

# Executive Summary

## Viable Business Enterprises for Rural Alaska: What Works?

By Sharman Haley, Ginny Fay, Jane Angvik, and Cami Woolam

University of Alaska Anchorage • Institute of Social and Economic Research • October 2007

Establishing businesses in rural Alaska is hard but not impossible. Hundreds of businesses exist in rural communities around the state, and business owners have found ways to deal with the barriers created by small markets, remote location, high costs, and harsh climate.

But many others have tried and failed to overcome the many difficulties, and some may have business ideas but are reluctant to take on all the risks involved in trying to establish a business in rural Alaska.

With support from the Rasmuson Foundation, BP Exploration (Alaska), Wells Fargo Bank, the U.S. Economic Development Administration, and the University of Alaska Foundation, ISER examined what types of businesses are viable in rural Alaska and under what conditions. We named this research Viable Business Enterprises for Rural Alaska (VIBES). The research has several purposes—to help prospective business owners better understand and deal with the challenges they will face in rural Alaska; to help government and private organizations understand the kinds of help established businesses still need; and ultimately, to help increase the number and the diversity of businesses in rural Alaska.

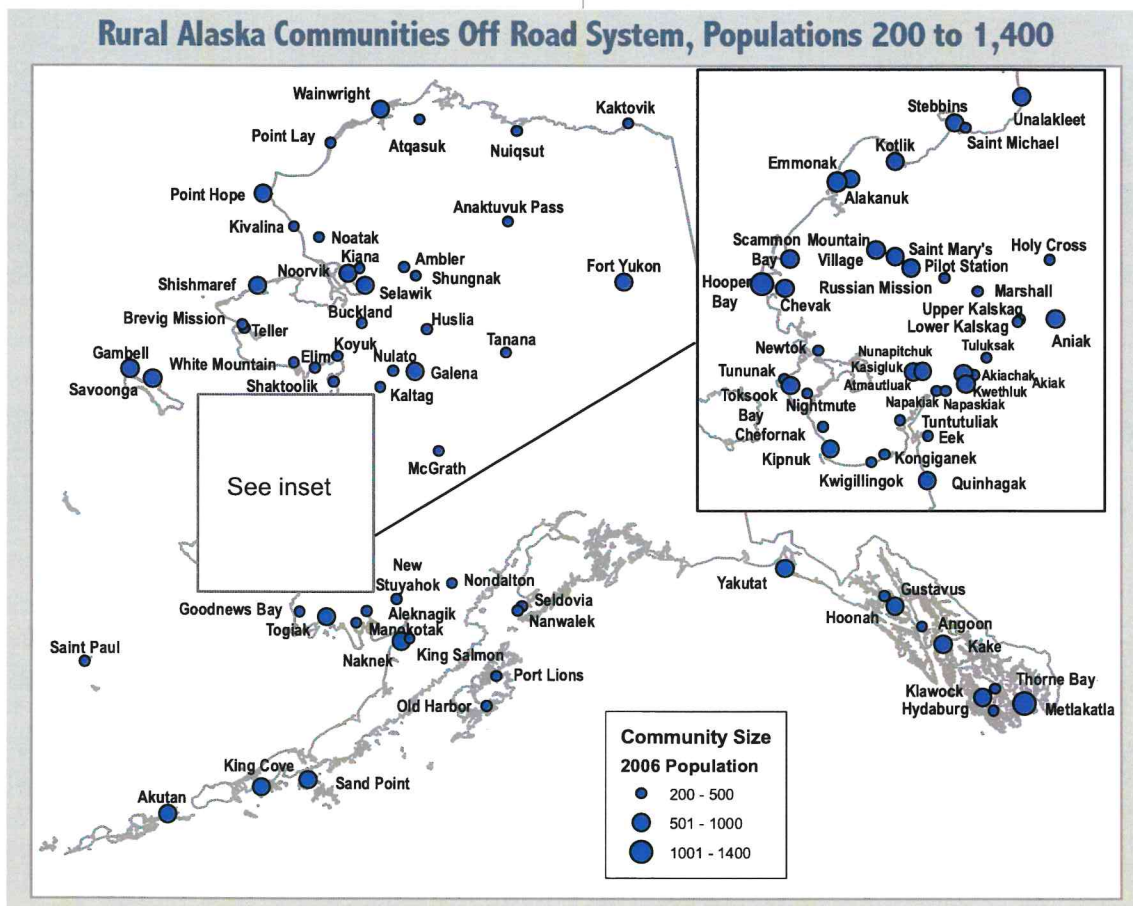
This summary highlights the findings of a longer report (see back page). We looked at businesses in small rural places that are off the road system and have populations between 200 and 1,400 (see map). We iden-

