

ACCESS TO FINANCE IN MONTANA

**A Study of the Funding Landscape for
Entrepreneurs and Small Businesses**

Part 2: Survey of Businesses

2024



Photo of Downtown
Livingston, MT

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List of Acronyms

ACH - Automated Clearing House
AMRII - Accelerate Montana's Rural Innovation Initiative
ARPA - American Rescue Plan Act
BBER - Bureau of Business and Economic Research
BIA - Bureau of Indian Affairs
CBP- County Business Patterns
CD - Certificate of Deposit
CDFI - Community Development Financial Institution
CEO - Chief Executive Officer
CFO - Chief Financial Officer
COVID-19 - Coronavirus Disease of 2019
CRDC - Certified Regional Development Corporation
CRA - Community Reinvestment Act
EDA - Economic Development Administration
EDO - Economic Development Organization
FDIC - Federal Deposit Insurance Corporation
FSA - Farm Service Agency
IRP - Intermediary Relending Program
IPO - Initial Public Offering
LLC - Limited Liability Corporation
LLP - Limited Liability Partnership
LTV - Loan to Value
MBAC - Montana Business Assistance Connection
MT - Montana (the state of)
MTPTAC - Montana Procurement Technical Assistance Center
NACDC - Native American Community Development Corporation
NCUA - National Credit Union Administration
NES - Non-Employer Statistics
RC&D - Resource Conservation and Development
SBA - U.S. Small Business Administration
SBIR - Small Business Innovation Research
SSBCI - State Small Business Credit Initiative
SVP - Senior Vice President
DTI - Debt to Earnings
TDS - Total Debt Service
USDA - U.S. Department of Agriculture
VC - Venture Capital

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The project team of Accelerate Montana, Catalyze Global Impact LLC, and the Women's Entrepreneurship & Leadership Lab thank all the lenders and investors who shared information for this study. Their willingness to provide their real-world experiences enabled this study to understand and describe the landscape of small business financing in Montana. We hope this report will be useful for lenders, investors, policymakers, and others to identify new opportunities to provide effective financing for Montana's small businesses.

Bureau of Business and Economic Research (BBER):

The project team contracted the Bureau of Business and Economic Research (BBER) to conduct the quantitative survey at the core of this study. The BBER team consisted of John Baldrige as project manager and Janet Stevens as data collection coordinator. Their significant efforts led to successful data collection and analysis, which form the core of the quantitative data and analysis presented in this report.

Advisory Committee:

Starting in September 2022, the advisory committee met for working meetings to support the design, deployment, and review of data and analysis for this study. The advisory committee includes professionals from across the small business finance market in Montana, including regional banks, credit unions, community development financial institutions (CDFIs), economic development organizations, revolving loan funds, and state and federal loan, guarantee, and grant programs. The advisory committee members came from across the state of Montana representing eastern, central, and western regions as well as urban, rural, and Indigenous communities. The committee helped the project team focus on information the industry identified as important. Thank you for your guidance and insights.

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Photo of Howdy Hotel, Forsyth, Montana

Executive Summary

Genesis of this Initiative: Accelerate Montana, Catalyze Global Impact LLC, and the Women's Entrepreneurship & Leadership Lab launched an initiative on 'Access to Finance for Small Businesses in Montana' in 2022. This initiative aims to better understand who provides small business finance, which businesses receive what type and volume of financing, what are the financing needs expressed by businesses, and how to ease market bottlenecks in the flow of small business finance across Montana. To achieve this goal, guided by a deeply experienced advisory committee from across Montana, the project team designed and implemented a quantitative survey and conducted qualitative interviews of lenders, investors, small business owners, state and federal agencies, and foundations during 2022-23.

Based on the survey and interviews, this report focuses on key features about Montana's small businesses, including business demographics, experience with financial service providers, use of financial services for startup and growth, and business constraints and opportunities. The quantitative survey of businesses was co-designed and administered by the University of Montana's Bureau of Business and Economic Research (BBER) between late 2022 and early 2023. A total of 405 businesses across Montana participated in the survey. The qualitative interviews were conducted by the project team who contacted over 125 people and conducted interviews with over 50 people that explored the initial survey findings and delved deeper into the challenges and opportunities facing small businesses and funders in Montana.



This report provides quantitative and qualitative information from the perspective of businesses, funders, and specialists across the state, and recommendations that state and federal policymakers, lenders, investors, and economic development organizations can use in shaping small business programs. We hope the study findings will generate discussions among finance providers and policy makers that will increase the flow of financing to early-stage and small businesses in Montana. This report follows a first report [Access to Finance in Montana, Part 1, A Survey of Funders](https://www.acceleratemt.com/accessingcapitalinmontana) that was released in November 2023 and can be downloaded here:

<https://www.acceleratemt.com/accessingcapitalinmontana>

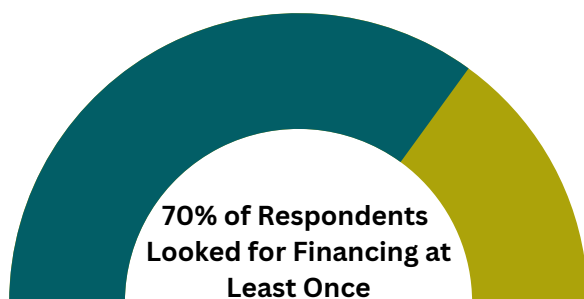
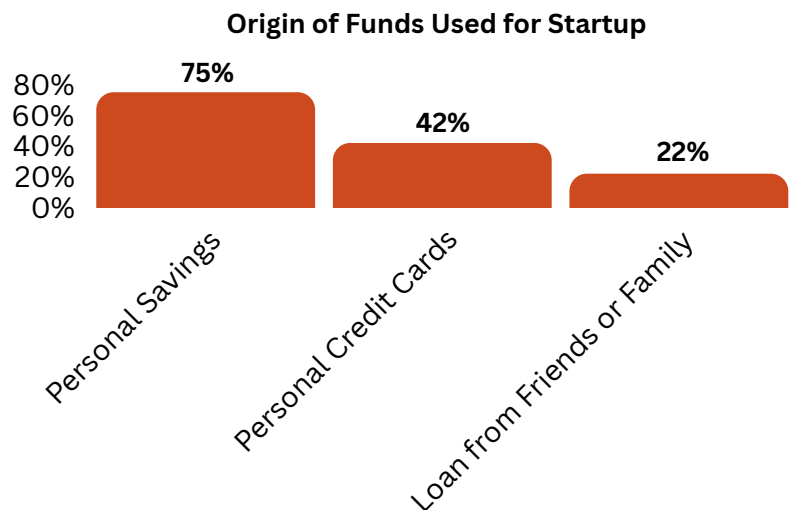
Small businesses are the foundation of Montana’s economy: More than 128,000 small businesses (U.S. Census 2019) drive Montana’s economy in terms of employment, value addition, and economic development. Respondents largely mirrored the diversity of Montana’s businesses in terms of business age, location, and economic sector. In many business surveys, response rates for women-owned businesses often lag. For this survey, however, the female response rate was strong (58%) compared with the male response rate (38%). Likewise, this survey received strong response rates from Native American-owned businesses (23%), in addition to White (63%), Black or African American (1%), Asian (1%), and Native Hawaiian or Pacific Islander (1%). Urban businesses made up fifty-three percent (53%) of respondents, and the remaining responding businesses (47%) reported being in rural areas. Twenty-one percent (21%) of responding businesses are located in Native American reservation areas statewide. In addition, the survey methodology allowed for higher responses from some of Montana’s smallest and newest businesses.

		% of Respondents	Total Respondent Count
Business Size by Total Number of MT Employees	Total	100%	405
	0-1	47%	189
	2-3	23%	94
	4-9	19%	75
	10-29	6%	26
	30+	5%	21
Gender	Male	38%	153
	Female	58%	235
	Nonbinary or third gender	1%	<5
	Prefer not to say	3%	14
Hispanic, Latino or Spanish origin?	No, not of Hispanic, Latino or Spanish origin	96%	326
	Yes, Mexican, Mexican American, Chicano	2%	6
	Yes, Puerto Rican	1%	<5
	Yes, Cuban	0%	<5
	Yes, another Hispanic, Latino, or Spanish origin	1%	5
Race	White	58%	235
	Native American	23%	93
	Other	2%	8
	Did not answer	17%	69
Urban or rural	Urban	53%	213
	Rural	44%	177
	Did not answer	4%	15
On a MT reservation	Yes	17%	69
	No	83%	335
	Did not answer	0%	<5

Perceptions and reality — missed opportunities: Forty-nine percent (49%) of respondents to this study noted access to finance as their largest challenge. Forty-three percent (43%) of respondents reported that marketing and growing the customer base was the biggest challenge. Thirty percent (30%) of respondents said that hiring or retaining staff or worker quality was the biggest challenge. Twenty-two percent (22%) of respondents cited the availability and cost of locations for the business to buy or rent as the biggest challenge. More than one answer was allowed, hence the total percentage is larger than 100%.



Businesses seem to be relying largely on personal savings, owner's equity, and cash flow from operations (see graph at right). Personal savings (75%), including retirement accounts, and personal credit cards (42%) were the most frequent source of funding for respondents to start their businesses. Cash flow from operations and owner's equity are the main sources of finance for current business operations.



Seventy percent (70%) of respondents have sought business financing at least once, and fifty-three percent (53%) have sought business financing two or more times during the life of their business. However, less than half of respondents (46%) reported using a business credit card and thirty nine percent (39%) reported using a business loan at any time. Only fourteen percent (14%) of respondents reported receiving an investment, including investments from friends and family, at any time.

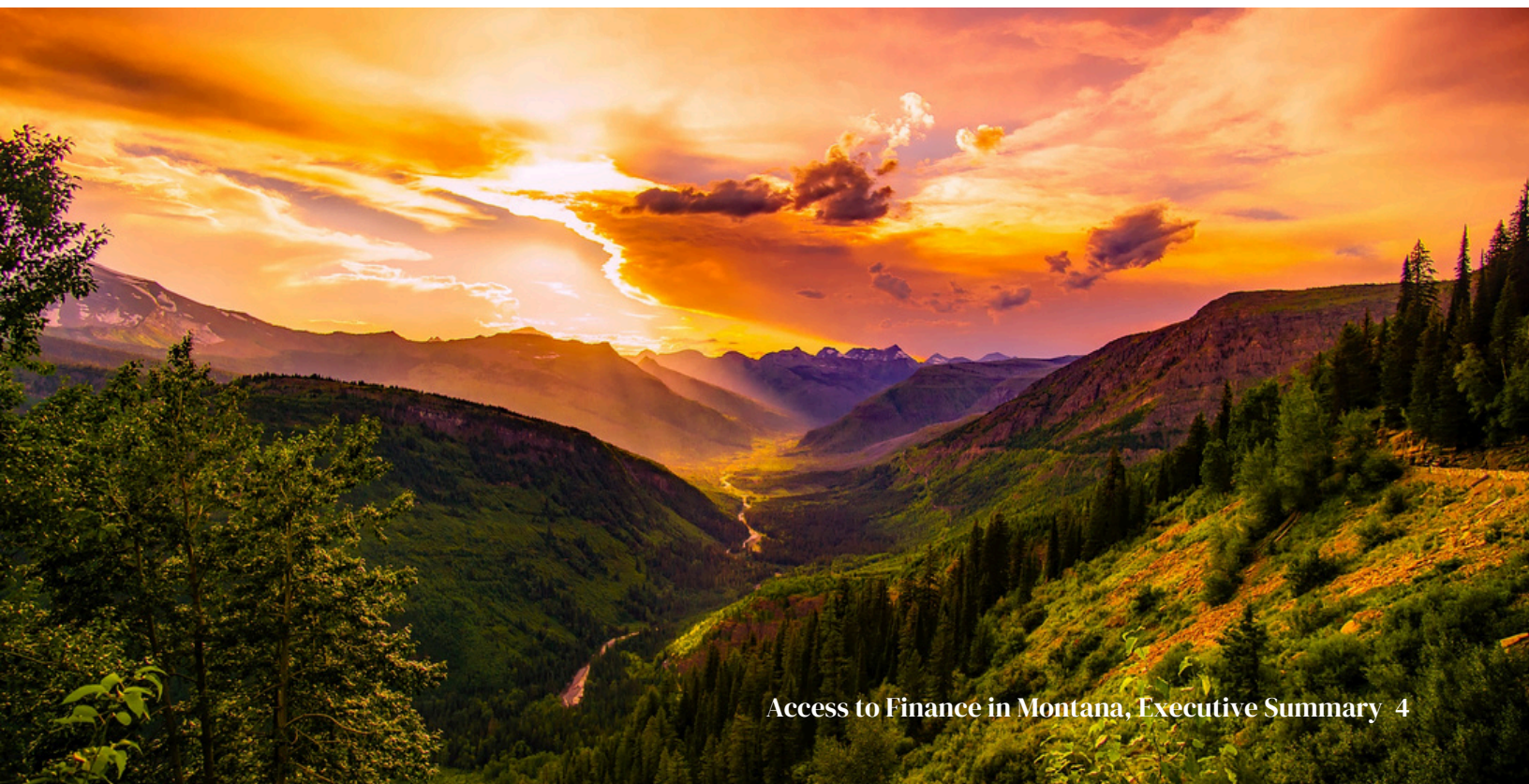
Qualitative interviews with businesses and funders revealed that lower levels of access to (external) finance may be driven by multiple factors including business owner experience and training, (mis)perceptions of lenders and investors, generational wealth disparities, unrealistic expectations about qualifying for business finance, and others. In some cases, business owners miscalculate their financing needs — either too high or too low — based on their projected cash flow and revenue. This is especially true in the business's early years or during growth phases. Businesses and lenders need to make well informed choices that closely consider the impact of the total loan amount, interest rate, fees, and repayment plan.



Photo: Great Falls, Montana

Together, the quantitative and qualitative findings indicate that lenders, and to some extent investors, may be missing market opportunities to reach viable businesses. For example, data indicate lower access to finance for women-owned businesses, Native American-owned businesses, and rural businesses for certain types of financial services. Finding the right balance for viable businesses to access sustainable financing and receive the right technical assistance will help them grow and further stimulate Montana's economy.

Market bottlenecks: From the accompanying funder report, interviews with over 50 businesses, funders, and specialists reveal a dichotomy in the market for small business finance across the state. Larger banks, credit unions, and venture capital funds report that they have available liquidity and are actively in search of new business clients. However, the vast majority of smaller community lenders interviewed indicated that they are starved for capital to re-lend or onlend to small businesses, and some investment funds are struggling to fundraise capital. At the same time, these smaller community banks, CDFIs, and economic development organizations with revolving loan funds reported they are experiencing more demand for their services. Based on survey findings, CDFIs and loan funds can take more risk while proving their ability to manage risk and make loans sustainably — demonstrated, especially during the COVID-19 pandemic and economic recovery. Yet liquidity is a significant challenge for these small community-based lenders. Finding ways to encourage public-private partnerships and new combinations of lenders working together would help bridge this liquidity imbalance.

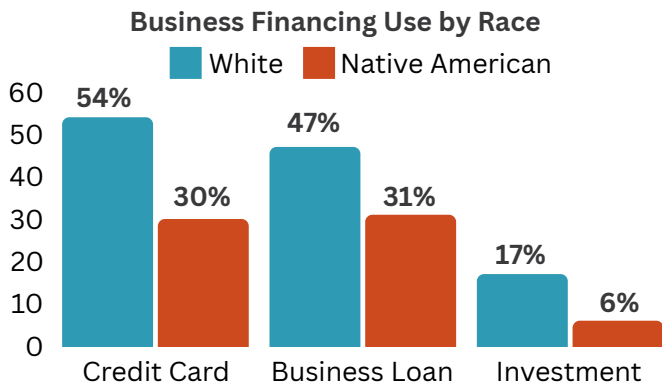




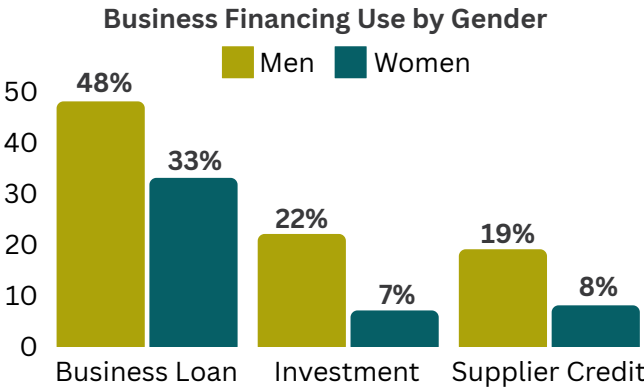
Business financing needs and usage varies significantly by industry, size, age, and other factors. A small professional firm (accounting, counseling, communications and marketing, etc.) may need fewer employees and much less financing for working capital and equipment than a construction or manufacturing company, for example. In several sections of the report, these nuances can be seen by age of business, number of employees, and industry of business.

Most responding businesses and organizations (85%) reported using a business checking account for their business. Forty-six percent (46%) reported using a business credit card. Forty percent (40%) reported using a business savings account, and thirty-nine percent (39%) reported using a business loan. Only fourteen percent (14%) reported receiving an investment in their business, while five percent (5%) or fewer reported receiving a grant of some kind.

In terms of total employment, large businesses were more likely to report using a broader variety of financial services than small businesses. Most businesses with 30+ Montana employees reported using a business credit card (71%), a business savings account (57%), and a business loan (67%). Smaller businesses with 0-3 employees were less likely to report using a business credit card (34%-44%), a business savings account (29%-37%), or a business loan (19%-46%).



White respondents were more likely than Native American respondents to report using a business credit card (54% vs. 30%), business loan (47% vs. 31%), or business investment (17% vs. 6%).



Males were more likely than females to report using a business loan (48% vs. 33%) or business investment (22% vs. 7%) or credit from supplier (19% vs. 8%).

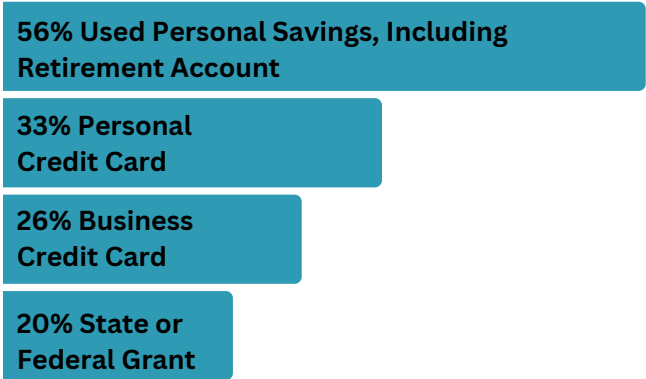
Urban respondents (51%) were more likely than rural respondents (42%) or respondents living on a reservation (30%) to report using a business credit card.

Business Credit Card Use by Urbanicity



Seventy-five percent (75%) of businesses reported using personal savings or a retirement account to start their business. The next most frequently reported sources of funding were personal credit cards (42%) and a loan from friends or family (22%).

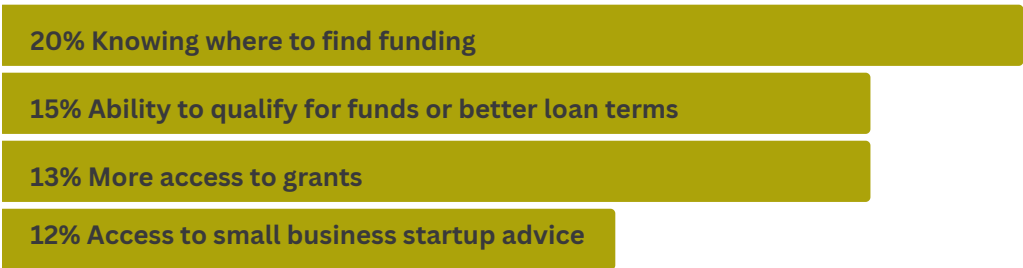
Financing Used to Grow or Expand the Business



Most respondents (56%) said that they used personal savings, including a personal retirement account, to grow or expand the business. Thirty-three percent (33%) of respondents reported using a personal credit card, and twenty-six percent (26%) reported using a business credit card to expand the business. Twenty percent (20%) of respondents said that they used a state or federal grant to grow or expand the business.

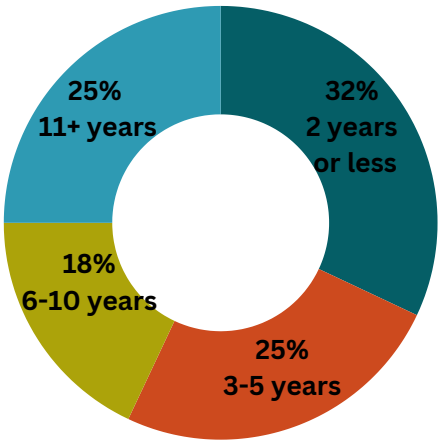
When asked what would have been helpful when starting to seek business finance, twenty percent (20%) of respondents cited knowing where and how to find funding, including where to find centralized information on lenders. Other responses included the ability to qualify for funds or obtaining better loan terms (17%), more access to grants (13%), and access to small business startup advice (12%).

Challenges Reported in Seeking Financing

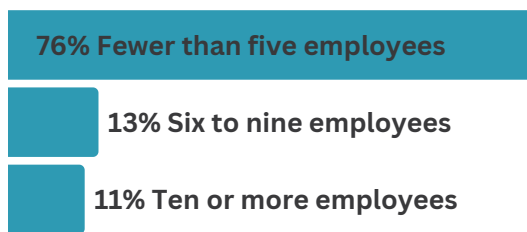


The median age of respondents' businesses is five years. Thirty-two percent (32%) of respondents reported being in business two years or less. Twenty-five percent (25%) of respondents said they were in business between three and five years. Eighteen percent (18%) of respondents were in business between six and ten years. One-quarter of respondents (25%) reported that they were in business 11 years or more.

Business Age



Business Size



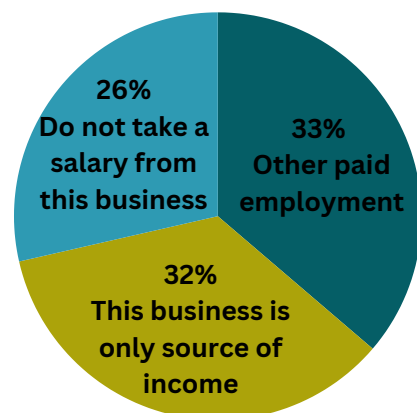
Seventy-six percent (76%) of responding businesses reported employing fewer than five people. Thirteen percent (13%) of responding businesses reported employing between six and nine people. Eleven percent (11%) of responding businesses employ ten or more people.

The median (or midpoint) 2021 annual revenue reported by responding businesses was \$36,000, while the mean (or average) annual revenue was \$793,000. Twenty-one percent (21%) of responding businesses reported having \$0 revenue in 2021. For newer businesses it is not surprising to have low or no revenue. Further, the results are from 2021, which was during the COVID-19 pandemic that affected many businesses across the state. The total 2021 revenue reported by all responding businesses was \$282.9 million. Study respondents reflect a broad range of businesses from newer, smaller businesses to much larger and/or older businesses, with results further analyzed by size and demographics in the report.

One-third of all respondents (33%) sought financing for the studied business between two and five times. Another thirty percent (30%) of respondents reported never having looked for financing. Sixteen percent (16%) of respondents sought financing only once. The remaining twenty percent (20%) of respondents looked for capital six or more times.

One-third of all respondents (33%) said that they have other paid employment in addition to the studied business. Nearly as many respondents (32%) reported that their business is their only source of income. Twenty-six percent (26%) of respondents said that they do not take a salary from their business. Native American respondents were more likely than White respondents to report having paid employment in addition to the business studied in the survey.

