

## **Chapter II**

### **Lawrence Working Capital and Program Development**

The Lawrence Minority Business Council-Working Capital program reached over 200 businesses in the first two years of operations with 170 of these business owners forming 27 loan groups. The Lawrence program quickly became the largest of the Working Capital affiliated programs. This has translated into more than 350 loans ranging from \$500 - \$3,000 in the period from July, 1992 to December, 1994. In addition, the Lawrence program has been the most successful of the programs in reaching very low-income populations. Of the 93 business owners to respond to an income survey, 34 reported a family income of less than \$10,000 and more than half (56%) had family incomes less than \$20,000 with a median family income of \$11,200.

To understand the program's effectiveness in reaching these small and often invisible businesses, I have presented a brief background on the formation of the Lawrence Minority Business Council and the manner in which the participating businesses established the micro-lending program.

#### **ESTABLISHING THE NEED**

The Lawrence Minority Business Council was formed in 1989 through an initiative of local minority business owners and social service providers. In response to local civil disturbances in the Hispanic community, the municipal government together with a local social service organization, the Lawrence Gateways Advisory Committee, developed a series of community forums to determine the needs and priorities of the Hispanic community. These forums established Latino business development as a primary concern in the community.

Throughout the 1980's the Hispanic population had grown from 16.3% to 41.6% of the City's population, yet by the end of the decade the community lacked both political and economic power. Latino businesses targeting their products and services to meet the growing demand of this community went largely unrecognized by the predominantly Anglo Chamber of Commerce and City government. Through the community forums, these merchants voiced concerns that they felt isolated, lacked support and access to credit. Merchants complained that the Chamber had not tailored any of its services or focus towards Latino businesses. In addition, Latino business owners stated that they needed representation of their interests on a political/economic level in addition to services in their own language.

In 1991, a study prepared for the EDA by the Lawrence Community Development Department documented the economic opportunities presented by the growing contribution of Hispanic consumers to the Lawrence economy. Stevenson (1991) estimated the buying power of the Hispanic community was between \$138.2 million and \$224.5 million. These estimates were based upon initial estimates on the per capita income and total population of the Hispanic community in Lawrence. Two other studies prepared by consultants reported a large market potential for Hispanic businesses due to the growing population of the community and the preference stated by consumers for Hispanic goods and the growth of Hispanic businesses was hampered by limited access to credit and isolation of businesses.

The growing Hispanic population, the documented purchasing power of this community and the political pressure from merchants encouraged local politicians and civic leaders to identify Hispanic business development as a priority. Through the forums and on-going dialogue with Hispanic community members, the committee identified business development as a priority for the

City. The Mayor's office and Gateways assisted Hispanic business owners to form the Lawrence Minority Business Council.

The Council selected a Board of Directors comprised of area business owners. The board identified the primary goal of the Council to be assisting minority businesses to mainstream into the broader business community both within and outside Lawrence. A significant emphasis was placed on facilitating businesses access to credit to expand and grow and access to new markets. Hispanic businesses have a primarily Hispanic clientele and therefore the board believed they are limited in their growth potential. Board members decided that facilitating access to credit would fill a tremendous need in the community and help to attract businesses into the newly formed association.

Through the efforts of two Board members, Leonor Sanchez and Cesar Camargo, the LMBC decided to implement the Working Capital micro-lending program. Cesar and Leonor learned of the Working Capital program while attending a meeting in New Hampshire and advocated for its implementation in Lawrence.

## **WORKING CAPITAL PROGRAM DESCRIPTION**

Working Capital develops partnerships with community based organizations throughout New England to disburse credit to businesses generally overlooked by traditional banks and public lenders. The community based organization hires part-time enterprise agents, often business persons in the community, to recruit business owners and help form loan groups of 5 to 10 people per group. Enterprise agents serve as the key to loan group development and ultimately to the success of the program. Enterprise agents market the program in the community by setting up orientation meetings and recruiting interested entrepreneurs to join the program. The groups establish by-laws that

govern loan disbursement and repayment, delegation of officer responsibilities and selection of members to officer posts. Enterprise agents find the process of establishing the group can serve as a screen to ensure those that continue are committed to the group. It also provides a period of time by which group members can assess each other prior to starting the loan process.

Sanchez and Camargo liked the program structure that facilitated loans through the group model and the emphasis on character-based loans as opposed to collateral and credit histories. They believed that this could be ideal for Lawrence businesses, many of which operated on a cash-basis with little records. By participating in a character-based lending program businesses would be provided the opportunity to gradually build up both their business and credit histories. Sanchez and Camargo became Enterprise Agents for the program responsible for recruiting business owners, assisting in the process of loan group development and serving as liaison with the Working Capital loan department.

They decided to form the first loan group among existing, mostly full-time storefront businesses. This was a strategic choice to ensure greater likelihood for success for the new program. According to the current Director of the Minority Business Council, the Board believed the outcome of these first loans would reverberate throughout the community and send a signal to other businesses. They were also interested in getting these businesses to buy into not just the program but the burgeoning Council from the outset. Cesar Camargo, owner of an Auto Dealer in Lawrence, led the group that included a restaurant equipment exporter, a baker, a property manager and a mechanic.

