enhance Delaware's small business and economic development ecosystem.

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Contents

Executive Summary.....	1
Small Business Snapshot.....	3
Employment by Firm Size, Industry, and Geography.....	4
Employment by Firm Size and Industry.....	4
Nonemployer Firms.....	7
Local Business Patterns.....	8
Business Dynamics.....	18
Small Business Owners.....	26
Earnings.....	26
Business Owner Characteristics.....	26
Assessment of Small Business Climate.....	28
Finance and Public Policy.....	28
Tax and Policy Rankings.....	29
Entrepreneurship.....	30
Conclusions.....	32
Inventory of Small Business Services in Delaware.....	34
Methodology.....	35
Overview of Findings.....	36
State Government Entities.....	37
Non-Governmental Organizations.....	38
Federal Government Entities.....	40
Local Government Entities.....	41
Key Issues.....	42
What Small Business Assistance Efforts Work?.....	44
Rationale for Small Business Development Programming.....	45
What Works, Broadly?.....	46
Findings from a Review of Peer Economic Development Programs.....	46
Program Overload.....	46
Money Is Key.....	47
Workforce Matters.....	47
Consider Place.....	47
Strategic Opportunities for Consideration.....	48
Appendix. Business and Economic Development Programs and Resource Materials.....	51

List of Tables

Table 1. Percent of private employment by enterprise size class for Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and the United States, 2014.....	5
Table 2. Percent of private payroll by enterprise size class for Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and the United States, 2014.....	5
Table 3. Average annual wage by enterprise size class for Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and the United States, 2014	6
Table 4. Total employment and percent of employment by enterprise size class for Delaware, by industry sector, 2014	7
Table 5. Number of nonemployer firms and share of total firm sales and receipts for Delaware, its counties, and the United States, 2007, 2012, and 2015	8
Table 6. Employment by firm size class for New Castle, Kent, and Sussex Counties, Delaware, 2016	9
Table 7. Number and share of establishments by New Castle County ZIP Codes and establishment size classes, 2015	10
Table 8. Number and share of establishments by Kent County ZIP Codes and establishment size classes, 2015	12
Table 9. Number and share of establishments by Sussex County ZIP Codes and establishment size classes, 2015	13
Table 10. Nonemployer firms and receipts in New Castle County, Delaware, 2015	15
Table 11. Nonemployer firms and receipts in Kent County, Delaware, 2015	16
Table 12. Nonemployer firms and receipts in Sussex County, Delaware, 2015	17
Table 13. Delaware job creation and destruction statistics, 1977–2014.	22
Table 14. Delaware job creation and destruction statistics by firm size, 1977–2014.....	23
Table 15. Delaware job creation and destruction statistics by firm size, 2004–2014.....	24
Table 16. Delaware job creation and destruction statistics by firm size, 2011–2014.....	25
Table 17. Median earnings in past 12 months by class of worker, 2011–2015	26
Table 18. Minority, veteran, and women business owner characteristics, 2012.....	27
Table 19. Programs and services by service provider classification and program type	36

List of Figures

Figure 1. Delaware private employment by firm size, 1999–2016.....	18
Figure 2. New Castle County private employment by firm size, 1999–2016	19
Figure 3. Kent County private employment by firm size, 1999–2016	20
Figure 4. Sussex County private employment by firm size, 1999–2016.....	21

Executive Summary

At the request of the Delaware Department of State's Division of Small Business (Division), the University of Delaware's Institute for Public Administration (IPA) completed a landscape analysis of small business conditions, support services, and policy options for consideration as the state redesigns its approach to economic development.

Three main tasks were completed for this effort:

1. Analyzing small business conditions in Delaware from perspectives including the sizes, industries, ownership characteristics, and locations of businesses, and the general policy climate that frames the State's small business development efforts.
2. Producing an inventory of support services and programs across the state that are available to small businesses, with programs classified by service provider type and type of assistance.
3. Conducting an assessment of potential policy and program opportunities the state could pursue as part of future small business and economic development efforts.

Delaware maintains a significant corporate legacy, with large enterprises accounting for a greater share of the state's employment than they do nationally or in neighboring states. This condition does vary by geography within Delaware though, as small businesses with fewer than 50 employees account for a substantially larger share of the economic activity in Kent and Sussex Counties than they do in New Castle County. Minority- and women-owned businesses are underrepresented in Delaware relative to national averages, while veteran-owned businesses account for a greater share of firms and employees in Delaware than they do nationally.

The inventory of small business support services and programs identified 73 service providers offering approximately 275 programs, with ten state agencies in addition to the Division of Small Business offering support services—the Departments of Agriculture, Finance, Labor, Natural Resources and Environmental Control, State, and Transportation; the Division of Libraries; the Offices of State Planning Coordination and Management and Budget; and the State Housing Authority. While there are many programs available to Delaware businesses, the lack of an authoritative compendium of resources may reduce the awareness of and use of these services. Further, the lack of a central coordinating agency may contribute to duplication of efforts and waste the resources of specialized service providers on basic client intake. The sheer number of programs may actually limit the number of businesses eligible for assistance as programs are often established for a particular need that may or may not prove enduring for a large number of small businesses.

In light of the business snapshot, program inventory, and economic development policy research completed for this effort, IPA developed an initial assessment of strategic opportunities that the Division could consider pursuing as its strategic planning process continues.

Initial strategic opportunities for Division consideration include:

- Compiling, curating, and communicating a compendium of small business service providers and technical assistance programs available in Delaware.
- Acting as a coordinator of small business service providers and programs in Delaware to avoid duplication of efforts and maximize responsiveness to small business needs.
- Streamlining small business incentive program offerings and application requirements.
- Considering additional programming to address the particular needs and opportunities associated with young small businesses seeking to expand; minority-, veteran-, and women-owned businesses; and segments of the workforce that are challenging to place in employment opportunities.
- Adopting and encouraging the development and refinement of distinct, place- and region-based strategies for economic development efforts in Delaware.
- Developing logic models that connect Division goals and programs and identifying metrics that will be used to track and evaluate program outputs and outcomes.
- Identifying and tracking a suite of economic development performance indicators and data sources that can be used for communicating about general economic development progress and evaluating specific programs and expenditures, including incentive programs.

Small Business Snapshot

Delaware's small businesses make significant economic and cultural contributions statewide. A sizable portion of Delaware's job opportunities are provided by small businesses, and the small businesses of today can be the large enterprises of tomorrow. For many Delaware residents, small business ownership offers an attractive opportunity to provide for family, develop entrepreneurial skills, and appreciate social and economic mobility. Small businesses make contributions that extend beyond the financial wellbeing of employees and owners. From Claymont to Delmar, small businesses dot Delaware's urban and rural landscapes—anchoring communities, expressing heritage, and presenting a unique character attractive to long-time residents, new arrivals, and visitors alike.

But just how significant are the contributions of small businesses in Delaware, and what factors influence their ability to play an even more significant role in the state's vitality? To borrow a line from the economist's playbook, "it depends." The "it depends" mantra applies to many discussions about small business impacts at the national and state levels. For example, the U.S. Small Business Administration's (SBA) "Small Business Profile for Delaware" reports that in 2014 small businesses accounted for 98 percent of all Delaware businesses and 45% of all Delaware employees.¹ To add context to these figures, just over 75% of these SBA-reported small businesses have no paid employees, and the employment figure includes firms as large as 499 employees—a threshold that stretches the common understanding of what constitutes a small business.

For policymakers, a generic understanding of small business activity provides little guidance on why, if, how, and where to direct public resources in support of small businesses. This section details the contributions and characteristics of Delaware's small businesses and their owners, while also assessing the general climate for small business activity in Delaware. The analysis is structured in five sub-sections: Employment by Firm Size, Industry, and Geography; Business Dynamics; Small Business Owners; Assessment of Small Business Climate; and Conclusions.

¹ U.S. Small Business Administration, Office of Advocacy. (2017). "Delaware Small Business Profile," https://www.sba.gov/sites/default/files/advocacy/Delaware_1.pdf.

Key findings from this analysis include:

- Enterprises with 5,000 or more employees account for nearly 41 percent of private employment and 47.7 percent of payroll in Delaware, rates considerably higher than those found at the national level and among states in the region.
- Delaware's industries vary considerably in terms of composition of large and small businesses, with the Finance and Insurance and Management of Companies and Enterprises sectors tending to be among the largest businesses in Delaware, and the Other Services, Construction, Real Estate, and Accommodation and Food Services sectors tending to be smaller businesses.
- Small businesses with fewer than 50 employees make up a substantially larger share of the economic activity in Kent and Sussex Counties than they do in New Castle County.
- Delaware's job creation and destruction statistics indicate cyclical performance histories by firm size, suggesting there is value in having a diverse distribution of employment across companies of various sizes.
- Minority- and women-owned businesses in Delaware account for a smaller share of total employer firms and employees than they do nationally.
- Veteran-owned businesses in Delaware account for a higher share of total employees than minority-owned businesses, while also accounting for a higher share of total receipts than either minority- or women-owned businesses.

Employment by Firm Size, Industry, and Geography

Employment by Firm Size and Industry

According to the U.S. Census Bureau's 2014 Statistics of U.S. Businesses (SUSB), private employment in Delaware totaled 391,636.² SUSB datasets tabulate employment by enterprise size class. An enterprise is a group of "one or more establishments under common ownership or control," and an establishment is "a single physical location where business transactions take place."³ Enterprise size class membership is determined based on the number of employees.

As shown in Table 1, Delaware's employment distribution bears out the state's corporate reputation, with employment more concentrated in the 5,000-or-more enterprise size class than it is for the United States and states in the surrounding region. If Delaware shared the national distribution of employment by enterprise size class, then nearly 27,000 fewer employees would work for enterprises with more than 5,000 employees and approximately 2,600 more employees would work for enterprises with fewer than 50 employees.

² See <https://www.census.gov/programs-surveys/susb.html> for details on the Statistics of U.S. Businesses (SUSB) program.

³ See <https://www.census.gov/programs-surveys/susb/technical-documentation/methodology.html> for details on SUSB methodology.

Table 1. Percent of private employment by enterprise size class for Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and the United States, 2014

	Fewer than 50	50–99	100–200	200–499	500–4,999	5,000+
Delaware	26.2	6.4	6.2	6.4	14.1	40.8
Maryland	27.6	7.7	6.9	8.1	17.8	31.9
New Jersey	29.1	7.0	6.5	7.4	18.6	31.4
Pennsylvania	25.6	6.9	6.2	8.0	18.7	34.5
Virginia	26.4	6.8	6.2	7.6	16.7	36.3
United States	26.8	6.9	6.5	7.7	18.2	34.0

Source: U.S. Census Bureau, 2014 Statistics of U.S. Businesses, December 2016.

SUSB reports a private annual payroll total of nearly \$21 billion for Delaware in 2014. Table 2 lists the distribution of private payrolls by enterprise size class. Delaware's payroll totals are even more concentrated in large enterprises than employment totals. Enterprises with fewer than 500 employees account for approximately 37 percent of Delaware's private payroll, while they account for approximately 41 percent of payroll nationally.

Table 2. Percent of private payroll by enterprise size class for Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and the United States, 2014

	Fewer than 50	50–99	100–200	200–499	500–4,999	5,000+
Delaware	20.1	5.5	5.2	6.5	15.1	47.7
Maryland	23.1	7.2	6.8	8.2	19.7	35.1
New Jersey	22.2	6.1	6.0	6.9	19.6	39.2
Pennsylvania	20.3	6.2	5.9	7.5	20.2	39.9
Virginia	21.0	6.4	6.4	7.7	17.7	40.7
United States	21.4	6.2	6.0	7.5	20.0	39.0

Source: U.S. Census Bureau, 2014 Statistics of U.S. Businesses, December 2016.

Consistent with national and regional averages, average annual wages in Delaware rise as the size of an enterprise increases. As shown in Table 3, the difference between average wages in Delaware's largest and smallest enterprises is somewhat more pronounced in Delaware than it is nationally.

Table 3. Average annual wage by enterprise size class for Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and the United States, 2014

	Fewer than 50	50–99	100–200	200–499	500–4,999	5,000+
Delaware	41,141	45,379	44,751	54,320	57,176	62,427
Maryland	43,182	47,778	50,614	51,963	57,150	56,760
New Jersey	43,784	50,189	52,587	53,540	60,573	71,875
Pennsylvania	37,519	42,496	44,849	44,263	51,071	54,613
Virginia	40,048	47,905	51,834	50,963	53,493	56,489
United States	39,120	43,813	45,936	47,964	53,762	56,302

Source: U.S. Census Bureau, 2014 Statistics of U.S. Businesses, December 2016.

Employment by size class distributions vary significantly across industry sectors in Delaware. While the introduction of data noise prevents precise measurement of the differences across sectors, several differences are evident in Table 4. Enterprises with more than 500 employees account for more than 80 percent of employment in the Finance and Insurance and Management of Companies and Enterprises sectors, while also accounting for just more than 60 percent of employment in the Retail Trade sectors. Enterprises with fewer than 50 employees account for relatively large shares of Delaware's employment in the Other Services (76.5 percent), Construction (59.4 percent), Real Estate and Rental and Leasing (45.7 percent), and Accommodation and Food Services (39.1 percent) sectors.