Reliance on Business Income

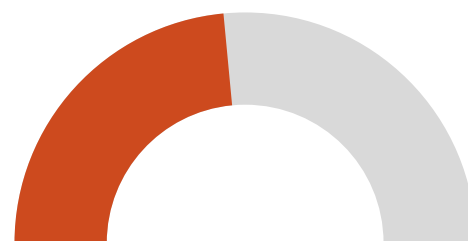


Forty-one percent (41%) of respondents reported willingness to incur personal debt to secure business funding, but they had not been asked to do so by a lender. Another one-third of respondents (33%) said that they had already incurred personal liability to secure business funding. Only twenty-five percent (25%) of all respondents said that they are unwilling to incur personal liability to secure funding for their business.

Thirty-five percent (35%) of respondents said they are consciously trying to reduce debt for the business and do not routinely request or receive additional loans. Twenty-six percent (26%) said that they have not needed to borrow in the past few years but are confident in their ability to borrow more when needed. Nineteen percent (19%) of respondents said they are a new business just starting to establish a borrowing relationship with a lender. Eleven percent (11%) noted they occasionally request and are granted additional loans or other debt when required. White respondents (15%) were more likely than Native American respondents (2%) to say they occasionally are granted additional loans when required.

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
We are consciously trying to reduce debt for the business, and do not routinely request or receive additional loans	35%	37%	35%	36%	21%	35%
We have not needed to borrow in the past few years but are confident in our ability to borrow more when needed	26%	27%	27%	24%	25%	30%
We are a new business just starting to establish a borrowing relationship with a lender	19%	27%	25%	10%	0%	0%
We occasionally request and are granted additional loans or other debt when significant capital expenditures require funding	11%	3%	7%	15%	42%	20%
We have requested new loans or other debt in the past year but have not received approval	4%	5%	1%	5%	0%	5%
We routinely request and are granted additional loans or other debt as regularly needed to operate our business	3%	0%	3%	5%	8%	10%
We routinely or occasionally request additional loan or other debt but are not always approved for the loan or the amount we requested	3%	2%	3%	5%	4%	0%

Forty-seven percent (47%) of respondents used cash flow from operations as a major source of current business financing. Another one-third of respondents (33%) used owner's equity as a major source. Urban respondents (53%) were more likely than rural respondents (37%) to report using cash flow from operations to grow their business.



47% used cash flow from operations as current financing

Twenty-six percent (26%) of respondents said that if their business needed new capital, they would first approach state or regional banks. Twenty percent (20%) of respondents reported that they would seek a grant from a state or federal program like SBA, USDA, Indian Equity Fund, etc., and twelve percent (12%) would use personal savings first. White respondents were more likely than Native American respondents to cite state or regional banks as their preferred source of additional capital (33% vs. 11%). White respondents were also more likely than Native American respondents to say their preferred source of additional capital is a private investor (9% vs. 0%). Native American respondents were more likely than White respondents to say that they would seek financing from a CDFI, loan fund, or economic development organization (12% vs. 2%) or a grant from a state or federal program (36% vs. 13%). Rural respondents were more likely than urban respondents to say that the source of additional capital they would seek first is a grant from a state or federal program (30% vs. 13%).

Recommendations

Based on the findings of this study, the following recommendations are offered as possible solutions to reinforce small business funders and expand responsible, effective financing for small businesses in Montana.

Market Gap 1 – Limited Time and Lean Staff in an Environment of Complex Programs and Financing Options: With a range of financial products and financial services providers for many small businesses, both funders and businesses may be unaware of available options, including potential co-funders and state and federal programs. Several lenders and investors expressed interest in co-funding small business deals, while some state and federal programs noted funds are available and not being fully used. This leads to inefficient program utilization and underutilization of available financing, as noted by a wide range of lenders, investors, and state and federal program staff.

Proposed Solutions:

1. Expand information and training for lenders and investors: Larger lenders and investors often have specialized staff to focus on arranging participation loans and syndications and/or state and federal programs for small business finance. Yet most report lean staffing, without the luxury of specialists in each branch office. Further, many funders may make only a few of these loans or investments each year, so it is often necessary to refresh knowledge of relevant programs for each application. Some programs lenders noted as critically helpful include the Montana Department of Commerce's SSBCI funding program and several Montana Board of Investments programs. Others include widely used programs such as the US Department of Agriculture's Rural Development Program and multiple U.S. Small Business Administration programs.

- Where feasible, state and federal agencies and economic development organizations can further streamline application and reporting requirements for lenders. However, these agencies have reporting requirements and are held accountable for the use of public funds and thus face a delicate balancing act to ensure fair, reasonable, and equitable application, contracting, and monitoring of funding.
- To help funders apply for and successfully deploy financing from available programs, easily accessible information is crucial, including business eligibility and decision criteria, geographic coverage, funding conditions, and available financing (loan guarantees, co-funding, credit enhancements, grants, etc.). Some programs also offer business development services, coaching, or other advisory for qualifying businesses and financial institutions.
- Especially for smaller lenders and/or infrequent users of these programs, many lenders noted the complexity of applying for and reporting to state and federal programs as a hurdle, though many programs offer briefing sessions and respond to phone or email queries. However, it may be necessary to expand online trainings, question & answer sessions, and email and/or phone links to experts on how to complete applications for economic development organizations and state and federal programs.

2. Expand awareness of training, technical assistance, and financing opportunities for small businesses:

Respondents for this second report on small businesses flagged access to finance as their main business challenge, followed by marketing, staffing, and location issues. When talking with lenders, however, there may be an expectations gap when business owners are not realistic about their prospects for funding, interest rates, and/or amounts or likely timing for a loan to be approved. Businesses contacted for this report requested help in knowing about available lenders and investors in their area, developing business plans and financial projections, right-sizing their financing needs, preparing loan applications, understanding financing terms and conditions, designing effective marketing, and other technical assistance needs.

- Several economic development organizations and business incubators across the state offer these types of training and technical assistance, and marketing these programs more broadly would help business owners be aware of these resources. The survey findings indicate that businesses rely on personal savings, retirement savings, and credit cards as their most significant source of financing. However, this is a risky and expensive strategy, and outreach efforts to small businesses could include awareness of the importance of establishing an early relationship with a lender and/or community development organization. Awareness raising could also include the importance of asking lenders to specify the reason(s) why they are not approved for a loan—and how to address those issues for future financing needs.
- A clearing house for small business financing in Montana would gather information on lenders and investors in one place that could be readily available online. Appendix C of this report is a step in this direction by listing lenders and investors active in Montana, and this could be expanded to include financing options, eligibility, terms, and conditions.
- Raising awareness of access to finance issues for small businesses in Montana would be effective during business events including chambers of commerce, state government events, industry association meetings, co-working spaces for small businesses, and other related events.

3. Deepen capacity of funders working at the community level: Many community-based lenders and economic development organizations work with limited staff and resources. Building their capacity—through skills-based training, creative use of mentorships, database of specialists, etc.—would reinforce loan portfolio management, risk management, asset-liability management, fundraising, and other operations.

4. Explore shared services for lenders and investors: Finance is a volume business with economies of scale, and making small loans or investments often requires similar staff time and costs as for much larger deals. This can lead to unintended consequences of funders shifting to work with larger businesses over time to mitigate costs. To help increase efficiencies, shared services across multiple organizations may be helpful. For example, small community lenders, loan funds, and/or CDFIs could hire and share staff, perhaps working remotely, for grant writing, fundraising, customer acquisition, marketing, regulatory reporting, and other back-office functions.

Market Gap 2 - Limited Liquidity for Onlending: Some lenders and investors noted they are overliquid and seeking more business clients. However, the majority of community-based lenders interviewed reported being starved for capital to onlend or relend to small businesses, and some investment funds are trying to raise additional capital. Smaller community banks, CDFIs, and economic development organizations with revolving loan funds are experiencing more demand for their services, perhaps as traditional bank lenders are being required to tighten their lending criteria. Many community-based lenders noted they are rationing funds and maintaining waiting lists for qualified business borrowers. Strategic public-private partnerships can leverage the expertise, geographic reach, funding, and skills of institutions in Montana to increase funding for small businesses.

Proposed Solutions:

1. Scale up existing successful programs: Several state and federal programs for small businesses have been successfully deployed in response to the COVID-19 pandemic, with many people praising how the Montana Department of Commerce managed the use of federal ARPA and SSBCI funds over the past three years. Several interviewed for this study also praised the Montana Board of Investment's programs including loan participations and the Intermediary Relending Program (IRP). However, many lenders have used their full allocation of these useful programs. As public and philanthropic funding allows, scaling up these programs may be an efficient way of leveraging the private sector to increase funding for small businesses across Montana. Studying the factors that worked well with these programs would provide a foundation of lessons for future programs on qualifying lenders, risk sharing, criteria for business loans, combinations of loans and grants, funding terms, and other factors.

2. Explore new linkages between public and private funding: Each type of funder can play a role across the broad spectrum of financing for business and economic development. As noted above, several state and federal funding programs are effectively deploying funding through community lenders and economic development organizations. In addition, many lenders, investors, and private foundations already work well together by referring clients, co-financing deals, providing onlending funds, providing credit enhancements such as loan guarantees and subordinate capital, and other collaborations. New models of funding are being explored across Montana through community-based lending and investing, private credit funds, cooperative investment funds, investment crowdsourcing, revenue-based lending, and others. This diversity of roles for funders, risk appetite, and funding terms for small businesses are welcome innovations and should be encouraged and supported.

3. Expand smart subsidies and policy incentives to help address real and perceived risks in small business finance: Montana businesses and funders benefit from several state and federal policy incentives, and it is critical to ensure that organizations are aware of the existing programs and how to use them effectively. Successful aspects of these programs and policies could be used to target strategic industries, underserved populations, and/or distressed or lower-income geographic areas of the state. During interviews and through survey responses, many Montana businesses were not aware of these business support programs. Targeted marketing, such as messaging on these programs when businesses complete their annual Montana registration, would be an effective way of raising awareness.

Examples of successful programs include:

- The Montana Board of Investments offers incentives for businesses that create or retain quality jobs by reducing their lending interest rate.
- The federal New Markets Tax Credit program offers tax incentives to attract private investment to distressed communities.
- The Community Reinvestment Act (CRA) encourages national banks, savings associations, and state-chartered banks to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Community lenders are proven leaders in reaching small businesses and working across urban, rural, and tribal areas, including populations and geographics that qualify for CRA credits. Some of the larger CDFIs in Montana are able to attract funds from larger regional and national banks that need to increase their exposure to CRA qualified loans. This approach could be expanded to other community lenders.



Next Steps

We hope this report on small businesses and the accompanying report on funders will serve as a catalyst to increase successful small business finance across the state, ultimately resulting in more resilient small businesses and greater economic development in Montana. Exploring these recommendations as well as pursuing others will take the insights of many in Montana's small businesses finance ecosystem. Accelerate Montana will continue to support this effort by gathering and disseminating needed data, convening ecosystem members, and exploring solutions to identified gaps.

Accelerate Montana has dedicated resources to lead a multi-year effort that will focus on:

1. Increasing financing for rural-based businesses, Native American-owned businesses and women-owned businesses across Montana
2. Supporting the growth of technical assistance for entrepreneurs state wide
3. Helping develop a skilled workforce prepared to be part of growing businesses.

We believe that all three of these efforts will improve the successful deployment of financing and foster inclusive economic prosperity for all Montanans. If you are interested in being part of this effort [please contact us at Accelerate Montana. https://www.acceleratemt.com/](https://www.acceleratemt.com/)

Introduction

Small businesses in Montana have long reported that the lack of access to finance tops their list of impediments that prevent them from starting and growing. At the same time, lenders and investors cite challenges finding businesses in Montana that qualify for their lending and investment criteria. Together, Accelerate Montana and Catalyze Global Impact LLC launched the Access to Finance in Montana Initiative to shed light on the current environment of small business financing in Montana with the goal that insights may lead to increased access to finance for small businesses in the state.

Historically, access to finance has been affected by the gender, race, and geographic location of the business owner. Because of these historical differences, the project team was specifically interested in identifying opportunities with underserved entrepreneurial communities like rural, female, and Native American business owners. For this initiative, the project team contracted University of Montana's Bureau of Business and Economic Research (BBER) to conduct two surveys, 1) of businesses and 2) of lenders and investors that provide business finance. The pages that follow present the findings of the Survey of Montana Businesses Seeking Investment Capital. This report follows a first report [Access to Finance in Montana, Part 1, A Survey of Funders](https://www.acceleratemt.com/accessingcapitalinmontana) that was released in November 2023. Download here: <https://www.acceleratemt.com/accessingcapitalinmontana>.

Access to finance is defined as a small business having access to financial products and services that meet their business needs. These include:

- checking accounts and savings accounts to manage liquidity
- payment services to receive client payments and pay suppliers
- business credit cards
- business loans and lines of credit for working capital, equipment, real estate, and other purposes
- business investments
- other financial products and services

The United States Small Business Administration defines a small business as having fewer than 500 full-time employees over the past 12 months.* Other definitions such as average annual receipts over time can also be used, although revenue levels vary across industries, and are often used to qualify for federal programs. Across the United States, more than 32 million small businesses represent 99.9 percent of all firms.

Rural areas are designated in this survey as those not included in the United States Office of Management and Budget-defined metropolitan or micropolitan statistical area counties. Defined urban counties are: Carbon County, Stillwater County, Yellowstone County, Gallatin County, Silver Bow County, Cascade County, Jefferson County, Lewis and Clark County, Flathead County, and Missoula County (U.S. Census Bureau, 2020). The remaining counties in Montana are defined as rural areas.

*U.S. Small Business Administration, Office of Advocacy. (2001). Frequently Asked Questions. <https://advocacy.sba.gov/wp-content/uploads/2021/12/Small-Business-FAQ-Revised-December-2021.pdf>

Methodology & Data Collection

Quantitative and Qualitative Data and Analysis

Quantitative Data and Analysis

Accelerate Montana and Catalyze Global Impact LLC sponsored the survey and contracted University of Montana Bureau of Business and Economic Research (BBER) to administer it. The quantitative survey was conducted from December 2022 to February 2023. Accelerate Montana, Catalyze Global Impact and their partner organizations provided BBER with a list of 760 Montana individuals and businesses. Of these contacts, 32 were found to have inadequate contact information and one individual declined to participate in the survey. In addition, Accelerate Montana, Catalyze Global Impact LLC, and their partner organizations distributed a web link to the survey widely to an unknown number of additional potential contacts who were believed to be Montana individuals and businesses. Accelerate Montana, Catalyze Global Impact LLC, and their partner organizations also conducted a modest amount of advertising on social media to encourage business participation in this survey.

The data for this survey were collected by administering an online questionnaire. BBER used Qualtrics survey research software to manage this survey (Qualtrics, 2020). Data were collected using industry standard methods (Dillman, Smyth, & Christian, 2014). BBER made a total of 3,040 email contacts to attempt to collect data from the list of 760 potential respondents, averaging 4 contacts for each potential respondent. The questionnaire invitation was transmitted by email. In the email contact respondents were asked to click on a hyperlink to access the online questionnaire. As a result of these extensive data collection efforts BBER collected data from 405 respondents. In 2019, U.S. Census Bureau reported that there were 96,566 business establishments without employees and 38,959 establishments with employees in Montana, for a total of 135,525 establishments (U.S. Census Bureau, 2022).

Since no consolidated list of Montana business establishments (nonemployer and employer) is available, the survey was administered to establishments appearing on contact lists provided by Accelerate Montana, Catalyze Global Impact LLC, and their partner organizations. No sample was selected; thus a random sampling error rate cannot be calculated for this survey. However, readers can use the sampling error rate that would be present if a simple random sample had been drawn as a rough approximation of the sampling error present this survey. A simple random sample obtaining 405 completions from a population of 135,000 establishments would yield a random sampling error rate of +/- 4.8 percent (Dillman, Smyth, & Christian, 2014). This means that if the survey were replicated 100 times, a proportion of 50 percent would be found +/- 4.8 percent in 95 of the replications. Given this rough approximation of the random sampling error rate, throughout this report BBER highlights differences in survey responses from sub-groups of respondents when the difference equals or exceeds 9 percent.

The contact lists provided by Accelerate Montana, Catalyze Global Impact LLC, and their partner organizations were focused on the populations those organizations serve, particularly underserved entrepreneurial communities like rural, female, and Native American business owners. Since one of the core goals of this study is to unearth opportunities with underserved entrepreneurial communities, the focus of the contact lists is entirely appropriate. It yielded a rich set of data on these communities, and allowed the issues of smaller and newer businesses to emerge. This focus also yielded a group of responding individuals and businesses that may not be completely representative of the population of Montana businesses.

The questionnaire was developed by Accelerate Montana and Catalyze Global Impact LLC in consultation with the project Advisory Committee and BBER. Accelerate Montana and Catalyze Global Impact were the final approval authorities for the questionnaire. Following receipt of the survey responses, the data were inspected to ensure no duplicate cases were included and to correct any obvious typos made by respondents. Appropriate variable and value labels were added to the data set. Appropriate composite variables and flags, including indicators for industry, were coded and added to the data set to facilitate the analysis process.

Readers of this report should keep in mind the fact that several of the survey questions asked for calendar year 2021 information, which was an atypical year because of the COVID-19 pandemic. The impacts of the pandemic on their business operations may have influenced responses about business revenue, employees, sources and amounts of funding, and other questions.

BBER conducted a statistical analysis of the survey data using the statistical analysis computer software SPSS (IBM Corporation, 2021). BBER analyzed the data collected using frequencies, cross-tabulations, standard measures of central tendency (mean, median, and mode), sums and ratios (Heeringa, West, & Berglund, 2017). The number and percentage of responses per question can be found at: <https://www.acceleratemt.com/accessingcapitalinmontana>

Qualitative Data and Analysis

The project team contacted over 125 people (see Appendix A) to discuss ideas on the study design, implementation, and comments on the final report starting in early 2022 through November 2023. To learn more from lenders and investors and to explore nuances in the quantitative survey results, the project team undertook qualitative research through interviews and focus group discussions organized by video conference between May 2023 and November 2023. To create the list of potential interviews, people were invited to participate using the original lists of contacts compiled for the two quantitative surveys. Based on responses to these invitations, the project team interviewed more than 50 lenders, investors, and businesses, and the findings of these discussions are included throughout the report. For a full list of those interviewed, please see Appendix B. Thank you to these experienced professionals who shared their perspectives on the challenges and opportunities related to financing small businesses in Montana.

The Respondents

Table 1 below presents the number of respondents to this survey by various demographic characteristics. Urban or rural respondents are designated in this survey using U.S. Office of Management and Budget-defined metropolitan or micropolitan statistical area counties to define urban areas in Montana as: Carbon County, Stillwater County, Yellowstone County, Gallatin County, Silver Bow County, Cascade County, Jefferson County, Lewis and Clark County, Flathead County and Missoula County (U.S. Census Bureau, 2020). The remaining counties are defined as rural areas.

Table 1: Survey respondents by various demographic characteristics

		% of Respondents	Total Respondent Count
Business Size by Total Number of MT Employees	Total	100%	405
	0-1	47%	189
	2-3	23%	94
	4-9	19%	75
	10-29	6%	26
	30+	5%	21
Gender	Male	38%	153
	Female	58%	235
	Nonbinary or third gender	1%	<5
	Prefer not to say	3%	14
Hispanic, Latino or Spanish origin?	No, not of Hispanic, Latino or Spanish origin	96%	326
	Yes, Mexican, Mexican American, Chicano	2%	6
	Yes, Puerto Rican	1%	<5
	Yes, Cuban	0%	<5
	Yes, another Hispanic, Latino, or Spanish origin	1%	5
Race	White	58%	235
	Native American	23%	93
	Other	2%	8
	Did not answer	17%	69
Urban or rural	Urban	53%	213
	Rural	44%	177
	Did not answer	4%	15
On a MT reservation	Yes	17%	69
	No	83%	335
	Did not answer	0%	<5

A complete presentation of the number of responses to each question in this survey by various demographic characteristics of respondents is available in a special annex **Number of Respondents Per Question** which can be found and downloaded here:

<https://7343987.fs1.hubspotusercontent-na1.net/hubfs/7343987/AMRII/AMRII%20Downloads/Number%20of%20Respondents%20per%20Question%20Data.pdf>

According to the U.S. Census Bureau (2021), Montana's resident population is composed of 88.7 percent White, 6.5 percent Native American, 4.5 percent Hispanic or Latino, 1.1 percent Asian American, 0.6 percent Black or African American, and 0.1 percent Pacific Islanders. Turning to business data, the U.S. Census Bureau (2019) reports almost 94 percent of businesses in Montana are owned by White business owners, as noted in Table 2 below. Table 2 also references the U.S. Census Bureau (2021) Montana population by race. Native Americans own 2.51 percent of businesses, while Hispanics own 1.83 percent, Asians own 1.19 percent, and Blacks own 0.37 percent of businesses in the state.

Table 2: Business ownership by race in Montana		
Race	MT business ownership by race	MT resident population by race
White	93.82%	88.7%
Native American	2.51%	6.5%
Hispanic	1.83%	4.5%
Asian	1.19%	1.1%
Equally Hispanic/NonHispanic	0.36%	*
Black	0.37%	0.6%
Pacific Islander/ Hawaiian Native	0.13%	0.1%

Source: U.S. Census Bureau, 2019 and 2021
 *Comparable data not available



Photo courtesy of Jazzer-Rae, Missoula Makers

As reported in U.S. Census 2014-2018, Montana has the second largest population of Native Americans in the country as seen in Table 3 below.

Native Americans represent 6.5 percent of Montana’s population, yet own only 2.5 percent of businesses.

Table 3: Native American population demographics by state

	United States	Montana	Idaho	North Dakota	South Dakota	Wyoming
Total Native American (NA) Population	2,699,073	67,289	22,790	39,462	75,331	14,053
% of Total Population NA Alone	0.8%	6.5%	1.4%	5.2%	8.7%	2.4%
Median Age of NA Population	32.8	27.3	33.1	26	24.5	28
Median Household Income of NA Population	\$41,879	\$32,072	\$40,898	\$36,710	\$27,045	\$49,352

Table Extracted from: Montana’s Reservation Economies, Holom, 2020. Source: American Community Survey (ACS) 5-Year Estimates, US Census, 2014-2018

Structure of this Report

This report includes three sources of data and analysis each presented in different formats:

The report follows the order of the questions as they were presented in the survey. The main section of the report presents the responses to the survey questions in the order they were asked. The full question text is provided for each question at the beginning of the relevant section. The data are presented in tables and graphs. A written narrative of the findings is provided with the figures.

- Qualitative data text boxes are highlighted throughout the report. Qualitative data were collected through focus group discussions and interviews with individuals between February 2023 and September 2023. The quotes and notes from these interviews are presented in text boxes of this shade background. All the statements provided from the interviews are the opinion of the interviewee and not the project team.
- Publicly available independent data are presented in tables or in narrative form and are highlighted using this shade background throughout the report. These data are from federal agencies including the U.S. Census Bureau, U.S. Federal Deposit Insurance Corporation, U.S. Small Business Administration, U.S. Federal Reserve Bank System, Credit Union National Association, the CDFI Fund, and others.

The main section of the report is followed by appendices including people contacted and interviewed for the study, list of small business funders based in Montana, State of Montana funding programs for small businesses, and the entire quantitative survey.