The Lawrence Savings Bank sponsored the loan fund by extending a \$25,000 line of credit. In addition, the Bank helped to publicize the program by sponsoring a celebration for this first group receiving its first round of checks. This celebration attracted considerable attention in both the English and Spanish

press. The Mayor's office assisted in generating publicity and interest in the local press.

LMBC Director, Nelson Quintero gives mixed reviews on this first loan group. Despite the 100% repayment and the success of several businesses in securing subsequent bank loans, the peer group aspect was not well developed. Members participated in a group but obtained individual loans. After receiving the loans, members tended to drop out of the group and therefore had little interaction with other participating businesses. Following loan repayments, these businesses did not continue with the program. Several of these businesses have now successfully approached and received loans from local banks. The LMBC loan had served to build relationships with the banks and help these businesses develop credit histories. Because these businesses were bigger, the banks have loan products that fit their needs. Previous problems, therefore, in accessing this credit was primarily a result of little or no credit histories. Currently one business is awaiting approval for a \$40,000 loan to expand into new markets outside of Lawrence. This business is a distributor groceries and miscellaneous dairy and bread products.

Following this experiment, the LMBC decided to expand its focus to include the many informal, home-based businesses existing throughout Lawrence. With the credibility built up through the positive publicity, Enterprise Agents began organizing groups of micro-business owners through the local churches, public meetings, flea markets and through utilizing the informal networks of kinship to reach the many invisible businesses operating throughout the City.

The program grew rapidly. Within the first two years, twenty seven loan groups were formed with 170 borrowers and a waiting list of 40 businesses. When this is compared to other Working Capital affiliates, many of whom have

organized only a handful of loan groups during similar periods of time, the sheer numbers of businesses reached in Lawrence is truly impressive.

Two possible explanations for the dramatic difference between the Lawrence program and other affiliates are the extensive commitment to peer-lending by the LMBC staff and the propensity for entrepreneurs to recruit others into the program. Once the LMBC gained the trust of entrepreneurs, the most active recruiters came from the business owners themselves.

#### *Program Fit and Commitment of Staff*

In its 1993 evaluation of the Working Capital program, Mt. Auburn Associates found one of the elements contributing to rapid growth of the Lawrence program was the "fit" between the Lawrence Minority Business Council and the Working Capital program.

LMBC's primary mission is to support and strengthen the minority business community in Lawrence. Working Capital has provided it with a tool to offer financial and technical support to local minority businesses, particularly those that are very small and young. LMBC has also effectively used Working Capital as an organizing tool and, thus, contribute to its goal of increasing the political influence of the minority business community (Mt. Auburn Associates, 1993).

The match between the organizational goals with the program allowed the LMBC to implement the program in a focused and calculated manner. In many ways, the legitimacy of the Minority Business Council was linked to its ability to recruit and organize businesses in the community. Working Capital provided the mechanism with which they could reach businesses. Mt. Auburn Associates (1993) reported that "organizations with inconsistent missions such as social service provisions or housing development are less likely to have the skill, administrative capacity and long-term commitment required to successfully implement the program." In Lawrence, the Hispanic community lacked political

power and clout commensurate with their numbers. One way to get at this was the development of businesses to build and play larger role in political, social and cultural life of the City (Kwass, 1995).

Almost all interviewed attribute the rapid growth of the program to the energy and determination that Leonor Sanchez and Cesar Camargo brought to the task of building the Working Capital program. As business owners themselves, they had both felt the frustration from obstacles faced by entrepreneurs wanting to build a business. By bringing people together to express their concerns, Leonor Sanchez believes they have much greater opportunities for overcoming these barriers.

In their study of Working Capital affiliates, Mt. Auburn (1993) found "those enterprise agents who have been most effective are those who are motivated by the goals of the program and genuinely enjoy working with small business owners." This seems to describe perfectly Leonor Sanchez. Business owners repeatedly told stories of how they came to learn about Working Capital through interactions with Leonor Sanchez. Stories include meetings at flea markets when she would stop and talk to them at their booths, to her patronizing their stores and discussing the program informally inviting them to the next orientation meeting. Many who knew Leonor before Working Capital had great respect for her as an honest and dedicated business woman. Others met her through her outreach efforts finding her enthusiasm and commitment to support for small business people a draw for the program.

#### *Entrepreneurs as Recruiters*

The second possible explanation for the large growth in program participation has to do with the nature of the targeted community. Unlike any other Working Capital affiliate, the Lawrence program has relied upon a high level of recruitment by the entrepreneurs themselves. Frequently, one business

owner may attend an orientation meeting to find out about how to access credit. Upon learning of the group-based models, entrepreneurs go out and seek their own loan groups through networks of friends, co-workers and family. In this manner, the entrepreneurs themselves have spread information about the program throughout the community.

Nelson Quintero, Director of the Lawrence Minority Business Council explains:

Most people know each other ahead of time. So someone will come to the information meeting and learn about the program and then bring in other people to join with them. Only in about three out of every ten meetings have the groups formed from the meetings themselves (Quintero, 1995).

