QUICKNOTES

Planning fundamentals for public officials and engaged citizens

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Planning to Support Small Businesses

Traditionally, economic development practice has focused disproportionately on attracting and retaining large employers. In some communities the potential rewards associated with business attraction make the investment worthwhile. In many others, though, focusing on supporting small businesses is a better bet than competing against neighboring or peer communities for the "big fish." The following sections explain the economic importance of small businesses, describe the three basic stages of small business development, and highlight three broad strategies for supporting small businesses through local planning efforts.

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Downtown Greenville, South Carolina, exemplifies a well-designed, amenity-rich environment for growth-oriented Stage Two businesses.

Background

According to Youreconomy.org, the percentage of workers in the U.S. employed by businesses with less than 100 employees increased from 56 to 62 percent between 1995 and 2013. This means the average business is getting smaller. While much of this trend has been driven by corporate downsizing, there is a distinct silver lining for most cities and counties: small business growth.

Homegrown businesses can have catalytic effects beyond those of traditional large employers. Luring big businesses is often a zero-sum game. The "winning" community gains jobs, but the employer's former home loses the same number. Meanwhile, local entrepreneurs create new jobs, and those jobs lead to increased local spending and wealth creation. Small businesses are more nimble than large employers. They can respond to market or technology changes more quickly, and if they fail, they have a much smaller proportionate effect on the local economy. Finally, homegrown businesses that make it big are more likely to invest in their communities through civic participation and philanthropic support than large employers that chose their location after shopping for tax incentives.

Virtually all communities have opportunities to nurture local entrepreneurs. Because it's hard to predict which specific businesses will succeed or fail, it makes sense to approach small business development like gardening. The goal is to create a supportive environment for starting and growing businesses without overestimating local control over individual business success or failure.

When considering strategies to support small business growth, it can be helpful to think about small businesses in three distinct phases: Sole Proprietorships, Stage One Businesses, and Stage Two Businesses. Successful small businesses may remain small, or they may progress through these stages of growth on their way to becoming major employers. In the Sole Proprietorship stage, there is no distinction between the business and the owner. In Stage One, the business has between two and nine employees. Finally, there is Stage Two, where the business has between 10 and 99 employees. While the businesses within a particular stage can vary dramatically in terms of the goods or services they provide, they often have similar business development needs.

Make Space

All businesses need space to operate. For Sole Proprietorships this often means a home office or a live-work space. For Stage One businesses this might mean a small office or storefront, or it could mean a shared office space or production facility. Meanwhile, most Stage Two businesses require traditional office suites or production facilities.

Making space for small businesses starts with identifying appropriate locations for different types of small business activities in the local comprehensive plan. Then it's important to make sure antiquated zoning is not stifling start-ups and small business growth. This may require updating regulations for home-based

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businesses and other types of live-work spaces, or adding new definitions and use permissions for mobile retail, flex space, small-scale manufacturing facilities, shared offices, and business incubators.

Some cities and counties may also invest in publicly owned incubator spaces, community kitchens, or open workshops for industrial designers and craftspeople (i.e., maker spaces). These facilities can be helpful in nurturing specific small business sectors and helping promising Sole Proprietorships and Stage One businesses make the leap to the next stage of development.

Invest in Place

Talented entrepreneurs and workers are attracted to communities with a strong sense of local identity and a high quality of life. Sole Proprietors often need access to coffee shops or parks for informal meetings. Many Stage One business owners are looking for transit-accessible neighborhood business districts that help them meet, share ideas, and build relationships with customers and competitors alike. Meanwhile, most Stage Two businesses want high-status or high-visibility locations in areas where related businesses cluster. Often these are locally or regionally significant business districts with distinct architecture and well-designed streets and public spaces.

Investing in place starts with identifying a vision for each business district in the local comprehensive plan and supplementary subarea plans as necessary. Then it's important to align the local capital improvements program with these visions. Strategic investments in infrastructure and the public realm can improve quality of life by making it convenient and attractive for small business owners and workers to walk, bike, or take public transportation work and by improving access to parks and other public open spaces. Similarly, investments in streetscape improvements, public art, and special events can help reinforce local character and foster a sense of community.

Lend a Helping Hand

Most small businesses need technical or financial assistance in order to grow. Sole Proprietorships often need help navigating licensing and permitting processes. Growth-oriented Stage One business owners may need training and help in identifying capital investors. Similarly, Stage Two businesses may need specialized market research, peer-to-peer learning opportunities, and information about potential funding in order to expand.

Lending a helping hand starts with identifying target sectors for assistance in the local comprehensive plan. Then it's important to design economic development programs that address correctable market failures. Not all small businesses can or will succeed. The goal is to grow an entire sector without investing too heavily in any one specific business, and not to prop up marginal businesses with little growth potential. As a result, local incentives should only be offered for a limited time; perpetual need for a specific incentive is a sign that the market isn't ripe.

Summary

Rather than simply competing with peer or neighboring communities for large employers, it often makes more sense to redirect economic development efforts toward fostering and nurturing homegrown small businesses. While local governments have relatively little influence over the markets for most specific goods and services, they can play important roles in creating a supportive environment for small business growth. For example, planners, local officials, and others engaged in the local planning system can make space for small businesses to grow, invest in capital projects and special events that improve quality of life, and provide technical or financial assistance to targeted sectors.

FURTHER READING

1. Published by the American Planning Association

Lindsey, Lucas. 2015. "Planning for Startup Communities: Investing in Entrepreneurs and a 21st Century Economy." *PAS Memo*, July/August. Available at planning.org/pas/memo/2015/jul.

Moore, Terry, Stuart Meck, and James Ebenhoh. 2006. *An Economic Development Toolbox: Strategies and Methods*. PAS Report No. 541. Available at planning.org/pas/reports.

2. Other Resources

Robbins, Emily. 2014. *Big Ideas for Small Business Report*. Washington, D.C.: National League of Cities. Available at tinyurl.com/zpvoanz.

Rucker, Della. 2014. "The Local Economy Revolution." *PlannersWeb*, September. Available at tinyurl.com/hpb2nmh.