The survey questionnaire asked about annual revenue for the business in 2021 and given the COVID-19 pandemic, reduced revenue may have been reported by businesses. Readers should also be aware that, for analysis of differences between demographic groups, differences are discussed and highlighted when they equal or exceed 9 percentage points. This criteria was chosen to reduce the possibility that the difference occurred simply because of the sampling methods used in this survey.

A complete presentation of the number of responses to each question in this survey by various demographic characteristics of respondents is available in a special annex **Number of Respondents Per Question** which can be found and downloaded here:

<https://7343987.fs1.hubspotusercontent-na1.net/hubfs/7343987/AMRII/AMRII%20Downloads/Number%20of%20Respondents%20per%20Question%20Data.pdf>



Survey Responses

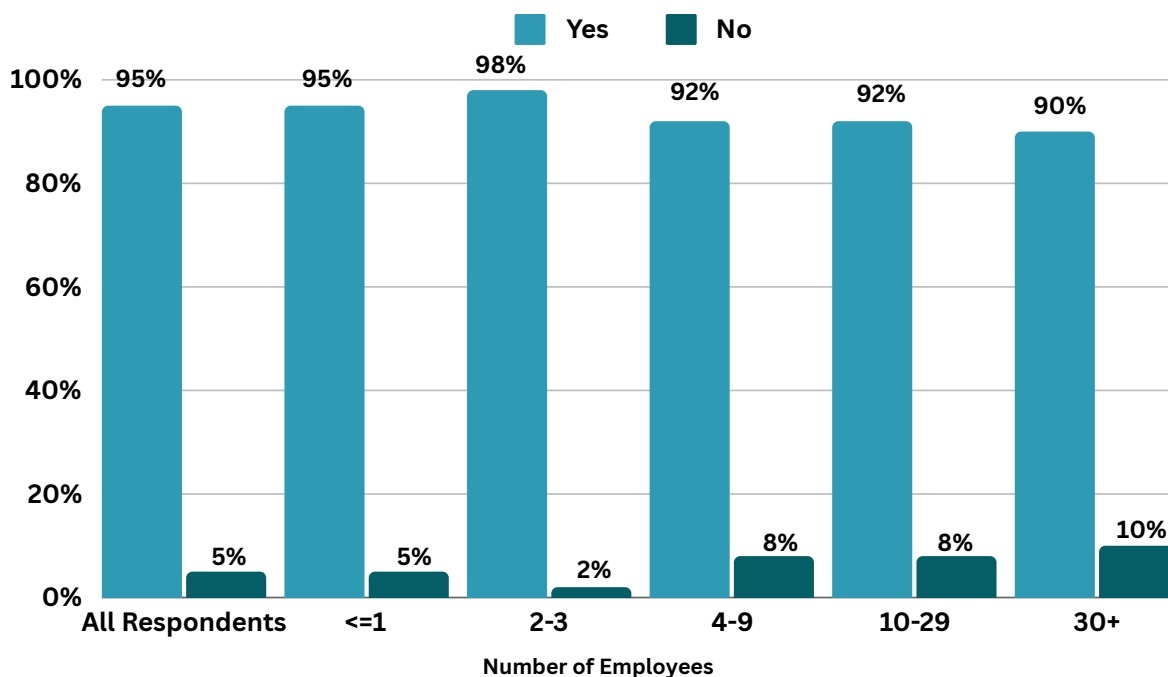
Q1. Have you started a business or non-profit or tried to start a business or non-profit in Montana?

Nearly all of the respondents (95%) reported that they have tried to start a business or organization in Montana. The 5 percent of respondents who have not tried to start a business in Montana may still be running the business that is the subject of this survey, either as an employee or having acquired the business after it was started. Respondents from businesses or organizations with 0 or 1 Montana employee (95%) to those with 30 or more Montana employees (90%) all reported very similar proportions of having tried to start a new business (see Figure 1 below).



Photo courtesy of Tatsiana Palchanka

Figure 1: Respondent started a new business or organization in Montana



There were no significant differences in the answers to Question 1 when examining responses by gender, race, urbanicity or location on a reservation.

Financial Services Use

Q2. Have you, on behalf of your business, ever used any of the following financial services for your business's financing needs?

A very large majority of responding businesses and organizations (85%) reported using a business checking account for their business (see Table 4 below). Just under half (46%) reported using a business credit card. About four in every ten businesses reported using a business savings account (40%) or a business loan (39%). Only 14 percent reported using an investment in their business, while 5 percent or fewer reported using a grant of some kind. About 9 percent said that their business has no access to any of the financial services listed in Question 2.

Table 4: Financial services used by business size

Financial service	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
My business has NO ACCESS to any of the financial products or services listed in this question	9%	13%	5%	5%	0%	10%
Business checking account	85%	79%	88%	91%	100%	76%
Business savings account	40%	29%	37%	52%	81%	57%
Business credit card	46%	34%	44%	59%	88%	71%
Business loan	39%	19%	46%	59%	88%	67%
Business investment	14%	7%	11%	25%	27%	33%
Indian equity grant fund	1%	2%	1%	3%	0%	0%
Grant funds in general	5%	4%	5%	7%	15%	0%
Other financial product	0%	0%	0%	0%	0%	6%

Business financing needs and usage varies significantly by industry, size, age, and other factors. A small professional firm may need fewer employees and much less financing for working capital and equipment than a construction or manufacturing company, for example.

Larger businesses, in terms of total employment, were more likely to report using a broader variety of financial services than small businesses. A majority of businesses with 30+ Montana employees reported using a business credit card (71%), a business savings account (57%), and a business loan (67%). Businesses with between 10 and 29 employees most often reported using a business checking account (100%) as did businesses with between 4 and 9 employees (91%). In contrast with the largest businesses, businesses with three or fewer employees were less likely to report using a business credit card (34% - 44%), a business savings account (29% - 37%), or a business loan (19% - 46%).



Q2. Additional Demographic Analysis

There are differences in the reported use rates of financial services based on the demographic characteristics of the business when examining responses. For the purposes of this report, differences are discussed when they equal or exceed 9 percentage points. This criterion was chosen to reduce the possibility that the difference occurred simply because of the sampling method used in this survey. Table 5 below presents these differences, which are highlighted to assist the reader.

Males were more likely than females to report using business loans and business investments. White respondents were more likely than Native American respondents to say they use business checking accounts, savings accounts, credit cards, loans and investments. Respondents whose main business location was in an urban area were more likely than rural respondents to report using business savings accounts and credit cards. Respondents located on a Native American reservation were less likely than those located off a reservation to report using a business savings account, a business credit card, or a business loan. Broadly speaking, Montana businesses with more employees were more likely to report using the financial services studied than were businesses with fewer employees.

Table 5: Financial services used by demographic characteristics

		My business has NO ACCESS to the financial products listed	Business checking account	Business savings account	Business credit card	Business loan	*Business investment	Indian Equity Grant Fund	Grant funds in general
Gender	Male	7%	86%	42%	49%	48%	22%	0%	5%
	Female	9%	85%	38%	45%	33%	7%	3%	6%
	Nonbinary or third gender	33%	67%	67%	0%	0%	0%	0%	0%
	Prefer not to say	14%	71%	50%	43%	50%	36%	0%	0%
Race	White	6%	91%	51%	54%	47%	17%	0%	0%
	Native American	11%	81%	22%	30%	31%	6%	4%	4%
	Other	13%	75%	50%	38%	13%	0%	0%	0%
	Didn't answer	16%	70%	26%	42%	26%	13%	3%	4%
Urban or rural	Urban	8%	86%	50%	51%	39%	16%	1%	5%
	Rural	8%	87%	28%	42%	42%	12%	2%	6%
	Didn't answer	33%	47%	40%	27%	7%	0%	0%	7%
On a MT reservation	Yes	10%	84%	19%	30%	32%	9%	3%	6%
	No	8%	85%	44%	50%	41%	15%	1%	5%
	Didn't answer	0%	100%	0%	0%	0%	0%	0%	0%

*Investments include investment by friends and family as well as other investment categories.

A Variety of Perspectives

Lack of Financing Options for Startups

Early Stage MT is a nonprofit providing emerging tech businesses across Montana with training, mentoring, contacts, and exposure to investors to prepare them for growth and sustainable success. They run a series of hybrid and in-person events including Mentor Office Hours, the Scaling Montana Summit and the Accelerator Series.

Jenni Graff, founding executive director of Early Stage MT, notes, “Our state has seen a lot of positive momentum in startup funding in recent years, with a 10X increase in venture capital injected into Montana-based companies. But less than .05% of firms nationally actually raise venture capital, so there is still a large gap in startup funding options.” She continues, “While Montana startups are very financially responsible and can do a lot with a very small amount of initial funding from personal funds or friends and family rounds, angel and venture capital seems to be one of few options available for startups in their initial stages.”

<https://www.earlystagemt.org/>



Investment Funds Seeking Businesses

Pat LaPointe, founder of investment group Frontier Angels, believes there is plenty of investment capital available in Montana. “We estimate that there are \$10-\$15 dollars available for every \$1 that gets invested locally,” he says. Pat believes that sophisticated investors struggle to identify business opportunities that could scale up and present the types of returns that attract investors.

Pat continues, “Montana may rank high in terms of the incidence of new businesses created, but the vast majority of those are businesses which are not aspiring to significant growth, not developing any distinct competitive advantages, and most often looking for customers inside Montana vs out in the larger world.” These businesses are sometimes considered ‘lifestyle’ businesses built to provide income for the business owner, but not necessarily to provide strong returns for investors.

“Lifestyle businesses are the necessary cornerstone of every Main Street in America,” he says, “but the best options for financing them are family, banks, economic development programs, and state and federal grant programs. The worst thing you can do is attract investors who have different goals and expectations than the founder does.”

<https://www.frontierangels.com/>

Hurdles to Access

Q3. (Only respondents who answered “My business has NO ACCESS to any of the financial product or services listed in this question” in Question 2) Why does the business currently have no checking account, savings account, credit card, other loan, or external investment?

About 9 percent of all respondents (35 individuals) were eligible to answer this question. About two-thirds (6%) of the eligible respondents that reported no access to any of the financial services listed in Question 2 said the reason for this is that their business is self-funded (see Table 6). The next most reported reasons for not having a business checking account, savings account, credit card, other loan, or an external investment were a) not knowing who to approach or contact (2% of all respondents); and b) not having a business plan (2% of all respondents).

Table 6: Reason for not using financial services for the business

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
The business is self-funded - not using external debt or equity	6%	8%	4%	1%	0%	10%
I don't know who to approach or contact	2%	3%	1%	1%	0%	0%
The business does not have a business plan or financial projection	2%	4%	1%	0%	0%	0%
Other	1%	2%	1%	1%	0%	0%
The loan or investment application was too complicated	0.5%	1%	0%	0%	0%	0%
The loan or equity investment proposed for my business was too expensive - high interest rate, high return requested for equity, etc.	0.5%	1%	0%	1%	0%	0%
The business won't qualify for loan or investment	0.5%	1%	0%	0%	0%	0%
There is no bank, investment fund, or other funding source in my geographic area	0.2%	1%	0%	0%	0%	0%

In general, smaller businesses were more likely to report being self-funded (8% of businesses with 0 or 1 employee) than larger businesses (4% of businesses with 2-3 employees, 1% of businesses with 4-9 employees, 0 businesses with 10-29 employees). Businesses with 30 or more employees were an outlier, with 10% reporting that the business is self-funded. The same pattern was evident in the proportion of other reasons reported for not having a checking account, savings account, credit card, other loan, or an external investment. No significant differences were evident in the answers to this question when examining responses by other demographic characteristics.

NOTE: Question 4 asked respondents who reported a credit application not being approved about a reason for the disapproval. However, too few respondents answered to make reporting Question 4 results useful.

Highest Unbanked Rates Among Native American Households

American Indian and Alaska Native households have the highest unbanked rates in the United States, according to a 2019 survey by the Federal Deposit Insurance Corporation (FDIC). Over 16 percent of households in Native communities do not have any type of savings or checking account, nor do they have any other type of relationship with a financial institution. [1]

In addition to high rates of poverty and unemployment on reservations, physical distance and low rates of broadband access have continued to hamper access to financial services for Native individuals. A lack of both financial literacy training and familiarity with financial institutions can also be compounding factors that lead individuals to remain unbanked. Unbanking has detrimental effects that can persist across generations. Individuals raised on Reservations, with few or no financial institutions or banking infrastructure, have two to four percent higher delinquency rates, seven to ten fewer points on their credit score, and are 20 percent less likely to have a credit score.

The effect of these factors is equivalent to a reduction of \$6,000 in annual income, which has compounding effects over an individual's lifetime and hampers their ability to build generational wealth. Unbanked individuals are also more likely to rely on alternate, predatory financial systems such as payday loans, check cashing services, pawn shops, or other types of rent-to-own agreements.

Excerpted from: Mountain | Plains Native Regional Native CDFI Coalition. (2022). Mountain Plains Regional Market Study, p30-31.

[1] Throughout this report, Native American is the most commonly used term, while Federal agencies and U.S. Census data often uses other terms including American Indian and Alaska Native.

Trust Land Restrictions on Native American Reservations

Reservations are sovereign nations with their own governments and judicial systems of courts and laws and treaties with the US government. In the late 1800s, the US government imposed restrictions on land located on Native American reservations. Maria Valandra, Vice President Community Partnerships at Clearwater Credit Union, explained three main land categories on reservations:

1. Trust land is held in trust by the federal government for the benefit of a tribal nation or individual tribal members
2. Allotted land is held in trust for use by an individual tribal member with right of use passed within families, and
3. Fee land is where the title is held by an individual person or tribe and subject to county, state, and federal taxes.

There are also Restricted Fee lands that are owned by a tribe or tribal member but are subject to a restriction against alienation (sale or transfer) or encumbrance (i.e. liens, leases, rights-of-way).^{*} These restrictions block land from being sold, mortgaged or used as collateral for business or household loans.^{**} This limitation “makes it nearly impossible for on-reservation entrepreneurs to secure startup financing, as they cannot borrow against the equity they have in their homes.”^{***} Collateral and mortgage limitations affect wealth accumulation for households over time, which further limits available funding for businesses located on reservations, noted Valandra.

<https://clearwatercreditunion.org/>

^{*}Congressional Research Service. Tribal Lands: An Overview. October 14, 2021. <https://crsreports.congress.gov/product/pdf/IF/IF11944>

^{**}Morgan, Lance. (September 12, 2018). “Ending the Curse of Trust,” in Indian Country Today. <https://ictnews.org/archive/ending-the-curse-of-trust>

^{***}Clarkson, Gavin and Murphy, Alisha, Tribal Leakage: How the Curse of Trust Land Impedes Tribal Economic Self-Sustainability (May 7, 2014). Journal of Law, Economics and Policy, Vol. 12, No. 2, 2016. <https://ssrn.com/abstract=2447289> or <http://dx.doi.org/10.2139/ssrn.2447289>

Q5. FOR THIS BUSINESS, did you use any of the following sources of funds to START the business?

Three in every four respondents (75%) reported using personal savings or a retirement account to start their business (see Table 7 below). The next most frequently reported source of funding was personal credit cards (42%). The third most frequently mentioned source of funding for starting the business was a loan from friends or family (22%).

Table 7: Funding sources used to start the business

Funding source	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Personal savings and/or personal retirement account	75%	79%	71%	73%	73%	71%
Personal credit card(s)	42%	41%	37%	48%	38%	57%
Loan(s) from friends or family	22%	13%	27%	29%	27%	52%
Business credit card(s)	19%	12%	22%	24%	35%	29%
Secured business loan from a physical bank, credit union, etc., secured by business collateral (for ex. equipment, vehicle, or real estate collateral)	17%	6%	23%	24%	42%	38%
Grant from State or Federal program like SBA, USDA, Indian Equity Fund, or other	17%	15%	21%	19%	12%	10%
Investment from friends or family	16%	12%	16%	21%	15%	29%
Business loan from a physical bank, credit union, etc., with no collateral security	16%	5%	15%	23%	46%	48%
Credit from supplier	13%	7%	12%	19%	35%	19%
Loan from a State or Federal program like SBA, USDA, Indian Equity Fund, etc.	12%	6%	12%	19%	23%	29%
Economic development organization or CDFI	8%	4%	13%	9%	15%	19%
Investment from an angel investor, venture capital fund, or other private equity investors	6%	3%	5%	12%	12%	5%
Loan guarantee from State or Federal program like SBA, USDA, Indian Equity Fund, Bureau of Indian Affairs, or other	5%	2%	5%	7%	15%	19%
Loan, grant, or equity from private foundation	5%	2%	7%	7%	8%	10%
Online crowd funding	4%	5%	2%	3%	8%	0%
Other	2%	1%	3%	5%	8%	0%
Business loan from an online bank or other online lender	1%	1%	0%	0%	8%	0%

The shaded areas in Table 7 also illustrate the fact that businesses with a larger number of Montana employees were more likely than smaller business to obtain many different types of funding to start the business. For example, while 38 percent of businesses with 30+ employees received a loan from a bank or credit union secured by business collateral, only 6 percent of businesses with 1 or fewer employees did the same.

Thirty-five respondents answered ‘no access to financial services’ in Question 2. The vast majority of these respondents who then answered positively to Question 5 or Question 6 said they used personal savings, personal retirement account, a personal credit card, or a loan from a friend or family. This internal validation is helpful to note and suggests that respondents understood the notion of access to formal financial services in Question 2.

Funding Startup and Expansion

Q5. Additional Demographic Analysis

There are several differences in the use of sources of funds reported when examining responses by gender, race of the respondent and location of the business. Table 8 presents some of these differences. White respondents were more likely than Native American respondents to report using personal savings, personal credit cards, and/or a loan from a bank to start the business. Native American respondents were more likely to report using a grant from a state or federal program. Males were more likely than females to report using a bank loan or loans from family or friends to start their business. Urban respondents were more likely than rural respondents to say they used personal savings to start their business. Rural respondents more often reported using a grant from a state or federal program. Reservation residents were more likely than non-reservation residents to report using personal savings or a grant, but they were less likely to report using a business credit card or a loan from a bank or credit union.

Table 8: Funding sources used to start the business by selected demographic characteristics

		Personal savings and/or personal retirement account	Personal credit card(s)	Loan(s) from friends or family	Business credit card(s)	Secured business loan from a physical bank, credit union, etc., secured by business collateral	Grant from State or Federal program
Gender	Male	74%	40%	29%	21%	27%	17%
	Female	77%	43%	16%	17%	11%	17%
	Nonbinary or third gender	67%	0%	33%	0%	0%	0%
	Prefer not to say	71%	57%	43%	36%	29%	14%
Race	White	79%	46%	22%	24%	21%	12%
	Native American	69%	37%	23%	1%	8%	30%
	Other	75%	50%	0%	25%	13%	13%
	Didn't answer	71%	35%	23%	12%	17%	14%
Urban or rural	Urban	80%	45%	22%	20%	17%	10%
	Rural	71%	39%	23%	17%	18%	25%
	Didn't answer	67%	40%	13%	27%	13%	13%
On a MT reservation	Yes	64%	38%	22%	12%	7%	33%
	No	78%	43%	22%	21%	19%	13%
	Didn't answer	100%	0%	0%	0%	0%	100%

Table 9: Funding sources used to start the business by selected demographic characteristics

		Business loan from a physical bank, credit union, etc., secured by personal collateral (such as personal home)	Credit from suppliers
Gender	Male	21%	19%
	Female	11%	8%
	Nonbinary or third gender	0%	0%
	Prefer not to say	29%	14%
Race	White	19%	14%
	Native American	9%	10%
	Other	13%	13%
	Didn't answer	14%	7%
Urban or rural	Urban	18%	9%
	Rural	14%	14%
	Didn't answer	7%	27%
On a MT reservation	Yes	9%	12%
	No	17%	12%
	Didn't answer	0%	0%

Table 9 above presents additional demographic differences in the sources of funds used by respondents to start their business. White respondents were more likely than Native American respondents to report using a business loan secured by personal collateral. Males were more likely than females to report using a business loan secured either by personal collateral or credit from a supplier.

Restrictions Created by Trust Land

“We cannot continue to create new products to compensate for how our assets are devalued. Because of our trust land status, that we didn’t consent to, we are asked to assimilate, meanwhile Natives have fought assimilation since colonization. We need to rehumanize and revalue this asset of land.” -- Lakota Vogel, Executive Director, Four Bands Community Fund, South Dakota

Many experts in reservation-based economic and community development consistently point to the issues around using trust land as a form of collateral as a major barrier to accessing capital for households and businesses. Trust land invokes issues with sale or transfer of use, raises issues when used as collateral for loans, incurs regulatory costs, involves co-ownership challenges with other individuals using the land, limits tax and tribal revenues, and raises complex and uncertain governance.

Excerpted from: Mountain | Plains Native Regional Native CDFI Coalition. (2022). Mountain Plains Regional Market Study, p30.

Q6. FOR THIS BUSINESS, did you use any of the following sources of funds to GROW OR EXPAND the business?

A majority of all respondents (56%) said that they used personal savings or a personal retirement account to grow or expand the business (see Table 10). One-third of respondents reported using a personal credit card (33%) and 26 percent reported using a business credit card to expand the business. One in every five respondents (20%) said that they used a state or federal grant to grow or expand the business.

Table 10: Funding sources used to grow or expand the business

Funding source	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Personal savings and/or personal retirement account	56%	58%	50%	65%	31%	57%
Personal credit card(s)	33%	35%	24%	43%	23%	38%
Business credit card(s)	26%	15%	29%	37%	42%	43%
Grant from State or Federal program like SBA, USDA, Indian Equity Fund, or other	20%	14%	27%	25%	31%	14%
Secured business loan from a physical bank, credit union, etc., secured by business collateral (for ex. equipment, vehicle, or real estate collateral)	17%	3%	15%	23%	62%	67%
Business loan from a physical bank, credit union, etc., with no collateral security	14%	4%	10%	29%	38%	48%
Credit from supplier	12%	6%	13%	19%	23%	33
Loan(s) from friends or family	12%	4%	14%	19%	27%	33%
Revolving line of credit from a physical bank, credit union, etc., with no collateral security	12%	3%	10%	25%	38%	19%
Loan from a State or Federal program like SBA, USDA, Indian Equity Fund, etc.	9%	4%	10%	13%	19%	29%
Investment from friends or family	9%	7%	6%	15%	23%	5%
Economic development organization or CDFI	6%	2%	7%	5%	15%	19%
Loan guarantee from State or Federal program like SBA, USDA, Indian Equity Fund, Bureau of Indian Affairs, or other	5%	6%	3%	7%	8%	0%
Loan, grant, or equity from private foundation	4%	1%	3%	11%	12%	10%
Economic development organization or CDFI	4%	2%	4%	5%	12%	5%
Investment from an angel investor, venture capital fund, or other private equity investors	2%	2%	2%	3%	12%	0%
Business loan from an online bank or other online lender	2%	1%	5%	1%	0%	0%
Other	2%	1%	5%	1%	0%	0%
Online crowd funding	2%	1%	1%	5%	4%	0%

The shaded cells in Table 10 demonstrate that in many instances larger businesses were more likely than smaller business to obtain most types of funds to grow or expand the business. For example, 67 percent of businesses with 30+ employees secured a loan from a bank or credit union while only 3 percent of businesses with 0-1 employees did so. Smaller businesses predominantly used personal savings, personal retirements accounts and/or personal credit cards to grow or expand their business.

Q6. Additional Demographic Analysis

There are also several demographic differences evident in reports about the various sources of funds used to grow or expand the business (see Table 11). White respondents and respondents located off a reservation were significantly more likely than Native American and respondents located on a reservation to say they used a business credit card, a loan secured by business collateral or a revolving line of credit to grow or expand their business. Native American respondents, respondents located on a reservation, and rural respondents were more likely than White respondents or urban respondents to report using a grant from a state or federal program.