In the process of recruiting their loan groups, entrepreneurs may approach many businesses that may not join immediately but subsequently get involved. One entrepreneur explained that her co-worker approached her to join a loan group. At the time she did not feel she had enough information and therefore declined to join. Her co-worker found other interested business owners and formed a group. Her co-worker kept her informed about how the group proceeded. By the time her co-worker had reached the end of the repayment period on the first loan, she had decided to join the program. She attended an orientation meeting and set out to find her own loan group (Batista, 1995).

## **SUMMARY**

The Lawrence Minority Business Council successfully targeted and reached a significant population of informal entrepreneurs. In a community that may be considered by many economic development standards as 'hard to reach' due to the low income levels and high poverty rates of inhabitants, LMBC was



able to draw an astounding number of businesses into the loan program within a two-year period.

This high participation results from a mixture of organizational, personal and community elements. Organizationally, the Working Capital program provided a useful and important tool for the LMBC to pursue its mission of organizing Latino businesses in order to obtain a voice for the Latino community within the City of Lawrence. Created with the mandate of generating business development among Latinos and assisting minority businesses to mainstream into the broader business community, the Working Capital program provided the opportunity to jump-start this process.

On the personal side, the development of this program cannot be discussed without emphasizing the crucial role played by the organization's staff and board members. The role the enterprise agents, mostly business owners themselves, played in selling the program was crucial to the large numbers of businesses that responded. Having faced constraints to capital as business owners, the organization's staff has been very committed to the success of the program. In this sense, the mix between the organization's mission and that of its staff has also provided a good 'fit' for building the program. There is a strong dimension of leadership demonstrated by those involved in the program that has offered inspiration and motivation to others.

Lastly, the extensive informational networks and interaction between businesses occurring throughout the program's development also helped to generate significant numbers of businesses through word-of-mouth recruiting among business owners themselves.

## Chapter III

### Businesses and Existing Networks

This chapter looks at the types and sizes of businesses that participate in Working Capital and explores how entrepreneurs interact to improve productivity, reduce costs and expand the markets for their products. Entrepreneurs have drawn upon collective resources in supplying inputs to transportation, access to suppliers and markets among others. These cooperative arrangements mirror certain "ethnic" resources found in successful enclave economies outlined in the first chapter. Ethnic communities that have successfully generated economic opportunities draw upon a combination of "class and ethnic resources" (Light and Bonacich, 1988).

The formation of business networks discussed in this chapter have occurred largely outside of program participation. This chapter draws upon a qualitative analysis of a sample of participating businesses to highlight how businesses operate and interact and examine how these interactions benefit entrepreneurs. I reserve discussion on the impact that Working Capital has had on all participating businesses for chapter IV.

Data contained in a standardized loan application that Working Capital implemented in August, 1994 offered an opportunity to compare information and responses across a sample of 48 businesses. Prior to August 1994, loan applications for differing loan levels contained a limited amount of information making comparison difficult. Therefore, this qualitative analysis relies heavily on this group of 48 enterprises.

To amplify and build upon this data, I conducted in-depth interviews with borrowers throughout February and March, 1995. The interviews focused primarily on business operations; how they started, how they currently operate,

etc. In addition, many entrepreneurs discussed personal and business changes as a result of participating in Working Capital and expounded upon the advantages and disadvantages of the program. The interviews provided a somewhat richer understanding of the intricacies of business inter-relations and offered insights into "multiplier" effects. Most importantly, the interviews provided me with an opportunity to learn why entrepreneurs start businesses, what goals and objectives they set, what expectations they hold for the peer-lending program and how they would improve upon it. I believe it is through an understanding of actual experiences of individual firms that we may learn the most. Pure numbers on paper will not give either the reader or the researcher any understanding of the challenges and obstacles overcome by businesses or the measures they themselves use for success.

## **WHO ARE THE BUSINESS OWNERS?**

### *Business Size*

There are many different measures for business size. In general, businesses are classified as small or large by the number of people employed in the firms. Small business is a term that may be used to describe businesses with up to 500 employees. Others may define a small business as one that employs up to 100 people. Lately, the term micro-business has become more popular as a means to distinguish those very-small businesses operating as self-employment ventures with at most only a handful of employees. Information on national trends in micro-business growth contained in the preceding chapter, specify those businesses as having up to 10 employees. Micro-enterprise assistance programs often define these enterprises as those employing less than 5 people. When judged in traditional terms of numbers of employees, the businesses studied here are far below these ceilings.

The majority of businesses studied here do not have full-time employees and many offer only part-time employment for their owners. To determine business size and how size changes through participation in the program, it is necessary to use measures other than employment for business size. This section outlines business size primarily by numbers of hours the owner works in the business.