Table 4. Total employment and percent of employment by enterprise size class for Delaware, by industry sector, 2014

	Total Employment	Fewer than 50	50–99	100–499	500+
Health Care and Social Assistance	64,183	22.4	5.3	15.3	46.6
Retail Trade	54,479	20.1	5.0	6.4	60.2
Finance and Insurance	39,140	8.9	0.7	3.2	81.6
Accommodation and Food Services	37,808	39.1	12.5	10.5	13.9
Professional, Scientific, and Technical Services	33,125	32.6	5.0	5.9	40.0
Administrative and Support and Waste Management and Remediation Services	26,555	22.9	4.7	13.1	56.4
Manufacturing	25,665	14.3	5.1	15.3	50.5
Construction	18,489	59.4	15.0	18.1	2.3
Wholesale Trade	16,148	23.6	5.8	11.7	2.7
Management of Companies and Enterprises	15,455	0.4	0.8	2.0	86.7
Other Services (except Public Administration)	14,740	76.5	9.6	0.5	4.8
Transportation and Warehousing	13,313	15.8	6.8	7.3	54.9
Arts, Entertainment, and Recreation	8,758	21.4	8.9	4.0	7.0
Information	8,280	17.1	2.4	2.2	49.4
Educational Services	6,668	24.0	18.7	12.9	6.0
Real Estate and Rental and Leasing	6,135	45.7	7.6	17.2	3.7
Total	391,636	26.2	6.4	12.6	54.8

Source: U.S. Census Bureau, 2014 Statistics of U.S. Businesses, December 2016. Note: Industry sector rows do not sum to 100 percent due to SUBS introduction of noise to avoid disclosure of confidential firm information.

Nonemployer Firms

The vast majority of small businesses nationwide have no paid employees. In 2014, these nonemployer firms accounted for 59,078 of the 77,306 Delaware firms with fewer than 500 employees.⁴ Commonly known as sole proprietorships, the U.S. Census Bureau's Nonemployer

⁴ U.S. Small Business Administration, Office of Advocacy. (2017). "Delaware Small Business Profile," https://www.sba.gov/sites/default/files/advocacy/Delaware_1.pdf.

Statistics series and the Survey of Business Owners and Self-Employed Persons track their number and the sales associated with these firms.⁵

The Brookings Institution has identified the Nonemployer Statistics series as one source for tracking the emergence of the so-called “gig economy,” which matches “freelance workers or service providers to customers on a digital platform or marketplace.”⁶ Brookings cites a gradual increase in the economic importance of nonemployment firms, with the national ratio of payroll employees to nonemployer firms decreasing from 8.3 in 1997 to 6.1 in 2014.

To date, nonemployer firms remain a small part of the national economy, with these firms typically accounting for just over three percent of all company sales nationally. As shown in Table 5, the importance of nonemployer firms varies significantly across Delaware. In 2012, the most recent year in which both nonemployer and employer sales and receipts were available for Delaware, nonemployer firms accounted for 5.5 percent, 4.9 percent, and 1.5 percent of all receipts in Kent, Sussex, and New Castle Counties, respectively.

Table 5. Number of nonemployer firms and share of total firm sales and receipts for Delaware, its counties, and the United States, 2007, 2012, and 2015

	2007		2012		2015	
	Thousands of Firms	% Receipts	Thousands of Firms	% Receipts	Thousands of Firms	% Receipts
United States	21,357	3.2	22,202	3.1	24,331	3.3
Delaware	54.8	2.0	55.2	2.1	60.7	-
Kent County	8.8	5.7	9.5	5.5	9.6	-
New Castle County	30.5	1.3	31.4	1.5	35.5	-
Sussex County	15.6	6.1	14.3	4.9	15.6	-

Sources: U.S. Census Bureau, Survey of Business Owners and Self-Employed Persons, 2007 & 2012; U.S. Census Bureau, Nonemployer Statistics series, 2015; U.S. Census Bureau, Annual Survey of Entrepreneurs, 2015.

Notes: Annual survey of entrepreneurs used to calculate U.S. total firm receipts for 2015, with nonemployer firm data for this year from Nonemployer Statistics series. Complete 2015 receipts data not available for Delaware and its counties.

Local Business Patterns

Compared to employment patterns in Kent and Sussex Counties, New Castle County's employment is much more concentrated in large firms. As shown in Table 6, firms with 500 or

⁵ See <https://www.census.gov/econ/nonemployer/> for details on the Nonemployer Statistics series and <https://www.census.gov/programs-surveys/sbo.html> for details on the Survey of Business Owners and Self-Employed Persons.

⁶ Hathaway, Ian and Muro, Mark. (2016). “Tracking the gig economy: New numbers,” <https://www.brookings.edu/research/tracking-the-gig-economy-new-numbers/>.

more employees account for nearly 60 percent of the jobs in New Castle County. These large firms account for just under 50 percent of the jobs in Kent County and approximately 40 percent of the jobs in Sussex County. Firms with fewer than 50 employees account for a disproportionate share of total employment in Kent and Sussex, making up just over 30 percent of employment in Kent and nearly 40 percent of employment in Sussex. While New Castle County contains more jobs in firms smaller than 50 employees than the other two counties combined, as a share of the county's employment these small firms account for just over 20 percent of total employment.

Table 6. Employment by firm size class for New Castle, Kent, and Sussex Counties, Delaware, 2016

	New Castle County		Kent County		Sussex County	
	Count	Share (%)	Count	Share (%)	Count	Share (%)
0–19 Employees	37,082	14.1	9,100	19.9	17,889	27.1
20–49 Employees	21,947	8.4	5,273	11.5	8,285	12.5
50–249 Employees	34,686	13.2	6,192	13.5	10,175	15.4
250–499 Employees	12,901	4.9	3,262	7.1	3,408	5.2
500+ Employees	155,578	59.3	21,943	47.9	26,301	39.8

Source: QWI Explorer application, U.S. Census Bureau, qwexplorer.ces.census.gov/exp-r/fe3ba.html.

ZIP Code Business Patterns

The U.S. Census Bureau's ZIP Code Business Patterns data allows for analysis of the distribution of establishments at the local level by number of employees. Tables 7, 8, and 9 present this distribution for ZIP Code areas in New Castle, Kent, and Sussex Counties, respectively. For many ZIP Codes in Delaware, small establishments with fewer than 20 employees account for the vast majority of businesses in these communities. In many cases, however, larger employers still tend to account for a significant portion of employment in many ZIP Codes. Even in New Castle County though, where large firms account for the sizable majority of employment, ten of the county's 43 ZIP Codes contain no establishments with more than 50 employees.

Table 7. Number and share of establishments by New Castle County ZIP Codes and establishment size classes, 2015

	Estab. Count	Share (%) of Establishments by Number of Employees				
		Fewer than 20	20–49	50–99	100–499	500 or more
19708 (Kirkwood)	6	100.0	0.0	0.0	0.0	0.0
19715 (Newark)	7	100.0	0.0	0.0	0.0	0.0
19732 (Rockland)	8	100.0	0.0	0.0	0.0	0.0
19891 (Wilmington)	1	100.0	0.0	0.0	0.0	0.0
19894 (Wilmington)	1	100.0	0.0	0.0	0.0	0.0
19898 (Wilmington)	10	100.0	0.0	0.0	0.0	0.0
19810 (Wilmington)	793	92.6	4.8	1.5	1.0	0.1
19734 (Townsend)	115	92.2	6.1	1.7	0.0	0.0
19807 (Wilmington)	389	92.0	4.6	1.8	1.5	0.0
19710 (Montchanin)	25	92.0	0.0	8.0	0.0	0.0
19899 (Wilmington)	161	91.3	5.0	2.5	1.2	0.0
19736 (Yorklyn)	20	90.0	5.0	0.0	5.0	0.0
19707 (Hockessin)	454	89.0	8.1	1.3	1.5	0.0
19805 (Wilmington)	730	88.5	7.4	2.3	1.4	0.4
19730 (Odessa)	24	87.5	12.5	0.0	0.0	0.0
19701 (Bear)	647	87.0	9.3	2.2	1.4	0.2
19801 (Wilmington)	2,179	87.0	7.4	2.9	2.1	0.6
19714 (Newark)	23	87.0	4.3	0.0	8.7	0.0
19703 (Claymont)	260	86.9	9.6	1.9	1.5	0.0
19808 (Wilmington)	1,396	86.7	8.3	2.9	1.9	0.3
19709 (Middletown)	661	86.4	8.6	2.9	2.0	0.2
19706 (Delaware City)	43	86.0	7.0	2.3	2.3	2.3
19809 (Wilmington)	462	85.9	8.9	1.9	2.8	0.4
19733 (Saint Georges)	14	85.7	7.1	7.1	0.0	0.0
19806 (Wilmington)	419	85.4	9.3	2.9	2.4	0.0
19803 (Wilmington)	1,229	84.8	9.1	3.2	2.5	0.4
19804 (Wilmington)	586	84.5	10.9	1.9	2.6	0.2
19802 (Wilmington)	352	83.2	11.1	3.7	2.0	0.0
19716 (Newark)	17	82.4	0.0	5.9	11.8	0.0
19711 (Newark)	1,184	82.3	10.4	4.1	2.8	0.3
19702 (Newark)	1,061	79.5	12.9	3.9	3.5	0.2

	Estab. Count	Share (%) of Establishments by Number of Employees				
		Fewer than 20	20–49	50–99	100–499	500 or more
19713 (Newark)	968	77.8	12.6	4.4	4.2	0.9
19890 (Wilmington)	9	77.8	22.2	0.0	0.0	0.0
19720 (New Castle)	1,381	77.0	13.9	4.8	4.1	0.2
19850 (Wilmington)	24	75.0	4.2	8.3	0.0	12.5
19718 (Newark)	7	71.4	14.3	0.0	0.0	14.3
19726 (Newark)	3	66.7	33.3	0.0	0.0	0.0
19897 (Wilmington)	3	66.7	0.0	0.0	0.0	33.3
19884 (Wilmington)	10	60.0	10.0	0.0	30.0	0.0
19880 (Wilmington)	6	50.0	0.0	0.0	16.7	33.3
19717 (Newark)	4	50.0	25.0	25.0	0.0	0.0
19731 (Port Penn)	6	50.0	50.0	0.0	0.0	0.0
19735 (Winterthur)	2	0.0	50.0	0.0	50.0	0.0

Source: U.S. Census Bureau, ZIP Code Business Patterns, 2015.

Kent County's ZIP Codes are even more dominated by small establishments, with establishments with fewer than 20 employees accounting for a minimum of 70 percent of the businesses in these areas. Seven of the 20 ZIP Codes in Kent County contain no establishments with 50 or more employees.

Table 8. Number and share of establishments by Kent County ZIP Codes and establishment size classes, 2015

	Estab. Count	Share (%) of Establishments by Number of Employees				
		Fewer than 20	20–49	50–99	100–499	500 or more
19905 (Dover)	2	100.0	0.0	0.0	0.0	0.0
19943 (Felton)	117	94.0	6.0	0.0	0.0	0.0
19939 (Dagsboro)	136	93.4	3.7	2.9	0.0	0.0
19946 (Frederica)	32	90.6	3.1	0.0	6.3	0.0
19953 (Hartly)	40	90.0	7.5	2.5	0.0	0.0
19952 (Harrington)	177	89.8	6.8	1.7	1.1	0.6
19962 (Magnolia)	47	89.4	10.6	0.0	0.0	0.0
19938 (Clayton)	64	89.1	7.8	1.6	1.6	0.0
19980 (Woodside)	9	88.9	11.1	0.0	0.0	0.0
19903 (Dover)	24	87.5	12.5	0.0	0.0	0.0
19904 (Dover)	796	86.7	8.4	3.1	1.6	0.1
19977 (Smyrna)	332	85.8	10.8	1.8	1.2	0.3
19954 (Houston)	14	85.7	14.3	0.0	0.0	0.0
19963 (Milford)	581	84.2	11.0	2.9	1.4	0.5
19955 (Kenton)	6	83.3	0.0	16.7	0.0	0.0
19901 (Dover)	1,188	82.2	12.0	3.5	1.9	0.3
19902 (Dover AFB)	28	82.1	7.1	10.7	0.0	0.0
19934 (Camden Wyoming)	276	80.4	11.6	3.3	4.7	0.0
19936 (Cheswold)	9	77.8	22.2	0.0	0.0	0.0
19979 (Viola)	7	71.4	28.6	0.0	0.0	0.0

Source: U.S. Census Bureau, ZIP Code Business Patterns, 2015.

For all ZIP Codes in Sussex County, establishments with fewer than 20 employees account for at least 80 percent of the businesses in those areas. The distribution of establishments with at least 50 employees is more widespread in Sussex County than it is in Kent County, with only five of Sussex County's 22 ZIP Codes lacking an establishment with 50 or more employees.

