

VIABILITY OF BUSINESS ENTERPRISES FOR RURAL
ALASKA: COMMUNITY FACTORS AND
ENTREPRENEURIAL STRATEGIES



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Executive Summary

Viable Business Enterprises for Rural Alaska: What Works?

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

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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-

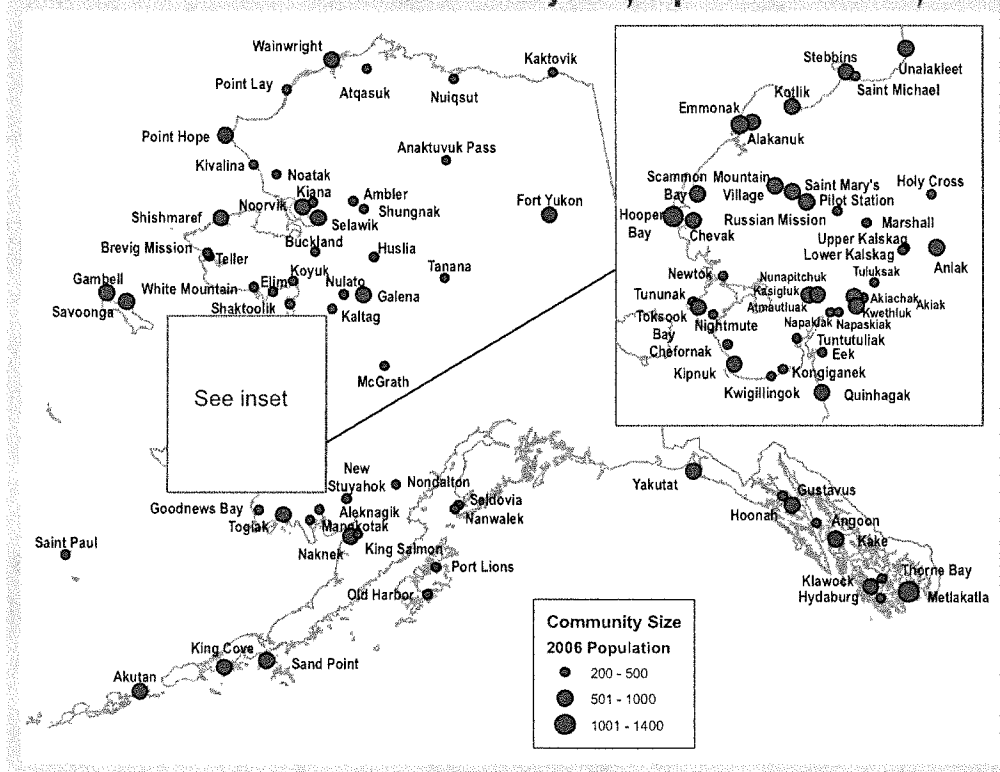
tified businesses in these communities with the 2006 state business license file and then looked for relationships between business activity and community characteristics. We also took a random sample of 19 communities and tried to interview all business owners. (We do not name the surveyed places, because 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.

Rural Alaska Communities Off Road System, Populations 200 to 1,400



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.



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.

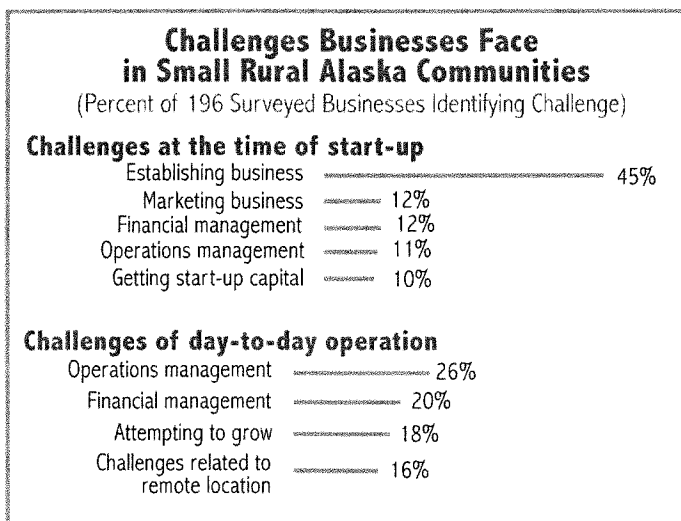
The biggest share—nearly a third—are retail stores selling groceries, fuel, and general merchandise. Various arts and recreation businesses are next, accounting for 15% and including many Native artists. Transportation businesses, mostly air, made up another 11%, as did bed and breakfasts, hotels, lodges,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

Grocery, fuel, general merchandise, and other trade	31%
Native arts, bingo and pull-tabs, sport hunting and fishing guides and outfitters	15%
Air and other transportation	11%
Bed and breakfasts, hotels, lodges, and eating places	11%
Residential and commercial rentals and leases	7%
All other businesses	25%

When Businesses Established

Before 1980	23%
1980s	18%
1990s	24%
Since 2000	34%

Months per Year Businesses Operate

Year-round	81%
4-11 months	15%
Up to 3 months or variable	4%

Most Common Major Expenses Cited By Owners*

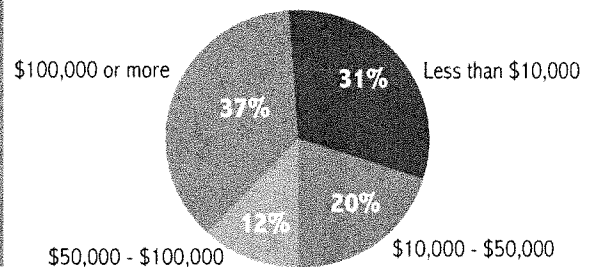
(Percent of 183 businesses identifying various expenses)

Utilities	65%
Materials and supplies	53%
Freight	37%
Business services	23%
Rent or mortgage	11%
Taxes	10%
Permits and licenses	9%

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

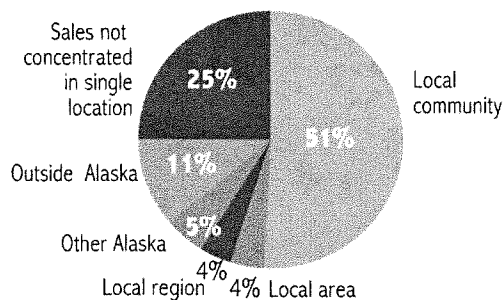
Annual Sales of Surveyed Businesses

(Based on responses of 167 businesses)



Sales by Residence of Customer*

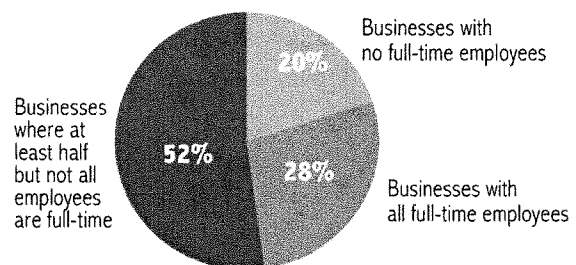
(Based on responses of 187 businesses)



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

Employment at Surveyed Businesses

(Based on responses of 192 businesses)



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: www.iser.uaa.alaska.edu

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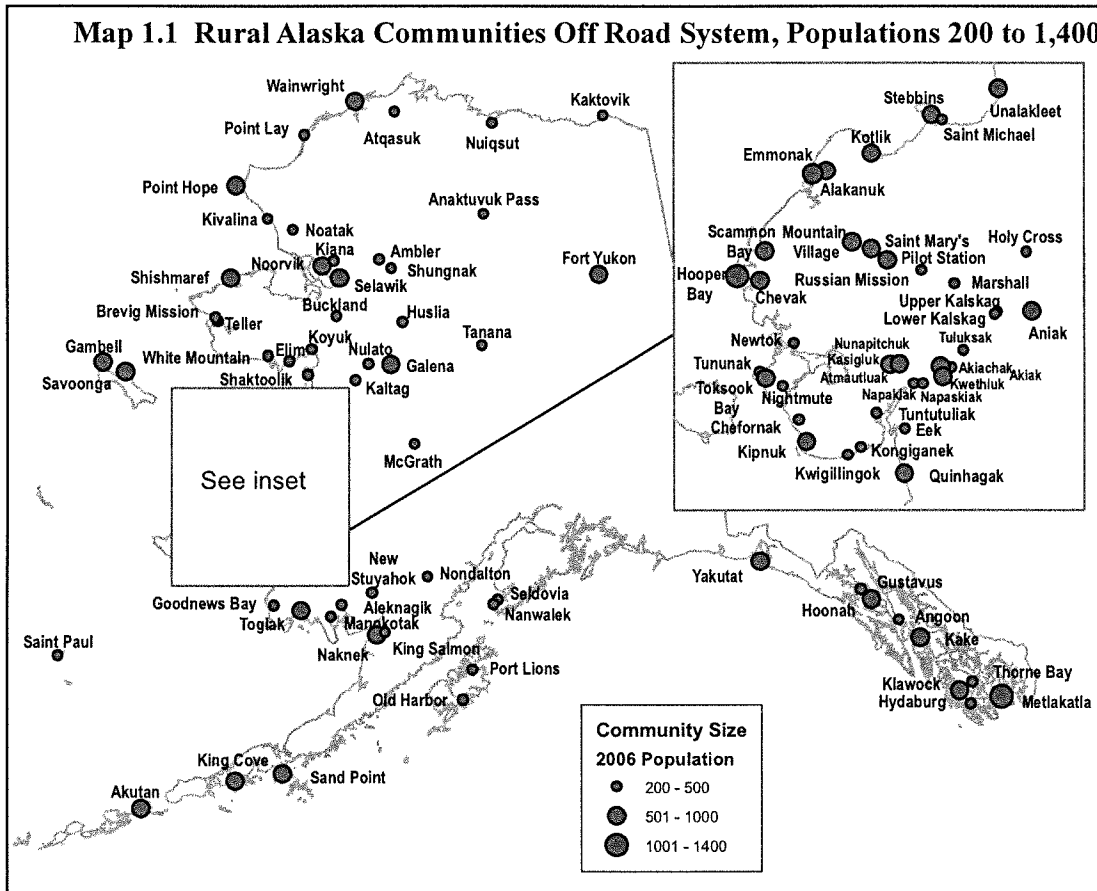
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Map 1.1 Rural Alaska Communities Off Road System, Populations 200 to 1,400



1. Introduction

What types of business enterprises are viable in rural Alaska, where, and under what conditions? The purpose of this research is to address these questions in a systematic, rigorous way. Business development in rural Alaska is challenging, but not impossible. Many entrepreneurial Alaskans have overcome the barriers of small market size, distance, high costs, and a harsh climate to start and sustain successful business enterprises throughout the state. However, others have tried and failed, and some may have good business ideas but fear the legitimate risks involved in putting them into action.

This study both describes the existing patterns of business activity in rural Alaska and identifies community characteristics that are associated with successful enterprises of various types. The research explores what businesses have been created, have grown, and have succeeded. Additionally, we consider some businesses that failed and probes the reasons behind these events. A better understanding of these dynamics can be used to help guide business startup decisions, business planning, and loan decisions by individuals, business assistance providers and lending institutions, as well as community planning and infrastructure investment decisions. The ultimate purpose of our research is to help increase the number and diversity of successful private sector business enterprises in rural Alaska.

The communities we studied are small, rural places off the road system, with populations ranging from 200 to 1,400 persons (Map 1.1). As communities grow in population and complexity, more commercial operations can be supported by the demand for goods and services from local residents. For some types of business activities transportation and communication links extend the market range beyond the local community.

To guide our analysis we established an advisory board composed of people who promote and underwrite economic development business activities in rural Alaska (Appendix A). The advisory board provided guidance on regional differences and key community characteristics that affect business viability in rural Alaska. They assisted the research team in determining the key businesses to be interviewed for the case studies. They also reviewed and helped interpret preliminary findings from the survey and the analysis of the license file.

To conduct this analysis we collected data from four primary sources: the Alaska business license file; a community database compiled from a wide range of public sources; a survey of rural business enterprises; and in-depth, case study interviews with selected businesses that served as informative case studies. Data collection and analysis was organized as three tasks: building and analyzing the business license and community data files; conducting the survey and analyzing the data; and conducting field interviews and preparing written case studies of selected enterprises.

Conceptual Framework

The economic theory of regional economic development uses two key concepts: the **economic multiplier** and the **hierarchy of trade centers**. These concepts are briefly reviewed here, and are discussed in more detail in Appendix B.

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A community can add new wage-paying jobs in three ways:

- Method 1 (exports). Additional goods or services produced locally and sold to non-local residents will bring money into the community to pay wages.
- Method 2 (transfers). Additional money from outside the region (such as an Alaska Permanent Fund Dividend) can directly pay the wages of local jobs.
- Method 3 (import substitution). A higher share of the money already in the region can be spent locally rather than spent elsewhere, supporting local jobs.

In Alaska, goods sold outside the community are usually produced by harvesting or processing a natural resource such fish, timber, petroleum or arts and crafts from local materials. Natural resource production is constrained by the size and quality of the resource and is typically subject to large fluctuations in market prices.

As the population of a community grows, the size of the local market increases. A larger market can support more total business activity and a broader spectrum of business types. As more consumer goods and services become available, more consumer dollars are spent locally, reducing the leakage of money out of the local economy. Lower leakage is the same thing as a higher economic multiplier. For example, suppose a restaurant in a village serves sandwiches. If the bread is purchased from a local bakery, the fish from a local fisher, and the lettuce from a local gardener, then more of the dollars paid for sandwiches will contribute to local employment and income. In contrast, if the bread, hot dogs and lettuce are flown in from Anchorage, a smaller portion of the dollars from sandwich sales is retained in the community—the leakage is greater and the economic multiplier is smaller.