Seven of the 48 businesses (14.5%) in the sample have paid employees, 30% of those employees are full-time. One-third of all respondents considered their business to be full-time employment. The median number of hours worked in the business by the owner was 25 hours per week. 18% of the entrepreneurs in the sample work less than 20 hours in their business while 50% worked between 20 - 35 hours and 32% worked more than 35 hours.<sup>5</sup>

The number of hours worked fluctuates frequently in many micro-businesses particularly among those that supplement other sources of household income. Therefore, a strict analysis of businesses based on hours worked inhibited a broader understanding of how these businesses may evolve over time. For this reason and based upon interviews with entrepreneurs, I developed a different classification of three types of business in the Lawrence-Working Capital program. I base this typology on how entrepreneurs consider the business, how it relates to other income generating activities in the household and future business goals. The goals and objectives for the business vary based upon the entrepreneur's opinion of the role the business plays within the household and other opportunities that come available. The role of the business may change for reasons that are both endogenous and exogenous to how the business performs. The categories are neither static nor permanent. The three

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<sup>5</sup> Chapter IV includes a comparison of this sample to the 170 businesses to show how representative this is of participants overall.

categories of businesses are: Income supplement, Growth-oriented and Established businesses.

### *Income-Supplement Business*

These are businesses in which the entrepreneur considers the income generating activity as a buffer against an economic crisis that might befall the household. The crucial role the business plays is to limit household risk and uncertainty. Entrepreneurs generally work less than 20 hours in their business. Hours worked may be inversely related to outside employment opportunities. The household depends upon the business to both augment a low-wage income and to minimize household risk against future job loss.

These businesses could also be defined as "survivalist" because they serve more as a means of survival for very low-income households with limited alternatives than as examples of dynamic businesses driving economic growth for the community. Profits are drawn from the business directly into the household account. Frequently, entrepreneurs will not maintain separate accounts nor detailed records tracking business accounts. One entrepreneur indicated that she often consumed the profits by purchasing products for the household that she would not otherwise be able to afford or justify.<sup>6</sup>

The business is a supplement to household income whose primary sources are generally earned by paid wage labor. This may be temporary and/or seasonal work or permanent jobs in unstable industries. Similar to the

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<sup>6</sup>This fluidity of money may in some cases spill-over into loan use. During the course of my interviews, several business owners complained that others used the loans for personal rather than business use. Interviewees voiced this complaint to demonstrate that loan sizes begin too low to be put to productive use for the businesses. When loans are invested into these businesses, they are used to purchase merchandise for re-sale rather than for capital expenditures to improve productivity. Entrepreneurs complaining of the small, initial loan sizes explain that \$500 cannot be used for substantial business improvements and is barely enough to cover merchandise purchases. Therefore, people may be inclined to use these earlier stage loans to purchase household goods.

diversified portfolio that investors seek, supplemental entrepreneurs diversify their income-generating activities so as not to depend entirely upon any one activity. Several entrepreneurs expressed a greater sense of security and well-being knowing that there were several un-related sources of income flowing into the household. This security derived from the sense that the household was better prepared to survive the loss or disappearance of any one source.

One clothing seller explained that this year her business had not been as strong as in previous years. However, the household was in better shape. Last year her husband had lost his job and she had only a part-time job and was unable to support the household on her earnings. Thus, her husband devoted much of his time to the business. This year, however, he had found a well paying full-time job and she had obtained a second part-time job. Although both spent less time in the business, the household was earning more. When asked, she said that she would continue the business because she was uncertain as to the changes the future might bring.

Another clothing vendor explained that she is operating her business while working a temporary job at a local textile mill. She explains:

They rarely let you know one week to the next whether they will ask you to return. They do this so they can suck the blood from you. While they have you, they make you work so hard to prove yourself. I need this job for now but if I am let go next week and they do not ask me to return then I still have my business. Other people do not have this, I do not know what they do. Someday, I will make my business full-time and then I won't have to keep working at the factory (Ulloa, 1995).

### *Growth-Oriented Business*

The Growth-Oriented business holds an intermediate position between the income-supplement enterprise and the full-time venture. Like the income-supplement businesses, hours worked by the owner may vary based upon other

employment needs and options. Generally, these businesses may fall into the category of 20-35 hours worked per week. Although many entrepreneurs like Angela hope to build the business into a full-time operation, what distinguishes this group is the business strategy and planning that prepares for this eventuality.

In the initial phases, the business tends to contribute little to the household income. Earnings are re-invested back into the business through the purchase of supplies, equipment, etc. The entrepreneurs use loans similarly, purchasing additional equipment, materials providing for increased productivity and/or increased diversification of products. One growth-oriented entrepreneur who repairs TV's and other electronic equipment spends approximately 30 hours per week in his business in addition to full-time employment. He explains that despite the extensive time commitment involved, the business currently contributes hardly any income to the household. He invests money earned into training courses, tools, equipment and parts in the repairs of televisions and electronics. Each job is different and therefore serves as a constant learning process. Often new jobs require special tools that can be very expensive; therefore, delay the pace of work. He plans to build his business into a full-time venture within a couple of years. To do so, he needs the necessary equipment/instruments. Through the hands-on learning that he has obtained through his business, he has navigated his way through two electronics home learning courses and has become an expert of TV and electronic repair.

### *Established Entrepreneurs*

Established Entrepreneurs operate full-time businesses that are often (though not always) storefront operations. The business is the primary source of income for the entrepreneur and household. These businesses are the most likely to provide quantifiable benefits to a community through employment creation and contribution to the local tax base. The employment generated remains slight

due to the full-time commitment of the entrepreneur and a frequent reliance upon family or other unpaid labor to keep the business running.