Males were more likely than females to say they used credit from their supplier or a loan secured by business collateral.

Of note, Question 6 did not ask whether businesses received the full funding amount requested and whether funding was approved and available in a timely manner.



Photo courtesy of Dunrovin Ranch

Table 11: Funding sources used to grow the business by selected demographic characteristics

		Business credit card(s)	Credit from suppliers	Secured business loan from a physical bank, credit union, etc., secured by business collateral	Revolving line of credit from a physical bank, credit union, etc., with no collateral security	Grant from State or Federal program like SBA, USDA, Indian Equity Fund, etc., or other
Gender	Male	30%	20%	25%	14%	18%
	Female	23%	7%	11%	10%	22%
	Nonbinary or third gender	0%	0%	0%	0%	0%
	Prefer not to say	21%	14%	14%	14%	7%
Race	White	33%	15%	23%	16%	16%
	Native American	14%	8%	8%	2%	35%
	Other	13%	0%	0%	13%	13%
	Didn't answer	19%	10%	10%	9%	13%
Urban or rural	Urban	27%	11%	17%	13%	15%
	Rural	23%	14%	16%	11%	27%
	Didn't answer	33%	13%	7%	0%	7%
On a MT reservation	Yes	14%	7%	9%	3%	41%
	No	28%	13%	18%	13%	16%
	Didn't answer	0%	0%	0%	0%	0%

Q7. What would have been helpful to you when you were trying to raise money to start or grow your business?

Knowing where and how to find funding, including where to find centralized information on lenders, was the most frequently cited answer (20%) to Question 7 (see Table 12). The second most frequently mentioned answer (17%) was having the ability to qualify for funds or obtaining better loan terms. The third most frequently given answer (13%) was the desire to have more access to grants. About 12% of respondents wanted small business startup advice.

Table 12: Help needed to raise funds for starting or growing business

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Where and how to find funding such as centralized information on lenders	20%	23%	23%	16%	12%	10%
Ability to qualify for funds or better loan terms	17%	13%	17%	27%	23%	5%
More access to grants	13%	13%	14%	12%	19%	10%
Small business startup advising	12%	13%	14%	9%	8%	0%
More access to loans	5%	5%	4%	5%	4%	14%
Accounting or tax advise	5%	6%	4%	4%	0%	5%
More angel fund investors in Montana	4%	3%	9%	3%	0%	10%
Marketing access	3%	4%	0%	4%	4%	0%
Help from a specified organization	3%	3%	2%	4%	4%	5%
Help navigating Indian-owned business funding	3%	3%	2%	5%	0%	0%
Information on women-owned business funding	2%	3%	1%	1%	0%	0%
Small business networking	1%	2%	2%	0%	0%	0%
Grant writing assistance	1%	2%	2%	0%	4%	0%
Other	1%	2%	2%	0%	4%	0%
Government support	1%	1%	1%	1%	0%	0%

Those businesses that employed 3 or fewer people most frequently (23%) wanted to know where and how to find funding, while businesses employing 30+ people most often mentioned (14%) having more access to loans. When examining responses to Question 7 by other demographic characteristics, one difference was found. Nine percent (9%) of Native American respondents want help navigating Native-owned business funding while no White respondents want this.

Speed of Finance

“The challenge in finance is that people generally wait too long and need money in a hurry. But building the trust needed to access finance is hard to get quickly.” Dave Bayless, Co-Founder of Human Scale Business and an experienced investor, CFO, and business advisor.

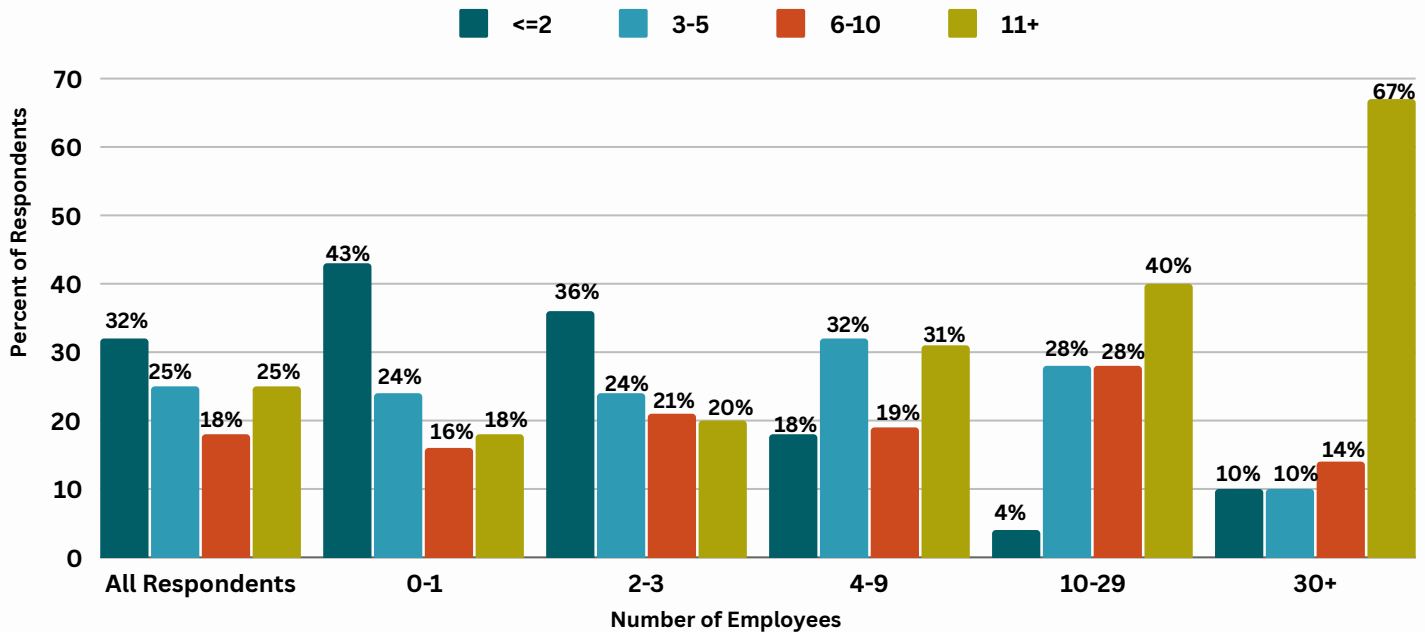
<https://humanscalebusiness.org/>

Age of Business

Q8. How long has your business been in operation? - Number of years in operation

Respondents reported being in business for a median of 5 years. As seen in Figure 2 below, just under one-third (32%) of respondents reported being in business for 2 years or less. One-quarter of respondents (25%) said they were in business between 3 and 5 years. Just under one-fifth of respondents (18%) were in business between 6 and 10 years. One-quarter of respondents (25%) reported that they were in business 11 years or more.

Figure 2: Years business has been in operation by number of Montana employees



The respondents with 0-1 employees most often reported (43%) being in business for 2 years or less. In contrast, respondents with 30+ employees most frequently reported (67%) being in business 11+ years. Examining other demographic characteristics, White respondents and respondents located off a reservation reported being in business for a median of 5 years, while Native American respondents and respondents located on a reservation reported being in business for a median of 3 years. There were no other significant differences in answers to Question 8 between the demographic groups examined.

Small Business Owner Perspectives: Sarah Certel with Neurofield

A year ago, Sarah Certel launched Neurofield with a business partner to consult with major league baseball teams to use neuroscience and data to help teams improve the evaluation of prospective new players. Still in startup phase, Certel is developing proof of concept and focusing on landing their first team as a client. She and her business partner are self-funding the business in this phase, with fairly modest expenses of marketing, travel, and staff time. Over time, they would like to attract an investor or lender, and an angel investor with contacts in the baseball industry would be their ideal funding partner.

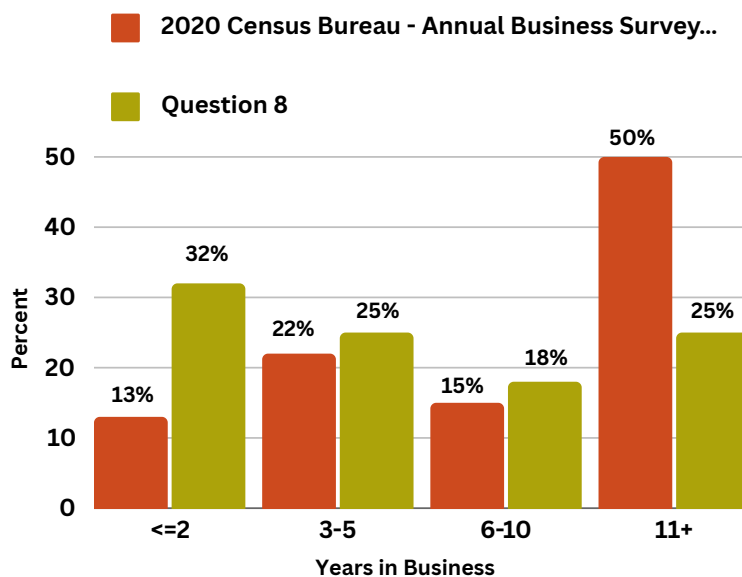
<https://neurofeedbackbozeman.com/>

“Give Everyone A Chance”

When reviewing a client’s potential for taking a new loan, character is the core factor according to Sharon Small, Executive Director at People’s Partners for Community Development, a registered CDFI on the Northern Cheyenne Reservation. “We give everyone a chance, because you never really know their circumstances.” Prospective clients must first complete a weekly financial literacy class. For some businesses, Small’s team can structure the loan to pay the business’s suppliers directly, receive income directly from buyers to repay the loan, and then give the remaining income to the business. People’s Partners for Community Development also offers credit builder loans to build credit history and credit repair loans to consolidate and restructure loans and rebuild credit history.

<https://www.peoplespartners.org/>

Figure 3: Years business has been in operation – surveyed businesses compared to census data for Montana businesses



The businesses described in this survey are newer than Montana businesses. Figure 3 compares the years the responding businesses have been in operation with Montana businesses as reported by the U.S. Census Bureau’s Annual Business Survey (U.S. Census Bureau, 2022). Nearly one third (32%) of responding businesses have been in operation for 2 years or less, while census data indicates 13 percent have been in business for two years or less. Only 25 percent of responding businesses have been in business 11+ years, while census data indicates 50 percent of Montana businesses have been in business 11+ years.

Businesses Need To Plan For Future Financing Needs

Many small business owners don’t understand cash cycles, and they think that growth will build cash, but it usually sucks cash from the business. “We can’t predict the future, but we can anticipate challenges and take actions to give more runway and time to react to challenges,” notes Dave Bayless, Co-Founder of Human Scale Business and an experienced investor, CFO, and business advisor. Often businesses wait too late to start contacting potential funders until they face a critical situation with little time for the business to survive. Online lenders such as merchant cash advances offer quick and relatively easy funding—but given their high interest rates, they should only be used for very short-term needs like a few days. Bayless continues, “If a business relies on them for longer-term finance, the business can be caught in a bear trap that’s hard to escape.” Starting early to build relationships with community lenders and other funders will give businesses more options when they are ready to seek funding.

<https://humanscalebusiness.org/>

Gender and Business in Montana

Q9. What is your gender?

Almost three-fifths of respondents (58%) were female (see Figure 4). About 38 percent were male. One percent identified as non-binary or a third gender. Three percent preferred not to answer. The distribution of respondent genders was more evenly distributed among businesses with 4-29 employees than it was among businesses with 3 or fewer employees or businesses with 30+ employees. There were no significant differences in the answers to Question 9 when examining responses by gender, race, urbanicity or location relative to a reservation.

Figure 4: Gender of respondent

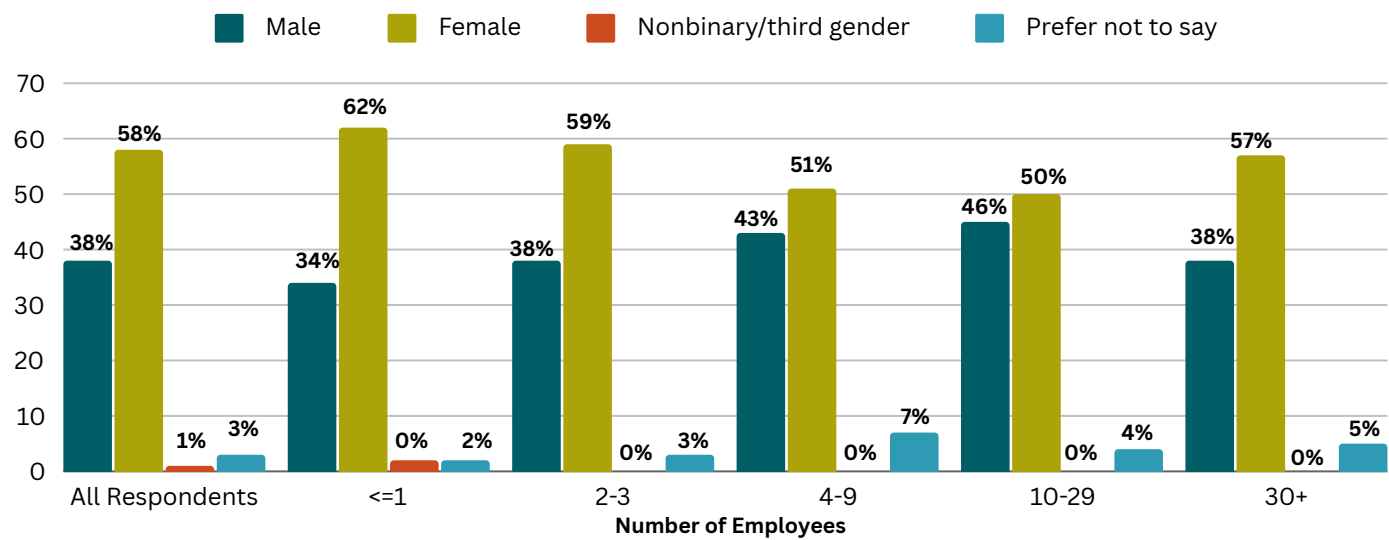
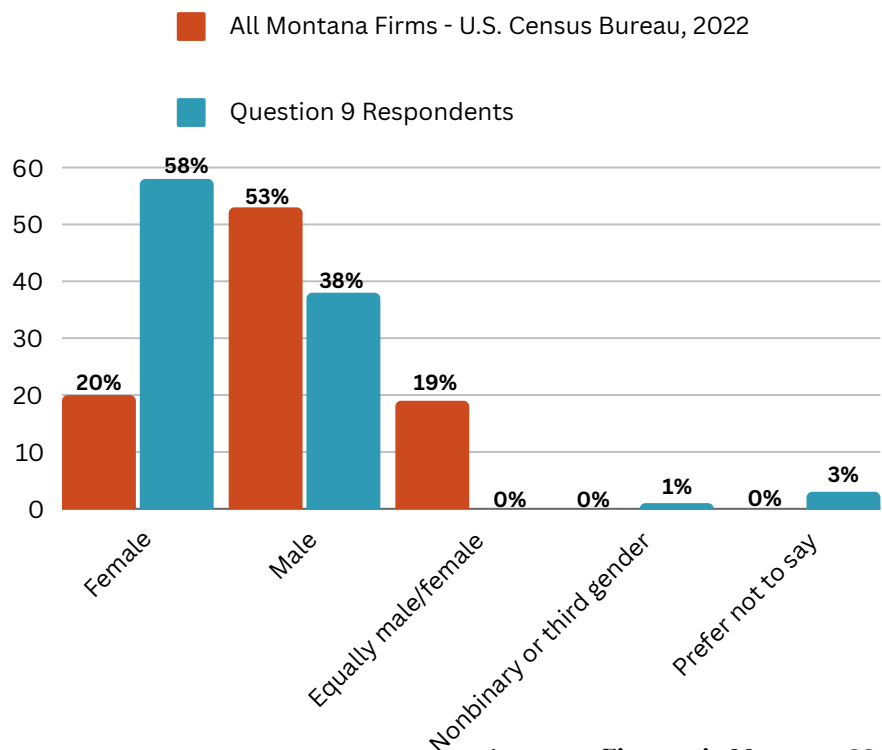


Figure 5 compares the gender of the respondents to that reported by census data for Montana business owners (U.S. Census Bureau, 2022). The proportions for all Montana firms are taken from U.S. Census Bureau’s Annual Business Survey from the year 2020 and is the latest data available. Readers should keep in mind that the two surveys compared in Figure 5 asked the gender / sex questions differently, so only rough comparisons can be made.

Figure 5: Gender of respondent compared to census data for Montana businesses



Small Business Owner Perspectives: Megan MacKay

Megan MacKay is a licensed clinical counselor for trauma therapy in Corvallis, Montana, and Arizona. MacKay also works as a consultant for other companies as a counselor. She's only one of two licensed counselors in Montana for specialty areas in trauma, addiction, and intimacy disorders. MacKay is also developing an apparel business as a side gig.

As a woman business owner, she said that bias against women has impacted her negatively. This affects setting prices, negotiating, being taken seriously, finding office space, and broader logistics in her two businesses. When considering business funding, she prefers credit unions over banks due to better transparency, customer service, and rates. She doesn't want to take on further debt for her businesses – due to her existing student loans – and would rather restrict her personal budget instead of acquiring more risk, such as using her home as a personal guarantee, and higher costs of repaying loans with interest and fees.

MacKay has made a conscious choice to grow her business slowly and do things herself to keep costs lower, including building her website, advertising to attract new clients, doing the administration for her clients' insurance reimbursements, and other business logistics. Given past experiences with banks, she believes she would be turned down for any loan because the “yardstick is broken”, and so she would rather not spend time trying. Instead, MacKay hopes to continue self-financing her business and growing gradually.

<https://www.linkedin.com/in/meganmackayaz/>

The U.S. Census Bureau (2019) reports 128,800 small businesses in Montana with over 368,000 employees and total annual payroll of over \$15.8 billion. Of these Montana businesses, women own 44,079 (34%), see table 13 below. In addition, approximately 13.3 percent of businesses are equally owned by men and women, whether as a family or business relationship. Equal male/female ownership was not provided so was estimated by finding the difference between the total and the sum of female and male-owned firms. Women own over 39 percent of the firms with no employees but only 18.8 percent of businesses with employees.

Table 13: Montana business ownership & employees by gender, 2019

Business Ownership	Total Employer & Non-Employer Firms	Number of Non-Employer Firms	Number of Employer Firms	Number of Employees	Total Annual Payroll (\$1,000)	% of Non-Employer Firms vs Employer Firms
Female	44,079	38,000	6,079	37,389	\$1,055,060	86.21%
Male	67,615	50,500	17,115	131,082	\$5,905,231	74.69%
Equally male/female	17,106	8,000	9,106	199,534	\$8,913,500	NA
Total	128,800	96,500	32,300	368,005	\$15,873,791	

Photo: Courtesy of Montana Department of Commerce

Women On The Rise

Through her leadership of the Montana Women's Business Center based at Prospera Business Network in Bozeman, Shayna Blaser sees more women in rural areas starting businesses in recent years. Examples include bookkeeping for ranches and farms, communication and marketing services to help farmers and ranchers find new markets for their products, and online businesses selling homemade crafts and other products. "Women are able to work on their own hours and terms to build their business and diversify household income. Women business owners really are on the rise," confirms Blaser.

<https://prosperamt.org/>

Small Business Owner Perspectives: Christy Tatsey, Parallel Connections

Christy Tatsey, owner of Parallel Connections, offers bookkeeping, virtual assistant, and payroll services. She launched her business in Hawaii and recently moved back to her home on the Blackfeet Reservation.

Since 2021, Tatsey has been solely generating income by constructing Parallel Connections. She is pursuing a business/accounting degree and aims to obtain her CPA license in a few years. She also enjoys serving as a coach and mentor for the Women's Entrepreneurship and Leadership Lab (WELL) to help other small businesses, especially those run by moms.



Photo courtesy of Parallel Connections

Her primary challenge is establishing break even, but she sees incredible potential for growth. Tatsey would like to take on more bookkeeping and payroll contracts and help businesses with grant writing, but she is uncertain how to cover the initial costs of hiring more staff. Tatsey's personal debt-to-income ratio is maxed out due to her student loans, preventing her from obtaining other personal loans or new business loans. Instead, Tatsey currently uses a business credit card and banks with a credit union for her business's core checking and savings accounts.

In the past, Tatsey faced challenges in her role as a single mother and female entrepreneur, especially in male-dominated industries where her bookkeeping skills were undervalued. Furthermore, some people fail to understand the intense emotional and physical demands of motherhood. Tatsey prefers working with credit unions, as they seem more approachable, aligned with her values, offering a personal touch, and not intimidating.

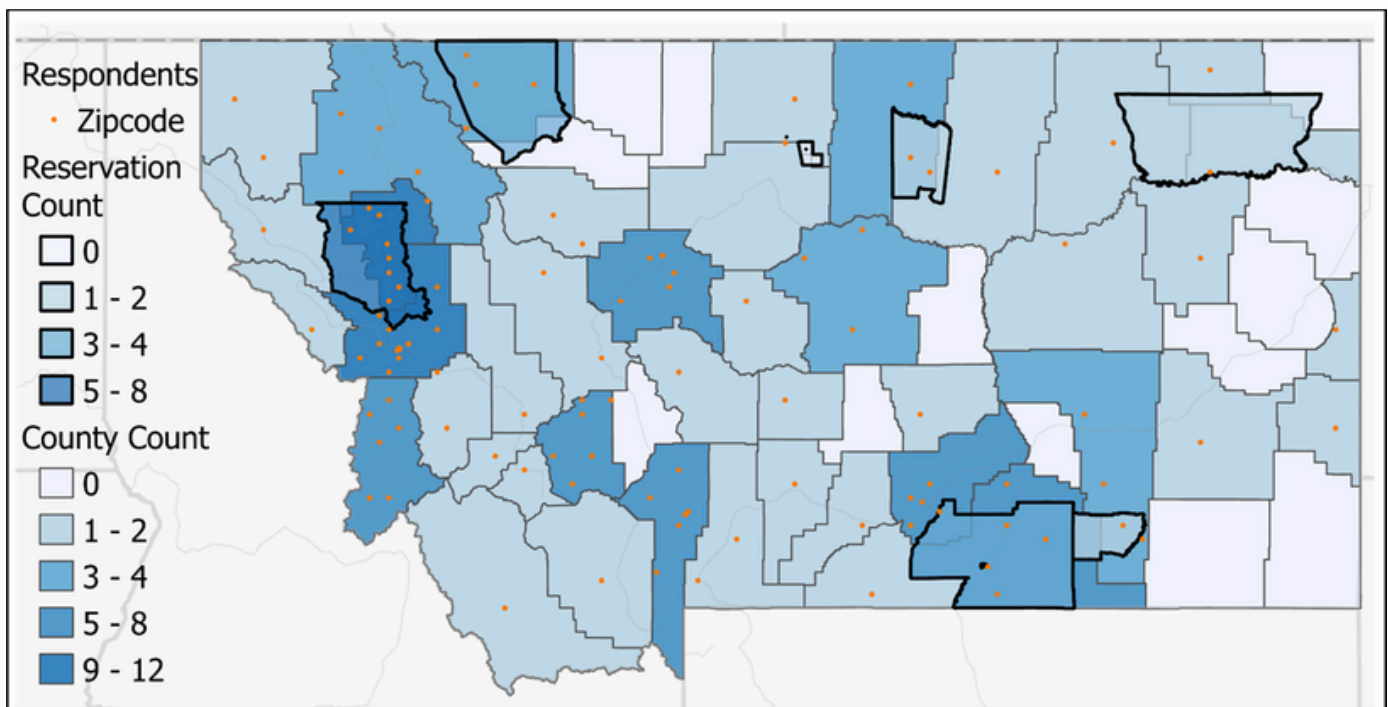
<https://www.parallelconnectionsva.com/>

Business Location

Q10. In what zip code is the main address of your business located?