Table 9. Number and share of establishments by Sussex County ZIP Codes and establishment size classes, 2015

	Estab. Count	Share (%) of establishments by number of employees				
		Fewer than 20	20–49	50–99	100–499	500 or more
19931 (Bethel)	6	100.0	0.0	0.0	0.0	0.0
19969 (Nassau)	6	100.0	0.0	0.0	0.0	0.0
19960 (Lincoln)	53	96.2	3.8	0.0	0.0	0.0
19941 (Ellendale)	24	95.8	4.2	0.0	0.0	0.0
19964 (Marydel)	21	95.2	4.8	0.0	0.0	0.0
19970 (Ocean View)	181	93.9	4.4	1.7	0.0	0.0
19945 (Frankford)	120	93.3	5.8	0.8	0.0	0.0
19968 (Milton)	191	92.1	5.2	2.1	0.5	0.0
19944 (Fenwick Island)	82	91.5	7.3	1.2	0.0	0.0
19930 (Bethany Beach)	187	91.4	7.0	1.6	0.0	0.0
19956 (Laurel)	262	91.2	6.9	1.5	0.4	0.0
19958 (Lewes)	743	89.9	7.3	2.0	0.7	0.1
19951 (Harbeson)	48	89.6	8.3	0.0	0.0	2.1
19967 (Millville)	53	88.7	9.4	0.0	1.9	0.0
19940 (Delmar)	141	88.7	6.4	4.3	0.7	0.0
19975 (Selbyville)	211	88.2	7.6	2.8	0.9	0.5
19973 (Seaford)	604	87.6	8.4	2.0	1.5	0.5
19966 (Millsboro)	429	86.9	7.9	2.8	2.1	0.2
19947 (Georgetown)	439	86.1	8.7	3.6	1.4	0.2
19971 (Rehoboth Beach)	925	85.9	10.1	2.9	1.1	0.0
19950 (Greenwood)	119	84.9	10.1	4.2	0.8	0.0

Source: U.S. Census Bureau, ZIP Code Business Patterns, 2015.

Nonemployer Firms by County

Tables 10, 11, and 12 list the number of nonemployer firms and their receipt totals by industry for New Castle, Kent, and Sussex Counties, respectively. In 2015, New Castle County hosted nearly 36,000 nonemployer firms, which accounted for approximately \$2.3 billion in sales and receipts. The Professional, Scientific, and Technical services, Real Estate and Rental and Leasing, and Other Services sectors account for the largest number of nonemployer firms. The three largest sectors from a nonemployer receipts perspective—Real Estate and Rental and Leasing, Professional, Scientific, and Technical Services, and Retail Trade—account for just over half of all nonemployer sales activity in New Castle County. Nonemployer firms in the Transportation and Warehousing and Educational Services sectors experienced the fastest rate of new firm formation during the 2004–2015 period, with the number of nonemployer firms in each of these sectors growing at an average annual rate of over four percent. The Construction sector was the only category to lose nonemployer firms over this time period.

Table 10. Nonemployer firms and receipts in New Castle County, Delaware, 2015

	Nonemployer Firms		Nonemployer Receipts	
	Count, 2015	Avg. Annual Growth Rate, 2004–2015	Total (\$1,000s), 2015	Avg. Annual Growth Rate, 2004–2015
Construction	2,536	-0.4	177,189	0.6
Manufacturing	380	2.2	25,201	3.7
Wholesale Trade	723	2.5	105,087	6.7
Retail Trade	3,037	0.9	206,278	4.1
Transportation and Warehousing	1,753	4.3	111,579	3.5
Information	614	2.9	48,904	8.7
Finance and Insurance	1,799	0.6	183,094	2.9
Real Estate and Rental and Leasing	5,344	2.2	616,348	3.6
Professional, Scientific, and Technical Services	5,727	1.5	381,501	4.4
Administrative and Support and Waste Management and Remediation Services	2,236	3.3	73,189	3.0
Educational Services	1,403	4.7	22,762	1.8
Health Care and Social Assistance	2,716	0.8	100,369	2.4
Arts, Entertainment, and Recreation	2,205	3.1	69,819	5.9
Accommodation and Food Services	461	2.1	30,351	-0.7
Other Services (except Public Administration)	4,427	2.8	142,650	3.4
Total for All Sectors	35,511	1.9	2,305,754	3.5

Source: U.S. Census Bureau, Nonemployer Statistics series, 2004 & 2015.

In 2015, just under 10,000 nonemployer firms in Kent County accounted for nearly \$600 million in sales and receipts. The Other Services, Real Estate and Rental and Leasing, and Construction sectors boasted the most firms and the Real Estate, Construction, and Professional Services sectors led in sales. The Administrative and Support sector experienced the most rapid addition of new firms over the 2004–2015 period, with the number of Construction firms—and total receipts for this sector—declining over this time period.

Table 11. Nonemployer firms and receipts in Kent County, Delaware, 2015

	Nonemployer Firms		Nonemployer Receipts	
	Count, 2015	Avg. Annual Growth Rate, 2004–2015	Total (\$1,000s), 2015	Avg. Annual Growth Rate, 2004–2015
Construction	1,147	-1.7	93,476	-1.2
Manufacturing	134	3.0	12,141	4.6
Wholesale Trade	154	2.9	9,215	-0.3
Retail Trade	923	0.6	43,232	2.2
Transportation and Warehousing	434	0.9	27,315	1.3
Information	138	3.9	13,378	11.2
Finance and Insurance	360	3.7	31,908	8.2
Real Estate and Rental and Leasing	1,351	3.3	156,925	6.6
Professional, Scientific, and Technical Services	1,009	2.7	54,681	5.6
Administrative and Support and Waste Management and Remediation Services	741	4.6	19,215	4.0
Educational Services	315	-	4,122	-
Health Care and Social Assistance	684	1.3	21,322	3.4
Arts, Entertainment, and Recreation	552	3.8	27,726	5.7
Accommodation and Food Services	120	2.0	9,201	5.1
Other Services (except Public Administration)	1,370	1.5	40,754	4.6
Total for All Sectors	9,585	1.8	574,091	3.7

Source: U.S. Census Bureau, Nonemployer Statistics series, 2004 & 2015.

Sussex County's nonemployer firms numbered nearly 16,000 and accounted for over \$800 million in sales and receipts in 2015. As in Kent County, the Other Services, Real Estate and Rental and Leasing, and Construction sectors accounted for the largest number of nonemployer firms in Sussex County. Once again, the Construction sector shed nonemployer firms and receipts over the 2004–2015 period, while the Information, Professional, Scientific, and Technical Services, and Wholesale Trade sectors led the way in firm and sales growth.

Table 12. Nonemployer firms and receipts in Sussex County, Delaware, 2015

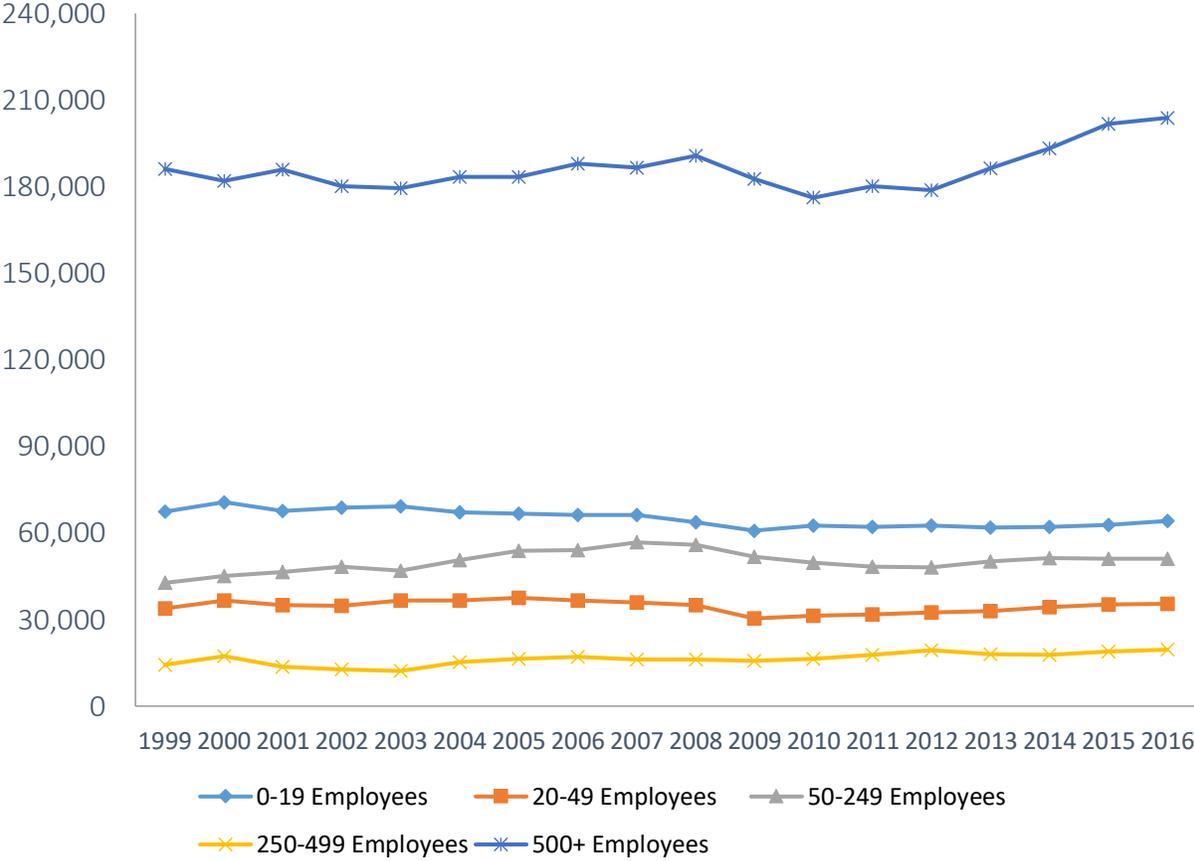
	Nonemployer Firms		Nonemployer Receipts	
	Count, 2015	Avg. Annual Growth Rate, 2004–2015	Total (\$1,000s), 2015	Avg. Annual Growth Rate, 2004–2015
Construction	2,290	-1.5	172,199	-1.1
Manufacturing	156	2.7	6,579	2.5
Wholesale Trade	259	4.2	24,820	7.4
Retail Trade	1,436	0.4	67,650	1.9
Transportation and Warehousing	537	0.8	35,113	0.9
Information	184	5.1	13,368	7.0
Finance and Insurance	369	4.5	19,811	6.7
Real Estate and Rental and Leasing	2,675	3.0	203,706	3.5
Professional, Scientific, and Technical Services	1,898	4.7	109,925	8.8
Administrative and Support and Waste Management and Remediation Services	1,332	4.0	36,695	4.9
Educational Services	315	-	4,324	-
Health Care and Social Assistance	945	0.7	27,286	1.8
Arts, Entertainment, and Recreation	793	3.5	16,548	2.8
Accommodation and Food Services	193	1.4	10,922	1.6
Other Services (except Public Administration)	2,053	1.7	59,195	3.1
Total for All Sectors	15,638	1.8	818,187	2.6

Source: U.S. Census Bureau, Nonemployer Statistics series, 2004 & 2015.

Business Dynamics

Quarterly Workforce Indicators (QWI) statistics report that in 2016 the over 200,000 workers for Delaware-based firms with more than 500 employees accounted for nearly 55 percent of all Delaware’s private sector employment (see Figure 1). Over the 1999–2016 period, the number of employees in the 50–249 and 250–499 size classes increased at an average annual rate of over one percent, with the number of employees in the 0–19 size class decreasing over this timeframe.

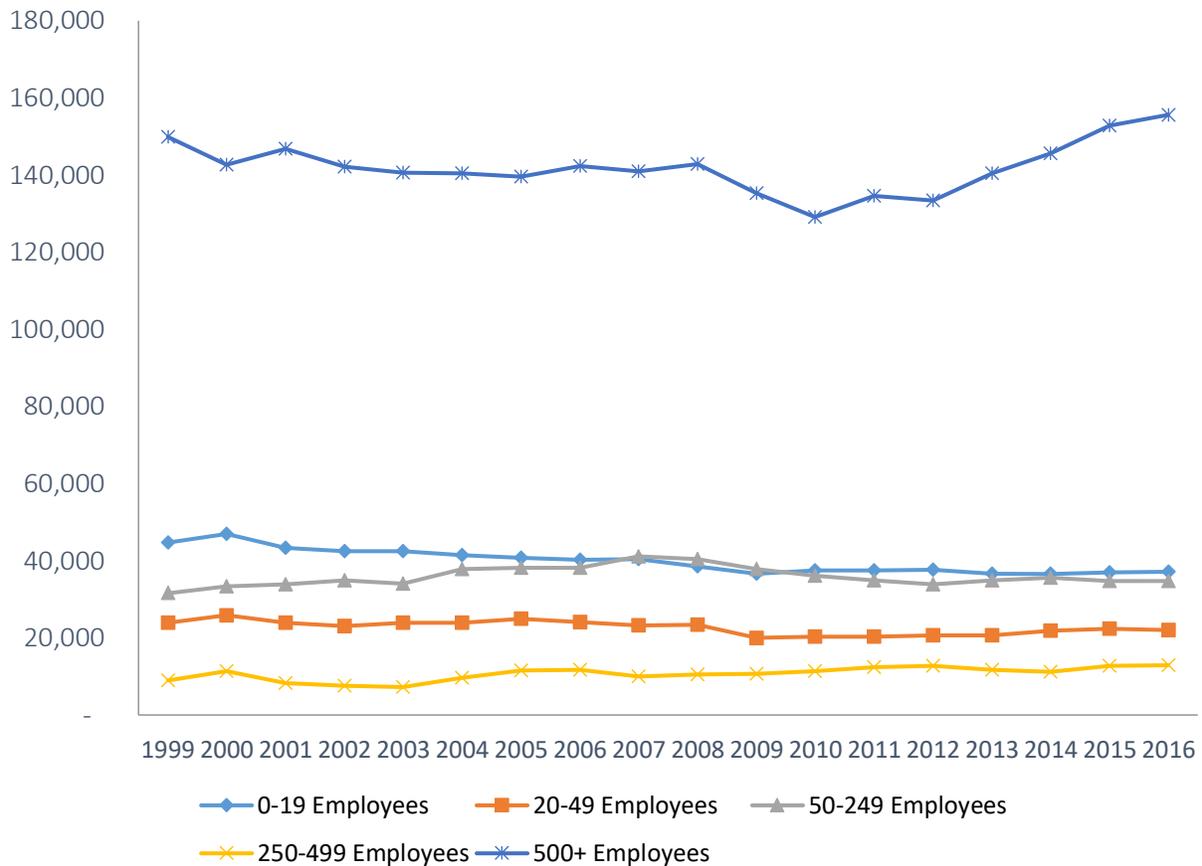
Figure 1. Delaware private employment by firm size, 1999–2016



Source: QWI Explorer application, U.S. Census Bureau, qwexplorer.ces.census.gov/exp-r/fe3ba.html.

