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Half of all businesses fail ... Wrong

By Ron Kitchens

Chief Executive Officer, Southwest Michigan First

Hardly a week goes by that someone does not tell me that age-old tale that "half of all new businesses fail." Well, according to the most definitive study ever done in the United States, these sages of business knowledge are dead wrong.

According to the Ewing Marion Kauffman Foundation, which completed a four-year study of nearly 5,000 start-up businesses, after the first year in business, nearly 50 percent of the companies were profitable and, after the second year, 91 percent of the companies were still in business.

This same Kauffman Foundation study goes on to look at how companies finance their start-up and growth. Fully more than a third of companies started with less than \$25,000 of investment. Of all companies started, only 10 percent relied on outside equity funding, and only 2.7 percent received funding from a venture firm.

Nearly half of all funding came from the entrepreneurs themselves through either savings or credit card debt, with the balance coming from friends and family.

Why are all of these numbers important? They dispel the rumors that to be a successful entrepreneur, you must have access to large sums of money through the courting of funds through venture capital firms. For those companies heavily invested in research and development, large sums are needed but, for most, sweat equity appears to be the most important capital required.

It is also worth noting that old adage that those who have started a company before, regardless of its success, have a significantly better chance of succeeding than a first-time entrepreneur. Again those sages are wrong. After four years of study, nearly 60 percent of those companies still in business were being operated by first-time entrepreneurs. So much for the serial-entrepreneur theory.

So what does this all mean?

As we continue to see companies shedding jobs like Truman, the world's greatest Lab, who sheds hair on my blue suits every morning, we are going to see more men and women consider the opportunity to start new companies. It is critical that we not only have the correct data about what the chances of success are, but that we also have the correct support services in place.

As business people, we face a special responsibility to assist start-up companies. The men and women who start these companies are in need of not just your friendship

and mentorship, which they desperately need, but they are also in need of your business. I challenge each of you reading this today to find a supplier that is locally owned and give them a chance at doing business with your company.

This may be more work for you and your company at first as you mentor them on the process and requirements of doing business with you. But, I assure you, in the end you will not only have created a strong bond with a supplier, you will have increased the strength of our local economy.

As for those of you that do not have the ability to impact purchasing, be conscious this week. Eat at locally owned restaurants and shop at locally owned stores. When you do, ask to speak to the owner and tell him or her how much you appreciate his or her faith and investment in our local community.

Starting and operating a company is tough, but the truth is in Michigan we have no choice. If we are to regain our place as the headquarters of world-renowned companies, we first must build those companies here in Michigan.

Ron Kitchens, www.RonKitchens.com, is CEO of Southwest Michigan First and general partner of the Southwest Michigan First Life Science Fund. He is the author of the recently released book "Community Capitalism: Lessons from Kalamazoo and Beyond," and a frequent speaker on economic growth. Read "The Community Capitalist," the new blog from Kitchens and Southwest Michigan First, at www.mlive.com/business.