Because larger markets can support more specialized businesses as well as those found in the smaller markets, there is a hierarchy of trade centers among communities. The smallest centers are typically called minimum convenience trade centers. These places may have little more than one or two general retail stores. The next larger size places, known as full convenience trade centers, have more—and more varied—businesses. These businesses in the full convenience center can tap the purchasing power of the surrounding minimum convenience centers.

As one moves up the hierarchy of trade centers with larger market sizes encompassing larger areas, the variety of businesses increases. The largest markets can support specialized retail, wholesale, and services. Although this explanation is somewhat dated because of recent shifts toward online retailing, and conditions in rural Alaska are unique in many respects, the general notion of a hierarchy of trade centers supported by increasingly large markets remains valid.

Methods Used in this Study

Analysis of the Business License File

We used the year 2006 Alaska business license file to identify rural businesses. We tied these businesses to a database of community characteristics—such as population and income—and analyzed the relationships between business activity and these community characteristics.

Survey of Businesses and their Activities

The business license file does not provide information on which businesses are active, the scale of their activity, or the length of time they have been in business. Businesses also vary significantly in the identification of primary business activities in the business license file. Especially in smaller communities, a single business may conduct a number of activities because of the economies of scale provided by fulfilling a number of business niches via one business operation. Alternatively, one central business location and staff may divide activities into a number of separate businesses for liability reasons. This information is not readily discernable from the business license file.

To overcome these limitations, we conducted a random sample survey of rural business owners to clarify their activities and characteristics. We randomly selected 19 communities and then attempted to conduct a census of all businesses within each community. Forty percent of these interviews were conducted in-person by University of Alaska students hired and trained by us to interview people in the students' home villages. The other 60 percent were completed by telephone. The interviews asked about years in operation, employment, gross sales, numbers and locations of clients, and their opinions on the hurdles for rural enterprise. The survey contained both structured and open-ended questions.

Business Case Studies

As a complement to the quantitative analysis, we conducted in-depth case study interviews with more than 20 individual businesses to describe in narrative detail and in context the impediments to enterprise in rural Alaska, and to identify how successful entrepreneurs have overcome these challenges. We selected these businesses based on recommendations from our advisory board members, the Alaska Marketplace competition sponsored by the Alaska Federation of Natives, and various regional sources. They were chosen to offer a mix of regions, business types, strategies, and lessons learned. The open-ended interviews were designed to explore reasons for success—or failure—and to generate useful examples of lessons learned that can be shared with others.

Structure of this Report

In the next chapter we present our analysis of the business license file and how these businesses relate to the characteristics of their communities. Chapter 3 describes the business survey and reports the results obtained from the structured survey questions. Chapter 4 summarizes the responses to several open-ended questions that we asked as part of the survey. Chapter 5 describes the case study methodology and summarizes our findings. The case studies themselves appear in Volume II.

Several appendices, bound as Volume III, provide additional details about all aspects of the research.

2. Analysis of Business License Data

Methods

Business License File Analysis

The principal information source for identifying rural businesses was the year 2006 Alaska Business License file maintained by the Alaska Division of Occupational Licensing. Business licenses were used to identify businesses by location and by type of business activity. This file contains records on over 70,000 licensed businesses, over a third of which are issued to persons indicating an Anchorage address. The distribution of Alaska business licenses is shown in Table 2.1 and Figure 2.1.

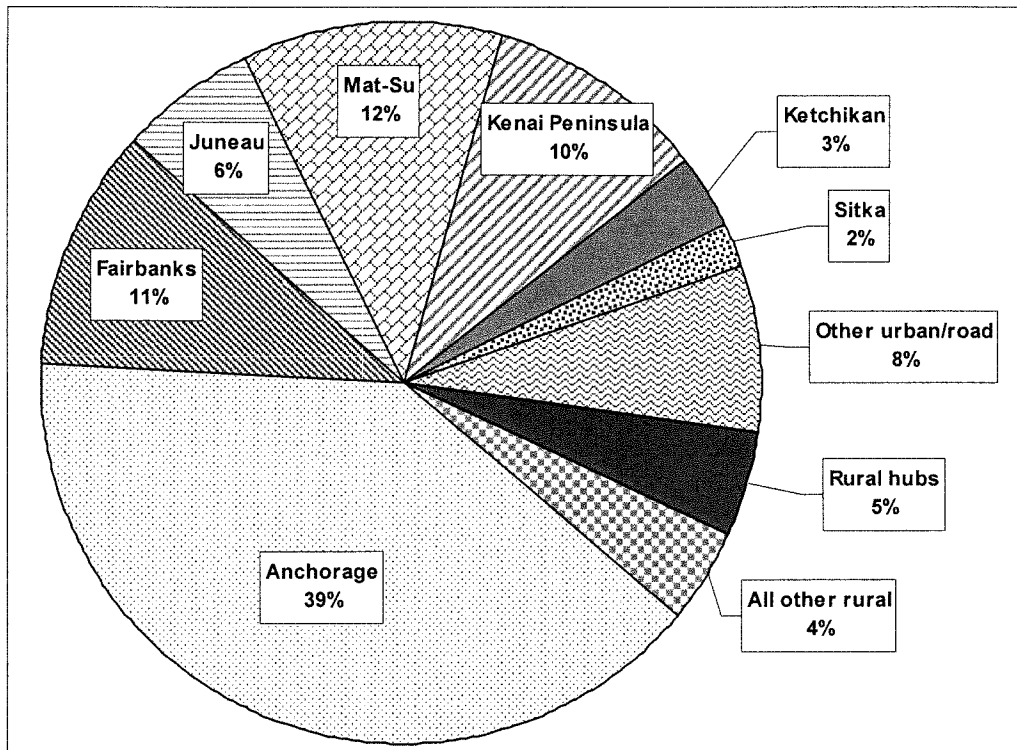
We first eliminated records for all businesses located in road-connected and urban Alaska. The potential problem with this approach is that there are a significant number of businesses whose activities are primarily in rural Alaska yet the legal address is in Anchorage or another urban setting. The business license file lists the address provided by the person filing for a business license, not the physical location of the business. For this reason, use of the business license file to identify rural businesses was supplemented with other methods described below.

Table 2.1. Distribution of Alaska Business Licenses

Address on License	Number of Licenses	% of Total	Licenses Per Capita	2005 Population
Total Alaska	70,551			
Non-residents	7,450	10.6%		
Anchorage	27,541	39.0%	0.10	278,241
Fairbanks	7,568	10.7%	0.09	87,650
Juneau	4,149	5.9%	0.13	31,193
Mat-Su	8,234	11.7%	0.11	74,041
Kenai Peninsula	6,809	9.7%	0.13	51,224
Ketchikan	2,378	3.4%	0.18	13,125
Sitka	1,374	1.9%	0.15	8,947
Other urban/road connected	5,270	7.5%	0.17	31,293
Rural hubs				
Craig	252	0.4%	0.18	1,417
Wrangell	307	0.4%	0.16	1,974
Cordova	400	0.6%	0.17	2,288
Dillingham	217	0.3%	0.09	2,370
Kotzebue	150	0.2%	0.05	3,120
Petersburg	506	0.7%	0.16	3,155
Nome	311	0.4%	0.09	3,508
Barrow	160	0.2%	0.04	4,199
Unalaska/Dutch Harbor	597	0.8%	0.14	4,297
Bethel	383	0.5%	0.06	5,960
Total regional hubs	3,283	4.7%	0.10	32,288
All other rural, non-road connected villages	2,787	4.0%	0.05	54,329

Source: Alaska Department of Commerce, Community and Economic Development, Business License File, 2006.

Figure 2.1. Geographic Distribution of Alaska Business License Addresses



We next eliminated duplicate licenses—listings with the same business name and business license number. In most cases, these duplicate listings were couples or family holders of the same business license listing and number. We eliminated 375 duplicate license records from the rural business data. For both rural villages and regional hubs, approximately 12 percent of sole proprietor business licenses had duplicates, suggesting business owners consider licenses a useful mechanism to demonstrate an interest in a business in the absence of incorporating or forming a partnership.

Community Characteristics

We constructed a database of community characteristics to determine their influence on rural business viability. The database included measures of population, ethnicity, language, fuel and utility costs, Power Cost Equalization rates, high school achievement test scores, adjacent public land status, transportation access, internet connectivity, community infrastructure, private land survey status, and other cost of living characteristics. See Appendix E for a complete list of community characteristics variables and their sources.

We merged the community characteristics data set with the pertinent variables from the business license file (zip code, community, business activity code, primary and secondary NAIC codes) so that each business record was tied to its community characteristics. We analyzed the data to identify those community characteristics that are most highly correlated with business formation and success.

There are a number of things that should be noted about this analysis:

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- The analysis is a snapshot of one point in time as opposed to a trend analysis. It measures the correlation between different community characteristics and business viability rather than the effect of *changes* in a characteristic over time. An example of this is the impact of fuel costs, all of which are high in all of the small rural communities of analysis. In our analysis, fuel prices do not stand out as a primary determinant of the number and types of business in non-road connected rural communities. However, this lack of correlation does not mean that the price of fuel is not important. An analysis of changes over a ten-year period might show that increases in fuel prices are strongly associated with reduced business viability.
- Results reflect only licensed businesses. To the extent that businesses are operated without licenses, they are underrepresented in this analysis. However, we found in our survey of businesses in 19 communities that the majority of businesses that were unlicensed had annual gross incomes below \$3,000. As a result, we believe that the business license file represents active businesses in rural communities. Survey results also suggest that unlicensed businesses are not concentrated in any specific business type or activity.
- The business location is the community listed by the owner(s). Some, especially seasonal businesses, have owners who reside and list their address in other communities, especially Anchorage. This may lead to an under representation of businesses in the villages analyzed. However, these businesses most likely have comparatively less economic impact than businesses owned by local residents because more revenue leaks from the community with non-local resident owners.
- Similarly, if a business is owned and operated by an Alaska Native regional corporation, it is likely to be licensed in a regional hub rather than a smaller community. We suspect that this phenomenon results in an underestimate of business activity, especially in the North Slope Borough where the regional corporation may own and license some business operations out of Barrow.
- The type of business activity and NAIC codes are self-reported by purchasers of the business license. As a result of the complexity and large quantity of codes, coupled with businesses that conduct multiple activities, there are numerous opportunities for variation and errors in coding.

Despite these limitations, the business license analysis provides some interesting results. Because of the limitations of the business license data, these results are best interpreted as indicators of general conditions. The community business surveys (chapters 3 and 4) and case studies (chapter 5 and Volume II) provide additional information on the impact of changes in business costs and components over time. Those analyses also help to fill the data gaps in the business license file.

Results

Rural Alaska Business Development and Hierarchy of Trade Centers

As predicted by business hierarchy theory, most communities possess at least one general retail outlet (business type 42, see Table 2.2, Figure 2.2 and the discussion in Chapter

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One). The next most abundant business type is accommodations and food services, followed by arts, entertainment and recreation. The majority of communities have one of these types of business establishments. Transportation, other services, and real estate and renting and leasing are the next most abundant business types. The hierarchy of Alaska rural businesses appears in Appendix F.

Table 2.2. Remote Rural Alaska Businesses by Type of Activity

Total # all communities	% of all businesses	Business line code	Type of Business Activity
2	0.1%	52	Finance and Insurance
3	0.2%	21	Mining
10	0.6%	92	Public Administration
11	0.6%	55	Management of Companies
18	1.0%	61	Education Services
24	1.3%	22	Utilities
31	1.7%	56	Admin. & Support, Waste & Remediation Services
41	2.3%	51	Information
57	3.2%	11	Agriculture, Forestry, Fishing and Hunting
57	3.2%	23	Construction
63	3.5%	31	Manufacturing
73	4.1%	54	Professional, Scientific & Technical Services
82	4.6%	62	Health Care and Social Assistance
137	7.7%	53	Real Estate and Rental and Leasing
142	8.0%	81	Other Services
159	8.9%	48	Transportation and Warehousing
196	11.0%	71	Arts, Entertainment and Recreation
231	12.9%	72	Accommodation and Food Services
449	25.1%	42	Retail Trade (44&45 NAIC)
1,786			

Source: Alaska Department of Commerce, Community and Economic Development, Business License File, 2006.