Firms with more than 500 employees accounted for nearly 60 percent of New Castle County’s private employment in 2016 (see Figure 2). Employment in this size class edged upward over the 1999–2016 period, with the 250–499 employee size class growing at an average annual rate of over two percent. Employment in the 0–19 size class decreased by more than 7,000 workers over this time period, with firms in the 20–49 size class also shedding jobs.

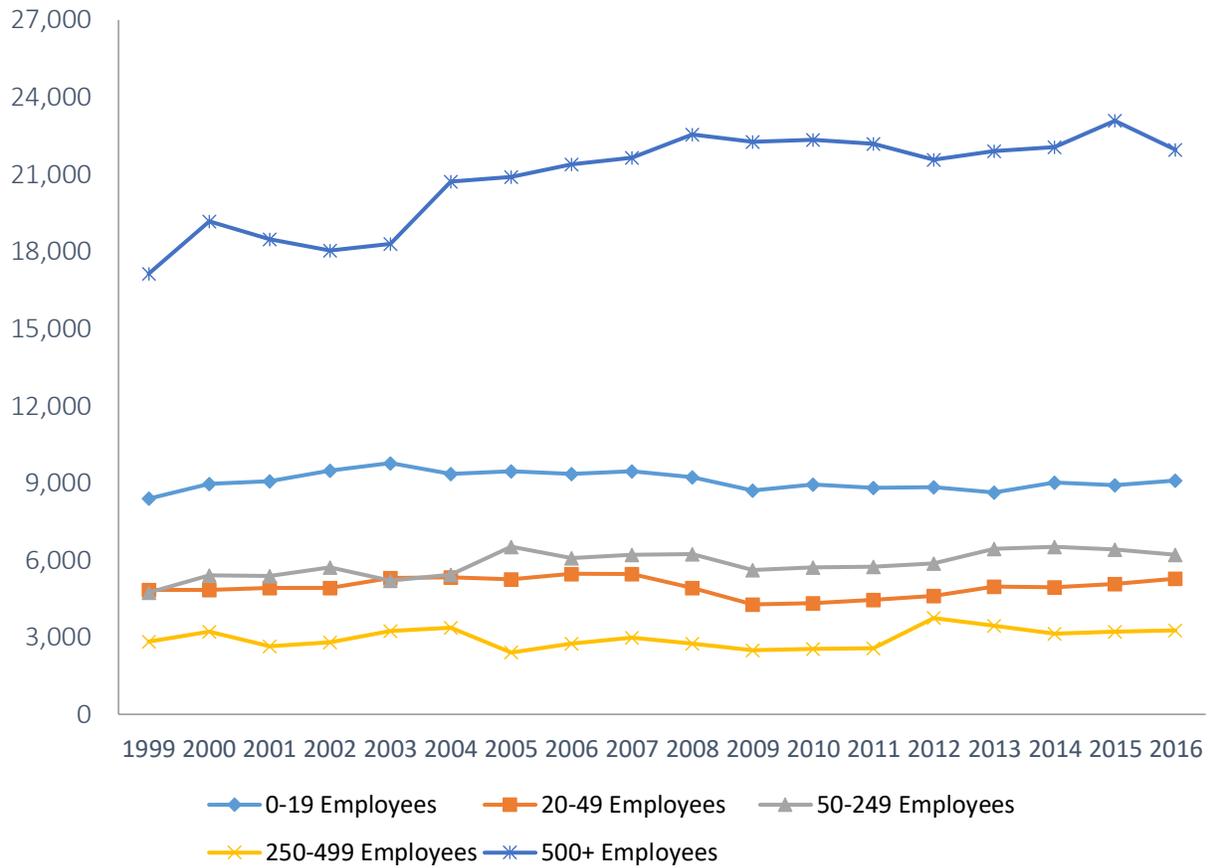
Figure 2. New Castle County private employment by firm size, 1999–2016



Source: QWI Explorer application, U.S. Census Bureau, qwexplorer.ces.census.gov/exp-r/fe3ba.html.

Employees working for firms in the 500-plus size class accounted for just under half of Kent County’s private employment in 2016 (see Figure 3). All employee size classes experienced growth over the 1999–2016 time period, with the 50–249 and 500-plus size classes leading the way with average annual growth rates of approximately 1.5 percent.

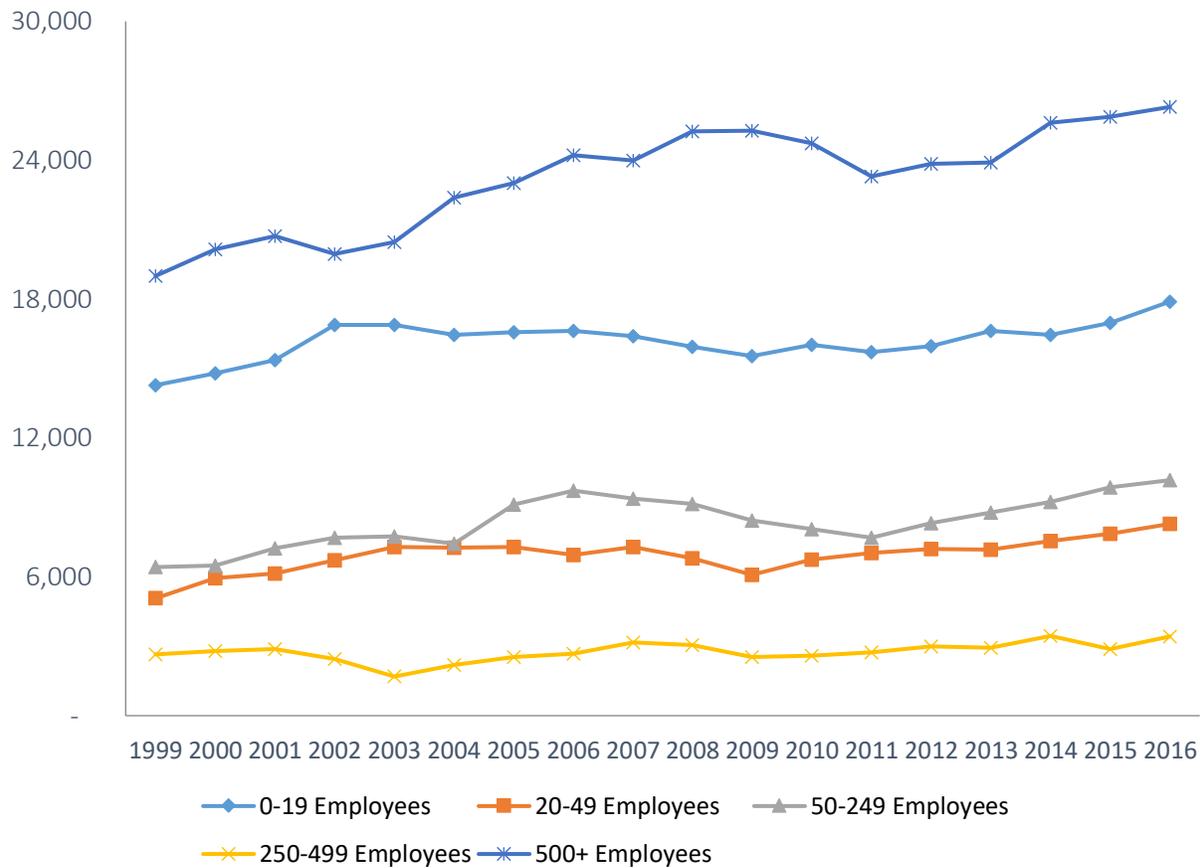
Figure 3. Kent County private employment by firm size, 1999–2016



Source: QWI Explorer application, U.S. Census Bureau, qwexplorer.ces.census.gov/exp-r/fe3ba.html.

Firms with more than 500 employees accounted for just under 40 percent of Sussex County’s private employment in 2016, making it the Delaware county that relies on small businesses for the greatest share of its employment opportunities (see Figure 4). Sussex County’s private employment in all size classes enjoyed a period of sustained growth from 1999–2016. Employment in all size classes grew at an average annual rate exceeding one percent, with growth rates reaching almost three percent annually for the 20–49 and 50–249 size classes.

Figure 4. Sussex County private employment by firm size, 1999–2016.



Source: QWI Explorer application, U.S. Census Bureau, qwexplorer.ces.census.gov/exp-r/fe3ba.html.

Job Creation and Destruction by Firm Size

Firms add jobs when they are created and when they expand. They shed jobs if they go out of business or downsize. The U.S. Census Bureau's Business Dynamics Statistics offers a longitudinal series of these components of employment change. In Delaware, nearly 6,000 net new jobs were created each year from 1977–2014 (see Table 13). Expanding firms added 2,000 more jobs than downsizing firms did annually, with jobs associated with firm births contributing nearly 4,000 more jobs than were eliminated by firm deaths each year. From 2004–2014, net job growth slowed to just under 3,000 annually. Incumbent firms shed more jobs than they added over this period, with only firm births keeping net job growth in positive territory. Job creation has rebounded since 2011, with incumbent firms accounting for nearly 6,000 net new jobs annually and new firms contributing almost 4,000 additional jobs annually.

Table 13. Delaware job creation and destruction statistics, 1977–2014.

	Net Job Creation	Job Creation		Job Destruction	
		Births	Continuers	Deaths	Continuers
2004	5,840	20,542	35,677	17,891	32,488
2005	3,862	20,713	35,682	21,993	30,540
2006	-4,928	21,131	35,174	24,686	36,547
2007	1,747	31,164	37,807	25,229	41,995
2008	5,887	21,986	38,664	13,235	41,528
2009	-13,189	20,950	24,523	15,751	42,911
2010	-8,796	15,812	24,877	14,943	34,542
2011	-334	13,549	29,861	14,130	29,614
2012	6,503	18,310	33,536	19,387	25,956
2013	23,701	23,824	37,429	11,814	25,738
2014	9,098	20,256	39,445	14,703	35,900
Total	213,332	739,662	1,220,780	602,333	1,144,777
Average, 1977– 2014	5,614	19,465	32,126	15,851	30,126
Average, 2004– 2014	2,672	20,749	33,880	17,615	34,342
Average, 2011– 2014	9,742	18,985	35,068	15,009	29,302

Source: U.S. Census Bureau, Business Dynamics Statistics, Longitudinal Business Database, 1977–2014.

Note: See <https://www.census.gov/ces/dataproducts/bds/overview.html> for information on this data series.

Table 14 illustrates average annual job creation statistics associated with Delaware firms of various size classes from 1977–2014. Firms in the 250–499, 20–49, 100–249, and 1–4 employee size classes contributed the most net new jobs on an average annual basis, although when the size classes of 500 or more employees are combined these large firms represent the single-largest source of growth over this time period.

Table 14. Delaware job creation and destruction statistics by firm size, 1977–2014.

Firm Size	Net Job Creation	Job Creation		Job Destruction	
		Births	Continuers	Deaths	Continuers
1–4	584	3,521	1,538	2,960	1,514
5–9	412	1,670	2,301	1,441	2,119
10–19	504	1,400	2,586	1,193	2,289
20–49	641	1,451	3,288	1,258	2,840
50–99	477	1,056	2,365	870	2,045
100–249	591	1,096	2,432	884	2,040
250–499	642	848	1,525	388	1,262
500–999	476	700	1,444	371	1,277
1k–2,499	371	654	1,454	457	1,489
2,500–4,999	406	672	1,386	326	1,376
5,000–9,999	259	731	1,694	523	1,979
10,000+	254	4,846	9,870	3,745	9,897
All firms	5,614	19,465	32,126	15,851	30,126

Source: U.S. Census Bureau, Business Dynamics Statistics, Longitudinal Business Database, 1977–2014.