tified businesses in these communities with the 2006 state business license file and then looked for relationships between business activity and community characteristics. We also took a random sample of 19 communities and tried to interview all business owners. (We do not name the surveyed places, because we promised respondents we wouldn't.) Finally, we did detailed case studies of some rural businesses, based on recommendations of our project advisory board and others familiar with rural Alaska.

### WHICH COMMUNITIES HAVE ADVANTAGES?

Before we summarize the findings of our business survey and case studies, we first need to say that some rural places have location advantages that make business development more likely. Places that are close to national parks, or have strong local commercial fisheries, or relatively lower travel costs from Anchorage are likely to have a larger, more diverse group of businesses. Places with larger populations are also more likely to draw businesses, but location is even more important than size.

These advantages may seem obvious—places that can draw outside money, either from tourism or from commercial fisheries, have advantages over places that don't have such resources. But it's useful to keep in mind that not all rural places are the same—and that some face even bigger challenges than others.





## CHALLENGES RURAL BUSINESSES FACE

To find out what rural business owners themselves see as the challenges of operating in small rural places off the road system, we interviewed 196 business owners in 19 randomly selected communities. (The table at the bottom of page 3 shows survey sample statistics.) We asked them about both the problems they faced at the time they started their businesses and in day-to-day operations since then.

Nearly half the business owners said they faced a number of challenges before they opened their doors. They had to, among other things, assess likely demand; identify markets; get necessary licenses, permits, and insurance; look for training in business management; find a location for their business; and get inventory.

Once they started up, about 12% of the new business owners said they faced challenges in learning about marketing and advertising, as well as financial management—setting up bank accounts, managing cash flow, using accounting software, sending out bills, and filing taxes. Another 11% said they also had to learn about business operations—providing customer service, hiring employees, developing community relations, finding suppliers, and maintaining inventory. One in ten surveyed owners said they faced problems in getting capital to start their businesses.

Owners also reported continuing challenges in operating established businesses. More than one-quarter said they still have some problems with managing day-to-day operations—getting licenses and permits, hiring and supervising employees, continuing to provide good customer service, facing competition from other businesses, and getting and using new technology. About 20% identified financial management as a continuing challenge, especially having sufficient cash flow to cover expenses.

Just under 20% said they face challenges in trying to expand their businesses—attracting new customers or finding new markets, drawing up new business plans, and setting goals. About 16% said they struggle with all the factors created by operating in remote locations, including harsh weather, slow or inadequate communications technology, and the difficulties and high costs of getting goods and supplies.

## HOW CAN AGENCIES AND ORGANIZATIONS HELP?

Given all the difficulties in keeping businesses going in rural places, we asked owners what kinds of help they would most like from government or private organizations in their regions. Business owners most frequently

said more training would be useful, for both prospective and existing business owners. About 20% said classes on managing finances and creating business plans for prospective owners—as well as ongoing training in effective business management for established owners—would help.

Nearly 20% said improved infrastructure and communications—both telephone and Internet—would help rural businesses. About 6% said there was a need for more financing for businesses, or at least more information about how businesses can get financing. Finally, 5% said it would help if government agencies and others better understood the difficulties rural business face.