Figure 2.2. Number of Businesses by Type of Business Activity

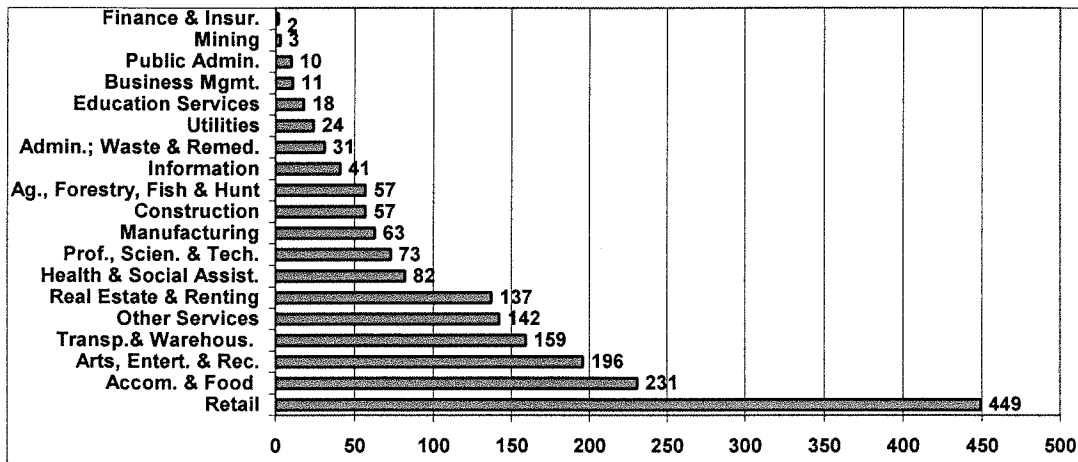


Figure 2.3 shows that only 21 percent of all communities have more than 20 business enterprises, yet this group accounts for about two-thirds of all enterprises. In contrast, the majority of communities—about 64 percent—each have fewer than 10 enterprises. Table 2.3 describes this distribution in terms of number and types of businesses present and other community characteristics. The communities with more than 20 licensed businesses also have more diversity of business types. Most of the communities with 20 or more businesses are larger communities—only one has a population between 200 and 300—and they are more diverse in racial composition. They have more adults in the labor force, higher median household income, higher academic achievement and smaller household size. (Definitions of these measures can be found in Appendix E)

More detailed tables showing the numbers of businesses by type in each of the 94 small rural communities analyzed appear in Appendix F. Tables F.1.1 through F.1.3 show the community-business matrix sorted in alphabetic order, by population and by the total number of businesses in each community.

Figure 2.3 Distribution of Businesses Across Communities

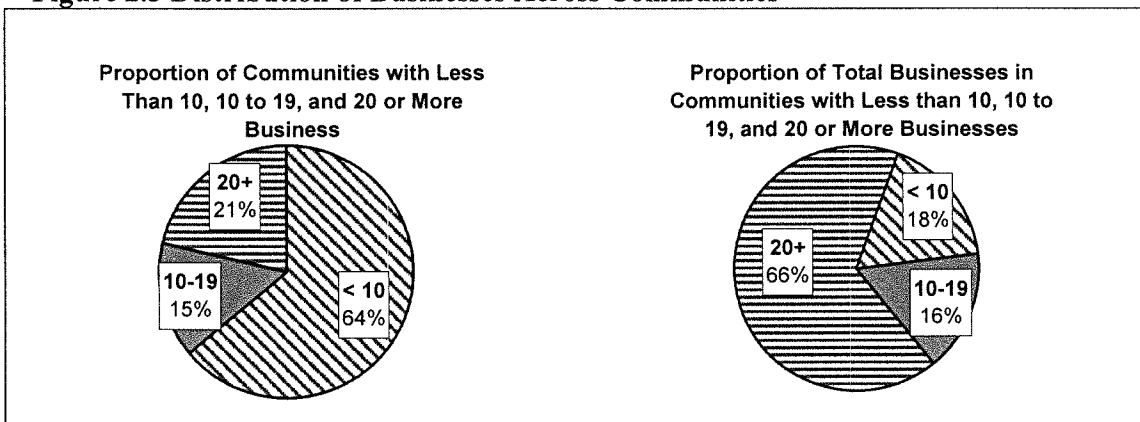


Table 2.3. Number and Diversity of Businesses and Community Characteristics

	Unit of measure	Communities with:		
		Less than 10 businesses n=52	10 to 19 businesses n=22	20 + businesses n=20
Number of Business Licenses	average (st.dev)	5.9 (2.3)	12.4 (2.24)	59.3 (36.6)
Number of Lines of Business	average (st.dev)	3.6 (1.4)	6.3 (1.4)	11.95 (2.9)
Population	average (st.dev)	410 (189)	520 (194)	623 (247)
% Minority*	average (st.dev)	8% (11%)	8% (4%)	42% (27%)
% Adults in Labor Force	average (st.dev)	58% (10%)	58% (9%)	67% (9%)
Median Household Income	median \$	\$33,084	\$34,089	\$42,270
High school test scores	average pass rate	36%	36%	59%
Average Household Size	average (st.dev)	4.1 (0.7)	4.0 (0.6)	2.9 (0.6)
Types of Business Activities:				
Ag., Forestry, Fishing** & Hunting	% of communities	6%	14%	80%
Manufacturing	% of communities	6%	23%	60%
Construction	% of communities	6%	5%	80%
Arts, Recreation & Entertainment	% of communities	33%	77%	95%
Transportation	% of communities	59%	66%	95%
Food & lodging	average # per community	0.63	1.32	7.8
Business services	average # per community	0.23	1.05	5.3
Information	average # per community	0.02	0.1	4.9
Scientific, Technical & Prof.	average # per community	0.1	0.2	4.1
CFEC gross earnings	% of communities	65%	86%	85%
Per capita CFEC gross earnings	average \$	\$243	\$424	\$2,729
Scenic public lands	% of communities	8%	32%	60%

* In these communities the majority population is Alaska Native.

** Does not include commercial fishermen, who are required to have a fishing permit, not a business license.

A number of observations can be made regarding the pattern of business activities when the threshold of 20 or more businesses in one community is reached:

- Most (80%) of these communities have some sort of basic, renewable resource-based business activity classified as agriculture, forestry, fishing or hunting. In rural Alaska this typically means businesses such as timber harvesting, mariculture, and guiding hunting or fishing.¹ While some greenhouse, crops, and animal farming exists, most of this business activity pertains to wild resources.
- Manufacturing (60% of the 20+ businesses group) appears to go hand-in-hand with agriculture, forestry, fishing or hunting as these natural resources appear to provide the raw materials for manufacture of products such as lumber, specialty smoked salmon, wild berry, or other products.
- Construction and real estate are also present. More specialized construction businesses such as cabinet makers, electricians, and plumbers are developed as the private business sector grows with more total businesses as well as more types of businesses.
- The number of transportation businesses increases, suggesting the community is a subregional transportation hub or has good transportation links. The Alaska essential air service program also appears to play a role in the development of this

¹ Commercial fishing operations licensed under the Commercial Fisheries Entry Commission are not required to also purchase an Alaska business license.

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sector. Transportation access probably also decreases the cost of shipping goods, fuel prices, and the overall cost of doing business attributable to remote locations.

- There is a jump in the number and types of accommodation and food service establishments, precipitated in most cases by adjacent scenic public lands and waters or rich commercial fishing grounds. Coastal communities with both a robust commercial fishery and a scenic national park or national forest lead the list of communities with the largest number of businesses as well as the most diversity within and across business sectors.
- This diversity in business types, activities and numbers supports the growth of more diverse business services (business type 81), as well as information technology and professional services.
- Natural resource based businesses, manufacturing, visitors and the accompanying growth in accommodations and food services, all tap into markets beyond the local community and region and bring new dollars into the community.
- True activity in the agriculture, forestry, fishing and hunting sector is most likely underrepresented because subsistence hunting and gathering are non-market activities not revealed in the data.
- Some rural communities have business activities unexpected in lower-48 communities, such as remediation services. Some of these are attributable to Department of Defense contamination cleanups (business type 56). These communities also offer other professional and technical services.

These findings are consistent with the basic premises of the hierarchical trade center and business development models. Generally, as community populations increase, market size increases and the number and complexity of trade businesses that can be supported also increases. However, in non-road connected rural Alaska, local population alone does not appear to be sufficient to cause business growth beyond the local retail and food service sectors. Most of the communities that are growing more than a rural “micro economy” are expanding their effective market size by capitalizing on exportable products and attributes to capture non-local dollars. This characteristic appears to be more significant than local community population alone. Table F.1.2 (in Appendix F) illustrates this finding: while community population generally increases for the communities with more businesses, this progression is punctuated with smaller sized communities.

Examples of ways communities are expanding the local market include hosting visitors to scenic attractions; using or harvesting local natural resources for sale as raw materials or, more importantly, manufacturing these natural resources into finished products; or taking advantage of opportunities such as defense contract site remediation projects. Appendix F.2 has more detailed listings of the types of business activities being conducted in these rural communities. The total number of businesses and the number of distinct business types in each community is shown in Map 2.1. For example, Kaktovik has 11 total businesses and 5 types of businesses. This is shown as (11,5) on the map.

Rural Alaska Business Development and Community Characteristics

To analyze the relationships between business activities and community characteristics we conducted a series of regression analyses. The dependent variables in our regressions were the total number of businesses and the number of different types of businesses.

Our analysis considered several income variables including average household income, median household income, total community income, the percentage of IRS income tax returns with income under \$25,000, the percentage of IRS income tax returns with unearned income over \$50,000, percentage of income from wages, percentage of income from dividends, and total Commercial Fisheries Entry Commission ex-vessel earnings.

Similarly we analyzed a number of demographic characteristics such as race, population, average household size, language, educational attainment, community development quota status, and poverty rates. Our statistical analysis also considered community settings and infrastructure including proximity to public conservation lands (national parks, national forests, national wildlife refuges, and state parks), internet connectivity, and runway length. We also examined remoteness variables such as the cost of travel from the community's hub to Anchorage and related variables such as the cost of fuel oil. We also considered local control and public finance variables such as local taxes, community revenues from inside and outside sources, and local option alcohol laws. In short, we attempted to find data on all community characteristics that might influence the development of private businesses in rural communities.

Results from regression analyses indicate that approximately 92% of the variation in the number of businesses in remote rural Alaska can be explained by the size of the population, the degree of racial diversity, the cost of travel from the adjacent hub to Anchorage, the presence or absence of a national park, the total amount of commercial fishing gross ex-vessel earnings (as reported by the Commercial Fisheries Entry Commission), and whether the community is a Tlingit community. Details on the final regression analysis for total number of businesses are presented in Model 1 below.

Population is a measure of the size of the local market and its potential to support private sector activity. Consistent with the hierarchy of trade centers theory, a larger population supports an increasing number of businesses. Population (pop05) is the 2005 community population from the Alaska Department of Labor and Work Force Development.

Percent Native population is from 2000 U.S. Census data. Almost all of the communities in this analysis have a majority population of Alaska Natives. With the exception of a few communities that developed as logging camps or adjacent to national parks, percent Native in this study is primarily a measure of in-migration into the community. Percent Native also serves as a proxy for remoteness as the communities with the highest percentages of Native population are also the more remote.

“Hub to Anchorage” is the average price of air fare from the adjacent hub to Anchorage compiled in 2004. This variable serves as a proxy for transportation costs.

National park status was developed from a GIS database showing land jurisdiction. If a community was within 100 miles of a national park, it was coded as being influenced by the park—a simple yes, no variable.

Model 1. Regression Predicting Total Number of Businesses in a Community

(94 remote communities with populations greater than 199 but less than 1,401)

Dependent Variable: b_total (total businesses)

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	112.981	7.031		16.070	.000
2005 population	.014	.006	.117	2.444	.017
% Native 2000	-100.556	6.431	-.768	-15.637	.000
hub to anchorage airfare	-.058	.009	-.310	-6.591	.000
national park within 100 miles	13.649	3.396	.186	4.019	.000
Gross commercial fishing earnings	1.89E-006	.000	.104	2.075	.041
Majority Tlingit (yes/no)	10.651	4.962	.104	2.146	.035

N=93 Adjusted R² = 0.84

Model 2. Regression Predicting Number of Different Types of Businesses

(94 remote communities with populations greater than 199 but less than 1,401)

Dependent Variable: # business types

Coefficients

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	19.512	1.306		14.937	.000
2005 population	.005	.001	.297	4.914	.000
% Native 2000	-7.054	1.645	-.391	-4.288	.000
hub to Anchorage airfare	-.008	.002	-.308	-5.056	.000
Average household size 2000	-1.424	.407	-.310	-3.497	.001
Percentage of 2004 IRS returns less than \$25k	-55.501	20.753	-.199	-2.674	.009

N=93 Adjusted R² = 0.69

Commercial Fisheries Entry Commission ex-vessel earnings are the three-year average of 2004, 2005 and 2006 total community ex-vessel earnings.²

Tlingit was a yes-no variable indicating those communities with a majority Tlingit population in Southeast Alaska. We used this variable to test if a Native culture with a long tradition of trade and interaction with outside traders might explain some of the variation in business development.

We also conducted statistical regression analysis to identify the most significant attributes that lead to diversity of businesses measured number of different businesses types (Model 2). Community population, airfare from hub to Anchorage and percent Native all proved to be significant. In contrast, however, national parks, CFEC gross earnings, and Tlingit

² In cases in which earnings were suppressed for confidentiality reasons, the two year average or the one year for which earnings were available was used.

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were not significant explanatory variables. Instead, the percentage of IRS returns with incomes below \$25,000 and average household size were significant: business diversity was higher in places with fewer low-income tax returns or smaller household sizes.

We applied these models to identify which of the 94 communities had significantly more or fewer total businesses than predicted, and which communities had more or less actual business diversity than predicted. The results of this exercise appear in Appendix F.3.1 (sorted alphabetically) and Appendix F.3.2 (sorted by the magnitude of difference).

Smallest Communities and Regional Hubs

We conducted similar statistical analyses on the smaller communities with populations under 200 and on the rural regional hubs. The hub community analysis was limited because there were too few data points relative to the number of explanatory variables. For the smaller communities we found no explanatory variables that could account for the variations in the number and diversity of businesses. This analysis was also limited by the smaller number of communities. A comparison of the characteristics of these three size groupings of communities is presented in Table 2.4.