Because the business serves as a primary source of income, the owners put in long hours. Operating costs are significantly higher for these entrepreneurs than those in the former categories. Of these operating costs, rent is likely to account for the largest portion. Liquidity tends to be a primary problem in businesses that may be quite profitable. Therefore, the credit needs of these businesses differ significantly from those of the smaller income-supplement businesses.

Entrepreneurs interviewed described their aspirations for business growth as generating sufficient revenues to expand the business and employ more help. Thus, growth interests among this group of entrepreneurs also seem to offer more readily quantifiable measures such as job creation. In addition, several entrepreneurs expressed as long-term goals the start-up of other ventures or the provision of a service to community members.

For example, a clothing designer and craftsperson operating a fashion design business from a storefront describes her ultimate goal as starting a small school to teach young women in the community how to sew and design clothing. She explains the school would target young women on welfare, many of whom she believes do not have anything to do. "This is a good way to help many women, to make them feel better about themselves. It helps you with your mental health when you are working with your hands." She has taught people a variety of skills in the past including: dressmaking - both normal and party; curtains; spreads and other items. People frequently ask her for instruction on how to make these items. She points out:



It wouldn't be worth it to teach people individually. It is much better to buy enough equipment, such as industrial sewing machines and open up a place, then organize a meeting where I would train people all together how to do this for themselves. This could provide a much better training than what people get through those [job-training] programs. Often, people come out of the program and are not able to get a job. With this school, women would be able to work for themselves, if they could not find a job (Batista, 1995).

## **BUSINESS ACTIVITIES**

The highest percentage of businesses are engaged in retail activities. 42% of sample businesses are retail, 8.3% production businesses and service businesses accounted for 25%. Almost one-quarter indicated their businesses were some combination of businesses, such as retail/production or retail/service. For example, the combination retail/production businesses accounted for almost half of these combination businesses.

The double listing of single businesses is due in part to the nature of certain businesses that can be classified in two different categories; such as a seamstress who sells clothing he/she makes or a caterer that both produces baked goods for sale and provides a service. On the other hand, some borrowers operate several unrelated businesses simultaneously. The operation of multiple businesses may demonstrate that no single business has the capacity to support the household, that households diversify business activities to minimize risks for reasons explained above or that entrepreneurs are evolving their businesses to more profitable activities. Where households fall in this framework can only be determined on a business by business basis. However, broad conclusions may be drawn by looking at additional factors such as change in both products and income levels over time.

In one household new activities have sprung from necessities generated from older activities. As Jane Jacobs (1972) describes, "when new work is added

to older work, the addition often cuts ruthlessly across categories of work, no matter how one may analyze the categories." This particular business owner learned of an opportunity to purchase clothing for re-sale. After making several trips to NY to purchase the merchandise, she and her husband decided to use their loan to purchase their own vehicle to save transportation costs and offer the service to other retailers. With the purchase of the vehicle, they could also provide transportation to other customers to such locations as the airport. Thus, they generated a separate business that supplemented income to the household. These businesses exemplify a growth of new activities and perhaps an evolution to more profitable, stable ventures.

Another entrepreneur added new activities to diversify and supplement business income and to minimize risk. This entrepreneur augments income from an existing dry-cleaning service business with sales of other products. Recently, she has begun including merchandise such as cosmetics, jewelry and accessories at the counter. She finds that many of her customers will purchase small items while dropping off or picking up clothes to save themselves extra trips. While she has no plans to expand this line, she finds it provides a means of earning extra income, particularly during slow months.

### *Business Activity*

#### *Retail*

As mentioned above, retail accounted for the largest percentage (42%) of businesses in the sample. Of the retail businesses, almost 40% are clothing vendors. Other retail businesses include household goods such as sheets, covers, curtains and kitchen supplies; cosmetics; accessories; and shoes. Many businesses sell a combination of products depending upon customers' demand.

Businesses frequently draw earnings from the business directly into household accounts. Earnings plowed back into the business are frequently used

to purchase inventory. Loans are used to build up inventory and take advantage of discounts for items bought in bulk and to cover working capital needs of businesses. Entrepreneurs see an important feature of their business as credit to customers. Because most of the small, retail businesses operate on a cash-only basis with their suppliers, entrepreneurs use the loans to cover the working capital needs while awaiting payment from customers.

Many retail vendors are Dominican and operate their businesses within layers of relationships and interactions both within Lawrence and outside of it. Vendors purchase merchandise primarily from wholesalers, outlets and retail stores in New York. Often businesses purchase their goods in the Dominican neighborhoods of the Bronx, Manhattan and Brooklyn. Household goods are available at discount rates for bulk purchases. These bulk rates are common for linens, spreads, comforters, curtains, etc. By purchasing at discount rates, vendors may re-sell at or close to the original item price. Discounts often increase based upon the amount of purchases. Clothing is also purchased wholesale through distributors or from small, retail establishments offering low-cost products. Some clothing vendors have started to circulate list of addresses for outlet stores of major chain stores such as The Gap in response to customer demand for certain name brand items.