During the 2004–2014 period, firms with fewer than 5 employees contributed almost no net new jobs, while firms with 5,000 or more employees shed jobs (see Table 15). Firms in the 100–1,000 employee size classes made the most significant contributions to overall job growth during this time period.

Table 15. Delaware job creation and destruction statistics by firm size, 2004–2014

Firm Size	Net Job Creation	Job Creation		Job Destruction	
		Births	Continuers	Deaths	Continuers
1–4	1	3,463	1,550	3,276	1,737
5–9	113	1,634	2,295	1,434	2,382
10–19	189	1,336	2,627	1,179	2,595
20–49	268	1,499	3,330	1,268	3,292
50–99	253	1,000	2,448	828	2,267
100–249	660	1,314	2,592	1,002	2,244
250–499	428	1,055	1,509	437	1,593
500–999	765	1,095	1,294	193	1,046
1k–2,499	166	640	1,676	489	1,662
2,500–4,999	475	594	1,877	350	1,647
5,000–9,999	-94	790	1,563	703	1,745
10,000+	-551	6,329	11,117	5,866	12,133
All firms	2,672	20,749	33,880	17,615	34,342

Source: U.S. Census Bureau, Business Dynamics Statistics, Longitudinal Business Database, 1977–2014.

Since 2011, firms in the 10,000-plus, 500–999, 2,500–4,999, and 20–49 employee size classes have been the leaders in net job creation. During this period, incumbent firms have been responsible for a greater portion of net new job creation than firm entry and exit dynamics have.

Table 16. Delaware job creation and destruction statistics by firm size, 2011–2014

Firm Size	Net Job Creation	Job Creation		Job Destruction	
		Births	Continuers	Deaths	Continuers
1–4	207	3,224	1,507	2,942	1,581
5–9	229	1,516	2,167	1,371	2,083
10–19	593	1,349	2,623	1,150	2,228
20–49	848	1,318	3,302	1,153	2,620
50–99	622	968	2,309	702	1,813
100–249	661	1,346	2,320	915	2,089
250–499	643	857	1,308	372	1,021
500–999	1,189	1,060	1,276	212	935
1k–2,499	338	470	1,828	537	1,423
2,500–4,999	975	501	2,639	272	1,893
5,000–9,999	567	934	1,649	385	1,631
10,000+	2,872	5,444	12,141	4,728	9,985
All firms	9,742	18,985	35,068	15,009	29,302

Source: U.S. Census Bureau, Business Dynamics Statistics, Longitudinal Business Database, 1977–2014.

Small Business Owners

Earnings

At the median, Delaware residents that are self-employed in their incorporated businesses tend to earn more than every class of worker other than those employed by the federal government (see Table 17). Those workers self-employed in their own unincorporated businesses tend to earn considerably less than the median for all workers.

Table 17. Median earnings in past 12 months by class of worker, 2011–2015

	Kent County	New Castle County	Sussex County
All Workers	33,486	40,826	31,714
Private For-Profit Wage and Salary	30,328	40,107	30,035
Employee of Private Company	29,709	39,664	29,007
Self-Employed in Own Incorporated Business	45,425	53,974	42,264
Private Not-for-Profit Wage and Salary	34,484	42,341	31,319
Local Government	43,703	45,378	38,771
State Government	41,322	44,600	43,169
Federal Government	50,140	61,431	59,592
Self-Employed in Own Not Incorporated Business	20,064	26,051	24,941

Source: U.S. Census Bureau, 2011–2015 American Community Survey 5-Year Estimates.

Note: Earnings expressed in 2015, inflation-adjusted dollars.

Business Owner Characteristics

Table 18 lists statistics on the prevalence of minority, veteran, and women business owners in Delaware and the United States. Racial and ethnic minorities own 12 percent of Delaware's employer firms, a rate that lags behind the national average of nearly 17 percent. Minority business owners also account for smaller shares of total employees (3.7 vs. 6.2%) and receipts (1.5 vs. 4.1%) in Delaware than they do nationally. The employees and receipts per capita figures control for the number of minorities living in Delaware and the United States to present comparable measures of the impacts of minority business owners. For every one minority living in Delaware, minority business owners in Delaware employ 0.04 persons and generate \$7,406 in sales or receipts. For every one minority in the United States, minority business owners employ 0.07 persons and generate \$13,025 in receipts.

Table 18. Minority, veteran, and women business owner characteristics, 2012

	Minority Business Owners	Veteran Business Owners	Women Business Owners
Delaware			
% of Total Employer Firm Owners	12.1	8.7	16.4
% of Total Nonemployer Firm Owners	28.1	10.2	38.0
% of Total Employees	3.7	4.6	7.0
% of Total Receipts	1.5	2.7	2.1
Employees per Capita	0.04	0.23	0.08
Receipts per Capita	7,406	55,963	6,975
United States			
% of Total Employer Firm Owners	16.8	8.2	19.1
% of Total Nonemployer Firm Owners	31.7	9.4	39.8
% of total Employees	6.2	4.3	7.3
% of total Receipts	4.1	3.4	4.2
Employees per Capita	0.07	0.24	0.05
Receipts per Capita	13,025	55,130	9,046

Sources: U.S. Census Bureau, Survey of Business Owners and Self-Employed Persons, 2012; U.S. Census Bureau, Decennial Census, 2010; National Center for Veterans Analysis and Statistics, https://www.va.gov/vetdata/veteran_population.asp.

Note: Per capita figures calculated based on the 2010 Census figures for number of women (for women business owners) and number of persons of Hispanic Origin plus the number of non-White, non-Hispanics (for minority business owners). Number of veterans living in a state used to calculate per capita figures for veteran business owners. To calculate per capita employee and receipts figures, the number of employees and receipts associated with firms owned by these demographic groups is divided by the population of these demographic groups.

Veterans owned an estimated 8.7 percent of Delaware's employer firms in 2012, a rate that is slightly higher than the national share. Delaware's veteran business owners employ 4.6 percent of workers in Delaware, a share that is just slightly higher than the veteran employment rate nationally. At the same time, these business owners account for 2.7 percent of firm receipts in Delaware, just less than the national average of 3.4 percent for veteran business owners. For each veteran who lives in Delaware, veteran business owners in Delaware employ 0.23 persons and generate nearly \$56,000 in annual receipts, figures about on par with national averages.

Women own just over 16 percent of employer firms in Delaware, trailing the national rate of 19 percent. Delaware's women business owners account for a similar share of total employees as

women do nationally (7.0 vs. 7.3%), while only accounting for half the share of total receipts experienced nationally (2.1 vs. 4.2%). On a per capita basis, women in Delaware employ slightly more employees than their national counterparts, while accounting for slightly fewer receipts on average.

Assessment of Small Business Climate

Finance and Public Policy

Access to financial capital is a challenge for many small businesses, and these challenges are particularly acute for young firms less than five years old. The Federal Reserve Bank of New York's *2016 Small Business Credit Survey: Report on Startup Firms* provides a summary of credit conditions and challenges associated with small businesses nationally, with a distinction made between startup firms (i.e., those younger than five years old) and mature firms (i.e., those five years or older):

- “70% of startup applicants sought funding for expansion, compared to 60% of mature applicants.”
- “only 32% of 0–2 year old firms and 49% of 3–5 year old firms report being profitable, compared to 60% of mature firms.”
- “44% of startup firms self-identify as medium and high credit risk, compared to 30% of mature firms.”
- “52% of startup firms applied for financing in 2016, compared to 42% of mature firms.”
- “63% of startup applicants sought \$100,000 or less in financing, compared to 49% of mature applicants.”
- “58% of 0–2 year old firms and 53% of 3–5 year old firms reported difficulty with credit availability or accessing funds for expansion, compared to 39% of mature firms.”
- “69% of startup applicants experienced a financing shortfall, meaning they obtained less than the amount they sought, compared to 54% of mature applicants.”⁷

In their early years, small businesses tend to aim for expansion but they can face significant challenges in obtaining financing. Further hampering expansion efforts is the tendency for many new firms to be unprofitable for several years. Though significant financing challenges exist for new small businesses, one bright spot is that these newer businesses tend to be seeking less money than their more mature counterparts. Many interviewees engaged for this project indicated that available financing for businesses in initial startup and expansion phases was a significant challenge for Delaware's small businesses.

⁷ Federal Reserve Bank of New York. (2017). *2016 Small Business Credit Survey: Report on Startup Firms*, pp. iii – iv.

Venture Capital

Venture capital—“a type of private equity capital focused on early stage, high-potential growth companies”—holds an almost mythical status in explaining the development of successful, high-technology regions from Boston to Silicon Valley.⁸ While the size of the U.S. venture capital (VC) industry has grown from approximately \$1 billion in 1980 to over \$100 billion today, the vast majority of small business financing does not come from venture capital, and VC funding tends to be heavily concentrated in a few places.⁹

From 2010–2016, two states—California and Massachusetts—have accounted for approximately 60 percent of the nearly \$260 billion in venture capital deals. Delaware firms averaged \$44.7 million in venture capital deals over this seven-year period, accounting for about 0.1 percent of the national total. In terms of venture capital dollars per capita, Delaware's rank nationally among the 50 states and the District of Columbia ranged from a high of 10th in 2013 to a low of 30th in 2012, suggesting that venture capital will find attractive Delaware offerings.¹⁰

Tax and Policy Rankings

Several organizations develop and publish ranking systems to assess how relatively “business-friendly” states are. Caution should be taken in ascribing too much importance to any one ranking system or metric, but Delaware's standing in these reports can suggest competitive pressures on the state's business community and its economic development efforts.

Delaware ranked as the state with the 19th best small business tax climate according to the Tax Foundation's *2017 State Business Tax Climate Index*.¹¹ Delaware ranked 50th in Corporate Tax, 34th in Individual Income Tax, 1st in Sales Tax, 3rd in Unemployment Insurance Tax, and 20th in Property Tax. Wyoming and South Dakota ranked 1st and 2nd, respectively, in the index, while New York and New Jersey were the lowest-ranked states. Among Delaware's regional states, Maryland ranked 42nd overall, Pennsylvania ranked 24th, and Virginia ranked 33rd.

The Small Business & Entrepreneurship Council's *Small Business Policy Index 2017* seeks to rank states on a variety of “policy measures and costs impacting entrepreneurship and small

⁸ Mazzucato, Mariana. (2014). *The Entrepreneurial State, Debunking Public Vs. Private Sector Myths*, Anthem Press, p. 75.

⁹ Lerner, Josh. (2009). *Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed—and What to Do About It*, Princeton University Press, p. 36.

¹⁰ PricewaterhouseCoopers and CB Insights' 2016 MoneyTree report and PricewaterhouseCoopers/National Venture Capital Association MoneyTree report, 2010–2015, available at http://ssti.org/sites/default/files/VC%20by%20State%202016%20Edition_0.xlsx.

¹¹ Walczak, Jared, Drenkard, Scott, and Joseph Henschman. (2017). Tax Foundation, available at <https://taxfoundation.org/publications/state-business-tax-climate-index/>.

business growth.”¹² Delaware ranked 34th on this index, with the Small Business & Entrepreneurship Council providing the following summary for the state:

Key Positives: Delaware has the fourth-lowest property tax burden, the third-lowest consumption-based tax burden, and a low-energy regulatory burden.

Key Negatives: Delaware has a death tax, fairly high personal income and individual capital gains tax rates, very high corporate income and corporate capital gains taxes, high workers' compensation costs, a high level of state and local government spending, and a rapid recent increase in government spending. It also is not a right-to-work state, and imposes an added minimum wage mandate.¹³

New Jersey ranked 49th on this index, with Maryland ranking 39th, Pennsylvania ranking 31st, and Virginia ranking 17th.

Entrepreneurship

The Kauffman Foundation measures and reports the Kauffman Index of Entrepreneurship on an annual basis for states and metropolitan areas.¹⁴ Three indices are reported—the Kauffman Index of Startup Activity, which measures new entrepreneurship, the Kauffman Index of Main Street Entrepreneurship, which measures activity associated with businesses that employ fewer than 50 employees and are more than five years old, and the Kauffman Index of Growth Entrepreneurship, which focuses on business growth measures.

Index of Startup Activity

The Kauffman Index of Startup Activity consists of three measures:

- 1) Rate of New Entrepreneurs: “the percent of the...population that became entrepreneurs...in a given month.”
- 2) Opportunity Share of New Entrepreneurs: “the percentage of new entrepreneurs who were not unemployed before starting their businesses.”
- 3) Startup Density: “the number of new employer startup businesses normalized by the employer firm population of an area.”¹⁵

Delaware's startup activity index ranked 20th among the 25 smallest U.S. states by population, down four spots from the state's 2016 rank. Delaware's new entrepreneur rate of 0.20 percent translates to approximately one out of every 500 adults becoming an entrepreneur each

¹² Keating, Raymond J. (2017). *Small Business Policy Index 2017*. Small Business & Entrepreneurship Council, available at <http://sbecouncil.org/wp-content/uploads/2017/02/SBPI2017-21stEdition.pdf>.