### How Can Organizations Help Small Rural Businesses?

(Percent of Surveyed Businesses Identifying Type of Help)



## SNAPSHOT OF SURVEYED BUSINESSES

What do these businesses look like, that are meeting the challenges of operating in small rural places? The figures on the facing page offer a snapshot of the businesses we surveyed.

The biggest share—nearly a third—are retail stores selling groceries, fuel, and general merchandise. Various arts and recreation businesses are next, accounting for 15% and including many Native artists. Transportation businesses, mostly air, made up another 11%, as did bed and breakfasts, hotels, lodges, and eating places.

Most of these businesses are relatively young, with more than one-third established since 2000 and less than one-quarter in operation before 1980. A big majority—80%—operate year-round. But businesses that see most of their activity in the summer—businesses offering tourist services, for example—may have only a skeleton staff during the winter.

The most common major business expenses (excluding payroll and costs of purchasing goods among retail businesses) are utilities and supplies or materials, cited by half to two-thirds of business owners. More than a third cited freight costs. Around 10% cited taxes and costs of licenses and permits.

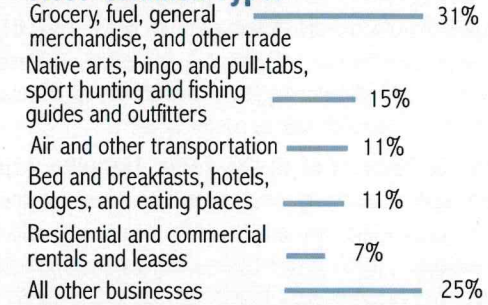
Surveyed businesses were almost equally divided between larger and smaller businesses—37% had annual sales of more than \$100,000 and 31% had sales of less than \$10,000. About 60% of businesses report their sales are concentrated either in their own communities or in the local area or region. A few sell mostly in other areas of Alaska, and 11%—more than one in ten—sell mostly outside Alaska. The remaining 25% of sales are not concentrated in any one area.

Most surveyed businesses have at least some full-time employees, and 28% have only full-time workers. Only 20% have no full-time employees.

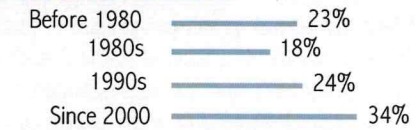
## What Do Surveyed Businesses Look Like?

(196 Businesses in 19 Communities)

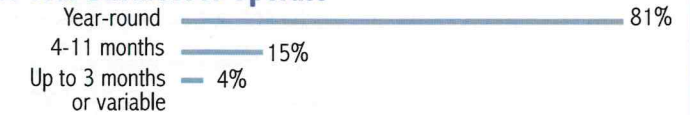
### Most Common Types



### When Businesses Established

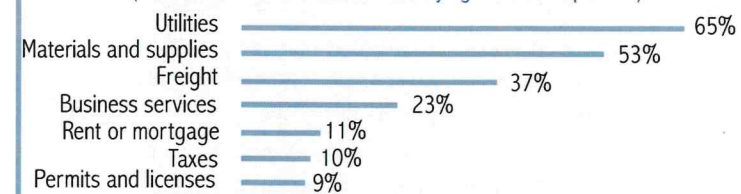


### Months per Year Businesses Operate



## Most Common Major Expenses Cited By Owners\*

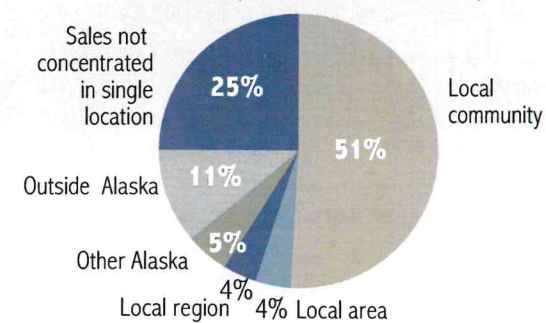
(Percent of 183 businesses identifying various expenses)



\*Excluding payroll and cost of goods purchased among businesses with those expenses.