Several entrepreneurs have expanded their suppliers to include clothing outlet stores in Massachusetts, New Hampshire and Maine. The Maine and New Hampshire locales are generally outlet stores where merchandise can be found cheaper than in the Lawrence area. In general, vendors make approximately one trip to New York per month and trips to New Hampshire every two weeks. One business owner found that she could purchase enough in Maine and NH to re-sell in NY to some of the smaller boutique stores and use this profit to purchase more merchandise in NY. This triangle trade arrangement in which merchandise

purchased wholesale in New Hampshire and Maine and re-sold to retailers in New York offers a tremendous example of generating new, external markets.

Cosmetic sales are a primary and/or secondary source of income for many vendors. The cosmetics business is quite different from the clothing because the merchandise is purchased directly through the company generally through a catalogue. Cosmetic products are purchased through large companies such as Avon. The vendors serve as distributors for these large corporations to the local Latino market. These companies use a variety of marketing schemes to increase sales. These include multi-level marketing schemes whereby the company generates a pyramid-like structure of distributors. Each vendor is encouraged to bring in new vendors by receiving a small commission on the total sales of each recruit. In turn, these recruits are similarly encouraged to enlist new vendors. The total sales of the newest recruit then generate a commission not only for the vendor who recruited her but also a smaller percentage will go to the original vendor.

Some business owners have begun to by-pass the company's marketing system and buy products directly in bulk. By building up their own inventory, they can set the prices for re-sale. One business owner shares a booth at the flea markets with her husband where she sets up a cosmetic counter. Since she has purchased all the products out-right she is able to set her own price and all profit margins are captured for the business. Often she is able to provide cosmetics at lower costs to her consumers and captures a higher profit on sales than when she acted as a distributor for Avon. She has also diversified her products to include cosmetics from other companies.

Another cosmetics business has grown into a wholesaler providing supplies to other businesses in addition to individual sales to customers. This businesswoman uses the catalogues of large cosmetics companies to place

individual orders for her customers, but she also makes large purchases of items offered as specials or discounts. Recently, she has received requests for soaps, deodorants, cosmetics from other entrepreneurs who wish to re-sell the products in the Dominican Republic. Buying the products from her allows them to sample the products and eliminates the wait when ordering from a catalogue. In this fashion she has built up a customer base consisting not only of individuals but also other micro-business owners.

Overall retail vendors seem more likely to operate income supplement ventures. This may be due to the relative ease of entry into this sector. Nonetheless, certain entrepreneurs clearly embrace a growth-oriented approach to their businesses based upon increasing customer bases, diversifying products and suppliers and building up inventory.

### *Service*

Service-oriented businesses comprise approximately 25% of business. These businesses include: child-care provision, auto repair and maintenance shops, transportation, food/catering, rental agencies, express mail, calling centers, etc. Service businesses on the whole seem to be larger and access a broader market than retail businesses.

Service-oriented businesses tend to fit in the category of growth-oriented or established businesses. Auto repair businesses may have started informally operating from homes but many currently own and operate a full shop. The success of an auto-repair business depends upon the quality of work, the time it takes to make the repairs and visibility. These businesses therefore require significant investment up-front in the proper equipment. These businesses have higher investment needs and capital expenditures and therefore must pursue growth-oriented strategies.

While the child-care businesses in the sample are home-based, they operate full-time. These businesses contribute significantly to the household income and reach broad markets. For example, several businesses have registered as child-care providers with the State. These businesses are eligible to sub-contract their services to the State's Department of Public Welfare to provide "transitional child-care" for women who obtain jobs and are moving off welfare. Home-based child care agencies are able to care for up to 6 children in their homes. The businesses are subject to spot inspections by the Welfare Department and must invest time and money in keeping their homes up to certain standards and codes. With the Department of Welfare as the primary client, these businesses have a stable customer base.

Despite initial concerns among child-care providers about changes in the welfare law recently enacted in the Massachusetts legislature, the new "reforms" will actually increase the demand for these centers. In fact a current bill under consideration would increase the capacity allowed by law in these home-based centers to 9 children. This change is being considered because the work requirements encompassed in the welfare legislation will generate dramatically greater demand for "transitional child-care services" in the short-run. Increasing the capacity of centers will likely be accompanied by stricter standards and codes for each center. Loans are used to purchase equipment, supplies and household improvements.

Transportation services have grown in response to the demands of other micro-entrepreneurs. As mentioned above, entrepreneurs have started offering transportation services to accommodate the travel needs of retail businesses purchasing merchandise in the NY and NE area. Transportation services have also sprung up to accommodate the transportation of children to and from the day-care centers. As with the day-care centers these businesses have a stable

demand. These services are contracted through the child-care center. In this sector, micro-business owners involved with the Working Capital actually sub-contract to other micro-business owners.

### *Production*

Small-scale manufacturing or production-oriented businesses alone account for only 8% of the total businesses in the sample. However, when you include the entrepreneurs who categorize their businesses as production/retail and production/retail/service these businesses account for 22.9% of all businesses. Thus, those engaged in production tend to be oriented towards producing for retail to individual customers not inputs to other businesses.