¹³ Small Business & Entrepreneurship Council. (2017). “Small Business Policy Index 2017: 2017 Rankings and State Summaries,” <http://sbecouncil.org/resources/publications/small-business-policy-index-2017/>.

¹⁴ Kauffman Foundation. (2017). “The Kauffman Index: Entrepreneurship Series,” <http://www.kauffman.org/kauffman-index>.

¹⁵ Kauffman Foundation. (2017). *The Kauffman Index of Startup Activity: State Trends*, <http://www.kauffman.org/media/b27f0b8eb4a8414295f23870538e5372.ashx>.

month. Approximately 86 percent of Delaware's new entrepreneurs were employed when they decided to start a new business. Delaware's startup density indicates that there were 77 startup businesses for each 1,000 employer firms within the state.

Index of Main Street Entrepreneurship

The three measures comprising the Kauffman Index of Main Street Entrepreneurship index are:

- 1) Rate of Business Owners: "the percentage of the adult population that owns a business."
- 2) Survival Rate of Firms: "percentage of firms...that started operating five years ago and are still in business."
- 3) Established Small Business Density: "ratio of established small employer businesses to the total number of firms."¹⁶

Delaware's Main Street Entrepreneurship Index ranked 23rd among the 25 smallest states in 2016, down two spots from its 2015 ranking. The 5.05 percent rate of business owners indicates that 5,050 of every 100,000 adult Delawareans own a business as their main form of employment. The 49.03 percent survival rate indicates that just under half of firms that started five years ago were still operating. This number has steadily declined from a peak of 56.24 percent in 1986. Delaware's established small business density of 608.2 indicates that businesses older than five years and employing fewer than 50 employees account for just over 60 percent of Delaware's employer firms. This ratio has steadily increased from a low of 491.9 in 1987.

Index of Growth Entrepreneurship

The three measures comprising the Kauffman Index of Growth Entrepreneurship are:

- 1) Rate of Startup Growth: "average growth...of businesses during their first five years of operation."
- 2) Share of Scaleups: "number of firms—as a percentage of all surviving firms ten years and younger—that started out...with fewer than fifty employees, but reached...fifty employees or more by their tenth year of operation."
- 3) High-Growth Company Density: "prevalence of private, high growth companies with at least \$2 million dollars in annual revenue by the final year observed and 20 percent annualized growth over a three-year period."¹⁷

Delaware's Growth Entrepreneurship Index ranked 3rd among the 25 smallest states in 2016, up one spot from its 2015 ranking. The 61.7 percent rate of startup growth indicates that the average 2008 startup grew from 6.2 at founding to 10 employees by 2013. The 1.65 percent

¹⁶ Kauffman Foundation. (2016). *The Kauffman Index of Main Street Entrepreneurship: State Trends*, <http://www.kauffman.org/kauffman-index/reporting/~media/3dde6ad3bee946a2ab153b5a89a2e2fa.ashx>.

¹⁷ Kauffman Foundation. (2016). *The Kauffman Index of Growth Entrepreneurship: State Trends*, <http://www.kauffman.org/kauffman-index/reporting/~media/8a571152db5b46d18e0b19b62e6cc5ef.ashx>.

share of scaleups indicates that approximately 16 of every 1,000 firms 10 years or younger reached more than 50 employees after starting small. Delaware's high-growth company density of 64.7 indicates that there were 64.7 high-growth businesses per 100,000 employer businesses.

Conclusions

Main conclusions from this analysis include:

- **Enterprises with 5,000 or more employees account for nearly 41 percent of private employment and 47.7 percent of payroll in Delaware, rates considerably higher than those found at the national level and among states in region.** Delaware's reputation and legacy as a corporate state has brought considerable advantages, but it may present challenges for efforts to rebalance employment and economic activity toward smaller firms.
- **Delaware's industries vary considerably in terms of composition of large and small businesses, with the Finance and Insurance and Management of Companies and Enterprises sectors tending to be among the largest businesses in Delaware and the Other Services, Construction, Real Estate, and Accommodation and Food Services sectors tending to be smaller businesses.** Industries are not created equally and small business services should not be delivered in equal fashion. The distribution of Delaware's industries across firm sizes can suggest the need for targeted small business assistance aimed at either those sectors that tend to contain small businesses or those that are relatively dominated by large businesses.
- **Small businesses with fewer than 50 employees make up a substantially larger share of the economic activity in Kent and Sussex Counties than they do in New Castle County.** In general, in Delaware's more rural and residential areas, small businesses account for the predominant share of economic activity. In Delaware's more urban and commercial areas, large businesses tend to predominate. These differences across the state suggest potential value in adopting distinct, place-based strategies for small business development efforts in Delaware.
- **Delaware's job creation and destruction statistics indicate cyclical performance histories by firm size, suggesting there is value in having a diverse distribution of employment across companies of various sizes.** Statistics pointing to small businesses as leading the way on net job creation nationally point to the value of adopting a robust small business development strategy. However, Delaware's history of job creation and destruction by firm size suggests that these patterns can be cyclical and manifest themselves differently in Delaware than they do across the nation as a whole. Forecasting the ideal composition of Delaware's business landscape is a guessing game.

What can be said with reasonable confidence is that efforts to build a robust business support ecosystem for businesses of all sizes and ages hold considerable promise for maximizing the growth opportunities of new firms in Delaware while balancing the needs of large, incumbent firms and potential transplants to the state.

- **Minority- and women-owned businesses in Delaware account for a smaller share of total employer firms and employees than they do nationally.** The underrepresentation of minority and women business owners in Delaware suggests the potential need to focus future efforts on developing the entrepreneurial capacity of individuals in these groups. Where these demographics intersect with geographic concentrations of poverty, such as in the City of Wilmington and portions of rural, southern Delaware, the value of such a focus could be particularly significant. Heightened business ownership rates could bring wealth to these communities while stabilizing local real estate markets. As a growing part of the economy, so-called gig economy jobs may represent a significant opportunity to develop “gateway to business ownership” programs aimed at these groups and particularly vulnerable sub-groups (e.g., individuals released from incarceration). Such programs could teach valuable small business planning and management skills while benefitting from the more circumscribed playbook of business planning associated with many of the more popular gig economy players (e.g., Uber, Lyft, and Airbnb).
- **Veteran-owned businesses in Delaware account for a higher share of total employees than minority-owned businesses, while also accounting for a higher share of total receipts than either minority- or women-owned business.** As a state with a relatively large population of future veterans, and one where veterans are already engaged in business ownership to a significant degree, adopting a focus on the development of this demographic as entrepreneurs could pay significant dividends. As a starting point in this regard, the state could seek to simulate many of the services provided by SBA’s Veterans Business Outreach Centers, which are designed to be “a one-stop-shop for transitioning service members, veterans and military spouses looking to start, purchase, or grow a business.”¹⁸

¹⁸ See <https://www.sba.gov/tools/local-assistance/vboc>.

Inventory of Small Business Services in Delaware

In order to provide the Division of Small Business with information on support resources available across the state, IPA conducted an inventory of services and programs that can be utilized by small businesses in Delaware. The inventory included programs and services offered by state, federal, and local government entities, as well as those offered by non-governmental organizations. IPA's research team classified each program according to the type of assistance provided. While all programs included in the inventory are available to small businesses, many are not designed exclusively for them. The inventory reflects best available information gathered by the IPA team from July through September 2017. The complete inventory contents may be reviewed in the separate report, *Inventory of Small Business Assistance Programs in Delaware*, which is made available on the IPA publications webpage (<http://www.ipa.udel.edu/publications/>).

The following section reviews the methodology used to inventory and classify support services and programs. A general overview of findings is provided, along with a more detailed analysis of programs and services provided by the following organization types: (1) state government, (2) federal government, (3) local government, and (4) non-governmental.

This section concludes by summarizing the following key issues identified during the inventory process:

- Programs and services targeting women, minorities, and veterans are limited in number and focus primarily on business planning and the pursuit of public procurement contracts.
- There are many incentives and programs available to Delaware businesses. However, the lack of a single source to acquire complete information on programs may reduce awareness of and accessibility to these services.
- No organization serves as a central coordinator that can direct businesses to the service providers who can best address their needs.
- Many programs have specific purposes that may limit the number of businesses eligible for assistance.
- There are a limited number of incentive and support programs designed to address the needs of early stage entrepreneurs and build the capacity of small businesses to expand.

Methodology

IPA's project team reviewed service provider websites, examined relevant program documents, and conducted informal interviews with key stakeholders who provide support services to small businesses in Delaware. Support services and programs were classified into the following four categories: Business Planning, Capital Acquisition and Site Selection, Operations, and Market Development.

Business Planning

This category includes programs and services that assist individuals with establishing a business through activities such as identifying supply and demand for products and services, developing a business plan, and navigating the licensing process. Generally, programs in this category provide individuals with access to one-on-one technical assistance, educational courses, or virtual self-guided toolkits.

Capital Acquisition and Site Selection

This category includes programs and services that provide support to companies through loans and grants, assistance with capital acquisition and site selection, and access to incubation sites. In general, programs in this category are financial incentives with specific application guidelines or incubation centers that provide early-stage companies with a physical location and on-site technical assistance and coaching.

Operations

This category includes programs and services that provide small businesses with direct and indirect support for operational activities such as marketing, regulatory compliance, accounting, management, process improvement, networking/advocacy, and employee training. Programs in this category generally include hands-on technical assistance, networking forums, advocacy platforms, and offices within governmental entities that assist small business owners in navigating regulatory requirements.

Market Development

This category includes programs and services that assist small businesses in expanding their market and customer base. In general, programs in this category help business owners with tasks such as expanding into the online marketplace, navigating government procurement processes, and broadening their presence into foreign markets.

In addition to classifying programs into these four categories, the project team identified whether programs engaged in targeted assistance, with targeted assistance defined as programs and services aimed at specific classes of businesses based on their industry, ownership type, stage of development, or location.

Overview of Findings

The IPA project team identified 73 service providers offering approximately 275 specific programs and services available to small businesses across Delaware.¹⁹ Most of the programs offered were included in the capital formation category (150), followed by operations (101), market development (33), and business planning (27). State and local government entities primarily provide programs related to capital formation (90), while non-governmental entities focus on programming related to operations (72) and business planning (17). Federal government entities, while primarily providing programs and services related to capital formation (40), also offer a fair number of programs in the operations (12), market development (10), and business planning (7) categories. In summary, government entities generally support small businesses through financial incentives, loans, and grants, while non-governmental entities tend to provide technical assistance related to business planning and operations. Table 19 details the total number of programs and services broken down by service provider classification and program type.

Table 19. Programs and services by service provider classification and program type

Service Provider	Business Planning	Capital Formation and Site Selection	Operations	Market Development
State	1	51	11	6
Non-Governmental	17	20	72	16
Federal	8	40	13	10
Local	1	39	5	1
Total	27	150	101	33

Source: Institute for Public Administration, 2017.

Note: One local program was not classified due to lack of information.

¹⁹ Note: These findings reflect research completed in September 2017.

State Government Entities

During the inventory process, 11 state government entities were identified as service providers to small businesses—the Departments of Agriculture, Finance, Labor, Natural Resources and Environmental Control, State, and Transportation; the Divisions of Libraries and Small Business; the Offices of State Planning Coordination and Management and Budget; and the State Housing Authority. These entities provided 65 identified support services and programs, with the majority related to capital formation and site selection (51) and the remainder focused on operations (11), market development (6), and business planning (1). Of these 65 programs, 6 were advertised as targeted exclusively at small businesses.

At the state level, capital formation and site selection programs are generally incentive-based programs focused on providing support to a specific industry or type of business, such as the Specialty Crop Block Grant Program, the Delaware Green Energy Fund's Research and Development Program, and the State Small Business Credit Initiative. Programs like the Heavy-Duty Vehicle Rebate Program and the Delaware Rural Irrigation Program (DRIP) Revolving Loan Fund are used to subsidize certain capital purchases. Others, such as the Work Opportunity Tax Credit and Veterans' Opportunity Credit, serve as hiring incentives.

State-administered operations programs are primarily related to job training and regulatory assistance. Example programs include the Department of Labor's job-site training program and assisting business owners with regulatory compliance through the Department of Natural Resources and Environmental Control's Small Business Assistance Program.

Market development programs are primarily aimed at assisting businesses with navigating state procurement procedures, with the only identified business-planning-related program offered by the Delaware Division of Libraries.

Identified programming for women (3), minorities (3), and veterans (3) is limited in quantity and primarily related to helping these groups expand their businesses into government contracting. There is also a hiring incentive for companies that employ veterans.

Approximately 25 programs are aimed at supporting specific industries and types of companies such as:

- Agriculture
- Construction
- Early stage
- Energy
- Finance
- Freight
- Industrial
- Innovation/Technology
- Research and development
- Telecommunications

In general, these programs are either financial or hiring incentives provided to accelerate the development of these industries.

Other primary areas of targeted assistance include:

- ADA compliance and accessibility
- Energy efficiency
- Hiring incentives
- Infrastructure and environmental remediation
- Job training
- Targeted geographic area development and historic preservation

Of these areas, hiring incentives (11), targeted geographic area development and historic preservation (6), and job training (5) were the most common.