Figure 6 below presents the main locations of respondents' businesses and the number of businesses in that location. A concentration of businesses can be seen along Montana's Interstate 15 corridor from Big Horn County in the southeast to Sanders County in the west and along the U.S. Highway 93 corridor from Ravalli County in the south to Flathead County in the north.

Figure 6: Respondents' main business location (zip code) and number of respondents in that location



It is also important to note that 17 percent of responding businesses are located in Native American reservation areas including Big Horn County, Blaine County, Roosevelt County, Glacier County, Hill County and Lake County. Figure 6 demonstrates that respondents are well distributed between rural and urban areas in Montana. About 53 percent of responding businesses are located in U.S. Office of Management and Budget-defined metropolitan or micropolitan statistical area (urban) counties: Carbon County, Stillwater County, Yellowstone County, Gallatin County, Silver Bow County, Cascade County, Jefferson County, Lewis and Clark County, Flathead County and Missoula County (U.S. Census Bureau, 2020). 44 percent of responding businesses are located in rural areas and 3 percent of businesses didn't answer Question 10.

Rural-Urban Population in Montana

According to the U.S. Census Bureau, Montana's population is 67.2 percent urban and 32.9 percent rural. (2021)

Small Business Owner Perspectives: Rural Business Owners

A focus group of business owners provided their perspectives on business challenges, access to finance to start their business operations, and current financial services for their business. The panel included James Wasem of Dunroven Ranch in Lolo, Shelby Humphreys of Missoula Social Media, Hikmet Budak of Montana BioAg Inc. in Missoula, Javon Wing of Inspired Life, personal and professional coaching services from the Chippewa Cree Tribe of the Rocky Boy Reservation, and Manny Goetz of Home Manager in Livingston.

- **James Wasem, Dunrovin Ranch:** Biggest business challenges: Hiring and retaining quality staff given requests for higher pay, price increases for goods and services their businesses need to operate. Access to finance for starting operations: The guest ranch accesses bank loans using the owners' personal guarantees and net worth. In addition, the ranch started a new live streaming business with local contractor support and assistance from the Blackstone Launchpad in Missoula. Current financial services: The ranch works with a local bank for business checking and savings services, holds a business credit card through a larger national bank, and uses a line of credit from a local bank for seasonal business liquidity.
- **Hikmet Budak, Chief Science Officer and Partner of Montana BioAg Inc:** Biggest business challenges: Hiring and training qualified staff, protecting their intellectual property, limited facility, and identifying investors. Access to finance for starting operations: Secured two large grants from USDA and SBIR for \$700,000 to commercialize biological products. The Montana BioAg, Inc team is currently negotiating with interested investors for seed funding. Current financial services: A business credit card and a business checking account.
- **Shelby Humphreys of Missoula Social Media:** Biggest business challenges: Cost of services for her business, including expensive internet. Access to finance for starting operations: Self-funded the start of her business operations. She also participated in the Women's Business Center programs and received training and coaching and used Missoula Public Library laptops until she could invest in a business laptop with additional assistance from the VocRehab program. Current financial services: Business checking account with local credit union where she has her personal accounts. In the future, she would also consider approaching a CDFI, given their support for small businesses.
- **Javon Wing of Inspired Life, personal and professional coaching services, from the Chippewa Cree Tribe of the Rocky Boy Reservation:** Biggest business challenges: Cost of services for her business, including expensive internet and utilities in an isolated rural area. Access to finance for starting operations: Self-funding and a small grant from the Indian Equity Fund. Current financial services: She opened a business checking account at the same bank where she has her personal accounts, although she would consider approaching a credit union or community development finance institution (CDFI) for business services in the future.
- **Manny Goetz of Home Manager in Livingston:** Biggest business challenges: Identifying qualified service providers and contractors to hire and working with banks that understand the startup process and how to structure loans for startup businesses. Access to finance for starting operations: Initially self-funding and will explore other options in the future. Montana banks they have approached require collateral and strict repayment terms, although they are discussing with European funders eager to do business in the US. Current financial services: Working with a local bank for a business checking account and using two business credit cards with a local bank and regional bank.

Q11. Did you operate this business before living in Montana?

A very large majority of respondents (91%) did not operate their business before living in Montana (see Figure 7). Only 9 percent said they did operate the business before living in Montana. Table 14 presents the list of places where respondents lived when they operated the business before living in Montana. These respondents reported living previously in 13 other states or abroad, with the largest group (six respondents) reporting they had previously lived in California. Eleven percent (11%) of respondents not located on a reservation answered that they operated the business before moving to Montana, while only 1 percent of respondents located on a reservation operated the business before moving to Montana. There were no significant differences in the answers to Question 11 when examining responses by gender, race, or urbanicity.

Figure 7: Respondent operated business before living in Montana

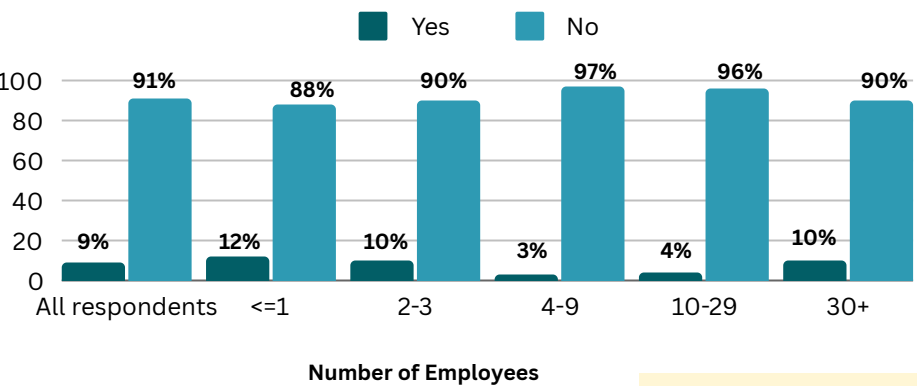


Photo of Downtown Whitefish, Montana

Table 14: Location before living in Montana

California	6
Michigan	3
Colorado	2
Idaho	2
Nevada	2
Washington	2
Outside the U.S.	2
Alaska	1
District of Columbia	1
Kentucky	1
Missouri	1
Pennsylvania	1
South Carolina	1

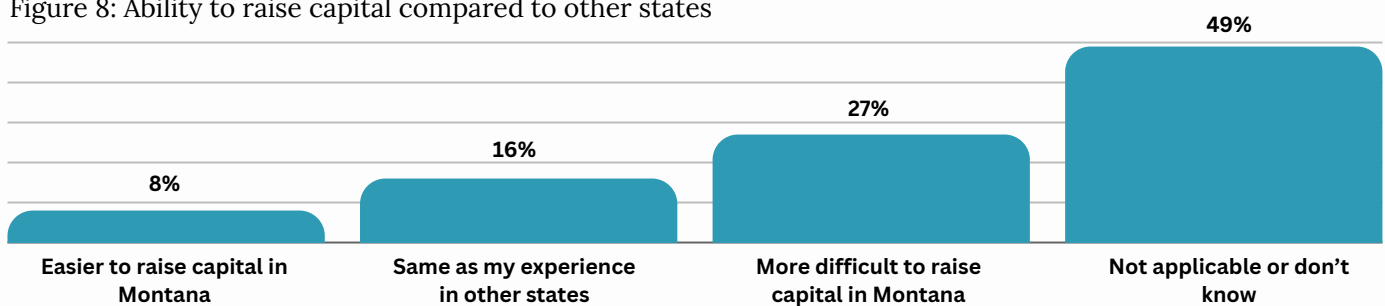
Lender Competition in Urban Areas

In Montana’s urban areas, more lenders are concentrated, and this leads to more competition for clients, including for business loans. Lenders price a loan based on a borrower’s risk, among other factors, but this is challenging and subjective and can be more of an art than a science. Pricing a loan is even more challenging in competitive markets such as Montana’s urban centers, where lenders may offer a range of lower interest rates, lower fees, and/or softer terms depending on the business’s financial situation.

Q12. (Only respondents who answered Yes to Question 11) How would you compare your ability to raise loans, equity, or other capital in Montana compared with your experience in other states?

More than one-quarter (27%) of those who operated the business before moving to Montana (37 individuals answered Yes to question 11) believe that it is more difficult to raise capital in Montana than it is in other states (see Figure 8). About 16 percent said they had the same experience in Montana as they had in other states, while 8 percent reported that it is easier to raise capital in Montana than it is in other states. Almost half of respondents (49%) who operated the business studied here before moving to Montana said that question didn't apply to them or that they didn't know the answer. Since only 39 respondents answered this question, it was not practical to cross-tabulate these results with any other variable. There were no significant differences in the answers to Question 12 when examining responses by gender, race, urbanicity or location relative to a reservation.

Figure 8: Ability to raise capital compared to other states



Cultivating Business Connections Despite Montana's Size

"If we want to understand why and how a place fosters a dynamic, adaptive entrepreneurial environment, we should consider the variety of individuals and their ideas, how they interact, and market responses that guide them," notes Dave Bayless, Co-Founder of Human Scale Business and an experienced investor, CFO, and business advisor. Montana covers a large geographic area, and it takes effort to gather, exchange ideas, build networks, and cultivate relationships. "We Montanans are fully aware of the importance of connections, and many people are ready to jump in the car and drive across the state to meet with someone over coffee—or connect through video conferencing," notes Bayless. Urban areas have inherent advantages for business growth, including a diverse and plentiful labor market, many specialized suppliers and services, and close proximity of people that enable the spread of knowledge and ideas. "Critical mass is important, and despite the rise of internet that reduces the impact of geographic distance, the characteristics of place are more important than ever," Bayless believes. Given this, Montanans need to be better at networking and fostering relationships to help nurture connections that fuel economic development.

Adapted from the article "Know Your Place" by Dave Bayless in Inc. Magazine in 2001: <https://www.inc.com/magazine/20010801/23213.html>

See also: <https://humanscalebusiness.org/>

Technology Helps in Rural Montana

With a new micro branch office in Winifred, Opportunity Bank is “leveraging technology to provide more services in rural Montana,” notes Laura Clark, CEO. The interactive teller machine enables clients to conduct transactions, make video calls and talk with Opportunity Bank staff in other nearby offices. Clients can also make appointments to meet loan officers who can visit Winifred regularly from nearby offices in Denton and Great Falls.

<https://www.opportunitybank.com/>



Photos courtesy of Opportunity Bank

Growing Small Business and Ag Lending

“We have grown our small business lending and agricultural lending operations over the past decade across Montana,” notes Laura Clark, CEO, and Mark O’Neill, SVP and Chief Lending Officer of Opportunity Bank of Montana. “As of 2023, 78 percent of our total loan portfolio is with small businesses and ag-based farms, ranches, and related businesses. This is our bread and butter,” Clark continues. With over 100 years of lending experience in Montana, Opportunity Bank made a strategic decision to expand into commercial and small business lending over 10 years ago. Through organic growth and acquisitions of other institutions, today Opportunity Bank has 31 offices across Montana, including many in small agricultural communities.

To grow their small business and Ag lending, Opportunity Bank has expanded their team to 72 loan officers, with 39 focused mainly on commercial and agricultural lending. As a Farm Service Agency preferred lender, Opportunity Bank offers a range of FSA programs including the young farmer initiative with beneficial loan terms for clients. “We participate in several other federal and state programs such as SBA loans, the Department of Commerce’s SSBCI program, and Montana Board of Investments initiatives that work well and offer reduced interest rates for our clients,” notes O’Neill. Clark continues, “We have a strong loan pipeline and strong portfolio quality. We are a community bank, and we know Montana.”

<https://www.opportunitybank.com/>

Economic Sector

Q13. What is your business's main product or service?

Almost one-quarter (24%) of all respondents said that their business was in the professional, scientific, and technical services sector (see Table 15). Another 15 percent of respondents reported that their business is in the manufacturing sector. Almost 1 in every 10 (9%) respondents said their business was in the retail trade sector. About 8% of respondents reported that their business was in the health care and social assistance sector (Executive Office of the President, Office of Management and Budget, 2022).

Table 15: Business's main product or service (North American Industry Classification System 2022)

Industry	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Professional, Scientific, and Technical Services	24%	34%	19%	17%	0%	6%
Manufacturing	15%	11%	11%	13%	46%	39%
Retail Trade	9%	9%	9%	10%	4%	6%
Health Care and Social Assistance	8%	8%	8%	6%	13%	22%
Agriculture, Forestry, Fishing and Hunting	7%	5%	10%	9%	13%	0%
Construction	7%	6%	8%	7%	4%	11%
Other Services except Public Administration	7%	9%	7%	6%	4%	0%
Accommodation and Food Service	6%	4%	9%	10%	4%	0%
Educational Services	5%	5%	2%	7%	0%	6%
Transportation and Warehousing	3%	1%	7%	3%	0%	0%
Real Estate and Rental and Leasing	2%	2%	4%	1%	0%	0%
Arts, Entertainment, and Recreation	2%	3%	0%	3%	0%	0%
Information	2%	3%	0%	1%	0%	0%
Finance and Insurance	1%	0%	1%	3%	4%	6%
Public Administration	1%	0%	2%	1%	4%	0%
Administrative and Support and Waste Management and Remediation Services	1%	0%	1%	3%	0%	0%
Wholesale Trade	1%	0%	1%	0%	4%	0%
Mining, Quarrying, and Oil and Gas Extraction	0.3%	0%	0%	0%	0%	0%
Utilities	0.3%	1%	0%	0%	0%	0%

Of businesses with 10-29 Montana employees, 46 percent said their business was in the manufacturing sector, and among businesses with 30+ employees, 39 percent said their business was in the manufacturing sector. Businesses with 1 or fewer employees (34%) and 2-3 employees (19%) most frequently said their business was in the professional, scientific, and technical services sector. Of respondents located on a reservation, 13 percent were classified as in the professional, scientific, and technical services sector. For respondents located off a reservation, 26 percent were classified as in the professional, scientific, and technical services sector. There were no other significant differences in the answers to Question 13 when examining responses by gender, race or urbanicity.

The proportion of industry classifications of responding businesses only differs significantly in 3 of the 20 major classification categories from the proportion of classifications found among census data for Montana establishments (U.S. Census Bureau, 2023). Nearly one-quarter (24%) of respondents reported that their business is in the professional, scientific, and technical services sector, while the proportion from 2021 census data for Montana establishments is 10 percent. About 15 percent of respondents reported that their business is in the manufacturing sector, while the proportion among census data for Montana establishments is 3 percent. Seven percent of respondents classified their business as construction, while 16 percent Montana establishments fall within the construction classification according to census data for Montana.

Table 16: Comparison of industry classification of responding businesses with U.S. Census Bureau data for Montana establishments (2021)

Industry	% of Establishments	
	Question 13	2021 County Business Patterns - U.S. Census
Professional, Scientific, and Technical Services	24%	10%
Manufacturing	15%	3%
Retail Trade	9%	11%
Health Care and Social Assistance	8%	10%
Agriculture, Forestry, Fishing and Hunting	7%	1%
Construction	7%	16%
Other Services except Public Administration	7%	8%
Accommodation and Food Service	6%	9%
Educational Services	5%	1%
Transportation and Warehousing	3%	3%
Real Estate and Rental and Leasing	2%	6%
Arts, Entertainment, and Recreation	2%	3%
Information	2%	2%
Finance and Insurance	1%	5%
Public Administration	1%	5%
Administrative and Support and Waste Management and Remediation Services	1%	4%
Wholesale Trade	0.3%	1%
Utilities	0.3%	0.5%
Management of Companies and Enterprises	0.3%	0.3%



Challenges

Q14. Overall, FOR THIS business, what is the business's biggest challenge?

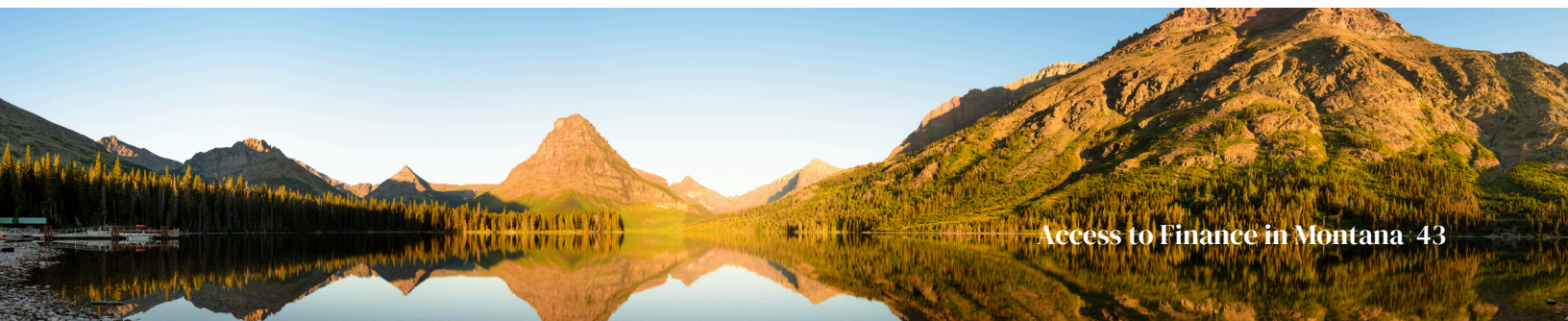
Almost half of all respondents (49%) cited access to capital as their business's biggest challenge (see Table 17). Forty-three percent of respondents reported that marketing and growing the customer base was the biggest challenge. About 30 percent of respondents said that hiring or retaining staff or worker quality was the biggest challenge. Twenty-two percent cited the availability and cost of locations for the business to buy or rent as the biggest challenge.

Table 17: Biggest challenge for the business

Biggest Challenge	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Access to capital (capital=money to fund day-to-day operations, future growth, or purchase of equipment)	49%	49%	47%	59%	35%	33%
Marketing and growing the customer base	43%	50%	38%	40%	19%	38%
Hiring/retaining staff and/or worker quality	30%	21%	32%	32%	58%	62%
Availability and cost of location(s) for my business (to buy or rent)	22%	19%	15%	28%	42%	38%
Supply chain issues	13%	8%	12%	20%	35%	14%
Regulations	12%	8%	16%	16%	12%	24%
Lack of infrastructure or poor internet	1%	0%	2%	1%	0%	0%
Need tax or financial assistance	2%	2%	0%	3%	4%	0%
Obtaining or managing insurance	1%	1%	2%	1%	0%	0%
Competition from other businesses	1%	2%	1%	1%	0%	0%

Businesses with 1 or fewer Montana employees most frequently said (50%) that marketing and growing the customer base was the biggest challenge. Businesses with 2-9 employees most often cited access to capital as the biggest challenge. Businesses with 10+ employees most often said that hiring or retaining staff or worker quality was the biggest challenge.

When examining this question by other demographic characteristics, Native American respondents and respondents located on a reservation (68% and 67% respectively) were more likely than White respondents or respondents located off a reservation (44% and 45% respectively) to report that access to capital is the business's biggest challenge. In addition, rural respondents (54%) were more likely than urban respondents (45%) to report that access to capital is the business's biggest challenge.



Business Owners May Be Excellent at What They Do... But Face Challenges in Managing the Business

Several lenders praised the tenacity of small business owners, praising them as hard working and often truly skilled as chefs, carpenters, salespeople, electricians, farmers and ranchers, or whatever is at the core of their business operations. Yet those same business owners may be “terrible with paperwork, taxes, marketing, pricing their goods and services, accounting, financial projections, and/or overall management,” noted several lenders and economic development specialists interviewed for this report.

Many business owners are embarrassed because they struggle to keep track of their finances, and this can quickly escalate into serious problems. In addition, many business owners are not aware of the information lenders request in a loan application, collateral issues, and other steps in the application process.

Multiple organizations are available across Montana to help businesses with this type of technical assistance, including economic development organizations, the Small Business Administration, certified regional development centers, community development finance institutions, and others. Several lenders recommended that small business owners work closely with an experienced accountant to understand their financial position, explore financing options available, and prepare a loan application. Yet owners should delegate these tasks carefully, not turn a blind eye and keep close track of their funds and financial position to avoid fraud situations, even with ‘trusted’ insiders.

Small Business Owner Perspectives: Leslie Graves, Pintler Billing Services

Leslie Graves has built Pintler Billing Services, a medical billing company, over the last 20 years. In the last seven years, she began specializing in emergency medical services billing. Pintler Billing Services has grown quickly over that time now serving clients from over 40 ambulance services, ranging in size from small volunteer agencies to large corporate private agencies. Her main challenge in running her business is finding and training staff, especially in her small town of Eureka. Graves is currently developing a training program for remote workers to expand her potential workforce.

As a niche business in a remote location, it has been necessary for her to develop much of the company’s business policies, processes, and training from scratch. Graves started her business with her own savings, and she has grown “at the speed of cash” and has avoided taking any loans. She uses a regional bank for financial services where she has several savings accounts, including an account for employee benefits, business savings, vacation leave bank, etc., as well as a business checking account. Through her regional bank, Graves also has access to a business line of credit that she has never used, and she manages a business credit card through a national bank. She has been happy with the opportunity to work with a regional bank where she has a long-standing relationship and where many of her clients also have accounts. Her company is able to enjoy features typically found in a larger bank, such as automated ACH payments for her clients and availability of online services, including purchasing CDs and opening accounts electronically. Graves believes this bank offers good service, reasonable rates, and quality financial products.

Business Profile and Revenue

Q15. If your business is registered or licensed with a local, state, or tribal agency, what best describes the type of business it is registered as?

Almost half of respondents (48%) reported that their business is a limited liability company (LLC). Table 18 below presents the types of business registration or license held by respondents' businesses. Eighteen percent of respondents said their business is a sole proprietorship. About 15 percent said their business is an S-corporation. Only 6 percent of respondents reported that their business was not registered or licensed with a local, state, or tribal agency.

Table 18: Type of business registration or license

Type of Business	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
LLC	48%	52%	50%	54%	19%	30%
Sole proprietor	18%	28%	13%	8%	4%	10%
S-corporation	15%	5%	16%	19%	38%	40%
C-corporation	7%	2%	11%	13%	8%	5%
Not registered or licensed with a local, state, or tribal agency	6%	7%	8%	1%	8%	5%
Non-profit	4%	5%	1%	3%	19%	0%
LLP	1%	0%	1%	1%	0%	10%
Other	1%	1%	0%	0%	4%	0%
Cooperative	0%	0%	0%	0%	0%	0%

Businesses in Montana employment categories from 0-9 were most often described as LLCs by respondents. Businesses with 10+ employees most often were described as S-corporation. Businesses with 1 or fewer employees, the second ranked registration type (28%) was sole proprietorship.

Reduced Financing Opportunities for Native-owned Businesses

In addition to the need for greater presence of financial institutions on Reservations, there is also a need for increased financing to support the growth of the Native business industry. Due to the fact that Native communities have historically been un- or under-banked, Native business owners are less likely than business owners in general to receive financing from banking institutions. In 2012, 7.5 percent of all business owners used banks to finance their startup costs, while only 3.6 percent of Native Hawaiian and 5.6 percent of Alaska Native and American Indian business owners received bank financing. Lack of access to more traditional business financing methods has also led Native business owners to rely slightly more on credit cards for startup and growth funding than their non-Native counterparts. Forty-six CDFIs have the opportunity to fill both the depository and financing gaps that currently hinder Native entrepreneurship and business development.