These businesses include clothing designers and manufacturers, baked goods producers and furniture makers, among others. While production businesses are more likely to be established businesses than the retail businesses, and yet seem less established than the service businesses. Many of these businesses, such as the baked good producers, operate their businesses from their homes and produce for special events. Business owners tend to sell their products to local markets.

There is less interaction among these types of businesses than among retailers. Because barriers to entry are higher for a producer of goods than for a vendor, fewer firms form. While retail vendors may start their business after going with a friend to purchase merchandise, production-based ventures require either a particular skill or equipment making start-up more difficult. Start-up production firms may therefore develop within a more individualist context rather than the collective or group context that depicts many retail start-ups.

### *Summary Of Business Activities*

The preceding section demonstrates the heterogeneity of micro-enterprises even within an ethnically homogeneous community of businesses. Drawing upon the typology set out above and using business size as the determinant for categorizing each business, most businesses seem to fall within the income supplement and growth-oriented category of businesses. Whether the entrepreneur considers the activity as supplemental or growth-oriented must be determined on a business by business basis as this depends upon the individual's future plans. Other indicators that may measure this could be use of loan and levels of re-investment into the business.

The largest percentage of businesses are currently concentrated in the retail sector. This sector has a greater tendency towards income supplement than firms in other sectors. Other sectors such as service and production are more likely to be either growth-oriented or established. The time and resources required for these businesses may influence this orientation.

## **NETWORKS**

As a result of the research and exploration done at the field level, I have gathered several impressions regarding the nature of the interactions between businesses participating in the program. Many businesses operate within an invisible network of linkages with a high level of sophistication. The arrangements drawn upon include cooperative arrangements to reduce business expenses, information exchange and consumer credit through purchasing pools. Other networking components are: supplier relationships and knowledge and skill sharing.



### *Cooperative Arrangements to Reduce Costs*

Many businesses have participated in cooperative arrangements to reduce the costs of running their businesses. These arrangements allow for businesses to earn greater operating profits by reducing their expenditures in relation to their sales.

Trips to New York by retail vendors are frequently shared. Several business owners arrange joint travel to reduce expenses. As a result of these frequent trips to and from NY, an informal transportation service has sprung up to meet the demand. This transportation service charges approximately \$70 for round-trip passage. Some businesses have decided to cut out this middleman by either jointly renting a car or, in a few cases, purchasing their own vehicle that may be used for these trips. Those that own the vehicles now charge a small fee to other retail business owners for transport.

New business owners are generally shown the ropes initially by arranging travel and transportation together with other business owners who can show them the best and cheapest locations to purchase the merchandise of highest quality. However, other businesses prefer to travel on their own to save time. As one business owner put it:

It is much more fun (to travel together) and you get the advice and input of others. We all treat it as a cooperative rather than competitive thing. There are drawbacks, though. It's harder logistically to schedule times when everyone can go together. Also it takes much longer because if for example you just wanted to buy clothes but others wanted to buy accessories as well then you always have to wait and go with them to the different stores. It helps initially to go with someone experienced who can orient you as to where to buy clothes and how to satisfy different customers (Rodriguez, 1995).

In addition to the cooperative arrangements developed by clothing retailers, business owners have created more permanent arrangements designed to minimize expenses. One storefront space on downtown's Essex street is currently being shared by three businesses. Two of these entrepreneurs formerly operated home-based businesses. A Dominican businesswoman took over a dry-cleaning business located on one of Lawrence's main streets downtown. She had been operating the business a short time when she encountered increasing difficulty keeping the business afloat because of the high overhead costs. Her main cost was rent. She realized she would not be able to continue making payments yet she hesitated to move because of the good location. One day a customer approached her asking her to consider sharing the space with this woman's fashion design business. Since then, an express mail business has also joined them. All businesses remark upon the low burdens placed on the business from shared rent and the benefits of maintaining high visibility. In addition, they explain that customers are frequently drawn from one business to another while there. The fashion designer explains, "it's the same principle that a mall operates on only [the mall operates] on a much bigger scale."

### *Information Sharing*

Related to these cooperative arrangements is information sharing that occurs informally among businesses. One of the most frequent manifestations of networking, the sharing of information can range from how to start-up a business, to new products, to pooling leads on suppliers and/or new markets for goods. The most prevalent form of information sharing among the businesses I interviewed was in the initial start-up phase. While some entrepreneurs had had previous experience owning a business or working in business to learn the trade, many entrepreneurs did not have this background. The example of the retail vendors outlined above provides a case in point. Many of these vendors started their business after being encouraged to do so by a friend or a neighbor who encouraged them to come along on trips to suppliers.

A child-care business owner explains that she learned of opportunities to open up a child-care business through her sister-in-law. She had never operated a child-care business but she had experience raising her own children. Her sister-in-law explained to her the procedure to get licensed through the State. Following this advice she obtained her license and opened a child-care center in her home. Her sister-in-law explained how she had registered with an agency that handles the sub-contracting of "transitional child-care" for the Department of Welfare. This agency provides a steady clientele for day-care providers that meet State requirements. She has since told several other women in the community about how to register and get started in the same business. She offers to help show them how to get started.