Non-Governmental Organizations

IPA identified 49 non-governmental organizations as service providers to small businesses in Delaware. These entities provide 106 identified support programs and services, with the majority of these related to operations (72), followed by capital formation and site selection (20), business planning (17), and market development (16). Of these 106 programs, 23 were advertised as targeted exclusively for small businesses.

Identified programs designed specifically for minorities (7) and women (2) were limited, and none aimed at veterans were found. Additional targeted assistance programs include those to assist low-income individuals (2) and ones that support the hiring and training of individuals with intellectual disabilities (3). In general, targeted support for women and minorities is offered through service providers or programs that focus exclusively on a particular

demographic. For example, the First State Community Loan Fund houses a Women's Business Center, the Hispanic Business Development Program, and multiple partnerships with community development corporations in the City of Wilmington. Programs offered by these entities are generally all inclusive and focus on helping individuals with business planning, identifying opportunities to pursue capital assistance, and improving operations.

Operations-related programs offered by non-governmental organizations tended to focus on advocacy and networking. Examples include the many services provided by chambers of commerce and business interest groups located across the state. Programs in this category also focus on providing individuals with technical assistance in areas related to general business operations. The Small Business Development Center and Delaware Center for Enterprise Development, for example, provide multiple programs of this nature.

Programs related to capital formation and site selection are generally related to incubation sites such as the Delaware Technology Park or loans and grants provided by institutions such as First State Community Loan Fund and First State Innovation. University- and community-based organizations are the primary service providers for programs related to business planning and market development.

Approximately 27 programs are offered to support specific industries and types of business such as:

- Agriculture
- Bioscience
- Chemistry
- Early stage
- Energy
- Food service
- Manufacturing
- Mid-size businesses
- Non-profit small businesses
- Research and development
- Retail
- Technology and innovation

Other primary areas of targeted assistance include:

- Cybersecurity training
- Disaster relief
- Job training
- Networking/advocacy
- Targeted geographic area development
- Youth development

Networking and advocacy (27) and targeted geographic area development (4) were the most numerous targeted assistance programs.

Federal Government Entities

Three federal government entities were identified as providers of support programs and services to Delaware small businesses. Through the U.S. Department of Agriculture, the U.S. Economic Development Administration, and the U.S. Small Business Administration, federal government entities provide 58 identified small business assistance programs in Delaware. The majority of this programming is related to capital formation and site selection (40), followed by operations (12), market development (10), and business planning (7). Of these 58 programs, 18 were targeted to support small businesses specifically.

Federal capital formation and site selection programs focus on giving small businesses access to financial resources. As with state programs, some of these financial resources are targeted toward specific industries, types of business, and geographic areas.

Federal programs related to operations include mentoring programs and hands-on technical assistance to help business owners improve general operations and manage their businesses more effectively. Market development programs such as the Emerging Markets Program and Trade Adjustment Assistance for Firms assist businesses with entering export markets. In addition, the 8(a) Business Development Program assists women and minority business owners in gaining access to federal procurement and service contracts. Business planning programs are provided primarily by the Small Business Administration, with some targeted to assist specific groups such as women, minorities, veterans, and Americans over 50 years old.

Identified programming designed specifically for women (6), minorities (4), and veterans is related to offering technical assistance, financial support, and guidance regarding public procurement procedures and contracts.

Approximately 27 programs are offered to support specific industries and types of businesses such as:

- Agriculture
- Construction
- Early stage
- Energy
- Manufacturing
- Research and development
- Seasonal
- Technology and innovation
- Telecommunications

Other primary areas of targeted assistance include:

- Targeted geographic area development
- Networking and advocacy
- Entrepreneurs 50 and older

Of these areas, targeted geographic area development (7) and networking and advocacy (5) were the most common types.

Local Government Entities

IPA identified 11 local government entities that provide distinct programs and services to support small businesses in Delaware. These entities provide 46 identified programs, with the majority being related to capital formation and site selection (39), followed by operations (5), business planning (1), and market development (1). Of these 46 programs, 7 are focused specifically on small businesses. One program could not be classified due to insufficient information. The research team anticipates that more than 46 programs are offered by local governments in Delaware, although details on them were not readily discoverable.

Capital formation and site selection programs offered by local government entities in Delaware primarily relate to tax and fee exemptions, although some are tied to hiring incentives or promoting development in a specific area. A few local government entities offer technical assistance programs to assist small businesses with general operations. Only the City of Wilmington offers identified business planning and market development programs.

The City of Wilmington offered the only identified programming targeted for women (1) and minorities (1). These programs aim to increase the number of women- and minority-owned businesses awarded contracts and procurement bids with the city.

Six programs are offered to support specific industries and types of businesses such as:

- Commercial
- Early stage
- Manufacturing

Other primary areas of targeted assistance include:

- Energy efficiency
- Hiring incentives
- Job training
- Networking and advocacy
- Targeted geographic area development and historic preservation
- Vacant properties and environmentally distressed areas

Among these areas of assistance, targeted geographic area development and historic preservation (7) and hiring incentives (3) programs were the most common.

Key Issues

Several key issues were identified through the program review and informal interview process:

1. **Programs and services targeting women, minorities, and veterans are limited in number and focus primarily on business planning and the pursuit of public procurement contracts.** While available programs are beneficial to these groups, interviewees expressed the need to do more to ensure equitable opportunities for small business ownership, particularly in the most disadvantaged regions of the state.
2. **There are many incentives and programs available to Delaware businesses. However, the lack of a single source to acquire complete information on programs may reduce awareness of and accessibility to these services.** Navigating websites to acquire information on available incentives and locate service providers with relevant programs can be a daunting process for existing or potential small business owners. Streamlining access to information is a critical requirement for ensuring small business owners can and will receive necessary support.
3. **No organization serves as a central coordinator that can direct businesses to the service providers who can best address their needs.** This issue has created a situation where many service providers must devote significant time and resources to conducting intake and delivering basic support services--efforts that can detract from a focus on the areas in which these organizations have the greatest expertise.

4. **Many programs have specific purposes that can greatly limit the number of businesses eligible for assistance.** Programs are generally established to address a particular need that is relevant at the time of establishment. However, once many of these programs are created they remain active, even after the acute issue they were created to address has been resolved.

5. **There are a limited number of incentive and support programs designed to address the needs of early stage entrepreneurs and build the capacity of small businesses to expand.** Equity and credit are not readily available for many small businesses because they are too risky to finance, have not established relationships with potential funders or a strong credit history, and often lack assets to use as collateral. Interviewees identified a lack of bridge loans, early stage financing, and gap financing as significant issues in Delaware. These funding sources are critical for small businesses since they help them to become established and grow, make payroll, and continue to operate as business expansions and enhancements are implemented.

What Small Business Assistance Efforts Work?

In order to adequately address the question of “what small business assistance efforts work?,” the state and its partners will need to adopt a mission statement and related goals and objectives to target future efforts. Absent these guiding principles, any “solutions” run the risk of solving a problem that either doesn’t exist in Delaware or is not recognized as a priority.

This section summarizes literature on why the public sector might consider acting to address small business performance and what broad policies show promise in this regard. Further, IPA conducted research, including informal interviews with government professionals in nearby states, to identify the types of programs being used by peer economic development agencies. In light of the business snapshot and support service inventory completed for this project, this section concludes with an initial assessment of strategic opportunities that the Division of Small Business could consider pursuing.

Initial strategic opportunities for Division consideration include:

- Compiling, curating, and communicating a compendium of small business service providers and technical assistance programs available in Delaware.
- Acting as a coordinator of small business service providers and programs in Delaware to avoid duplication of efforts and maximize responsiveness to small business needs.
- Streamlining small business incentive program offerings and application requirements.
- Considering additional programming to address the particular needs and opportunities associated with young small businesses seeking to expand; minority-, veteran-, and women-owned businesses; and segments of the workforce that are challenging to place in employment opportunities.
- Adopting and encouraging the development and refinement of distinct, place- and region-based strategies for economic development efforts in Delaware.
- Developing logic models that connect Division goals and programs and identify metrics that will be used to measure and evaluate program outputs and outcomes.
- Identifying and tracking a suite of economic development performance indicators and data sources that can be used for communicating about general economic development progress and evaluating specific programs and expenditures, including incentive programs.

Rationale for Small Business Development Programming

The general rationale for public sector involvement in economic development policy is that government intervention can correct market failures and generate additional employment that adds more tax revenue than the public involvement requires or reduces the level of unemployment or underemployment within a region.²⁰ New businesses that primarily sell goods and services outside the market area (i.e., export) can be particularly beneficial since they bring new market activity rather than simply crowding out existing activity. Businesses that sell locally can also be beneficial if they allow for the local purchase of goods and services that previously had to be purchased outside the market area (i.e., import substitution).

Small business development efforts can be justified by developing or expanding new export opportunities or import substitution firms. Even if small businesses sell mostly locally, development efforts may still be justified if the economy is expanded “by hiring persons who are hard to employ[:]...one rationale for aid to new minority businesses, which may be more likely to hire nonemployed minorities.”²¹ Efforts to develop small businesses may also be justified on the basis of developing the capacity of individuals to become entrepreneurs. Retention efforts may be justified since “local businesses are tied to the local area by the advantages of using their customary local labor force, local suppliers, and other local institutions [while] attraction programs run the risk of wasting...resources on firms for which the local area has no chance.”²²

Market failures associated with small business development include the lack of information that businesses may have about business planning or particular business operations—with differences in information particularly acute between large and small businesses. Small businesses may also lack the resources necessary to invest appropriately in workforce or capital development initiatives, a situation upon which government could act.

²⁰ Bartik, Timothy, J. (2003). “Local Economic Development Policies,” Upjohn Institute Working Paper No. 03-91, http://research.upjohn.org/up_workingpapers/91/.

²¹ Ibid, p. 26.

²² Ibid, p. 20.

What Works, Broadly?

The level of entrepreneurship and small business development in an area depends on both the characteristics of individuals and the characteristics of the region. A review of scholarly literature related to small business development and entrepreneurship suggests promising policy approaches can be found in the following areas:

- Policies aimed at broadly encouraging population growth.
- Reduced taxes and costs to firm entry.
- Business support services.
- Startup financing assistance.
- Creation of entrepreneur and sector-specific forums to encourage networking and mentoring relationships.
- Policies that improve educational outcomes.
- Support for public services and infrastructure.²³

Findings from a Review of Peer Economic Development Programs

In order to assess the state of economic development practice among Delaware's peer and competitor states, IPA conducted research on small-business-related economic development incentives and programs from states in Delaware's general region. This research involved examining economic development program websites and documents and conducting 16 informal interviews with professionals from Maryland, New Jersey, and Pennsylvania. Economic development programs and resource materials reviewed for this research are listed and outlined in the appendix to this report. General findings from this inventory and assessment of regional programs are reported in the following four sections.

Program Overload

Results from this research suggest that it is very difficult for most people—including economic development professionals—to identify and understand all of the programs and incentives that states offer for small business development. On a related note, interviewees identified the cumbersome nature of applying for and reporting on incentives as a potential deterrent to their use. A common perception among interviewees is that incentives may also go unused because they are narrowly tailored to address specific geographic or demographic challenges.

²³ Mix, Troy D. (2012). "The Effectiveness of Entrepreneurship Policies: Review and Discussion," p. 13.

Money Is Key

Though incentives can be problematic, interviewees tended to identify programs that put money directly into the hands of small business owners early in their development as key. Interviewees suggested several methods for accomplishing this—providing job creation tax incentives; waiving fees for small businesses and start-ups; and enabling low-interest loans, gap financing, or direct, zero percent interest financing for qualified businesses. Incubator space was identified as another key area for small businesses trying to establish themselves, though there was some hesitation expressed around direct government management of these spaces. The TEDCO program in Maryland was offered as an example of how a state could help provide small and growing businesses with access to privately owned incubator spaces.

Workforce Matters

Interviewees consistently identified the need for workforce training and training for existing and potential small business owners. Respondents echoed common concerns that there are jobs available that can't be filled due to a lack of knowledge or experience in the workforce. One interviewee noted that businesses may have less incentive to train their employees than they did in the past due to the increased mobility of highly skilled personnel. Workforce development tax incentives could offer a clear opportunity for companies to provide more and better training for their employees, with benefits expected to trickle down to firms of all sizes, even if larger companies tend to be the initial, direct recipients of these incentives.

Interviewees also felt that many small businesses owners do not have enough knowledge of the steps and skills necessary to start, manage, and expand their businesses. Local SBDC and SCORE branches were identified by almost everyone as key resources for training and assistance.

Consider Place

Interviewees identified significant opportunities to implement place-based initiatives and market regions or local areas more effectively. Professionals that work in more localized settings specifically pointed to Main Street programs or incentive district programs offered by states as keys for their economic development efforts. Interviewees often expressed that these programs had positive impacts on the brand of local areas, in addition to any associated financial incentives that may help to drive more business to these areas. Examples cited as successful place-based initiatives are the Maryland Arts and Entertainment District incentives, the Pennsylvania Keystone Communities Program, and a “shop local” initiative that was spearheaded by New Jersey's SBDC in recent years.