## Sales by Residence of Customer\*

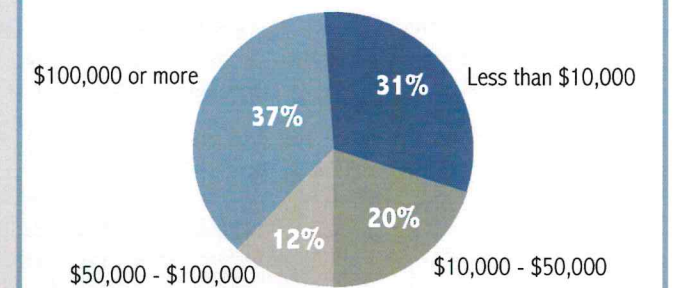
(Based on responses of 187 businesses)



\*At least 75% of sales, except for 25% of sales not concentrated in one area.

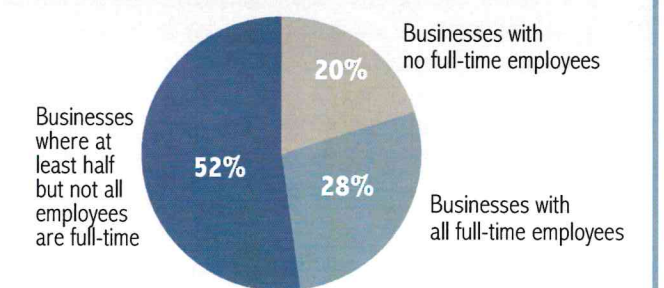
## Annual Sales of Surveyed Businesses

(Based on responses of 167 businesses)



## Employment at Surveyed Businesses

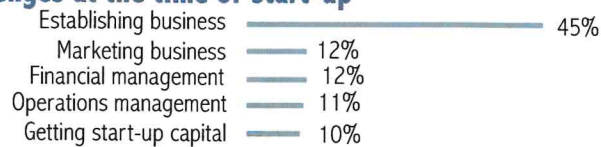
(Based on responses of 192 businesses)



## Challenges Businesses Face in Small Rural Alaska Communities

(Percent of 196 Surveyed Businesses Identifying Challenge)

### Challenges at the time of start-up



### Challenges of day-to-day operation



## SAMPLE SIZE AND RESPONSE RATE FOR BUSINESS SURVEY

Total businesses identified in 19 communities: **398**

Businesses screened out: **128**

(mostly those with annual sales below \$3,000)

Total businesses in interview sample: **270**

Refused: **19**

Unable to contact/no response: **55**

Completed interviews/Response rate/Confidence interval: **196/73%/±7%**

## CASE STUDIES OF RURAL BUSINESSES

The last part of our research involved learning more through detailed case studies of some rural businesses—mostly businesses that are currently operating, but a few that have had to close their doors. Owners of both current and former businesses have learned lessons—some quite costly—that can be useful to others. The table on the back page summarizes what they most frequently told us—and what they said about the challenges tracked quite closely with our survey findings.



## Lessons from Case Studies of Rural Businesses

(Detailed Interviews with Current and Former Business Owners)