Table 2.4 Comparison of Community and Business Characteristics for Three Community Population Size Classes

		Communities with Populations:		
		Less 200* n=72	>200 <1,401* n=94	> 1,400 n=10
	Unit of measure			
Number of Business Licenses	average (st.dev)	9.5 (8.7)	18.8 (26.9)	277.4 (130.6)
Number of Lines of Business	average (st.dev)	4.8 (2.5)	6.0 (3.7)	16.5 (1.6)
Population	average (st.dev)	94 (50)	481 (220)	3,229 (1,338)
% Native	average (st.dev)	67% (34%)	85% (21%)	42% (26%)
% White	average (st.dev)	31% (34%)	13% (18%)	48% (23%)
% Asian	average (st.dev)	0.4% (0.9%)	1% (5%)	6% (9%)
% Adults in Labor Force	average (st.dev)	60% (12%)	60% (10%)	71% (6%)
Median Household Income	median \$	\$34,613	\$35,273	\$54,967
% poverty		19% (15%)	22% (11%)	9% (3%)
High school test scores	average pass rate	47% (18%)	40% (18%)	69% (2%)
Average Household Size	average (st.dev)	2.9 (0.6)	3.8 (0.8)	2.8 (3.3)
Types of Business Activities:				
Ag., Forestry, Fishing** & Hunting	Average # per (% of)	0.5 (25%)	0.6	7.4 (90%)
Manufacturing	Average # per (% of)	0.3 (19%)	0.7	10.4 (90%)
Construction	Average # per (% of)	0.1 (7%)	0.6	17.4 (100%)
Arts, Recreation & Entertainment	Average # per (% of)	1.5 (64%)	2.1	19.7 (100%)
Transportation	Average # per (% of)	0.8 (49%)	1.7	20.8 (100%)
Food & lodging	Average # per (% of)	1.5 (56%)	2.4	29.9 (100%)
Business services	Average # per (% of)	0.5 (28%)	1.5	36.8 (100%)
Information	Average # per (% of)	0.08 (8%)	0.4	4.2 (100%)
Scientific, Technical & Prof.	Average # per (% of)	0.2 (18%)	0.8	18 (100%)
CFEC gross earnings	% of communities	61%	74%	100%
Per capita CFEC gross earnings	average \$	\$984	\$964	\$2,314
Airfare hub to Anchorage	average \$	\$900	\$330	\$385
Scenic public lands	% of communities	39%	29%	80%

* In these communities the majority population is Alaska Native.

** Does not include commercial fishermen, who are required to have a fishing permit, not a business license.

3. Survey of Rural Businesses

We surveyed rural businesses in order to gather more detailed information than is available in the business license file. For example, the business license file does not indicate which businesses are active, the scale of their activity, or the length of time they have been in business. We also sought more detailed information about their different business activities and locations. Especially in smaller communities, a single business may conduct several different activities filling different business niches in order to take advantage of the scale economies from a consolidated operation.³ Conversely, one business with a central location and staff may divide its activities into a number of legally separate businesses for liability reasons.

To gather this information, we conducted a random-sample survey of rural businesses using both face to face and telephone interviews. In this chapter we describe the survey methodology and report most of the survey results. Analysis of the results from the open-ended questions follows in Chapter 4. The survey instrument with a tally of the raw frequencies appears in Appendix C.

Survey Methodology

We used a cluster sample methodology, choosing a random sample of remote rural communities and then attempting to interview all businesses in each selected community. Our sample frame consisted of all communities that met three criteria. These criteria were: (1) the community contains at least one business in the business license file; (2) the community has a population of between 200 and 1,400 people; and (3) the community is located off the road system. A total of 94 communities met these criteria. From this group of 94 communities, we then drew four separate sub-samples of five communities each. The four sub-samples were drawn to ensure that the overall sample included the same range of population, income, employment, and geography as the 94 communities. For example, we sorted the 94 communities by population, divided the sorted list into five equal parts (“quintiles”), and randomly drew one community from each quintile. We repeated this process for median family income, the percentage of adults not working, and ANCSA region from north to south. This process produced a sample of 20 separate communities.

We expected that some small, rural business owners would be reluctant to tell a stranger about their business, and even more reluctant to do so over the telephone. However, budget constraints meant we were unable to send interviewers to 20 remote communities. Our compromise strategy was to use in-person interviews by trained community members whenever possible, and telephone surveys only when necessary. For the in-person interviews, we recruited and trained University of Alaska students who were community residents and would be in the selected communities during the survey period.⁴

³ Economists sometimes call these “economies of scope”.

⁴ They were either on-campus students planning trips home or distance-delivery students who reside in selected communities.

We were successful in recruiting local interviewers for seven of the selected communities. Five of these interviewers were community residents, and two, although not residents, had relatives in their target community and knew it well. In three cases we substituted a closely matched community for the randomly selected community to take advantage of an available local interviewer. In these ten communities, our interviewers conducted as many face-to-face interviews as possible while on-site, and the remaining businesses were interviewed by telephone. In nine of the remaining ten communities the interviews were conducted entirely by telephone. While some phone interviews were conducted by our local interviewers after returning to school, most were conducted by professional interviewers who had no knowledge of or personal ties to the community. Finally, there was one community (from the original desired sample of 20) where we were unable to conduct any interviews.

The business license file provided our initial list of businesses to interview in each community. Because we knew that the license file was incomplete (missing new businesses and those without licenses, and including some no longer in business) our interviewers used a technique known as snowball sampling to conduct a census of business activity. They asked each business owner about other businesses in the community, and new contacts identified in this way were interviewed and asked in turn about other businesses in the community. This allowed us to use local knowledge to expand the list and improve our chances of identifying all the active businesses in each sampled community.

In-person interviewers could go to the business location (listed in the license file) to conduct interviews. For telephone interviews we first had to identify a telephone number (information not in the business license file) using phone directories, business directories, web listings, and local informants.

Table 3.1 shows our survey sample statistics. The business license file identified 369 businesses in our sample communities. Of these, 101 were either not in business or were multiple licenses for a single business. We identified 130 additional businesses, not in the license file, for a total of 398 active enterprises in the sampled communities. Our survey design excluded micro-enterprises with less than \$3,000 in gross sales in 2006, entrepreneurs under the age of 18, public utilities, and social service enterprises that are significantly funded through public grants and revenues rather than customer sales. We screened out 128 businesses and attempted to interview 270. Of these, 19 refused, we were unable to find any active contact information (phone number, active business location, website or local knowledge) for 21, we were unable to contact 30 more despite repeated calls on different days and at different times, and were unable to interview a knowledgeable respondent in 4 cases. We completed 196 interviews for a response rate of 73%. The estimated sampling error—95 percent confidence interval calculated on a dichotomous variable—is plus or minus 7.0%.

Table 3.1 Survey Sample Statistics

Total Business Licenses	369
Duplicate/Multiple Licenses	23
Out of Business/Not yet in business	69
Business Unknown	9
Licensed, Active Enterprises	268
Unlicensed Enterprises (ID'd from local sources)	130
Total Enterprises for Screening	398
Screened Out:	
Owner is Under 18	2
Gross Sales <\$3000 per year	92
Business Type excluded	30
Business not in sampled community	4
Total Enterprises for Interview	270
Unable to Contact / No Response	51
Refused	19
Respondent Unavailable/No translator	4
Completed Interviews	196
Response Rate	73%
Estimated 95% confidence interval	± 7.0%

Survey Findings

The survey asked about the purpose of the business, which we then coded according to the North American Industry Classification System (NAICS) (see Appendix G). Figure 3.1 shows the results. These data are slightly different from those in Figure 2.2 (which shows the NAICS classification listed in the business license file), both because we excluded some types of businesses from the survey (so those categories don't appear here at all) and because we included unlicensed businesses. In addition, the survey excluded businesses with earnings less than \$3,000, which were not excluded from the business license file.⁵

Trade is still the most common type of business in both data sets. However, the survey identified more Arts, Entertainment and Recreation businesses than Accommodations and Food Services, while in the business license file (Figure 2.2) the reverse is true. Arts, Entertainment and Recreation businesses were more likely to be unlicensed than other businesses, as were Information businesses, which also rank higher in the survey data than in the business license data. Several business lines are smaller proportions of our surveyed businesses than of all business licenses: Other Services, Health and Social Assistance, and Professional, Scientific and Technical Services were more likely to be screened out as publicly funded than other business types.

⁵ The few differences we found between our coding of NAICS based on their description of the business and the NAICS code appearing in the business file did not affect the count at the two digit NAICS or line of business level of aggregation.

Figure 3.1 Businesses by Line of Business

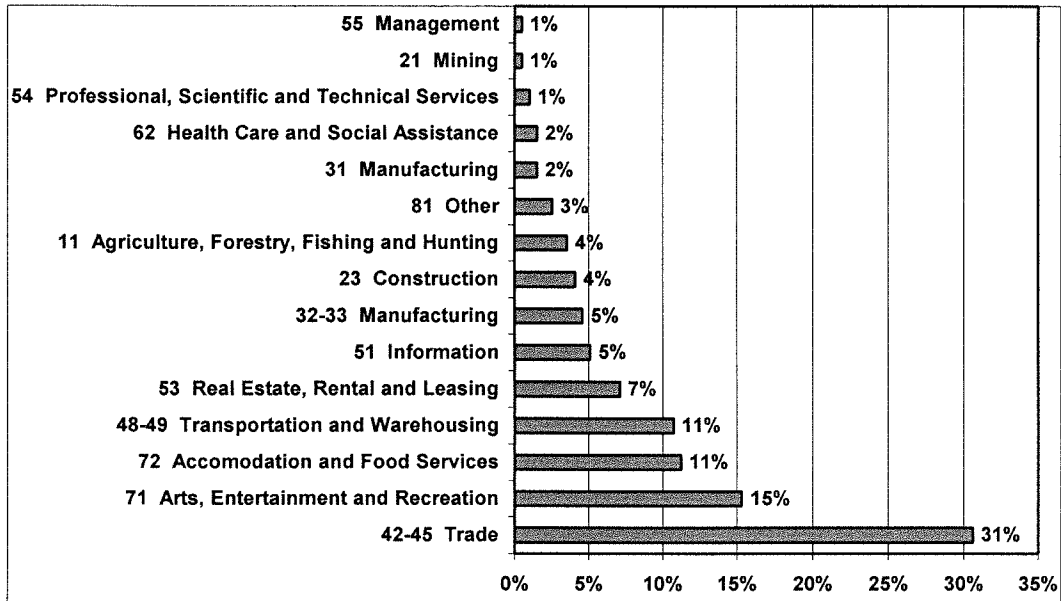


Figure 3.2 shows how the surveyed businesses were organized. Sole proprietorships account for almost one-third of all businesses, and partnerships are another 15 percent. Together, these two types comprise just under one half of all businesses. Different forms of corporations total 40 percent of businesses, and unlicensed enterprises are 12 percent.

Figure 3.2 Businesses by Form of Organization

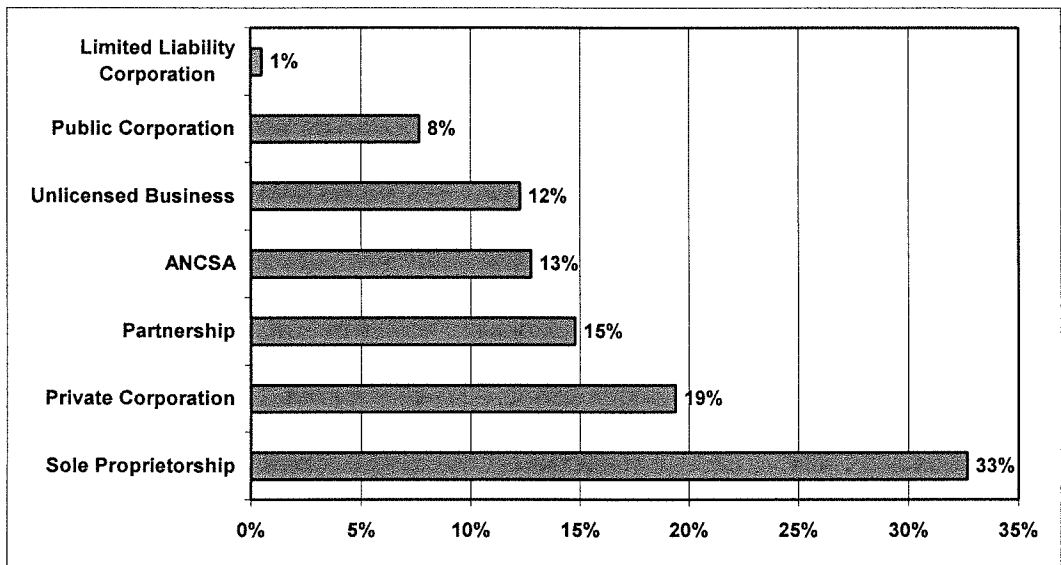
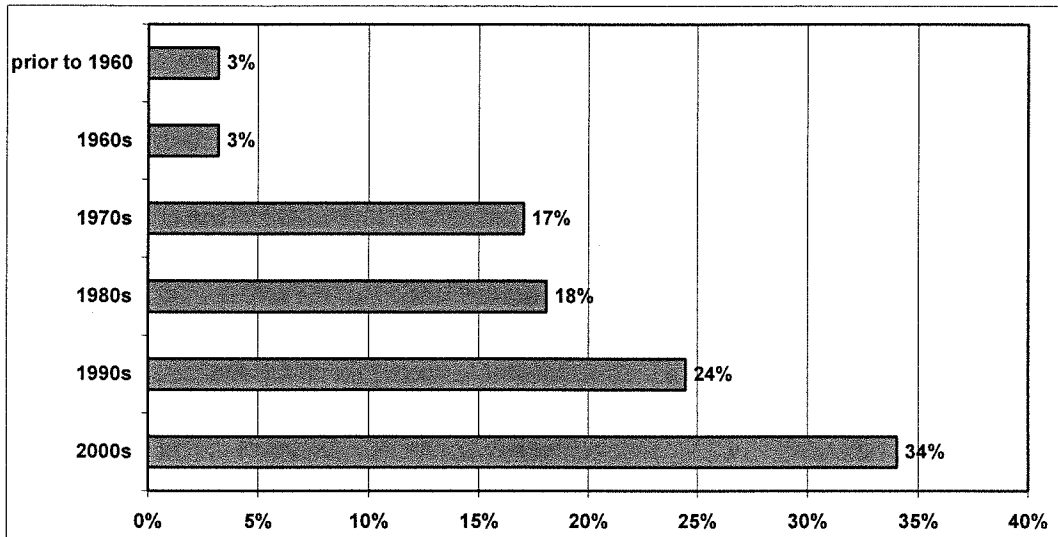