Excerpted from: Mountain | Plains Regional Native CDFI Coalition. (2022). Mountain Plains Regional Market Study, p26-27.

Q15. Additional Demographic Analysis

Examining the responses to Question 15 by other demographic characteristics (see Table 19 below) reveals that Native American respondents and respondents located on a reservation were more likely to say their business is a sole proprietorship than were White respondents or respondents located off a reservation. Rural respondents were also more likely than urban respondents to say their business is a sole proprietorship. Finally, White respondents and respondents located off a reservation were more likely to report that their business is an S-corporation than were Native American respondents or respondents located on a reservation.

Table 19: Type of business registration or license by selected demographic characteristics

		Sole proprietor	S-corporation
Gender	Male	22%	16%
	Female	17%	13%
	Nonbinary or third gender	33%	0%
	Prefer not to say	0%	23%
Race	White	12%	21%
	Native American	33%	2%
	Other	0%	0%
	Didn't answer	23%	11%
Urban or rural	Urban	13%	16%
	Rural	25%	13%
	Didn't answer	23%	15%
On a MT reservation	Yes	36%	1%
	No	14%	17%
	Didn't answer	100%	0%

Some care must be taken when comparing proportions of types of business registration between responding businesses with federal data since the survey did not use exactly the same classifications as those used in federal data sources. However, Table 20 presents an approximate comparison. The pool of responding businesses includes more LLCs and S-corporations than are found in census data for Montana establishments (U.S. Census Bureau, 2023). The group of responding businesses includes fewer C-corporations than are found in census data for Montana establishments. Responding businesses consist of fewer partnerships (1%) than are found in census data for Montana establishments (11%).

Table 20: Comparison of Type of business registration or license between responding businesses and all 2021 Montana establishments

	Question 15	2021 County Business Patterns - U.S. Census
LLC, S-corporation	63%	54%
Sole proprietor	18%	10%
C-corporation	7%	16%
Not registered or licensed with a local, state, or tribal agency	6%	0%
Non-profit	4%	9%
LLP, other partnerships	1%	11%
Other	1%	1%

Q16. How many full-time and part-time employees does your company have including all states and countries?

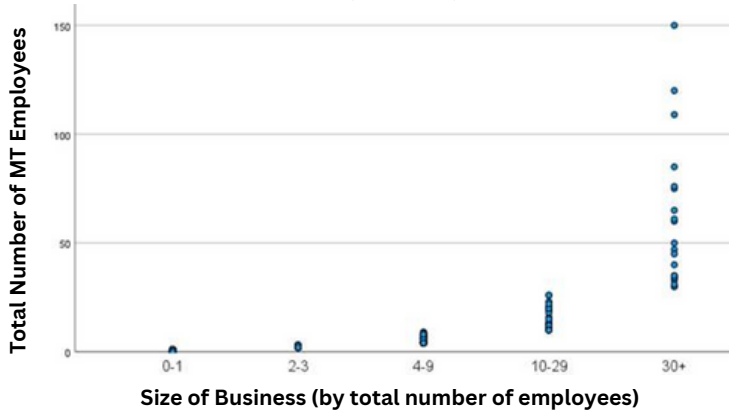
Q17. How many full-time and part-time employees does your company have in Montana?

Respondents reported that the total employment represented by the businesses studied in this survey was 2,754, with 1,679 full-time employees and 1,075 part-time employees (see Table 21). In terms of Montana employees, responding businesses reported a total of 2,384 employees, with 1,493 full-time employees and 891 part-time employees. The median number of full-time employees reported was 1 and the median number of part-time employees was 1. The mean number of Montana employees per responding business was 6, while the mean number of employees per establishment from census data for Montana establishments in 2021 was 9 (U.S. Census Bureau, 2023).

Table 21: Employment characteristics of respondents' businesses

	Mean	Median	Mode	Sum
Total number of full-time employees	4	1	1	1,679
Total number of part-time employees	3	1	0	1,075
Number of Montana full-time employees	4	1	1	1,493
Number of Montana part-time employees	2	1	0	891

Figure 9: Scatter Plot of MT Employment by Total Number of Employees



As Figure 10 illustrates, 43 percent of respondents reported that their business employed a total of 1 or fewer employees. Nearly one-quarter of respondents (24%) said their total employment was 2-3 employees. One-third of respondents (32%) said their total employment was 4+ employees.

Figure 10: Distribution of employment among responding businesses

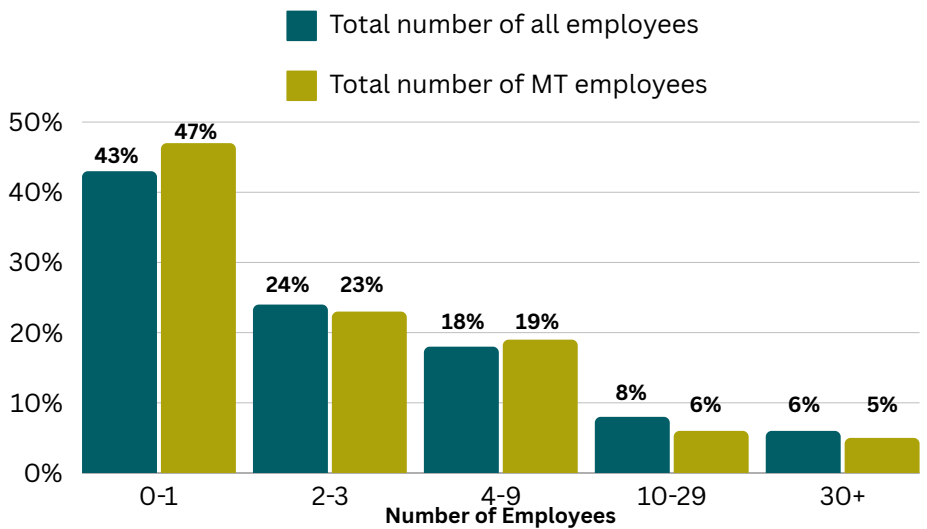
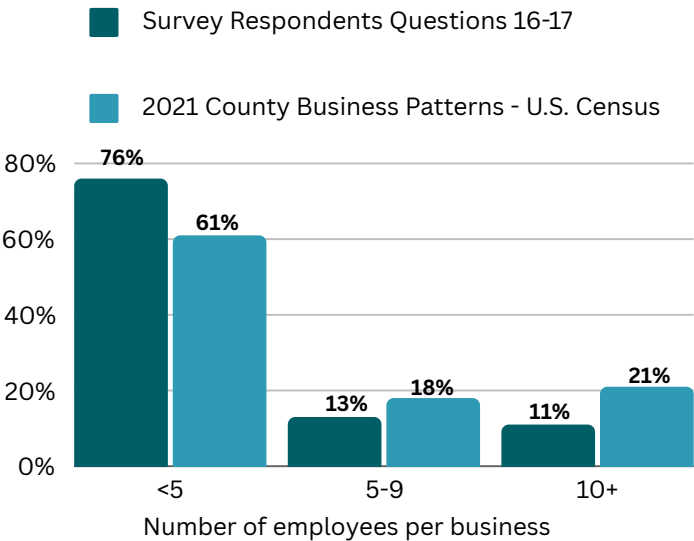


Photo of Bozeman, Montana

A second useful way to compare the employment characteristics of responding businesses to all Montana establishments is to examine the distribution of the number of persons employed per business, presented in Figure 11.

More than three-quarters of responding businesses (76%) reported employing fewer than 5 people, while census data for Montana establishments indicate 61 percent employ fewer than 5 people (U.S. Census Bureau, 2023). Thirteen percent of responding businesses reported employing between 5 and 9 people, while census data for Montana establishments shows 18 percent employ between 5 and 9 people. Just over one in every ten (11%) of responding businesses employ 10 or more people, while census data indicate 21 percent of Montana establishments employ 10 or more people.

Figure 11: Comparison of the distribution of employment among responding businesses and census data for Montana establishments



Readers should keep in mind that this report compares survey findings to federal data describing establishments with employees given limited information on establishments with no employees. Table 22 below presents some of the only information available on nonemployer establishments in Montana.

Table 22: 2019 County Business Patterns & Nonemployer Statistics Combined Report for Montana

Source: U.S.Census Bureau, 2023

Total Montana County Business Patterns (CBP) and Non-Employer Establishments (NES)	135,525
CBP Establishments Percentage	28.7%
NES Establishments Percentage	71.3%
CBP Establishments	38,959
NES Establishments	96,566

The 96,566 Montana nonemployer establishments designated by the Census Bureau (as of 2019) were identified using administrative records (confidential) of the Internal Revenue Service, Bureau of Labor Statistics, and the Social Security Administration. Generally, an establishment is a single physical location at which business is conducted, services are rendered, or industrial operations are performed. However, Nonemployer Statistics count each distinct business income tax return as a firm. For Nonemployer Statistics, the Census Bureau uses the terms firm and establishment interchangeably. Since a nonemployer business may operate from its owner's home address or from an unspecified physical location, most geography codes are derived from the business owner's mailing address, which may not be the same as the physical location of the business activity.

Q16. & 17. Additional Demographic Analysis

Table 23 below explores the employment of responding businesses by various demographic characteristics of respondents. White respondents reported that they employ a total median of 2 people, while Native American respondents employ a total median of 1 person. Respondents located off a reservation also employ a median of 2 Montana employees, while respondents located on a reservation employ a median of 1 Montana employee. Readers should keep in mind that Table 23 presents total employees, while Table 22 on previous page presents employment disaggregated into full-time employees and part-time employees. There were no other significant differences in the answers to Questions 16 or 17 when examining responses by gender, race or urbanicity.

Table 23: Employment characteristics of respondents' businesses by selected demographic characteristics

		Total Employment		Total number of MT employees	
		Median	# of Respondents	Median	# of Respondents
Gender	Male	2	145	2	145
	Female	2	223	2	215
	Nonbinary or third gender	1	3	0	3
	Prefer not to say	4	13	4	13
Race	White	2	233	2	228
	Native American	1	91	1	88
	Other	3	7	3	7
	Didn't answer	2	53	2	53
Urban or rural	Urban	2	205	2	201
	Rural	2	168	2	164
	Didn't answer	4	11	1	11
On a MT reservation	Yes	2	67	1	65
	No	2	316	2	310
	Didn't answer	1	1	1	1

Creativity and Effort Required to Get Deals Done

A good lender will help their business clients succeed, according to Herb Kulow, retired bank president and bank turnaround specialist. Tailored approaches to lending require creativity and effort—and a relationship built on trust with the client. “Larger banks have many other safe options such as investing in government securities or overnight Fed funds that offer guaranteed interest rates.” Many loan officers avoid taking risk given the ramifications of problem loans for their institution. Supporting local lenders who are actually working with Montana’s small businesses will yield more impact for the state’s economy and these are often smaller lenders and economic development organizations who have “boots on the ground in local communities.”

Q18. For your business, what were the business's annual revenues in 2021?

The median (or midpoint) 2021 annual revenue reported by responding businesses was \$36,000 while the mean (or average) annual revenue was \$793,000 (see Table 24). In addition, 21 percent of responding businesses reported having \$0 revenue in 2021. For newer businesses it is not surprising to have low or no revenue. Further, the results are from 2021, which was during the COVID-19 pandemic that affected many businesses across the state. The total 2021 revenue reported by all responding businesses was \$282,900,000. Study respondents reflect a broad range of businesses from newer, smaller businesses to much larger and/or older businesses, with results further analyzed by size and demographics in the report.

Table 24: Business's annual revenue (2021)

		2021 Annual Revenues (\$)			
		Mean	Median	Mode	Sum
Total number of MT employees	Total	\$793,000	\$36,000	\$0	\$282,900,000
	0-1	\$29,000	\$10,000	\$0	\$4,686,000
	2-3	\$113,000	\$50,000	\$0	\$9,693,000
	4-3	\$378,000	\$139,000	\$0	\$24,960,000
	10-29	\$3,332,000	\$1,250,000	\$200,000	\$77,565,000
	30+	\$8,738,000	\$1,800,000	\$1,000,000	\$166,022,000

The median 2021 revenue reported by businesses employing 1 or fewer Montana employees was \$10,000, and mean annual revenue was \$29,000. Businesses employing 2-3 Montana employees reported a median 2021 revenue of \$50,000 and mean annual revenue of \$113,000. Businesses employing 4-9 Montana employees reported a median 2021 revenue of \$139,000 and mean annual revenue of \$378,000. Businesses employing 10-29 Montana employees reported a median 2021 revenue of \$1,250,000 and mean annual revenue of \$3,232,000. Businesses employing 30+ Montana employees reported a mean 2021 revenue of \$8,738,000 and median annual revenue of \$1,800,000.

Entrepreneurs Are Indomitable

“People who build successful high-growth companies are indomitable, hardworking, and tenacious,” said Liz Marchi of Two Bear Capital. She believes a small percentage of perhaps five percent of businesses will be able to grow their operations to large scale and attract venture capital. These entrepreneurs may bootstrap their startup and will find financing, quality staffing, supply chains for their inputs, and other essential ingredients to their success. Yet many other businesses across Montana are successful operations with healthy revenues and need a range of funding options other than VCs. <https://www.twobearcapital.com/>

Banks, credit unions, CDFIs, and state and federal programs like the Department of Commerce and SBA offer good options for these businesses. However, Marchi has also explored alternative investment models including revenue-based financing, receivables financing, and industrial revenue bonds.

Figure 12 below presents the distribution of 2021 annual revenue among responding businesses by quartiles. The lowest quarter of 2021 annual revenues reported (26%) was \$3,000 or less. The second quarter (24%) reported annual revenue between \$3,001 and \$36,000. The third quarter (25%) reported annual revenues between \$36,001 and \$180,000. The highest quarter (25%) reported annual revenues of \$180,001 or more.

Figure 12: 2021 Annual revenue distribution

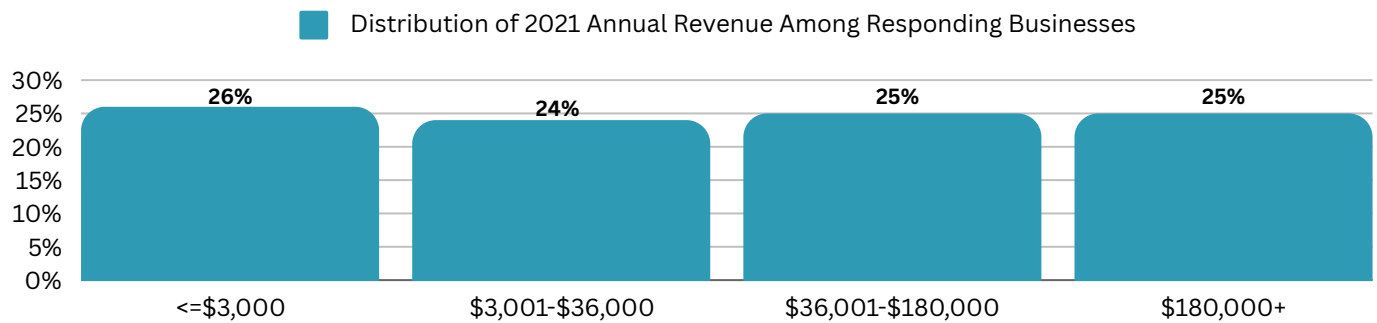
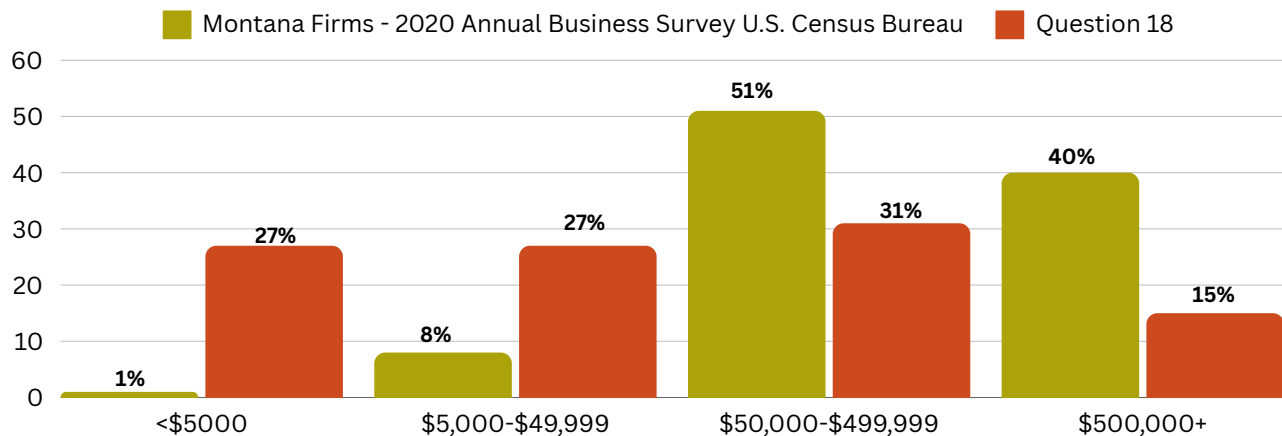


Figure 13 demonstrates that many more of the responding businesses reported low amounts of annual revenue than reported in census data for Montana businesses (U.S. Census Bureau, 2022). Readers should keep in mind that census data on Montana revenue reported here (the latest available) are for the year 2020. In addition, the U.S. Census Bureau’s Annual Business Survey asks businesses for total annual sales and receipts, whereas this survey asked respondents for annual revenue. A majority of responding businesses (54%) reported annual revenue of less than \$50,000, while census data on Montana businesses indicate only nine percent report annual revenue less than \$50,000. In contrast, census data for Montana businesses shows a majority (51%) having annual revenue between \$50,000 and \$499,999, but only 31 percent of responding businesses had annual revenue between \$50,000 and \$499,999. Census data for Montana indicates that 40 percent of businesses reported annual revenue in excess of \$500,000, while only 15 percent of responding businesses reported annual revenue of \$500,000+.

Figure 13: Respondent annual revenue compared to all Montana businesses



Q18. Additional Demographic Analysis

There are demographic differences evident in results on 2021 annual revenue of responding businesses (see Table 25). Male respondents reported a higher median revenue (\$65,000) than did female respondents (\$20,000). White respondents and respondents located off a reservation reported a higher median revenue (\$50,000) than did Native American respondents (\$20,000) and respondents located on a reservation (\$20,000). Urban respondents reported a higher median revenue (\$47,000) than did rural respondents (\$29,000).

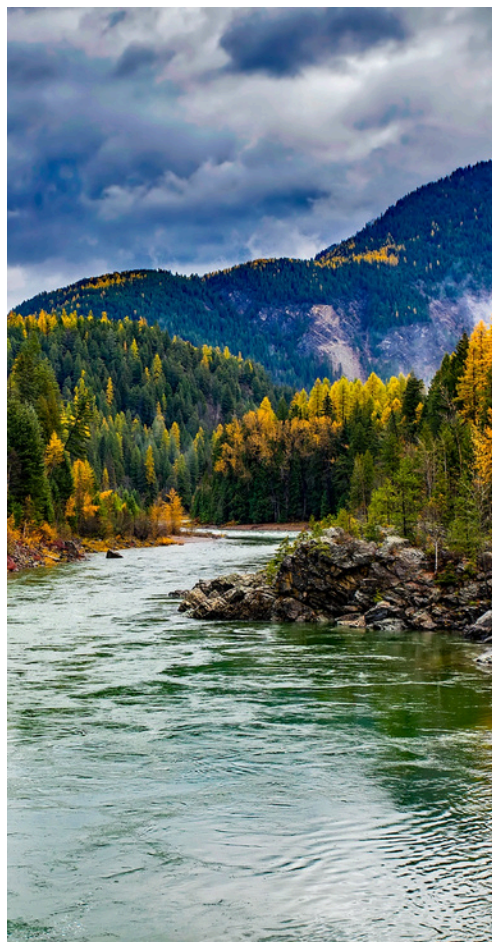


Table 25: Business's annual revenue (2021) by selected demographic characteristics

		2021 annual revenues (\$) Median
Gender	Male	\$65,000
	Female	\$20,000
	Nonbinary or third gender	\$12,000
	Prefer not to say	\$23,000
Race	White	\$50,000
	Native American	\$20,000
	Other	\$16,000
	Didn't answer	\$23,000
Urban or rural	Urban	\$47,000
	Rural	\$29,000
	Didn't answer	\$60,000
On a MT reservation	Yes	\$20,000
	No	\$50,000
	Didn't answer	\$70,000

Progress Across Montana Over Thirty Years

While root challenges such as geography continue to challenge Montana's businesses, the state has made good progress since the 1990s, believes Dave Bayless, Co-Founder of Human Scale Business and an experienced investor, CFO, and business advisor. "Thirty years ago, Montana was at the bottom of entrepreneurial rankings for the country, no venture funds existed, and banks were just starting to regionalize," notes Bayless. Since then, Montanans have raised venture capital funds, taken firms public through IPOs, and fostered centers of innovation. Today many investors and lenders are actively seeking businesses for financing.

<https://humanscalebusiness.org/>

Table 26: Number of firms and establishments, employment, and annual payroll in Montana by enterprise employment size: 2020

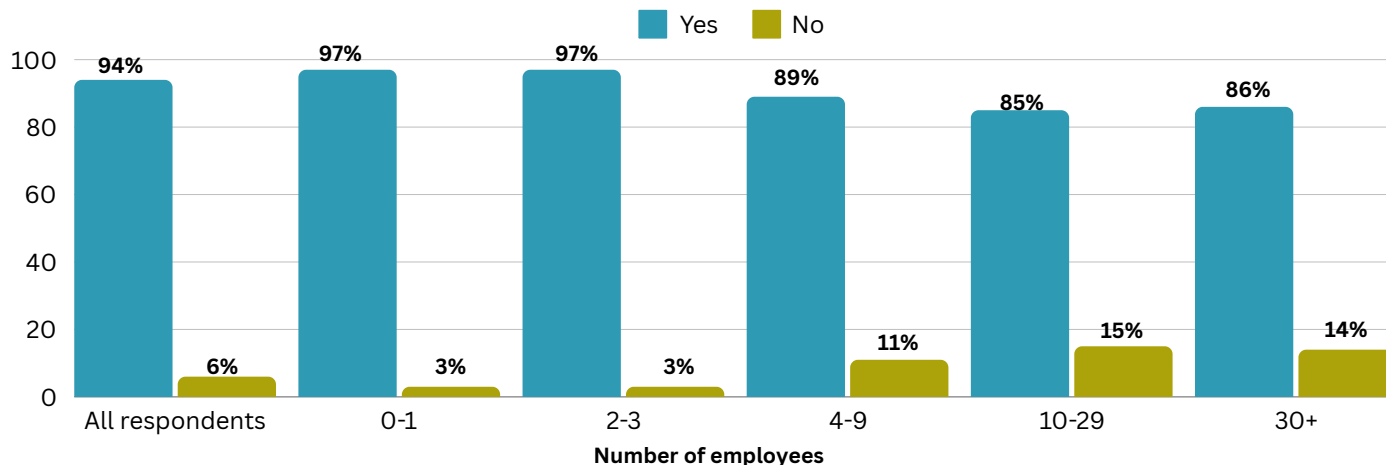
Enterprise Size	Firms	Establishments	Employment	Annual Payroll (\$1000)
Total	33,993	39,505	377,638	16,450,470
<5 employees	21,653	21,675	31,814	1,318,102
5-9 employees	5,339	5,416	35,101	1,223,935
10-14 employees	2,070	2,142	24,112	860,209
15-19 employees	1,053	1,124	17,403	626,367
<20 employees	30,115	30,357	108,430	4,028,613
20-24 employees	639	722	13,659	480,585
25-29 employees	434	510	11,318	422,833
30-34 employees	293	343	8,787	318,994
35-39 employees	217	266	7,717	280,321
40-49 employees	268	374	11,090	429,880
40-75 employees	332	547	18,203	664,276
75-99 employees	168	319	12,006	466,542
100-149 employees	187	445	16,294	759,892
150-199 employees	119	406	13,066	605,038
200-299 employees	126	338	16,956	721,263
300-399 employees	77	321	9,882	484,121
400-499 employees	41	208	5,492	259,096
<500 employees	33,016	35,156	252,900	9,921,454

Source: US Census 2020

Q19. Are you the business owner or co-owner?