- **Take a hard look at whether there will be enough demand for what you plan to offer. Identify either a needed service or an opportunity in a growing industry.** Examples in the case studies include a small on-demand air service providing needed transportation in southwest Alaska; a company introducing bird watching tours in a remote southwest area with a number of rare birds; and a southeast community growing commercial oyster seed for sale to oyster farmers.
- **Draw up a detailed business plan that accounts for all aspects of the business, including expenses, estimated cash flow, management and training of employees, and marketing strategies.** The owners of one business (a small logging company) invested their own money, took out loans, and worked very long hours for nearly a decade before debt forced them to close their doors. They hadn't calculated all their likely expenses, didn't realize the implications of contracts they signed, and didn't have the experience to manage a sudden increase in the number of employees. In another example, a tribally owned business signed a fixed-rate contract to digitize documents for the federal government, only to find out that the fixed rate didn't fully cover expenses.
- **Get expert help whenever possible, and find out about grant programs.** A southwest resident planning to establish bird-watching tours was able to get a start-up grant from the Alaska Federation of Natives' Alaska Marketplace program, as well as help from state agencies working to increase tourism in rural Alaska. Those agencies provided technical help and brought representatives of national organizations to the southwest region to assess bird-watching opportunities and identify what bird watchers traveling to the region would need. In another example, a southeast community hoping to start growing commercial oyster seed got advice from experts in oyster farming, who also helped the community get a \$65,000 grant from the state.
- **Be careful about how much debt you take on, and determine whether you could still make debt payments if your business slowed down.** One businessman has successfully operated a construction company in interior Alaska for 25 years, and in the early years he saved money from each contract to buy more equipment. Only when his business was established did he borrow. Another example is a general store established in the 1960s in a small northwest Alaska community. Incomes are generally low in this community and the costs of transporting goods are high and rising. The owners (the original owner and his daughter, who took over in the 1990s) have kept their expenses down by not borrowing, using savings, and maintaining the store's refrigeration equipment.
- **Have experience in managing a business or get training.** Many of the business owners we interviewed said they could have used management help when they started their businesses, and a number said they could still benefit now from training that helped them understand contracts, manage cash flow, deal with growth, and carry out other aspects of day-to-day operations.
- **Don't expand too fast.** The owners of one company that ultimately went out of business said a big reason was that they didn't foresee the expenses and complicated logistics of expanding rapidly. Another business, a charter fishing operation, has operated successfully with one boat since the late 1980s, but the owner is still leery of taking on the additional responsibilities—like hiring a captain—for a second boat, even though he believes there is enough demand. Also, several owners said that when expanding, businesses should try to minimize their risks, in case new demand isn't as large as they expected.
- **Make the business a family business when possible.** Several owners of small businesses told us that one of the big reasons they can stay in business is that relatives provide critical services like keeping books, acting as crew members, or booking clients.
- **Get community support, hire local people whenever possible, and develop good relationships with other local businesses.** The operators of a remote lodge reported that they had stopped booking guided hunts in the fall, even though they lost income, because local people said these outside hunters were taking food from local hunters. In another example, a southeast village corporation that established a local cruise-ship port to create a tourist destination worked with the community well in advance, to set limits on the number of tourists, to explain how other local businesses could benefit, and to hire and train local people to act as guides. A number of business owners also said that good community relations—with local residents and community organizations all working together—is another key to success, as is cooperating with other local businesses that offer services your customers may need.
- **Be prepared to deal with all the transportation, weather, communication, and other kinds of difficulties** that are part of running a business in small remote places.
- **Work hard, love what you do, and always provide good customer service.** Virtually all the business owners we talked to said these things can't guarantee success—but they are essential to any successful business.

### CONCLUSIONS

We knew at the outset that establishing businesses in rural places was hard, but now we know a lot more about why it is so hard. We also know what business owners—people who have made it past many barriers—say would most help them. What they most commonly want is training—in planning; in managing finances; in making day-to-day operations more efficient; in expanding their businesses. The business owners in both our survey and our detailed case studies said it plainly: they are prepared to work hard and to

face difficulties—but they believe good planning and management skills are also critical to success in rural Alaska.

This summary is based on *Viable Business Enterprises for Rural Alaska*, Final Report, by the same authors, available from ISER (907-786-7710) and online at: [ced.uaa.alaska.edu](http://ced.uaa.alaska.edu). Other organizations are welcome to link to the report and summary.

Editor: Linda Leask

4 Graphics: Clemencia Merrill, Molly Ridout, and Meghan Wilson