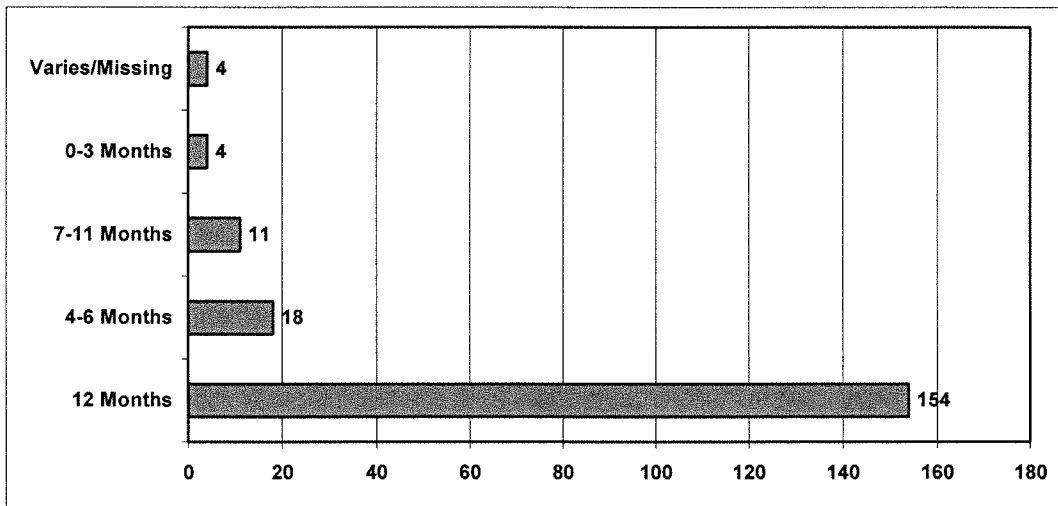
Figure 3.3 shows how long the surveyed businesses have existed, by the decade they were established. The median business age is 13 years, which equates to being founded in 1994. The oldest business we interviewed was established in the 1800s.

Figure 3.3 Businesses by Year of Establishment



The large majority of the businesses in the survey—81 percent—operate throughout the entire year. Among seasonal businesses, those open between 4 and 6 months of the year are the next largest category at 9%, followed by nearly-year-round businesses (open between 7 and 11 months) at 6 percent. A few businesses operate 3 or fewer months each year.

Figure 3.4 Businesses by Months per year in Operation



We asked firms about their gross sales volume and about changes in their sales since 2004. As figure 3.5 shows, the firms we interviewed ranged from zero sales to over \$250,000 per year. Figure 3.6 shows that on average, larger firms were more likely to report increased sales than very small firms—but they were also more likely to report decreased sales. Two-thirds of the smallest firms reported no change in sales.

Figure 3.5 Businesses by Annual Sales Volume

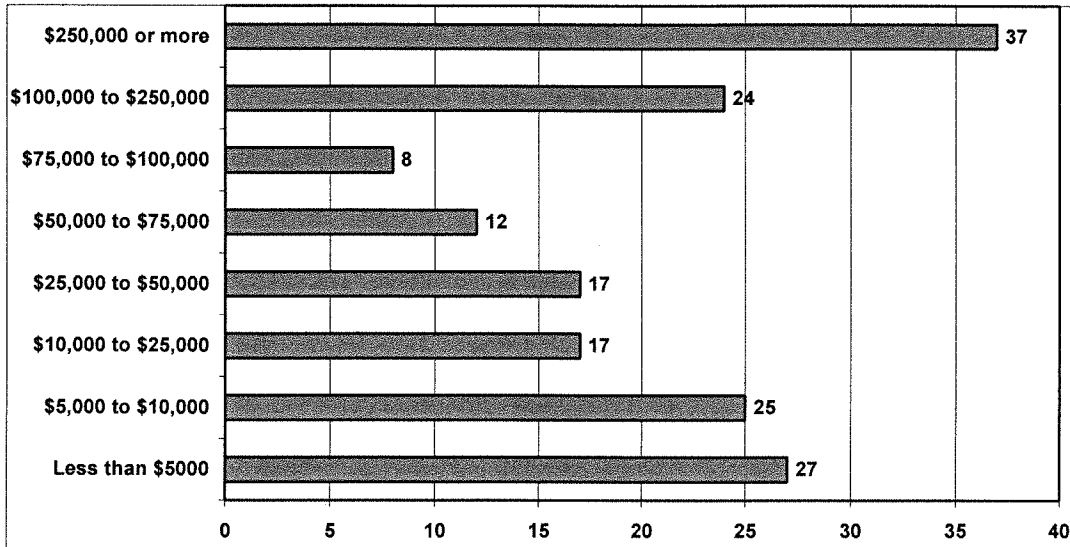
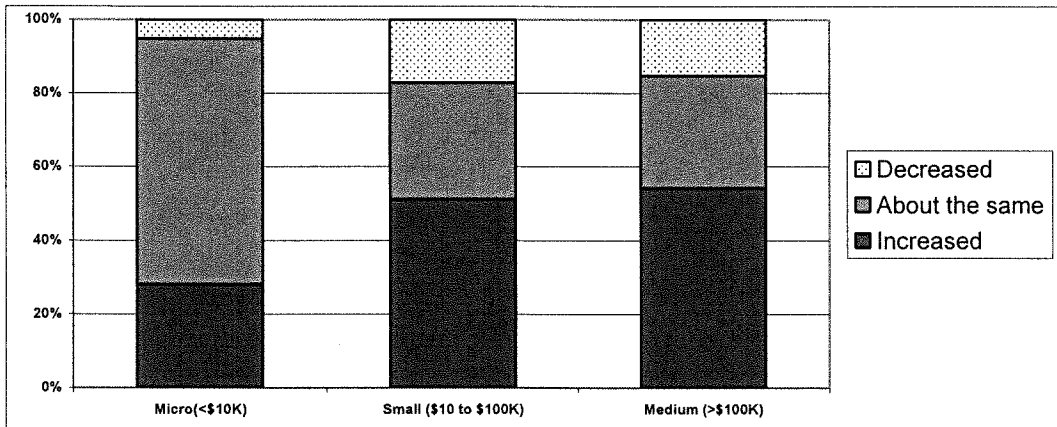


Figure 3.6 Change in Sales Since 2004 by Annual Sales Volume



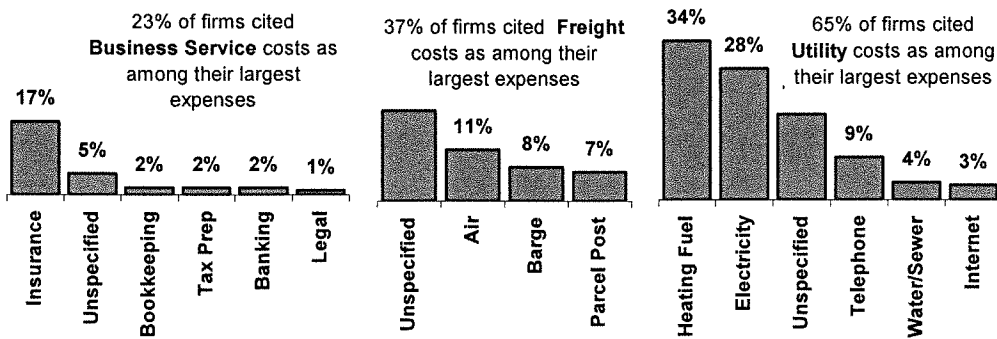
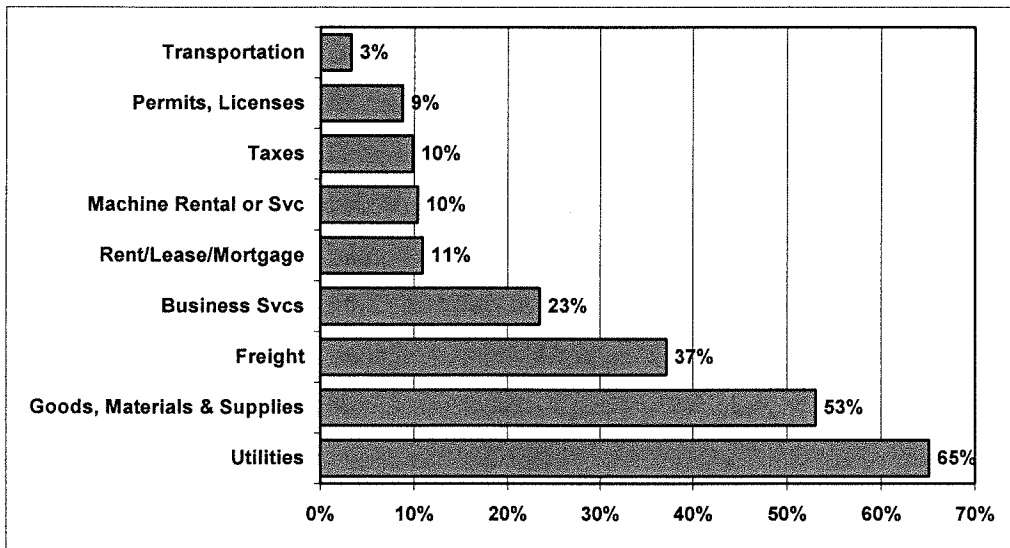
We asked businesses about how many people they employed, and whether that employment was full or part time, seasonal or year-round. We converted the responses into an estimate of each firm's full time equivalent (FTE) employment. Table 3.2 shows data on both total employees and FTE employment. The businesses we interviewed employed over 1,300 people with a full-time equivalent of 791 jobs. The 61 businesses with over \$100,000 in annual sales accounted for just under one-third of the firms in the survey, but almost two-thirds of employment and FTEs.

Table 3.2 Full Time Equivalent Employment and Employee Headcount by Size of Business

	Sales Unknown	Micro (<\$10K)	Small (\$10-\$100K)	Medium (>\$100K)	All Businesses
Total Number of Firms	29	52	54	61	196
Full Time Equivalent Employment					
Number of FTEs	Number of firms				
<0.5	4	9	7	6	26
1	9	23	14	12	58
2	5	14	18	8	45
3 or 4	10	5	8	11	34
5 to 9	0	1	6	13	20
10 or more	1	0	1	11	13
Aggregate FTEs	74	74	122	521	791
Average FTEs	2.6	1.4	2.3	8.5	4.0
Total Employees (Headcount)					
Number of employees	Number of firms				
1	6	18	10	4	38
2	5	16	17	3	41
3 or 4	7	13	14	16	50
5 to 9	8	4	9	16	37
10 or more	3	0	4	22	29
Aggregate Employment	139	116	204	849	1,308
Average Employment	4.8	2.3	3.8	13.9	6.7

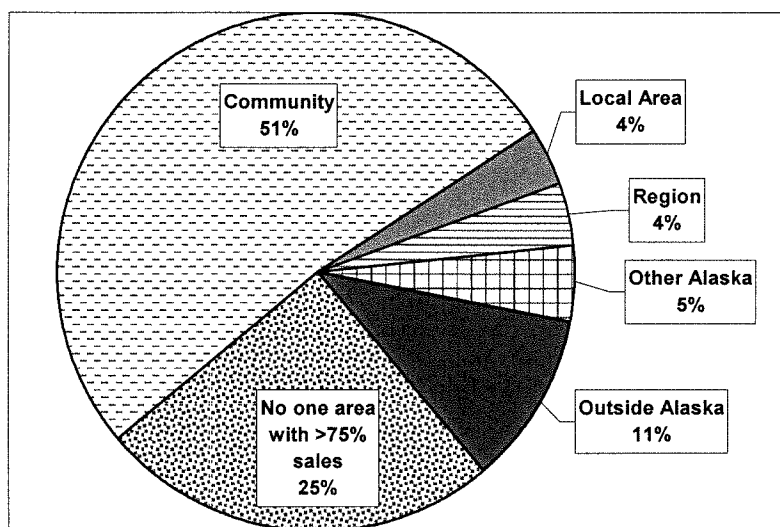
We asked business owners to identify their largest business expense categories (other than payroll) from a list, and 183 of them answered. Figure 3.7 shows the percent of companies citing each major expense category. Three categories—Business Services, Freight and Utilities—had several subcategories, and we’ve shown how often each subcategory was listed in the lower part of Figure 3.7. Because respondents often identified multiple sub-categories, the sub-category percents add to more than the major category total. Utilities were most frequently cited as a major expense (65 percent of respondents), and within utilities, heating fuel and electricity were most important. Goods, materials and supplies were among the largest expenses for 53 percent of respondents, followed by freight for 37 percent.