A very large majority of respondents (94%) reported that they own or co-own the business studied in this survey (see Figure 14). Only 6 percent of respondents said they are not the owner or co-owner of the business studied.

Figure 14: Proportion of respondents who own or co-own the business

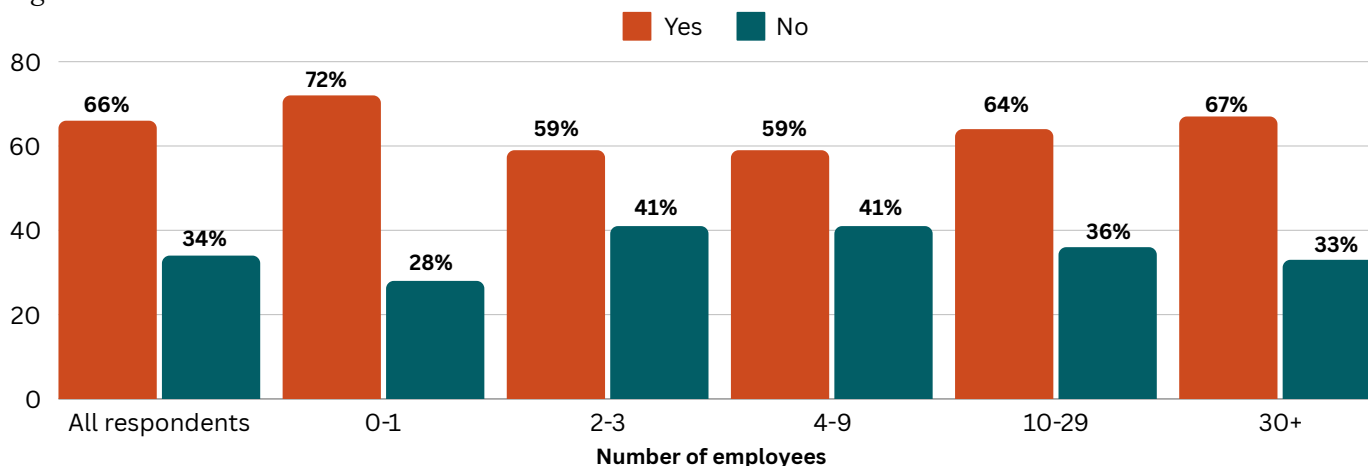


Slightly more respondents (11%, 15% and 14% respectively) who reported on businesses that employed 4+ persons in Montana said they were not the business owner or co-owner, when compared to the smaller businesses included in the survey. There were no significant differences in the answers to Question 19 when examining responses by gender, race, urbanicity or location of business relative to a Montana reservation.

Q20. (Only respondents who answered Yes to Question 19) Is this the first business you have owned?

About 94% of all respondents (366 individuals) were eligible to answer Question 20. Two-thirds of respondents to Question 20 (66%) said that they are first time business owners (see Figure 15). One-third (34%) said that they are not a first-time business owner.

Figure 15: First time business owners



More respondents (72%) reporting on businesses with 1 or fewer Montana employees said that they are first time business owners, than did those reporting on businesses with 2-3 employees (59%) or 4-9 employees (59%).



Q20. Additional Demographic Analysis

Examining Question 20 by selected demographic characteristics of respondents reveals two significant differences within demographic groups. Table 27 shows that female respondents (70%) were more likely than male respondents (60%) to report being first time business owners. Native American respondents (79%) and respondents located on a reservation (80%) were more likely than White respondents (61%) or respondents not located on a reservation (63%) to say that they are first-time business owners.

Table 27: First time business owners by selected demographic characteristics

		Is this the first business you have owned?	
		Yes	No
Gender	Male	60%	40%
	Female	70%	30%
	Nonbinary or third gender	100%	0%
	Prefer not to say	64%	36%
Race	White	61%	39%
	Native American	79%	21%
	Other	100%	0%
	Didn't answer	58%	42%
Urban or rural	Urban	66%	34%
	Rural	65%	35%
	Didn't answer	75%	25%
On a MT reservation	Yes	80%	20%
	No	63%	37%
	Didn't answer	100%	0%

Lean Into Business Advice

“Many resources are available for business owners to learn about financial management, criteria to qualify for a loan, and seek training and mentorship—including many lenders, economic development organizations, the U.S. Small Business Administration (SBA), and others,” notes Shayna Blaser, Director of Regional Economic Development at Prospera Business Network based in Bozeman. She recommends business owners “lean into these resources to learn from others and grow their business on stronger foundations.”

Since 1986, Prospera serves businesses across Gallatin and Park counties with technical trainings, mentorships, no-cost business counseling, government contracting, exporting and importing, manufacturing, scaling business operations, adapting new technologies, succession planning, and access to finance through their revolving loan funds and links to lenders in the area. As a certified regional development corporation (CRDC), Prospera offers services through three business technical assistance centers that mutually reinforce each other: the Food and Agricultural Development Center, the Small Business Development Center, and the Montana Women’s Business Center that works across the state. With their revolving loan fund, Prospera is able to fund a wider range of businesses than traditional banks, and they currently have available funds to lend.

<https://prosperamt.org/>

Start Preparing Early

“Start early when talking to a lender,” recommends Mark O’Neill, SVP and Chief Lending Officer of Opportunity Bank of Montana. Preparing the groundwork will help discussions go more smoothly—and likely lead to a better financing outcome. O’Neill encourages business owners to review their own personal finances, especially the level of outstanding debt and credit score, as this affects their ability to take on a business loan. Discussing financing needs and long-term goals with the business’s accountant can help with tax planning, including demonstrating positive cash flow. “Accountants may suggest writing off every possible business expense for taxes, but this may hurt the business’s financial position when applying for a loan,” confides O’Neill.

Laura Clark, CEO of Opportunity Bank of Montana continues, “There are several good government programs for small businesses with reduced interest rate loans and grants. Further, local economic development organizations (EDOs) and community development finance institutions (CDFIs) offer free business advice and information on available government programs, lenders, and investors focused on small businesses in each area of Montana.” Opportunity Bank of Montana works with a broad range of government programs, EDOs, and CDFIs to help businesses access better financing terms. “CDFIs and EDOs play a huge role for economic development across the state,” confirms O’Neill. Finally, O’Neill recommends having good legal and tax counsel to help plan long-term financing and operational strategy.

<https://www.opportunitybank.com/>

The Five Cs of Credit

Lenders of all types analyze potential borrowers to determine the business's creditworthiness and the likelihood of the loan being repaid. The five Cs are usually at the core of a lender's decision matrix, and each lender may weigh each factor slightly differently. Many community banks, credit unions, loan funds, and community development finance institutions interviewed for this report emphasized that character remains their most important decision factor, as they know the local business and their families. Yet collateral is a close second factor, especially for banks interviewed.

- **Character:** overall creditworthiness of the business, which may be somewhat subjective, although some lenders have sophisticated credit scoring models that analyze hundreds of data points on each borrower. Character may include an analysis of the business's and/or business owner's credit score, credit report, and past borrowing and payment history.
- **Capacity or Cash flow:** the borrower's ability to repay. Typically the lender evaluates the business's income (and/or cash flow) and existing debt and other obligations. Often this analysis is combined into metrics such as, the debt-to-income ratio, or DTI ratio, total debt service (TDS) or debt service coverage (DSC). Some lenders may also look at the business's competitive advantage in their market, overall margins, and their ability to raise prices on goods and services, as needed. For commercial lenders, seeking to understand a borrower's sources of competitive advantage is also extremely important since this will impact the borrower's ability to maintain pricing power, margins, and cash flow.
- **Capital:** the business's available funds and overall financial strength. Capital includes the business's assets, such as owner's equity, retained earnings from earlier years of the business's operations, real estate, equipment, and other assets that could be sold, if needed, to keep the business afloat and eventually repay the loan. Capital may also include an analysis of the company's capital structure – including the proportion of funding from debt and equity. If a company is generally under-leveraged, then a lender is likely more willing to extend credit than if that company were already over-leveraged. In business loans, typically a down payment of 20 percent of the loan is required from the business owner. The lender may also request a personal guarantee from the business owner as another way to increase the likelihood of the loan being repaid.
- **Collateral:**
 - Many business loans in Montana are considered 'secured', meaning they require the borrower to pledge collateral such as real estate, vehicles, and/or equipment that could be seized by the lender and sold to repay the loan. The quality of collateral, including the type of asset, condition of the asset, and ability to sell the asset will influence the loan-to-value (LTV) of the collateral that a lender would calculate when determining the loan size.
 - Unsecured loans are not backed by any specific asset as collateral. Many businesses have a type of unsecured loan through their business credit card, which is a form of revolving credit loan.
- **Conditions:** Other characteristics such as the overall economy, the specific industry sector of the business, and use of the loan are included in conditions. For example, a lender may reduce the maximum limit on a business credit card if a recession is expected or if the business works in the agricultural during a drought year. Other conditions may include restricting the business from taking any other type of loan, buying real estate, selling major equipment, and/or expanding to a new location without renegotiating the loan.

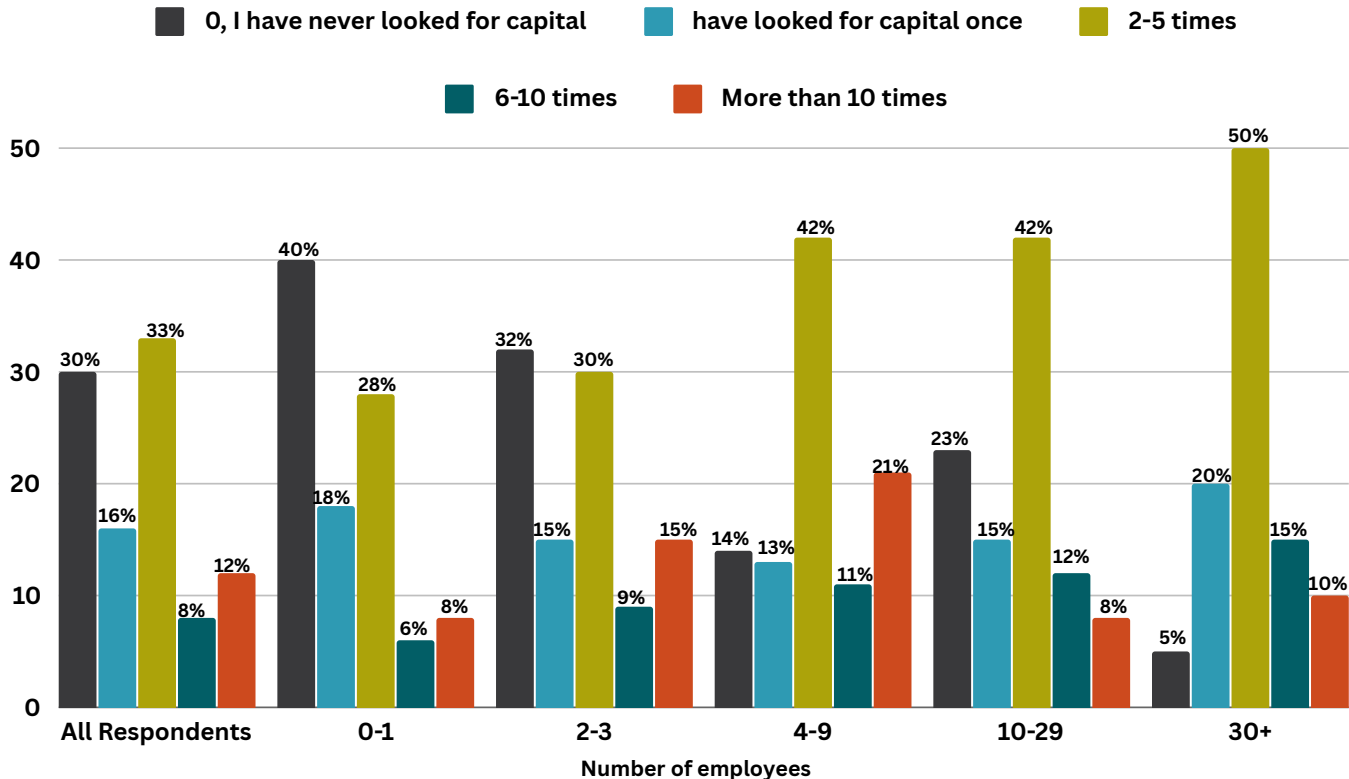
These five factors work together in a lender's credit risk framework, and weakness in one factor may be offset by strength in another factor. For example, a business with significant collateral may still qualify for a loan even if their credit score is below 700. In addition to determining whether to approve a loan, the five Cs are also used to decide on fees and interest rate, term of the loan, whether to seek risk partners for blended finance and secondary liens, and other terms of the loan.

Financing Profiles

Q21. How often have you looked for capital for this business or others?

One-third of all respondents (33%) looked for capital for the studied business between 2 and 5 times (see Figure 16). Another thirty percent of respondents (30%) have never looked for capital. About 16 percent of all respondents looked for capital once. The remaining 20 percent of respondents looked for capital 6 or more times. Readers should keep in mind that many businesses renew their line of credit annually, so this may be included by respondents as accessing capital.

Figure 16: Frequency of respondent seeking capital for the studied business



Respondents describing businesses with 30+ Montana employees most often reported seeking capital between 2 and 5 times. This contrasts with businesses with 1 or fewer employees, which most often (40%) reported never seeking capital, and with businesses with 2-3 employees, which also frequently reported never seeking capital (32%). There were no significant differences in the answers to Question 21 when examining responses by gender, race, urbanicity and location relative to a Montana reservation.

Declined for a Loan? Ask Why

Business owners that are declined for a loan should ask the lender to share their reasoning and lending criteria. Many lenders interviewed for this study confirmed that businesses can often address the issue and then qualify for a loan by providing more financial information, clarifying any issue on a credit report, confirming collateral, and/or finding a co-lender or risk partner such as a CDFI, revolving loan fund, or state or federal program. Each lender has its own criteria and appetite for business type, industry, years of operation, and level of risk, so it pays to check with various lenders to find the right fit for the business's needs.

Q22. (Only respondents who answered Yes to Question 19) Is this business your only source of personal income or do you, yourself, have any of the following sources of income or employment in addition to this business?

About 94 percent of all respondents (366 individuals) were eligible to answer Question 22. One-third of all respondents (33% or 132 individuals) said that they have other paid employment in addition to the studied business (see Table 28). Nearly as many respondents (32%) reported that the studied business is their only source of income. Twenty-six percent of respondents (26%) said that they do not take a salary from the studied business.

Table 28: Respondent sources of income

Income source	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Other paid employment	33%	38%	34%	27%	27%	10%
This business is my only source of income	32%	28%	33%	37%	38%	48%
I do not take a salary from this business	26%	29%	34%	20%	8%	5%
Rental income from my real estate	8%	4%	9%	7%	12%	33%
Retirement income	7%	7%	11%	7%	8%	0%
Investment income	6%	3%	7%	9%	12%	10%
Farm or ranch income	4%	4%	6%	5%	0%	5%
Own another business	1%	2%	0%	1%	0%	0%

Respondents describing businesses with 30+ Montana employees were less likely than other respondents (10%) to say they have other paid employment. In addition, respondents with 4+ Montana employees were more likely than other respondents (48%) to report that the studied business is their only source of income.

Know Your Source of Finance

“Not all sources of finance are the same, and each plays a specific role in the economy,” notes Dave Bayless, Co-Founder of Human Scale Business and an experienced investor, CFO, and business advisor. Each type of lender or investor has its own constraints, operating approach, and expectations of businesses. Funders can cover some of their risk through contracts, but fundamentally, the decision is based on trust and a relationship built over time with the business owner. Banks and credit unions manage savings and long-term deposits, provide liquidity, and cannot take large risks given their source of funds.

In contrast, Bayless explains, venture capitalists (VC) are constrained by the ten-year limited life of the typical fund partnership, so they are “anxious trying to raise capital, anxious to invest the funds, panicked to be repaid by businesses, and then panicked to raise their next fund.” Once a VC has raised a group of funds, they can be more patient. “But especially newer VC funds need to find businesses ready to take the funds, grow rapidly, and execute.” Between banks and VCs lie many other types of funders including specialized lenders like CDFIs and revolving loan funds, state and federal programs for small businesses, angel investors, and others.

<https://humanscalebusiness.org/>

Q22. Additional Demographic Analysis

There are demographic differences evident regarding having other sources of income in addition to their business (see Table 29).

Native American respondents (42%) and respondents located on a reservation (45%) were more likely than White respondents (32%) or respondents located off a reservation (30%) to report having paid employment other than the business reported on in this survey.

White respondents (10%) were more likely than Native American respondents (0%) to say they received interest income.

Table 29: Respondent sources of income by selected demographic characteristics

		Other paid employment	Investment income	I do not take a salary from this business
Gender	Male	28%	11%	28%
	Female	36%	3%	36%
	Nonbinary or third gender	67%	0%	67%
	Prefer not to say	14%	0%	14%
Race	White	32%	10%	32%
	Native American	42%	0%	42%
	Other	13%	0%	13%
	Didn't answer	25%	0%	25%
Urban or rural	Urban	34%	8%	31%
	Rural	31%	5%	34%
	Didn't answer	27%	0%	27%
On a MT reservation	Yes	45%	0%	33%
	No	30%	7%	24%
	Didn't answer	10%	0%	0%

Native American respondents (42%) and respondents located on a reservation (33%) were also more likely than White respondents (32%) or respondents located off a reservation (24%) to report they do not take a salary from the business reported on in this survey.

Smaller Lenders May Be Tapped Out and Missing Opportunities

At times, small banks and other lenders across the state have been ‘tapped out’ with no additional commercial lending approved by the bank’s board of directors, reports Al Jones. He served as the Regional Development Officer for ten counties in south-central region for the Montana Department of Commerce, launched the Billings SBA Small Business Development Center serving eleven counties, and ran the SBA’s SCORE advisory program covering part of Montana, Wyoming, and South Dakota.

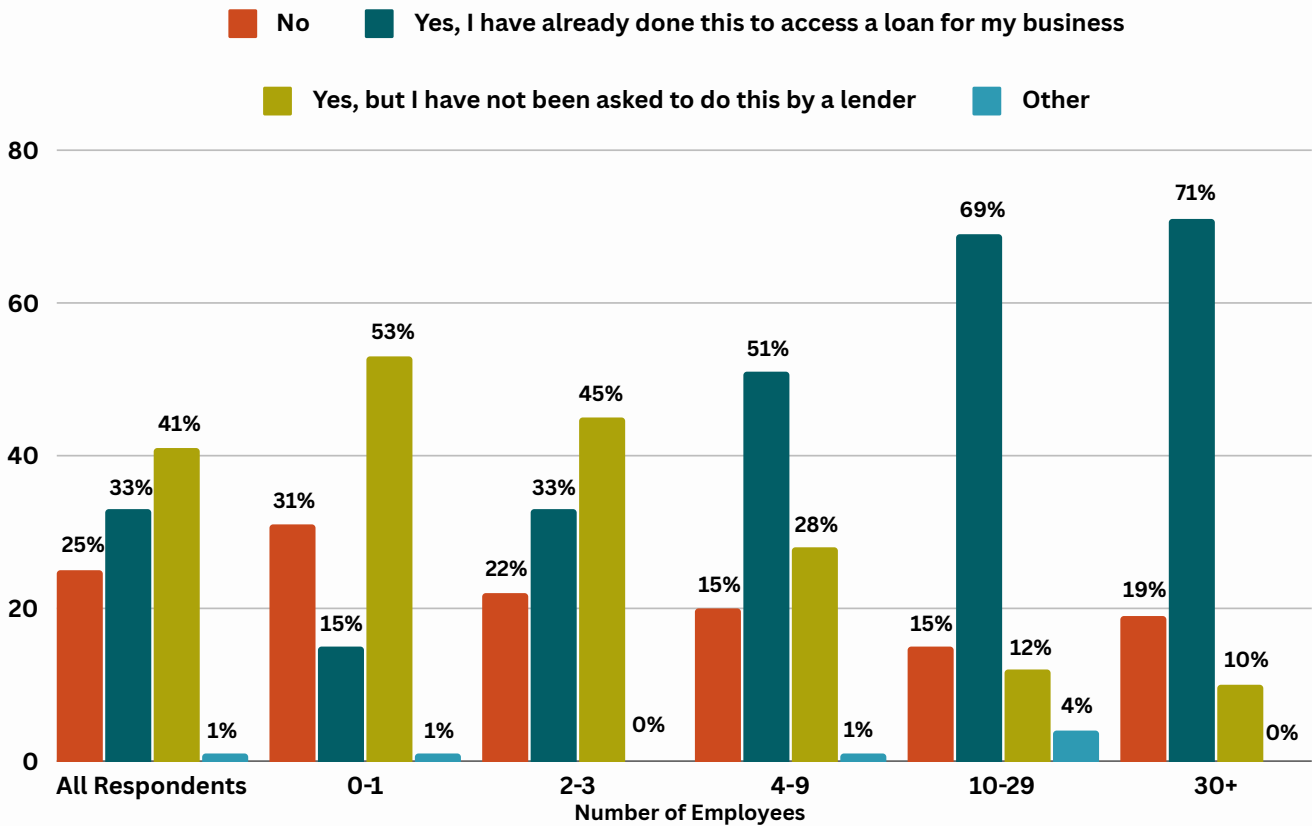
Especially for rural banks that lend relatively more for agricultural production, additional commercial lending may be challenging. Often smaller lenders have limited capital that is easily consumed by long-time borrowers like car dealers and large retailers in their communities. “It may not be the business or their financials—it may be that the bank has no available funds to lend,” Jones believes. In these cases, it pays to explore options with several lenders in the area. “Banks don't like to tell their community grapevine that they're out of money,” notes Jones. Yet banks could vastly increase their commercial lending with relatively little risk and low or no additional equity capital by using SBA-guaranteed loans, USDA Rural Development guaranteed loans, and the Montana Board of Investments program to purchase guaranteed loans.

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Q23. Would you, yourself, be willing to be personally liable and give your personal guarantee to secure funding for your business?

Only 25 percent of all respondents said that they are unwilling to incur personal liability to secure funding for their business (see Figure 17). Most respondents reported (41%) that they were willing to incur personal debt to secure business funding, but they had not been asked to do so by a lender. Another one-third of respondents (33%) said that they had already incurred personal liability to secure business funding.[2]

Figure 17: Willingness to incur personal liability to secure business funding



A majority of respondents describing a business with 4+ Montana employees said they had already incurred personal liability to secure business funding (51%, 69%, 71% respectively).

A lower proportion of respondents with 1 or fewer employees (15%) or with 2-3 employees (33%) reported already incurring personal liability to secure business funding.

[2] All Montana economic development agencies require personal guarantees for loans.