Strategic Opportunities for Consideration

Based on analysis of existing business conditions in Delaware, the small business services offered in Delaware, and trends in economic development practice, the following represent strategic opportunities for consideration by the Division of Small Business:

Compile, curate, and communicate a compendium of small business service providers and technical assistance programs available in Delaware.

The Division could compile a detailed compendium of incentives, support programs, and services that provides small business owners with answers to the following questions:

1. What is the incentive or program?
2. What is the application process?
3. What is the benefit that will be received?
4. How will the application be evaluated?
5. What is the process to receive the benefits of the incentive?²⁴

Ideally, this compendium would be easily accessible online and allow small business owners to search for incentives, programs, and services based on specified criteria. The resource would need to be updated regularly and advertised as the go-to source for small business support resources in Delaware.

Act as a coordinator of small business service providers and programs in Delaware to avoid duplication of efforts and maximize responsiveness to small business needs.

The Division could serve as a coordinator of resources to help direct businesses to the most appropriate service providers and promote strategic collaborations to improve program quality. Currently, many service providers are engaging in support work, but there is a sense that some are operating in silos and that no one is strategically coordinating resources. If the state can successfully direct people to appropriate programs, it may allow specialized service providers to avoid spending time on intake and general services. This could be achieved by: (1) developing a virtual, user-friendly portal; (2) creating a liaison position in each county to help business owners with licensing and start up, navigating regulations, and acquiring assistance and support; and/or (3) producing a packet of resource information that can be shared with new businesses when they receive their license.

Streamline small business incentive program offerings and application requirements

The State of Delaware offers many incentive and rebate programs. However, these programs often have rigid application requirements. In general, many of these programs were created to address specific issues at particular points in time that may no longer be relevant. Improving

²⁴ For instance, is the incentive a rebate program for work that has already been completed, or does the potential recipient need to receive approval to complete the project before they begin working on it to receive funding?

the responsiveness and flexibility of incentive programs offered to small businesses could allow more resources to be directed quickly to the businesses that need it most. This improved flexibility and responsiveness could be achieved through the creation of a new fund that is designed to address short-term economic needs for specific industries. In addition, a review of all current incentive programs could be conducted to determine whether existing funding could be appropriated in a more effective way.

Consider additional programming to address the particular needs and opportunities associated with young small businesses seeking to expand; minority-, veteran-, and women-owned businesses; and segments of the workforce that are challenging to place in employment opportunities.

Either through direct service provision or working collaboratively with established service providers, the state could provide additional support services to small businesses. Beneficial programs could include providing vetted businesses with access to a line of credit, early stage funding, gap financing, and/or micro-loans (\$50k or less). To mitigate the risk of financing small businesses, policies such as allowing them to use signed contracts as collateral, underwriting, or a guardian angel risk pool could be implemented. Funding should also be paired with technical assistance, mentoring, coaching, and incubation opportunities. While business owners have a marketable expertise, they may lack relationships in the industry and capacity in back office areas such as HR, payroll, and regulatory compliance. Providing businesses with access to capital, work opportunities, and the ability to build capacity, learn, and make mistakes is perhaps the best way to help them grow sustainably.

Further, minority, veteran, and women business owners have needs that are not always adequately met by traditional business support programming. To ensure that they receive relevant services the following should occur: (1) their particular needs should be identified through community outreach, (2) programs should be developed and branded specifically for them, and (3) a trusting environment with ongoing, consistent support should be created. The strategic use of partnerships with Community Development Corporations (CDC) and Community Development Financial Institutions (CDFI) may enable access to disadvantaged communities to assess their needs and provide support. Efforts to target these groups should also consider broader opportunities to incentivize the employment of individuals from these and other often underrepresented demographics.

Adopt and encourage the development and refinement of distinct, place- and region-based strategies for economic development efforts in Delaware.

Though Delaware is a small state, the environment for small business activity varies considerably across and within Delaware's counties. While large-scale regional initiatives like GO Virginia and New York State's Regional Economic Development Councils may be too intensive for Delaware, consideration should be given to at least informally designating several

Delaware regions for economic development. These regions would represent distinct geographies with significant differences on dimensions like urban or rural character, the prevalence of certain industries, and economic outcomes (e.g., poverty rates and unemployment levels). The state could seek to actively plan for and implement economic development programs at this scale, with outcome measures tracked regularly and state employees appointed as liaisons to these regions to coordinate efforts among local stakeholders.

Develop logic models that connect Division goals and programs and identify metrics that will be used to measure and evaluate program outputs and outcomes.

Following guidance provided by the “Redefining Economic Development Performance Indicators for a Field in Transition” report cited in this report’s appendix, the Division should seek to develop a logic model understanding of its mission, goals, and programs to provide a straightforward basis for communicating about organizational and program goals while also establishing basic parameters for evaluating activities. In addition to providing internal clarity about program intent, this effort could address perceptions of a “lack of transparency,” while addressing calls to “produce an annual report detailing the status of...efforts to meet...outcomes.”²⁵

Identify and track a suite of economic development performance indicators and data sources that can be used for communicating about general economic development progress and evaluating specific programs and expenditures, including incentive programs.

In connection with the opportunity outlined immediately above, the Division should seek to extend the logic model concept by identifying and tracking performance metrics aimed at monitoring and assessing both broad programmatic and organizational progress and specific project impacts. This effort would help the Division to generate the annual report outlined in DEDO’s 2015 Sunset Committee Review Report, while also speaking to demands for “analysis to determine the return on investment produced through the strategic fund.”²⁶ Further, the development of a data dashboard and evaluation framework could help to improve on Pew’s assessment of Delaware as “trailing other states because it lacks a well-designed plan to evaluate tax incentives.”²⁷

²⁵ Watson, Verity and Holly Wagner. (2015). “Joint Sunset Committee 2015 Final Report: Delaware Economic Development Office,” p. 9.

²⁶ Ibid.

²⁷ Pew Charitable Trusts. (2017). “How States Are Improving Tax Incentives for Jobs and Growth,” <http://www.pewtrusts.org/en/research-and-analysis/reports/2017/05/how-states-are-improving-tax-incentives-for-jobs-and-growth>, p. 41.

Appendix. Business and Economic Development Programs and Resource Materials

The following state and national programs and resource materials were identified and reviewed in an effort to understand the offerings of peer states and provide a series of options for consideration as the Division of Small Business develops and refines its strategy for business and economic development support.

Maryland

- **ADVANCE Maryland** (<http://commerce.maryland.gov/fund/programs-for-businesses/advance-Maryland>)
 - “ADVANCE Maryland, in partnership with the National Center for Economic Gardening, is a program for second-stage entrepreneurs that helps businesses address their unique challenges and identify new opportunities. Economic Gardening is a "grow from within" strategy targeting existing growth companies and offering them critical strategic information customized to their needs. This information can be key to propelling the company to its next phase of growth. ADVANCE Maryland is Maryland's adaptation of economic gardening.”
- **TEDCO** (<http://tedco.md/about-us/who-we-are/>)
 - “TEDCO is an independent organization that strives to be Maryland’s lead source for entrepreneurial business assistance and seed funding for the development of startup companies in Maryland’s innovation economy.”

New Jersey

- **Premier Lender Program**
(http://www.njeda.com/financing_incentives/programs/Premier-Lender-Program)
 - Partnership by the New Jersey Economic Development Authority with banks to provide low-interest loans to small businesses.
- **Grow NJ** (http://www.njeda.com/financing_incentives/Programs/grow_nj)
 - A job creation and retention tax credit program by the New Jersey Economic Development Authority that provides participating businesses that are creating or retaining jobs in New Jersey tax credits ranging from \$500 to \$5,000 per job, per year, with bonus credits ranging from \$250 to \$3,000 per job, per year (award amounts vary based on applicable criteria).

New York

- **Regional Economic Development Councils** (<https://regionalcouncils.ny.gov/>)
 - New York's ten Regional Economic Development Councils are public-private partnerships that develop long-term, strategic plans for regional economic development and advance projects and initiatives for state funding consideration through a competitive process. State funding in the amount of \$716.9 million was awarded across the ten regions in 2016.
- **Excelsior Jobs Program** (<http://www.nysedc.org/economic-incentive/excelsior-program/>)
 - The Excelsior Jobs Program provides various tax credits to encourage businesses to expand in and relocate to New York while maintaining strict accountability standards to guarantee that businesses deliver on job and investment commitments.

Pennsylvania

- **Keystone Communities Program** (<http://dced.pa.gov/programs/keystone-communities-program-kcp/>)
 - "The Keystone Communities (KC) program is designed to encourage the creation of partnerships between the public and private sectors that jointly support local initiatives such as the growth and stability of neighborhoods and communities; social and economic diversity; and a strong and secure quality of life. The program allows communities to tailor the assistance to meet the needs of its specific revitalization effort."
- **Keystone Innovation Zones** (<http://dced.pa.gov/programs/keystone-innovation-zone-tax-credit-program/>)
 - "An incentive program that provides tax credits to for-profit companies less than eight years old operating within specific targeted industries within the boundaries of a Keystone Innovation Zone (KIZ)."
- **Ben Franklin Technology Partners of Northeastern Pennsylvania** (<https://nep.benfranklin.org/>)
 - "Ben Franklin Technology Partners makes seed investments in early-stage technology companies, funds innovation in established manufacturers, and supports clients with in-house experts and a network of proven technical and business resources."

Virginia

- **GO Virginia** (<http://www.govirginia.org/> & <http://www.dhcd.virginia.gov/index.php/go-virginia.html>)
 - GO Virginia, a.k.a. the Virginia Initiative for Growth & Opportunity in Each Region, charges nine public-private regional councils with developing Economic Growth and Diversification Plans that establish regional economic development goals and priorities and outline potential projects for grant funding. Councils may apply for capacity building and competitive grants through the Virginia Growth and Opportunity Fund to support their organizational development and projects addressing eligible regional activities.

Nationwide

- **SourceLink** (<http://www.joinsourcelink.com/>)
 - Founded by the Kauffman Foundation and the University of Missouri–Kansas City, SourceLink is an entrepreneurship ecosystem building framework aimed at identifying and mapping resources, connecting entrepreneurs and champions, empowering the network to work on entrepreneurship, and measuring impacts resulting from entrepreneur engagement with the network.
 - The SourceLink site highlights numerous applications focused on business resource mapping and entrepreneurial ecosystem measurement:
 - Business resource mapping:
 - <http://www.kcsourcelink.com/>
 - <http://www.networkkansas.com/>
 - <http://www.loudounsmallbiz.org/>
 - <http://www.thecommons.co/resource-navigator/>
 - <http://www.centralvirginia.org/small-business-development-center/resources/>
 - Entrepreneurial ecosystem measurement:
 - <http://www.joinsourcelink.com/measure>
 - <http://www.joinsourcelink.com/measure/biz-trakker> – Biz-Trakker® Client Management System
 - <http://www.kcsourcelink.com/wecreate/jobs>

- **Overview of Performance Indicators for Economic Development**
 - Once the almost exclusive domain of proprietary deal-making, economic development practice is evolving to reflect greater calls for transparency and accountability. In “Redefining Economic Development Performance Indicators for a Field in Transition,” the Center for Regional Economic Competitiveness outlines the following recommendations for integrating performance indicators into agency practice:
 1. Connect metrics to program activity. Develop and document the logic model for each economic development program to articulate explicitly how inputs (investment or activity) are expected to translate into outcomes.
 2. Consider adopting performance indicators that address job quality and business dynamics...
 3. Report program-related outcomes as distinct from broader economic benchmark indicators.
 4. Evaluate data source options, including the feasibility, quality, and availability of data when selecting indicators.
 5. Determine which indicators can be used to understand economic inclusivity within the state’s overall economic development portfolio...
 6. Create a communication plan to drive productive use (and accurate dissemination) of economic development program outcome data.²⁸

²⁸ Center for Regional Economic Competitiveness. (2017). “Redefining Economic Development Performance Indicators for a Field in Transition,” <http://creconline.org/wp-content/uploads/2017/07/Redefining-Economic-Development-Performance-Indicators-for-a-Field-in-Transition-CREC-2017.pdf>, p. 2.

- **Overview of Pew Charitable Trusts Research on Economic Development Tax Incentives**
 - The Pew Charitable Trusts work on economic development tax incentives aims to “advance policies that make tax incentive programs effective, accountable and fiscally sound.”²⁹
 - Pew suggests three general strategies for making sure that data can inform incentive use:
 - Share relevant data.
 - Ensure data are high quality.
 - Analyze data effectively.³⁰
 - Pew captures their research on incentives, including evaluating each state’s incentives evaluation policies, in its 2017 report, “How States Are Improving Tax Incentives for Jobs and Growth”:
<http://www.pewtrusts.org/en/research-and-analysis/reports/2017/05/how-states-are-improving-tax-incentives-for-jobs-and-growth>

²⁹ Pew Charitable Trusts. (2017). “Where We Work,” <http://www.pewtrusts.org/en/projects/economic-development-tax-incentives/about>.

³⁰ Pew Charitable Trusts. (2016). “Better Incentive Information,” <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/04/better-incentive-information>.



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