Figure 3.7 Percent of Companies Identifying Expense as Among their Three Largest by Category of Expense



We asked businesses about where their customers came from: their community, other communities in their local area, outside their local area but in their region of Alaska, outside their local region, but still in Alaska, and outside Alaska. We then asked the businesses to estimate what percent of their sales went to customers in those four geographic groups. Most businesses—about three-quarters of our respondents—reported the great majority of their sales going to customers from just one of those potential areas (Figure 3.8). Over half (97 of the 187 who responded to these questions) said that 75 percent or more of their sales went to customers from their local community; just 11 percent said that customers from outside Alaska made up 75 percent or more of their sales.

Figure 3.8 Percent of Companies with Most sales to Customers from a Specified Region



We also asked about businesses' gross sales, and estimated the volume of sales to each of these categories of customers. For this analysis, we divided the businesses into Mostly Local Sales (the 97 businesses with more than 75 percent of sales to customers in the community) and All Others (at least 25 percent of sales went to customers who were not from the local community). Figure 3.9 shows the results. The total sales dollars shown represent only the 19 communities we surveyed.

While we would expect the businesses with more local customers to have more local sales, the degree of difference is striking. Sales for the "All Other" group are almost evenly divided among customers from each of the five regions. These companies comprise just under half of the companies we surveyed, and account for about 45 percent of total estimated sales. They demonstrate that while the most common type of remote rural business serves primarily its own community, many enterprises have succeeded in tapping into economic opportunities beyond their local villages to bring new money into their communities.

Figure 3.9 Percentage of Sales by Residence of Customer

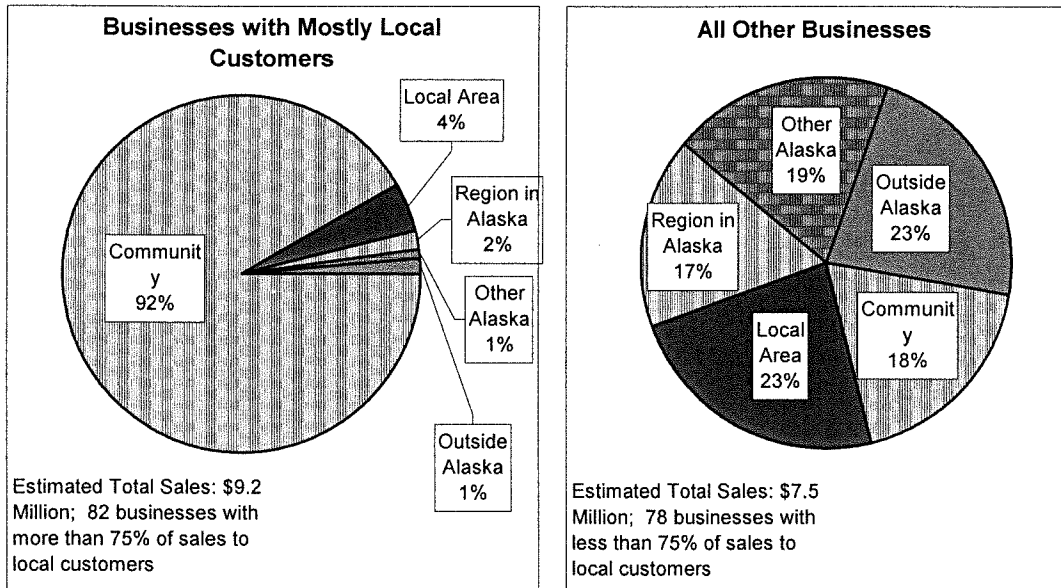


Table 3.3 compares the firms with mostly local sales to the all other group. Almost half of all firms with mostly local sales are retail businesses. These firms tend to be either sole proprietorships or corporations, and have an average of 3 full-time equivalent employees. About one in five do not have a business license. Firms in the “All Other” category are not as concentrated in any one line of business; arts, entertainment and recreation is the most common line, but accounts for only 19 percent of these businesses. These firms tend to be sole proprietorships, and have an average of 4 full-time equivalent employees.

Table 3.3 Profile of Businesses with Mostly Local versus Mostly Non-Local Sales

	Mostly Local (More than 75 % of sales to local customers)	All Others (Less than 75% of sales to local customers)
Number of Businesses	97	89
Most Frequent Lines of Business	Trade (45%)	Arts, Entertainment & Recreation (19%)
Most Common Business Organization	Sole Proprietorship (33%)	Sole Proprietorship (41%)
Percent Unlicensed	19%	26%
Start Year - Median	1991	1995
% of Sales to Local Community - Average	92%	18%
% of Sales Outside the Region - Average	2%	42%
# of FTE Employees - Average	3	4

4. Observations from Open-Ended Questions

The final portion of the survey contained open-ended questions asking entrepreneurs about their experiences at start up, current challenges, lesson learned and advice for others. We entered the text of each answer in the survey database along with up to three subject codes to classify the answers. Verbatim examples from their responses appear in Appendix D.

Startup Challenges

The first question asked about the biggest challenges the entrepreneur had when starting the business, especially in their first year of operations. As Table 4.1 shows, challenges were most frequently faced in establishing the business, including finding training on business management, identifying a market, researching market demand, finding a location, setting up, obtaining licensing, permits and insurance, and obtaining inventory. Of the 196 respondents to the survey, nearly half reported experiencing challenges in establishing their business.

Marketing and advertising the new business was the second most frequent challenge experienced by the survey respondents. Twelve percent of survey respondents reported experiencing challenges with marketing the new business, including product development and advertising.

Financial management presented a unique challenge, especially for first-time business owners. Managing the finances of a business can be a significant challenge for a first-time entrepreneur with no experience with bookkeeping and tax accounting. Respondents reported challenges in setting up bank accounts, learning to use accounting software, managing the cash flow, filing taxes, and billing and collections.

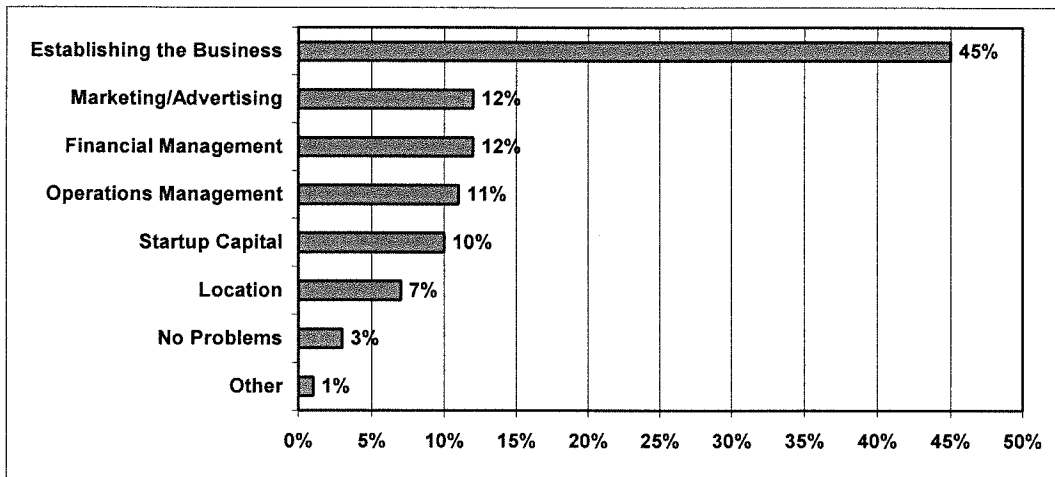
Challenges in operating the new business included customer service, community relations, hiring employees, finding suppliers, and maintaining inventory; 11% of respondents reported experiencing challenges in operating their business.

Start up capital was the fifth most frequent response to this question; 10% of the business owners in this survey reported they had experienced challenges specifically in obtaining startup capital, including looking for available funds or applying for a loan or grant.

The sixth category of responses to this question, Location, is especially relevant due to the unique nature of the businesses included in this interview. Entrepreneurs, especially first-time entrepreneurs, in rural Alaska communities face the challenge of learning to run a business in a remote location with extreme weather conditions. Seven percent of survey respondents reported experiencing a challenge due to their remote operating location.

Three percent of respondents reported they saw no challenges in starting up their business.

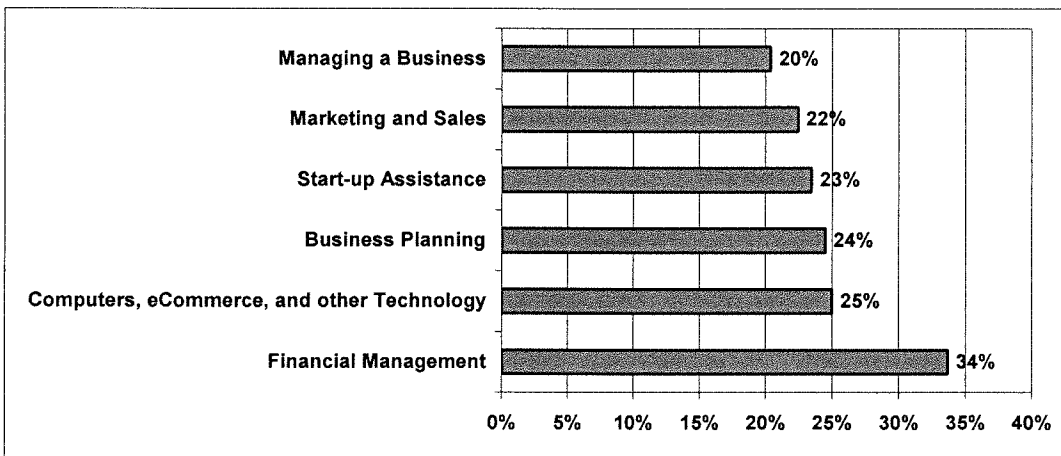
Figure 4.1 Challenges Faced During Start Up



The survey respondents were asked whether or not they received any assistance when first starting their business; 56% said they had not, and 35% said they had. Of those that had, about 60% had received assistance from a personal contact such as a parent, spouse or coworker, and 40% had received assistance from an agency such as the Small Business Administration (SBA) or the Alaska Native Industries Cooperative Association (ANICA).

Respondents were then asked if they would have liked more assistance during the start-up period of their business. This question was asked as an open-ended question, and we received 293 responses from 196 business owners. Thirty-four percent reported that they would have liked assistance in financial management, 25% said they would have liked help with computers, ecommerce and technology, and 24% said they would have liked help with business planning.

Figure 4.2 “Would you have liked (more) help when first starting your business? What kind of help would you have liked?”



Current Challenges

Business owners were asked what challenges they face in running their business at its current state of development. This question was asked in an open-ended format, and the responses were coded up to three ways. There were 303 responses from 196 respondents.

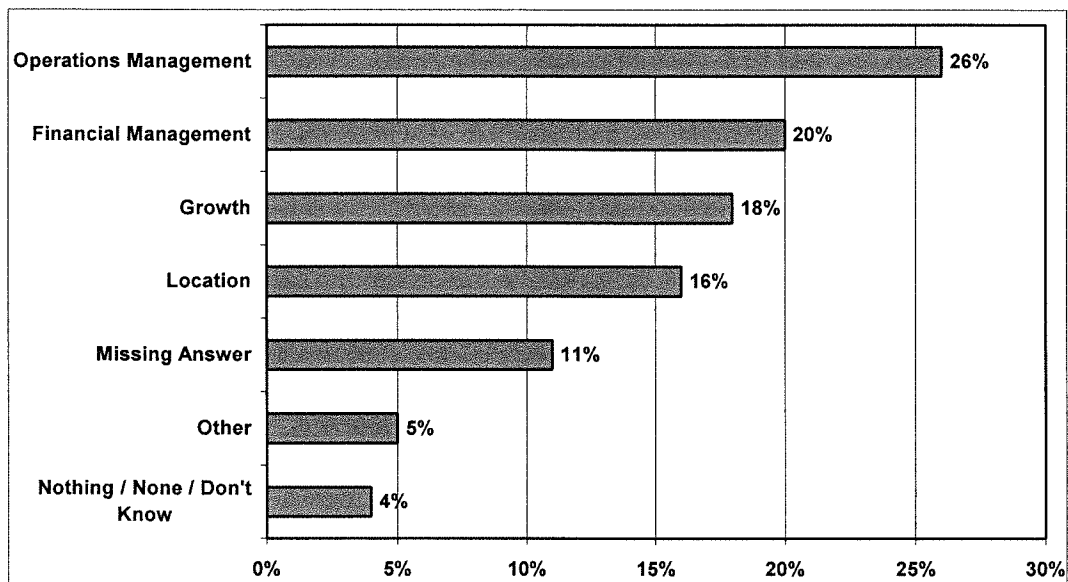
Operations was the most often mentioned challenge. Business owners were currently experiencing challenges in obtaining the necessary licenses and permits for their business, providing customer service and building a relationship with their community, and hiring and supervising their employees. Competition from other businesses was also mentioned as a challenge, as well as obtaining or updating the technology they needed to run their business. Just over a quarter of the survey respondents reported experiencing challenges in operating their business.

Financial management was the second most often mentioned challenge. Business owners find it difficult to manage sufficient cash flow to cover their operating expenses; 20% of respondents to the survey reported facing challenges in managing their business's finances.

Growth was the third most frequent challenge. Owners of mature businesses looking to expand their operations faced many of the same challenges they faced when first starting their business, including attracting customers to their business and advertising their products, creating a business plan and setting a goal, and identifying new markets for their products or services; 18% of the businesses in this survey reported finding it difficult to grow their business.