Another entrepreneur learned of the market for second-hand, repaired TV's and VCR's through a person he met at a flea market. While selling products from his native Peru, Bart met a seller of second-hand televisions who gave him several broken sets he could not fix for free. With these sets, he set out to teach himself this new trade. Through the help of a home-study electronics course he gradually learned a considerable amount about the workings of TV's, VCR's and other appliances. As he improved his skills with these appliances, he began to seek out suppliers of old, broken machines. Through the original gentleman that gave him the first TV's he was able to get a continual stream of supplies, primarily machines with minor problems that he repairs for re-sale.

Bart has tapped into a vast network of suppliers within this industry. Entrepreneurs pursue many routes for obtaining cheap or free supplies such as re-capturing TV's from trash that would otherwise end up in the landfill or making arrangements with local trash collectors to pass on the machines for a small fee. Once recovered machines may be re-sold individually or in bulk to repair-persons. Through the many, informal networks Bart obtains a constant

flow of machinery. Over the past three years of doing this, he not only has been able to build up a growing source of income but he has also built up a significant inventory of parts and supplies from machines unable to be repaired. Often he will have to cannibalize 2 or 3 TV's to make one that works.

Once repaired, Bart re-sells the equipment through placing advertisements in local papers or through direct sales at flea markets. He shares a year-round booth with his wife who sells cosmetic products. His wife has started to purchase merchandise in bulk for re-sale at flea markets. As mentioned above, the purchase of cosmetics in bulk has become popular among business owners who are able to obtain greater profits and provide better discounts for their customers. As a result of the success of sales at the flea markets, other entrepreneurs have begun to explore the possibility. This business owner has shared the details about obtaining a booth with members of her loan group.

### *Consumer Purchasing Pools*

Many retail businesses are able to attract and keep customers by offering credit not otherwise available. By providing credit to customers micro-businesses can tie up tremendous resources in working capital because the businesses pay for merchandise in cash up-front. Several retail vendors have dealt with this problem by organizing consumer purchasing pools known as "Sans" in order to provide a means by which several customers may purchase on credit. Although the San developed independently, it is based upon principles similar to the Working Capital loan group. These groups depend upon the trust among individual members that all participants will continue to make payments. The san, however, is based upon providing households with the opportunity for consumer credit rather than business credit. In its structure the san probably most resembles kyes in the Korean community or shared savings pools observed in Vietnamese immigrant communities (Mahon, 1994). Shared savings pools like

kyes are informal credit associations that provide loans to individuals for a variety of reasons. Members may use the funds for both business and personal uses and often will organize groups around themes such as wedding band kyes. The shared savings pools in the Vietnamese communities may go for personal/consumer, business or housing purposes. Friends, neighbors and co-workers may form a pool in which everyone pledges a certain amount of savings. Members in need of loans will bid upon the pooled money. The bids are in the form of interest rates. Those who pledge the highest interest rate win the savings and are responsible for repayment at this rate.

Businesses have benefited from the practice of organizing sans transferred from the Dominican Republic. Entrepreneurs use these existing credit pools to be able to increase their sales without tying up inordinate amounts of cash awaiting repayment. A group of consumers come together to jointly purchase items on credit. The group consists generally of 5 members who make 5 equal payments toward the purchase of an item with each installment another group member receives the item purchased. For example, if a group of five join together to purchase an item priced at \$500, each member will put up \$100 for the first week and one group member will receive the item. Each member continues to put up the same amount each week until the 5 items have been bought and paid for. In addition to the profit margin afforded to the business owner, an organizer of a san is also generally the first in line for receiving the item.

## SUMMARY AND CONCLUSIONS

The heterogeneity of micro-enterprises may not be captured by definitions of business size based upon number of persons employed. According to this conventional definition, all the businesses studied here fall into the micro-business category. Yet, there are differences among these businesses that need to be recognized. An alternative system of business categorization developed in this chapter classifies business size according to the time and attention the owner dedicates to the business in light of other income-generating opportunities. This presents clear distinctions between micro-businesses based upon the attitude of the owner toward the business and the role the business plays in supporting the household. This typology outlines: income supplement, growth-oriented and established business. The typology will continue to prove useful in outlining how businesses may change and evolve over time.

Many entrepreneurs in this community operate within an extensive network of collaboration that helps to minimize the cost of doing business and provides shared knowledge of the industry. This interaction has influenced the start-up of businesses, the movement of businesses into new products and services and the strengthening of supply lines to the business. However, the concentration of businesses primarily in retail and service industries that generate few linkage opportunities with other local businesses diminish the potential for strengthening internal markets. In addition, a strong reliance upon local markets for customers limit opportunities to exploit external markets. Piore and Sabel (1984) stress that a key element to the dynamic growth of small firms in Northern Italy is a culture of cooperation and trust that ties firm to firm. Businesses in Lawrence show similar cooperation and trust. The difference lies in the types of business activities and the capacity to maximize the benefits of these conditions.

Given the existing level of business interaction in the community, the challenge to peer-lending programs is to build upon these pre-conditions. Through the introduction of credit through loan groups, the program has the potential to strengthen and reinforce existing relationships, and to foster new relationships that will influence the diversification of activities and the expansion into new markets.