Four percent of respondents reported that they experienced no challenges in running their business.

Figure 4.3 Challenges Faced in Current Operations



Lessons Learned

The survey asked business owners if they had learned any lessons in running a business in rural Alaska that would be helpful for someone looking to start a new business of their own. We received 300 responses from 196 business owners.

The most frequent type of lessons learned (25%) was in establishing the business. Respondents to the survey found the lessons they learned while planning their business, obtaining the necessary permits and licensing, hiring and supervising employees, setting up their establishment and obtaining inventory and supplies valuable lessons that a new entrepreneur would benefit from knowing.

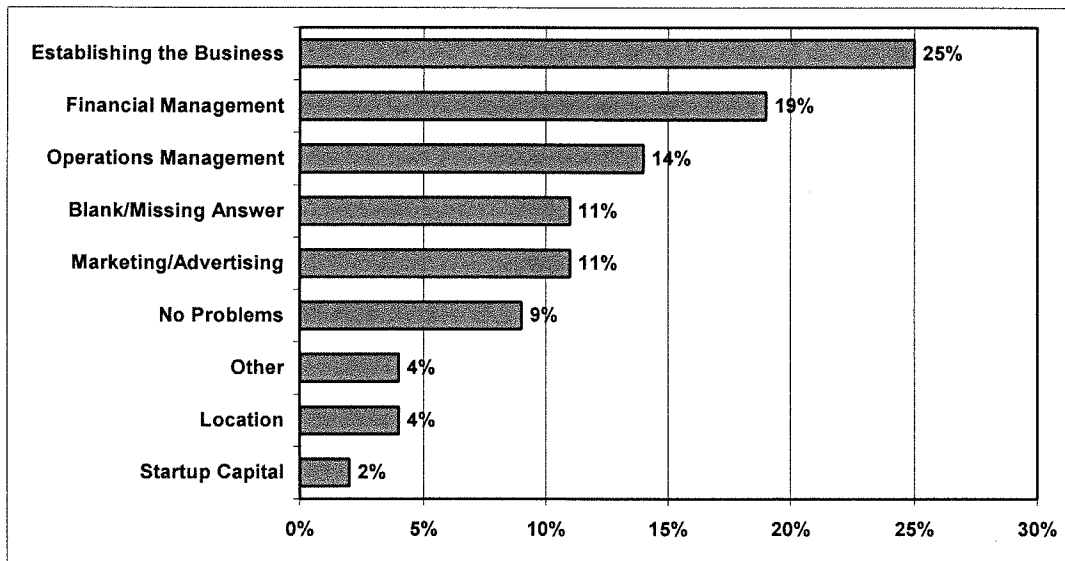
Learning how to manage the finances of the business was the second most frequent response. Learning how to budget for their business, manage the cash flow, and account for the taxes their business paid were all considered valuable for a new business owner. Almost 20% of the respondents reported learning from managing their business's finances.

Learning how to manage the operations of their business was the third most frequent response. Respondents said that their own training and providing customer service and community relations were valuable lessons for someone looking to start their own business; 14% reported they had learned lessons in operating their business.

Eleven percent of the survey respondents reported learning how to market the business and how to advertise the products or services a business offered. Learning how to attract customers, develop a product or service, and dealing with competition from other business were all considered valuable lessons for a new entrepreneur.

Nine percent of respondents said they had no lessons to pass on.

Figure 4.4 Valuable Lessons Learned as a Business Owner in Rural Alaska



Advice for Organizations

The final question in the survey was whether the business owner had any advice for organizations looking to help small businesses in their region. The 196 respondents to the survey offered up 278 responses to this question.

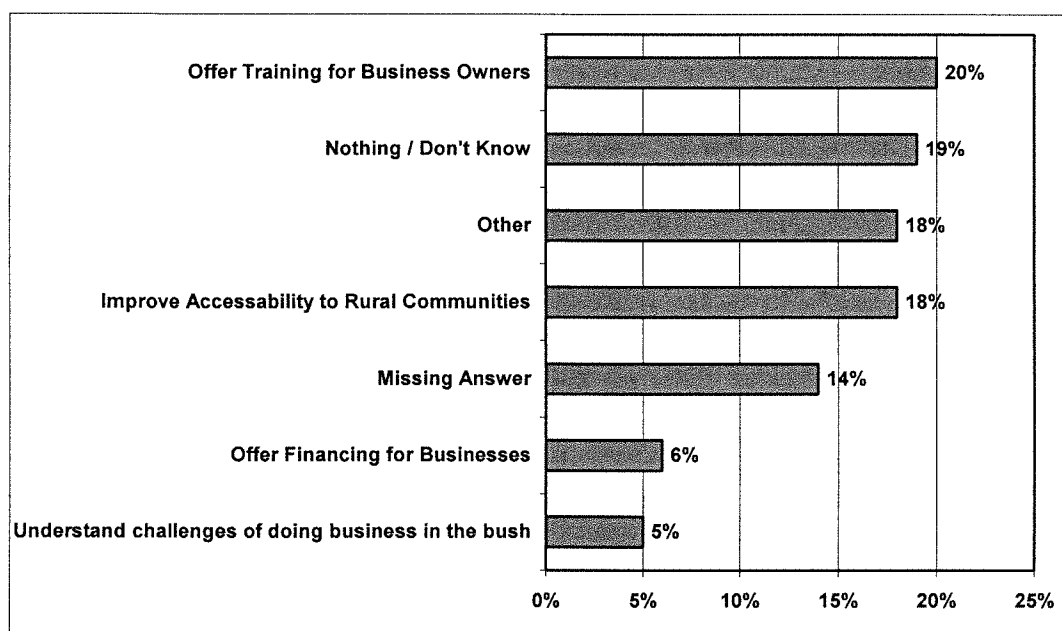
The most frequent response to this question was a request for more training for business owners. Respondents reported wanting classes on not only the basics of managing a business, but also on managing finances, creating business plans, and ongoing training for the owners of existing businesses; 20% of the respondents to this survey reported they wanted help learning how to run their business more effectively.

Eighteen percent of the business owners surveyed wanted organizations to improve accessibility to rural communities. Responses included improved infrastructure and improved communications access, such as putting in telephone or internet service, or improving the existing telephone or internet services.

Six percent wanted organizations looking to help businesses in their region to offer more financing, or more information on how to get financing.

A better understanding of the challenges that business owners in rural Alaska faced was cited by 5% of respondent. Some respondents encouraged people who wanted to help small businesses to spend time living in a remote, rural community to gain first-hand experience.

Figure 4.5 Advice for Organizations



5. Summary and Analysis of Case Studies

Methods

We interviewed owners or managers of enterprises in 25 villages throughout Alaska and prepared in-depth case studies. We sought a cross section of businesses that were geographically balanced across the regions of the state and balanced among the kinds of businesses operating in villages. The business hierarchy analysis in Chapter 2 informed our search.

To identify businesses we asked for suggestions from advisory group members, organizations based in rural Alaska such as ANCSA regional and village corporations, regional non-profit organizations, tribal organizations, and chambers of commerce, as well as agency representatives who work with rural business. We requested referrals to businesses that might be willing to share the story of their business so young entrepreneurs could learn from their experiences. We also asked organizations such as the Alaska Marketplace (sponsored by the Alaska Federation of Natives), Alaska Regional Development Organizations (ARDORS), Alaska Manufacturing Partnership (AMEP), and long time rural residents from a variety of fields. Additionally, some businesses interviewed in the census survey were invited to participate in the case studies.

From June through September, 2007 the case study team conducted in-depth interviews with over 30 businesses across the state. The purpose of the interviews was to learn about the owner's motivation for initiating the businesses and to explore the challenges he or she had faced in growing the enterprise. The research addressed the following questions:

- How did the entrepreneurs develop the idea for the business?
- What kind of experience did they have in the field?
- What kind of planning preceded business start up?
- What were the challenges they encountered and how did they overcome them?
- What were the most important variables that affected their success?
- How did family members and other institutions in the community-at-large influence the development of their businesses?
- How did the entrepreneurs acquire skills to manage finances and employees?
- What kind of assistance did the entrepreneurs of emerging companies seek and--in retrospect--what kind of guidance would they have liked to have?
- How did enterprises that ceased operations decide when to close the business?
- Did the interviewees think their business is replicable in other communities?
- What were the most important lessons they learned from their business experiences?

Types of Businesses Included in Case Studies

Many types of economic activities occur in villages. Some businesses are owned by outside corporations, such as large fish processing plants, or regional entities, such as regional phone companies based in the regional center. If the business management was based outside the village, we did not interview them. This includes businesses such as regional fuel distributors, regional airlines, telephone companies, AVEC utilities, or many village and regional corporations. However, we did interview locally managed village corporations and tribal entities which employed village residents.

While non-profit and educational activities provide employment opportunities in many villages, they were not addressed in this study. The focus of this research was private sector activities owned and operated by local people that generate a direct income-producing impact on village families.

Twenty-three case studies were developed from the thirty-four interviews conducted. Fourteen of the case studies are success stories, seven are businesses implementing new or innovative concepts, and two are businesses which ceased operations. Two businesses—Chevak Bird and Culture Tours and Nunivak Art Center—won cash awards in the 2006 Alaska Marketplace competition for innovative business ideas. Other businesses have been established for more than a decade.

The types of businesses interviewed included businesses in all five tiers of the business hierarchy described in Chapter 2. (See also Appendix F) Tier 1 businesses include the most common occurring businesses in villages, such as retail grocery stores and a hotel or other public accommodation. Tier 2 businesses include enterprises such as restaurants, bed and breakfasts, and artists. The research team interviewed several Tier 3 businesses, including a logging company, two construction companies that lease equipment to other contractors, sightseeing companies specializing in water transportation, sport fish guiding services, and two companies engaged in environmental remediation. While there are fewer Tier 4 and 5 businesses operating in remote villages, we found several to interview, including a company that manufactures jams and jellies from locally gathered berries, a cultural tourism facility catering to cruise ship passengers, a data processing and information technology firm, two internet service providers, a non-scheduled air transportation service, a company that provides habitat management services to the U.S. Fish and Wildlife Service, and a company that generates electricity from wind power.

Case studies were developed based on interviews with owners and CEOs of businesses. The interview process was designed to identify the variables that contributed to the success of the business, and the characteristics which might be replicable in similarly situated communities. The list in Box 5.1 provides the name of the community, the business, the person(s) interviewed, and their title. Some interviews did not provide results that could be used to develop a case study.

Box 5.1 Businesses Interviewed for ViBEs Case Studies

Interior Region

Galena - Sweetsir's Construction, Russ Sweesir, owner.
Galena - Environmental Remediation, Loudon Tribal 8(a), Alex Tatum, CEO.
Galena - Sweetsir's Store, Alice Sweetsir, owner
Galena - Four Winds, quilts and beads, Marge Runner, owner
Ruby - Ruby General Store, Ginger Esmailka, owner.
Ruby - Wild Iris Bed & Breakfast, Rachel Kangas, owner.
Tanana - Tanana Commercial, Cynthia and Dale Erickson, owners.

Southwest Region

Ekwook - Marlug's Lodge, Fishing lodge, Luki Alkelok, owner.
Igiugig - Iliamna Lake Contractors, Tribal 8(a), Dan Salmon, Tribal Administrator.
Togiak - Coupchiak Air, on-demand air service, Norman Coupchiak, owner.
Togiak - Togiak Outfitters, Eco-tourism, Paul Markoff, founder.
Ouzinkie - Spruce Island Charters, Herman Squartsoff, owner.
Old Harbor - Lena Amason, commercial artist, owner.
Old Harbor - Kodiak Combos, Marine charter service, Jeff Peterson, owner.
St. Paul - TDX Power, Village Corp. 8(a), wind generators, Ron Philemonoff, CEO.

Yukon-Kuskokwim Delta

Chevak - Bird Watching and Cultural Tours, Ulrich Ulroan, owner.
Hooper Bay - Sea Lion Corp, village corporation, manage bird habitat for US Fish and Wildlife Service, William Nanning, CEO.
Marshall - Maserculiq Fish Co, Village Corporation, Chuck Akers, CEO.
Mekoryuk - Nunivak Arts & Crafts, John Oscar, owner.
Tooksook Bay - Bayview General Store, Alexi Jimmy, owner.
Bethel - Papa Bear Guiding, Steve and Robin Power, owners

North / Northwest Region

Kiana - Kiana Lodge and Kobuk River guides, Nellie Schuerch, owner.
Noorvik - Morris Trading Post, retail, Pauline Morris, owner.
NANA villages - Sulianich Arts Center, Aakatchaq Schaeffer, Administrator
Point Lay - Cully Corporation, Village Corporation 8(a), telecommunications and internet services, Jim Stevens, CEO.
Savoonga - Ivory Carver, Dean Kulowiyi, owner.
Savoonga - Small engine repair shop, Hogarth Kingeekuk, owner.
Teller - Stargate Alaska, internet services, Ken Hughes, owner.

South East Region

Hoonah - Huna Totem Corporation, Village Corporation. Cultural Tourism for Cruise Industry, Bob Wysocki, CEO.
Hoonah/Klawock - Tlingit Haida Technical Industries, Tribal 8(a), digitize federal defense documents, Corrine Garza, CEO and Andy Grey, Hoonah Manager.
Naukati - Oyster Nursery, Art King, CEO.
Thorne Bay - 3-D Logging, Sally Tinkness, owner.

South Central Region

Seldovia - Alaska Tribal Cache, jams and jellies, Crystal Collier, Tribal CEO.
Tyonek - Tyonek Lodge, Village Corporation, Tom Harris, CEO.

Results

All businesses face challenges when they begin, regardless of location. All new endeavors require the owner to plan how they will produce, market and price the goods or the services of the business. They need to know how much money they will need to start, how long it will take before there will be money coming in, and how to keep track of finances. They need to plan where they will acquire materials, inventory or equipment and if they need to hire and train employees. They also need to identify who their customers will be and how to attract them.

Businesses in rural Alaska face all of these challenges, but also have additional structural difficulties, including: high transportation costs, high energy costs, distance from larger markets, unreliable communication systems, lack of banks and other business services, and lack of educational and training facilities. These variables make it more difficult for business in rural Alaska to be successful. However, we found many articulate owners who shared their keys to success, their challenges, and identified the kind of assistance needed by businesses in rural Alaska.

Keys to Success.

We asked rural business owners about the most important ingredients of success in their endeavors. Many themes emerged from people across the state from all types of businesses. Among the most often stated are the following:

- ⇒ **Do what you Love.** Many business owners stressed the need to be engaged in work for which one has a passion. Or, as one owner stated, “Do what you love and do it with your whole heart.” If you have experience as a fisherman and love the sea or the river, showing people the area where you grew up or taking them fishing would be a possible business to explore. If, however, you don’t like interacting with strangers, such a business would not be a good fit. Any “people business” requires the desire to provide customer service, whether that means ensuring the Thanksgiving turkeys are ordered in time by a store owner, or trying to find lost luggage for a client at a remote lodge. Proprietors told us about the soothing effect of good food and engaging stories for first-time visitors to rural villages. So “do what you love” is a primary requirement for business success.
- ⇒ **Do what you Know.** Many owners emphasized the need to know about producing the goods or services before starting a business. They underscored the critical value of experience. Many store owners, fishermen, artists, and lodge operators grew up observing and engaged in the activities that formed the basis for their businesses. The value of experience as a key variable in business success is supported by a 2007 study, the second Panel Study of Entrepreneurial Dynamics, which discovered that the factors that contribute to success are the planning put into the first stages of starting a new business and the number of years of experience the entrepreneur has in the same industry. The method by which the entrepreneur has obtained this experience does not matter—whether it was through formal training or education or helping a family member in a business of the same type. Any related experience will contribute to success, and the more, the better. (Reynolds 2007)

- ⇒ **Community Cohesion.** Many owners talked about the business climate being influenced by the community's cohesion. If the tribal council, the city council, and the village corporation work together towards a common vision for the future of the village, it was good for business. If, by contrast, there was division, competition and bickering among community institutions, the climate for success for business was eroded. The energy for expansion of entrepreneurial activity was a reflection of the level of cooperation among community institutions. Community in-fighting could undermine new entrepreneurial activity.
- ⇒ **Hard Work.** Owners talked about the importance of consistent hard work and long hours. Unlike a wage or salary job, owning or managing a business takes more than 40 hours per week, regardless of location or type of business activity. Entrepreneurs devote a great deal of time making sure that inventory is ordered, clients are comfortable, or construction crews have all the equipment that is needed to make progress. Some businesses are seasonal, which usually means working 60 to 80 hours per week during the season.
- ⇒ **Family Support.** For many rural businesses, critical support came from spouses and children. Many village stores, sport fishing guides, artists, bed and breakfasts, air taxi operators, restaurants, lodges, and small contractors are family businesses. Spouses and children participate as human resources for the business. We heard stories of kids stocking shelves, picking up freight, baiting hooks, cleaning bathrooms, and waiting tables. Spouses often cook, keep track of expenses and income, or manage reservations through email and web site connections. Brothers, uncles, and neighbors help with construction projects, hauling materials to remote camps, and fixing clogged fuel lines. Sometimes family members are paid wages for their labor; in other cases they are not. For many businesses the cooperation of family members is critical to their success.
- ⇒ **Training and Technical Assistance.** Owners stressed the importance of taking advantage of all the training that is available about business planning, financial management and marketing. They encourage new entrepreneurs to explore all resources, such as schools, the internet, or government agencies to find help to plan what goods or services to offer and identify the potential customers. Learn how to project your costs to produce the goods or services, how much you will have to sell to make a profit, and how to manage cash flow. Most added the need to be very frugal in spending money, particularly in the first year of operations. They advised new owners to make it through the first year and then only after taxes were paid, determine if there was any money left to pay oneself.
- ⇒ **Start Small.** Owners addressed the importance of growing a business incrementally. If you start small and grow gradually, it gives you a chance to learn about production, marketing pricing and financial management. A steady pace of growth creates less risk for the owner, so mistakes become learning opportunities instead of disasters.

Challenges

Owners were asked about the major challenges they face operating their businesses. Challenges most frequently faced in establishing the business, included finding business management training, identifying markets, researching market demand, finding employees, obtaining licenses, permits and insurance, and obtaining inventory. Here are some major themes:

⇒ **Employee Reliability.** In some villages it is difficult to find reliable employees. Some owners and key informants mentioned the problem of finding people with a solid work ethic. One elder described the search for young workers as frustrating because, “Many of the young people don’t know *how* to work. They come late and quit after they get their first pay check.” He and others expressed concern about the detrimental influence of the ease of acquiring public assistance on building a strong work ethic. Some managers said offering training opportunities on new technologies, such as learning AutoCAD software, was a strong work incentive for some employees.

⇒ **Money Management.** Financial management presented a unique challenge, especially for first-time business owners. Respondents reported challenges in setting up bank accounts, learning how to budget, managing cash flow, and paying taxes. Some successful owners learned these skills and set up accounts on computers or ledgers themselves while others found good bookkeepers and accountants to assist them.

They also spoke of the need to prepare a cash flow plan that lays out a strategy for paying the bills in the lean times. Many businesses in rural Alaska are dependant on seasonal customers. All tourism enterprises and enterprises involving seasonal harvest of a natural resource such as fish, timber products, berries or mining, have periods when money is going out while there is no income. Businesses needed to learn how to plan ahead to pay for annual expenses, such as a once or twice a year fuel delivery or maintenance on heavy equipment, a boat, freezers, or a roof.

⇒ **No Banks.** Many owners addressed the multiple ways they maintain cash in communities where there are no banks. Some retail owners secure cash from the post office in exchange for a business check. Others ask trusted friends to send cash in a plain manila envelope on a particular mail plane, and others ask friends or family members who are going to town to give them a check to cash and have them bring cash from their bank. Many send deposits to their banks by mail. In all cases, the cash is not drawing any interest when it is on planes or in the mail. There was also discussion about the acceptance of credit cards as payment for goods and services. Many small businesses in villages do not accept credit cards because of the management fee collected by the credit card company. However, if the business has a web site and is soliciting customers from other states and countries, the acceptance of credit cards or a pay pal system becomes an important marketing tool.

⇒ **Marketing.** Finding customers in a global market for a product or service from rural Alaska is very difficult. Many owners commented on the global

environment in which all goods and services in the world now compete. Rural Alaskans who produce a product to sell, like jam, fish or Native art, or provide a service like bird watching or walrus viewing that could attract people from Europe and the Lower 48, are competing in the global market place. The Alaska Native Arts Foundation developed a web based marketing program for Alaska Native art. The marketing program of the Sulianich Art Center for NANA villages attempts to emulate this statewide program on a regional basis.

The internet is a critical tool for marketing goods and services offered by village businesses. Reliable, affordable access to the internet is crucial and needs to be improved in most regions for private users. Schools and health clinics have access to the internet, but it is much more challenging to secure access for private businesses.

There is also a need to develop multi-faceted marketing plans. Many owners discussed the opportunities to align with industry efforts to promote Alaska products and services, such as the Alaska Travel Industry Association (ATIA) for travel-related businesses, or the Alaska Seafood Marketing Institute (ASMI) for fish products. They found association with these trade groups helpful in attracting customers

- ⇒ **Skyrocketing Energy Costs.** All businesses in villages are having difficulty with rising energy. Fuel, heating and electricity costs affect fishermen, artists, air carriers, stores trying to maintain freezers and coolers, guides operating boats, and B&Bs trying to keep their guests warm during winter festivals. This is a problem that individual businesses cannot solve. However, efforts to encourage conservation of all forms of energy are critical to supporting business development in villages in Alaska.

Kinds of Assistance Needed

Business owners and managers were asked about the kinds of technical assistance that might have helped them meet challenges. The most often mentioned responses were the following:

- ⇒ **Start up Planning.** Some business owners said access to business planning assistance would have made their journey more successful. They would like help planning the business and developing financial projections, cash flow plans, and marketing plans. Many also stated they would like to improve their computer, ecommerce and internet skills. Many indicated that hiring accounting and marketing professional services was critical for their success.

Many were unfamiliar with business development assistance agencies. Several suggested assistance should be available locally through classes or workshops or by a circuit riding development specialist traveling to villages. Another suggested a business hotline people could call or email to get help.

- ⇒ **Business Loans.** Some owners were unsuccessful in securing a start up business loan and looked for assistance securing financing or a line of credit. Rural branches of financial institutions are located in regional centers so

village entrepreneurs need to learn how to establish relationships with loan officers in larger communities.

- ⇒ **Bonding and Contracting.** Businesses in rural Alaska need assistance to secure bonding for construction companies and to develop expertise in contractual relations with potential partners. They suggested agencies promoting business development should explore ways to assist companies with bonding and teach new businesses how to interpret contracts offered by larger partners. Legal assistance to rural businesses would also be helpful.
- ⇒ **Growth Management.** The issue of growing a company was an area in which some owners said they needed assistance. The decision to expand a business from a sole proprietor to include new people was regarded as both an opportunity and a risk for many small business people.
- ⇒ **High Freight Costs.** Some owners addressed the issue of freight costs and particularly the by-pass mail system, provided by the federal government to subsidize the transportation of all goods to rural Alaska. They feared that any reduction in this program would disastrously increase the cost of all goods and services in rural Alaska to the point where many businesses would no longer be able to operate.

Conclusions

These case studies tell the stories of entrepreneurs in small, remote villages across Alaska. Their experiences offer guidance about future opportunities for village businesses. While rural Alaska is remote, expensive to get to and far away from large markets, the case studies suggest that future business opportunities in rural Alaska are diverse. All communities need stores, some kind of accommodation, and transportation services, which are the Tier 1 and 2 types of businesses. If forest or mining resources are near to a village, value-added processing or providing services to an industrial user are business possibilities. These activities are clearly demonstrated in the NANA region near the Red Dog mine and in Southeast Alaska with the forest products industry.

If fishing, hunting, wildlife viewing or scenic resources are near by, visitor and recreation industry activities may be a potential opportunity. Given the preponderance of publicly designated parks, wildlife refuges, and wild and scenic rivers in Alaska, there are many opportunities to explore sport fishing, river rafting and general wilderness touring throughout Alaska. These are resources that are unique to rural Alaska, and can be successful as long as communities are willing to welcome visitors, as demonstrated in Hoonah and Chevak. Similarly, local land and wildlife resource opportunities are being explored with federal managers in communities such as Hooper Bay.

There are also new types of activities emerging in recent years, such as environmental remediation in Galena and other communities where the Department of Defense facilities of the past have closed. Local internet providers were developed in Point Lay and interior communities. Village employees were digitizing Defense Department documents in St. Paul, Klawock and Hoonah. Additionally, there is a high demand for lower cost alternative energy, which provides a market opportunity for entrepreneurs, as demonstrated by TDX Power in St. Paul and Sand Point.

Some Tribal governments established for-profit businesses providing opportunities for village workers. Similarly, village corporations and tribes have established enterprises that use the 8(a) program of the Small Business Administration to secure federal government contracts. While many 8(a) contracts are fulfilled outside of Alaska, some are based in villages. In communities such as Igiugig and Galena significant business opportunities were developed in and near villages as a result of these contracts. Similar business efforts show promise for opportunities by other 8(a) contractors in the future. Julie Kitka, President of the Alaska Federation of Natives, testified to Congress about the 8(a) program on Sept 19, 2007. She stated,

Participation in the 8(a) program has enabled our Native-owned businesses to develop the experience, skill and expertise necessary to succeed in the competitive business market. The 8(a) program has helped Alaska Native entities overcome significant economic barriers, create and expand competitive businesses in the private and federal markets, create new business opportunities in remote rural areas of our state and return profits to our communities.

The Next Generation

Many of the business owners who were interviewed learned or experienced some aspect of the business they pursued when they were young. Whether it was commercial fishing, stocking the shelves of a village store, or learning how to set up a computer to play internet games, the early experience informed the future development of the businesses of many of the entrepreneurs we interviewed.

It is important, therefore, to incorporate a basic understanding of economic and financial literacy in the curriculum of all schools, but particularly in rural schools, because there are fewer models of private sector entrepreneurial activity than in urban areas. Some ViBEs advisors identified the Junior Achievement program, which teaches financial literacy and work readiness in the schools, as the kind of program that should be available in village schools.

They argued that many young people in village observe money being spent, but may have little knowledge of where it comes from, how it can be leveraged and how it can be invested to grow. To that end, some advisors suggested that internships for young people be awarded to village youth who have expressed an interest in remaining in rural Alaska, not just to those students with the highest academic standing. Exposure to private sector business affords a young person the opportunity to experience an activity they may not encounter in their village, and it would remain with them for the rest of their lives. Whether the experience is handling reservations for a hotel or tour operator, shadowing an IT manager, or observing the development of a construction bid, any participation in different types of work will expose rural students to new occupational and entrepreneurial horizons. Such experiences may plant the seeds for the next innovative business start up in rural Alaska.