Photo courtesy of A2Z Staffing Solutions



Photo of Downtown Fort Benton, Montana

Sometimes Slower Loan Is Better

“Some of our business clients become over-indebted because it’s easier to use an existing credit card to make a big business purchase, even if it carries a very high interest rate, than to go through the process of applying for a business loan from a bank at a much lower interest rate,” notes Shayna Blaser, Director of Regional Economic Development at Prospera Business Network based in Bozeman. “We work with business owners to understand their operations, pricing, revenues, cash flow, and actual business bottlenecks, and often they don’t need to borrow as much as they initially thought.” Blaser cautions, “While other options are available for faster loans, especially through on-line lenders, some of those options are actually predatory lenders with extremely high interest rates.” Once a business already has a loan, it can be challenging to refinance the loan at a lower interest rate from more traditional lenders.

“Many lenders seek a one-to-one ratio of collateral equal to the amount of the loan, but if the business owner doesn’t have a car, has an older vehicle, or doesn’t own their own home, they likely won’t be able to qualify with many lenders,” notes Blaser. Some business owners may be able to have a family member co-sign their business loan as a guarantor, but this is not an option for many new and expanding businesses. For example, some agricultural families are “land rich but cash poor,” and lenders often shy away from using agricultural land as collateral, especially if they are in third or fourth position on the lien.

Currently, Blaser sees more business owners facing headwinds with the higher interest rate environment, where more business revenue is needed to repay loans. “Only about 34 percent of businesses requesting loans are currently being approved in our area,” notes Blaser, “largely because they are not convincing lenders with their cash flow, revenues, and overall business growth.”

Blaser advises business owners to develop a clear business plan for growth, ensure that their financial projections demonstrate how additional funds will be used alongside growing business revenue, and have a good accountant alongside to file taxes accurately and ensure clean business books. “Lenders need to see consistent business profits, especially for the two previous years before applying for a loan. So taking every tax deduction possible may be a legal way to minimize taxes, but if the business’s overall revenue is negative as a result, it may affect how lenders see the business’s viability for a loan.”

<https://prosperamt.org/>

Q23. Additional Demographic Analysis

A majority of Native American respondents (55%) and respondents located on a reservation (58%) reported that they are willing to incur personal liability to finance the studied business but they had not been asked to do so by a lender. Conversely, more White respondents (39%) and respondents located off a reservation (36%) reported that they have already been asked to incur personal liability than did Native American respondents (24%) or respondents located on a reservation (22%).

Table 30: Willingness to incur personal liability to finance business by selected demographic characteristics

		No	Yes, I have already done this to access a loan for my business	Yes, but I have not been asked to do this by a lender	Other
Gender	Male	23%	35%	42%	0%
	Female	25%	31%	42%	1%
	Nonbinary or third gender	100%	0%	0%	0%
	Prefer not to say	25%	58%	17%	0%
Race	White	25%	39%	36%	0%
	Native American	20%	24%	55%	1%
	Other	13%	13%	75%	0%
	Didn't answer	35%	27%	35%	2%
Urban or rural	Urban	25%	35%	41%	0%
	Rural	24%	32%	42%	2%
	Didn't answer	43%	14%	43%	0%
On a MT reservation	Yes	19%	22%	58%	1%
	No	26%	36%	38%	1%
	Didn't answer	100%	0%	0%	0%

An Expectation Gap?

“Some business owners attempt to secure late-stage funding at an early stage of their business, and this is a timing problem—or an expectation gap,” notes Al Jones. He served as the Regional Development Officer for ten counties in the south-central region for the Montana Department of Commerce and launched the Billings SBA Small Business Development Center serving eleven counties. Jones advises early-stage businesses to be realistic when seeking a loan or investment—and not expect terms and amounts that would be offered to a business with a 5-to-20-year successful track record.

Initially, businesses may only qualify for direct loans if they are co-signed or guaranteed by the management team, family, or friends. Then supplier credit terms are often the next type of loan available for businesses. To convince a lender, businesses need to build a foundation of profits, positive cash flow, staffing, expanding client base, improving profit margins, and growth plans. By focusing on growing sales through smart marketing and customer acquisition, businesses can position themselves for growth that will attract funders. “Bank loans are available much later in a business than most people assume,” argues Jones, “while venture capital or a public stock offering is extremely rare at any stage.” He continues, “Growing from profits works by far the best. Businesses with good profits draw capital --just as cash-starved businesses scare away capital.”

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Q24. (Only respondents who answered No to Question 23) What are the reason(s) that you would not be willing to be personally liable and give your personal guarantee to secure funding for your business?

About 25 percent of respondents (95 individuals) were eligible to respond to Question 24. The most commonly cited reason (8% of all respondents) for being unwilling to incur personal liability to secure business funding was the risk of loss or being unwilling to mix business and personal finances (see Table 31). The second most frequently mentioned reason (4% of all respondents) was that the respondent saw no need to incur personal liability to secure business financing. Respondents describing a business with 0-1 Montana employees (8% of all respondents) and those with 2-3 employees (12% of all respondents) were slightly more likely to cite the risk of loss than were respondents with 4-29 employees (7% and 4% respectively). There were no significant differences in the answers to this question when examining responses by gender, race, urbanicity or location relative to a reservation.

Table 31: Reason for unwillingness to incur personal liability to secure business financing

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Risk of loss or not wanting to mix with personal finances	8%	8%	12%	7%	4%	10%
No need	4%	5%	3%	4%	8%	0%
Want a slow start	1%	1%	1%	0%	0%	0%
Want profit first	1%	2%	0%	0%	0%	0%
Don't know	0.5%	1%	0%	0%	0%	0%
Not eligible for financing	0.2%	0%	1%	0%	0%	0%
Economic downturns	0.2%	1%	0%	0%	0%	0%

Helping Businesses Grow and Avoid Pitfalls

Economic development organizations such as the Montana Business Assistance Connection (MBAC) in Helena offer technical training, coaching, grants, loans, and referrals to banks to help small businesses improve and grow their operations, according to Chris Manos, Workforce Development Specialist with MBAC. He believes that in general, rural businesses face more risk and challenges than urban businesses, but they can have much higher community impact when they succeed and provide needed goods and services in their communities.

MBAC technical services help businesses start up, improve, expand, relocate or transition to new ownership. In his role, Manos tries to “advise new businesses to avoid making classic bad decisions and pitfalls” so they can minimize their risks, succeed, and access a broader range of business funding over time.

<https://www.mbac.biz/>

Long History of Angel Investors in Montana

Angel investors are often quiet, behind the scenes, and a closely guarded secret, according to Al Jones, who served as the Regional Development Officer for ten counties in south-central region for the Montana Department of Commerce and launched the Billings SBA Small Business Development Center serving eleven counties. Jones noted hundreds of examples of businesses financed through angel investors across the state to launch commercial buildings, franchise restaurants, motels, ski resorts such as Big Sky Resort and Red Lodge Mountain, Kampgrounds of America (KOA), Printing for Less.com, RightNow Technologies, and many others.

“Angel investing in Montana goes back to 1808 when Meriwether Lewis organized other expedition members and suppliers based in St. Louis into the Missouri Fur Company to develop fur trading posts near Three Forks and Custer in Montana and businesses in many other areas across the country,” Jones notes. Typically small groups of angel investors have been organized by commercial real estate agents, accountants, investment advisors, and others who are aware of businesses needing funds and people who have the means to invest in their local communities.

“Angel investors help startup businesses, fund ownership transfers to new owners, and save businesses in turnaround situations,” according to Jones. In the early 2000s, Jones helped mobilize funding to save Western Sugar’s factories in Montana, Colorado, Wyoming, and Nebraska. Working with angel investors, farmers, and factory workers, Jones and the consortium raised \$43 million to save six existing sugar beet factories. This investment helped retain hundreds of quality jobs, saved sugar processing facilities for 600 growers across the four states, and ensured ongoing tax revenue from the factories for each of the local communities. In Billings at the time, the sugar beet factory was the 10th largest taxpayer in the city. “It’s surprising how little leverage is actually needed to save a business,” notes Jones, “and it’s easier to fix a turnaround situation, if you get there early enough, than to start a new business from scratch.” Angel investing mobilizes patient capital from many investors, who could be employees, clients, suppliers, and others in the local community who want to see the business grow and thrive in their area.

<https://www.linkedin.com/in/al-jones-54647b4/>

Angel Investing: Social Circles

Angel investing is fundamentally social, reports Dave Bayless, Co-Founder of Human Scale Business and an experienced investor, CFO, and business advisor. “Early on I thought finance was about analysis and spreadsheets. Leverage buyouts are like that – and there are lots of areas where heavy analysis works well. But early-stage businesses do not have a lot of data you can analyze,” says Bayless. Angel investing for early-stage businesses is based on trust, and who can vouch for you in the circles of funders that are carefully cultivated over time. Angels can open the door to businesses with their own social currency. Often an angel will ask who else is investing in the project—and will be more inclined to invest if other investors include people whose judgment they respect. Cultivating these angel contacts is more challenging, Bayless notes, since “we are spread out over the large state of Montana.”

<https://humanscalebusiness.org/>

Q25. For this business, what are the overall major sources of capital as a percentage of your total business financing?

Forty-seven percent of respondents used cash flow from the operation as a major source of capital for business financing (see Table 32). Thirty-three percent of respondents used the owner's equity investment in the business as a major source of capital. The remaining 20 percent of all respondents used loans, grants, and equity from investors. The proportion of respondents reporting using grants as a source of capital may be higher than that found in the population as a whole because of the characteristics of the lists from which this survey was sampled. Another factor in the number of respondents reporting using grants may be the 2021 time period during the COVID-19 pandemic when federal and state grants were more readily available for businesses and households.

Table 32: Sources of capital

Capital source	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Cash flow from operation	47%	42%	49%	53%	57%	46%
Owner's equity investment in the business (owner's equity=cash or other assets put into the business by the owner)	33%	42%	32%	26%	14%	21%
Loan(s) from bank, credit union, credit cards, economic development organizations, CDFIs, online lenders, or other formal lending sources	8%	4%	8%	7%	19%	18%
Grants from state or federal programs, private foundations	5%	6%	6%	4%	5%	2%
Equity from private investments (silent partners, including friends or family)	2%	2%	3%	3%	1%	3%
Loan(s) from friends and family	2%	1%	3%	2%	1%	8%
Equity investments from angel investors, venture capital funds, crowd sourced equity, or other equity sources	1%	2%	0%	2%	0%	0%

Respondents answering the survey on behalf of businesses with 1 or fewer Montana employees (42%) were more likely to cite the owner's equity investment in the business as a major source of capital than were respondents with more employees. Respondents with 10+ employees were somewhat more likely than respondents with fewer employees to use loans from a bank or credit union, credit cards, etc.



Q25. Additional Demographic Analysis

Table 33 illustrates the differences between demographic groups found when examining the sources of capital used for the business studied. Native American respondents (39%) were more likely than White respondents (30%) using the owner's equity investment in the business. Urban respondents (53%) and respondents not located on a reservation (49%) were more likely than rural respondents (37%) or respondents located on a reservation (37%) to report using cash flow from operation of the business studied here.

Table 33: Sources of capital by selected demographic characteristics

		Owner's equity investment in the business (% of total financing)	Cash flow from operation (% of total financing)
Gender	Male	31%	47%
	Female	35%	47%
	Nonbinary or third gender	7%	86%
	Prefer not to say	25%	39%
Race	White	30%	49%
	Native American	39%	41%
	Other	40%	47%
	Didn't answer	39%	45%
Urban or rural	Urban	30%	53%
	Rural	38%	37%
	Didn't answer	22%	69%
On a MT reservation	Yes	39%	37%
	No	32%	49%
	Didn't answer	10%	80%



Q26. If you have debt for your business, how would you describe your ability to increase your borrowing?

Respondents most frequently (35%) said that they are consciously trying to reduce debt for the business, and do not routinely request or receive additional loans (see Table 34). An additional 26 percent said that they have not needed to borrow in the past few years but are confident in their ability to borrow more when needed. Nineteen percent of respondents said they are a new business just starting to establish a borrowing relationship with a lender. About 11 percent said they occasionally request and are granted additional loans or other debt when significant capital expenditures require funding.

Table 34: Perceived ability to increase borrowing

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
We are consciously trying to reduce debt for the business, and do not routinely request or receive additional loans	35%	37%	35%	36%	21%	35%
We have not needed to borrow in the past few years but are confident in our ability to borrow more when needed	26%	27%	27%	24%	25%	30%
We are a new business just starting to establish a borrowing relationship with a lender	19%	27%	25%	10%	0%	0%
We occasionally request and are granted additional loans or other debt when significant capital expenditures require funding	11%	3%	7%	15%	42%	20%
We have requested new loans or other debt in the past year but have not received approval	4%	5%	1%	5%	0%	5%
We routinely request and are granted additional loans or other debt as regularly needed to operate our business	3%	0%	3%	5%	8%	10%
We routinely or occasionally request additional loan or other debt but are not always approved for the loan or the amount we requested	3%	2%	3%	5%	4%	0%

Respondents answering on behalf of businesses with 4+ Montana employees were less likely (10%) than other respondents (0%) to say that they are a new business just starting to establish a borrowing relationship with a lender. Respondents with 10+ Montana employees were much more likely (42%) to say they occasionally are granted additional loans when significant capital expenditures are required than were other responding businesses (20%).

Examining the responses to Question 26 by other demographic characteristics shows that White respondents (15%) and respondents located off a reservation (13%) were more likely than Native American respondents (2%) or respondents located on a reservation (3%) to say they occasionally are granted additional loans when significant capital expenditures are required. There were no other significant differences in the answers to this question when examining responses by gender, race or urbanicity.

Q27. If your business needed additional new capital, which source would you approach first?

Twenty-six percent of all respondents said that if their business needed new capital, they would first approach state or regional banks headquartered in Montana or a neighboring state with multiple local branches across Montana (see Table 35[3]). Twenty percent of respondents (20%) reported that they would seek a grant from a state or federal program like SBA, USDA, Indian Equity Fund, etc. About 12 percent said they would use personal savings first.



Photo courtesy of Monica Hargis, Laundry Liberator

[3] Some respondents may not know the legal status of their lender, and some CDFIs, loan funds, and economic development organizations may have names similar to a bank.

Table 35: Preferred source of additional new capital

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
State or regional banks headquartered in Montana or neighboring state with multiple local branches across Montana	26%	15%	30%	32%	42%	65%
Grant from a State or Federal program like SBA, USDA, Indian Equity Fund, etc.	2%	23%	19%	22%	8%	5%
Personal savings	12%	19%	12%	5%	0%	0%
Credit unions	7%	9%	5%	7%	8%	5%
Private investors or venture capital	7%	4%	6%	13%	13%	0%
CDFIs, loan funds, or economic development organizations	5%	5%	6%	7%	0%	5%
Loan, grant or equity from a private foundation	4%	3%	5%	2%	13%	0%
Credit card issuer	4%	3%	5%	2%	13%	0%
National banks with local presence in Montana	4%	5%	4%	0%	5%	0%
Friends or family	3%	3%	2%	2%	4%	5%
Loan guarantee from a State or Federal program like SBA, USDA, Native American Collateral Support Program, BIA guarantee, etc	2%	2%	2%	3%	0%	0%
Crowd funding	2%	1%	2%	3%	0%	0%
Loan from a State or Federal government program like SBA, USDA, etc.	2%	1%	2%	3%	0%	5%
Supplier or vendor credit	1%	1%	0%	2%	0%	10%
Other	1%	3%	0%	0%	0%	0%
Online banks or financial technology companies with no local presence	0.3%	0%	1%	0%	0%	0%

Q27. Additional Demographic Analysis

There are demographic differences evident in reports about respondents' preferred source of additional capital for the business studied. Table 36 below presents these differences. White respondents (33%) and respondents not located on a reservation (31%) were more likely than Native American respondents (11%) and respondents located on a reservation (10%) to cite state or regional banks as their preferred source of additional capital. White respondents (9%) were also more likely than Native American respondents (0%) to say their preferred source of additional capital is a private investor. Native American respondents (12%) and respondents located on a reservation (14%) were more likely than White respondents (2%) or respondents located off a reservation (3%) to say that the source of additional capital they would seek first is a CDFI, loan fund, economic development organization, or a grant from a state or federal program. Rural respondents (30%) were more likely than urban respondents (13%) to say that the source of additional capital they would seek first is a grant from a state or federal program.

Table 36: Preferred source of additional new capital by selected demographic characteristics

		State or regional banks headquartered in Montana or neighboring state with multiple local branches across Montana	CDFIs, loan funds, or economic development organizations	Private investors or venture capital	Grant from a State or Federal program like SBA, USDA, Indian Equity Fund, etc.
Gender	Male	29%	6%	8%	18%
	Female	24%	5%	5%	21%
	Nonbinary or third gender	50%	0%	0%	0%
	Prefer not to say	38%	0%	25%	0%
Race	White	33%	2%	9%	13%
	Native American	11%	12%	0%	36%
	Other	13%	13%	0%	13%
	Didn't answer	30%	10%	10%	20%
Urban or rural	Urban	29%	2%	9%	13%
	Rural	21%	8%	4%	30%
	Didn't answer	50%	20%	0%	0%
On a MT reservation	Yes	10%	14%	0%	41%
	No	31%	3%	8%	14%
	Didn't answer	0%	0%	0%	0%

Small Business Community Finance: Scaling with Integrity

Calvert Impact, a global nonprofit investment firm that funds community development finance institutions (CDFIs) and other financial intermediaries in the US and internationally, reviewed the performance of state-led Recovery Funds launched during the COVID-19 pandemic. Federal funds made available to financial intermediaries were lent to small businesses across the country to help alleviate the negative economic effects of the pandemic. The federal funding contributed to the development of a quasi-secondary market for small business loans through multiple state-based loan participation funds known collectively as the 'Recovery Funds'.

Small businesses provide roughly half of private sector employment and are responsible for over 65 percent of the net new job creation in the US since 2000. Despite the prominence of these small businesses, it is difficult to obtain a small business loan in America. In fact, 2021 was the tightest credit environment for small businesses in the last five years, with only 31 percent of loan applicants receiving all the financing for which they applied. Even before the pandemic, the market gap for small business loans was an estimated \$87 billion.

The Recovery Funds have financed more than 5,500 small businesses, nearly 70 percent of them led by women or people of color, through nearly 40 community lenders across the country. Participating in the Recovery Funds allowed community lenders to exponentially increase their originations without needing to increase the size of their balance sheets at the same rate.

These efforts provide a roadmap for how to scale with integrity and remain true to the mission of the CDFI field. Calvert Impact made five recommendations for policymakers, banks, and investors to foster innovation and further market development in community finance:

1. Address the gap between real and perceived risk with smart subsidy: Philanthropic and public funding sources can help bridge this gap by providing credit enhancement for secondary market pools, including loan guarantees and subordinate capital to leverage private investment and bring down the cost of capital.
2. Invest in market infrastructure: Where possible, support centralized or regional functions for CDFIs - including shared services, marketplace platforms, customer acquisition strategies, etc. - that increase the capacity or efficiency of a broad range of community lenders.
3. Support data collection and analysis: Provide or allow funding for organizations to collect, standardize, and share transaction-level, lender-level, and market level data to encourage a broader and deeper understanding of the CDFI lending market.
4. Prioritize home-grown technology: The community finance industry - like the financial system overall - needs investments in technology across the customer lifecycle (marketplace and customer acquisition, application and decisioning, loan servicing, customer support, etc.) but many financial technology companies are not tailored to the needs of CDFIs or offer solutions at price points that are prohibitive for most lenders.
5. Leave no community behind: Some CDFI markets will need a higher level of subsidy than others due to the long-standing history of asset-stripping in under resourced communities.

Excerpted from: Small Business Finance: Scaling with Integrity.

<https://calvertimpact.org/resources/small-business-community-finance-scaling-with-integrity>.

<https://calvertimpact.org/>

For more on Calvert Impact, see: <https://calvertimpact.org/>

Q28. If the business had access to additional capital, what is the main way the business would use it?

Respondents most often reported (18%) that they would hire additional employees or contractors with new capital (see Table 37). A very similar proportion (17%) would purchase new vehicle(s) or equipment for the business. Slightly fewer (15%) would increase spending on marketing or sales or buy more inventory and/or raw materials (12%). Eleven percent of respondents would add new locations and/or relocate the business.

Table 37: Main use for new capital

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
Hire additional employees or contractors	18%	18%	17%	26%	9%	10%
Purchase new vehicle(s) or equipment for the business	17%	16%	20%	18%	13%	15%
Increase spending on marketing or sales	15%	18%	14%	11%	9%	10%
Buy more inventory and/or raw materials	12%	16%	14%	5%	4%	5%
Add new locations and/or relocate the business	11%	7%	7%	18%	30%	10%
Pay off existing business debt	9%	7%	11%	5%	13%	15%
Improve physical location(s) of business	7%	6%	5%	8%	9%	15%
Acquire new technology for operational efficiency (like automation)	6%	5%	2%	5%	13%	15%
Increase spending on research and development	3%	3%	6%	30%	0%	5%
Other	3%	3%	2%	3%	0%	0%

Businesses with 4-9 employees are most likely (26%) to say they would hire additional employees or contractors. Businesses with 0-3 employees are more likely than other businesses to say they would buy more inventory or raw material. Businesses with 4-29 employees are more likely than other businesses to say they would add new locations or relocate the business. Businesses with the most employees (30+) were more likely than businesses with 0-3 employees to say they would improve the physical location of the business. Businesses with 10+ employees were more likely than businesses with fewer employees (13% and 15% respectively) to say they would acquire new technology for operational efficiency.

Photo of Butte, Montana



Q28. Additional Demographic Analysis

Table 38 below examines Question 28 by other respondent characteristics showing some differences in the way different demographic groups would use additional business capital if it were available. Male respondents (28%) were more likely than female respondents (11%) to say they would purchase a new vehicle or equipment.

Table 38: Main use for new capital by selected demographic characteristics

		Buy more inventory and/or raw materials	Increase spending on marketing or sales	Purchase new vehicle(s) or equipment for the business
Gender	Male	12%	14%	28%
	Female	13%	16%	11%
	Nonbinary or third gender	0%	0%	0%
	Prefer not to say	0%	14%	0%
Race	White	10%	19%	15%
	Native American	20%	4%	25%
	Other	0%	25%	0%
	Didn't answer	0%	11%	22%
Urban or rural	Urban	9%	20%	13%
	Rural	16%	7%	23%
	Didn't answer	20%	20%	10%
On a MT reservation	Yes	20%	1%	25%
	No	10%	18%	15%
	Didn't answer	0%	0%	100%

Native American respondents and respondents located on a reservation were more likely than White respondents to report that they would buy more inventory or purchase a new vehicle or equipment. White respondents and respondents not located on a reservation were more likely than Native American respondents and respondents located on a reservation to say they would increase spending on marketing or sales. Similarly, urban respondents (20%) were more likely than rural respondents (7%) to say they would increase spending on marketing or sales. Rural respondents were more likely than urban respondents to say they would buy more inventory or purchase a new vehicle or equipment.

Photo of Downtown Bozeman, Montana



Survey Invitation

Q29. Where did you hear about this survey?

A majority of respondents (54%) reported that heard about the survey from BBER or Accelerate Montana (see Table 39). BBER received a list of 760 contacts from Accelerate Montana and contacted each of these businesses on behalf of Accelerate Montana. Please see the Survey Methods section of this report for more information. The project team asked allies to share the survey invitation with their business contacts. Twenty-three percent of respondents heard about the survey from an economic development agency. Table 40 shows other sources of invitations to take the survey.

Table 39: Source where respondent learned about the survey

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
From BBER or Accelerate Montana	54%	57%	52%	59%	42%	35%
From an economic development agency	23%	24%	19%	26%	25%	30%
Facebook	10%	9%	12%	5%	17%	15%
MTPTAC	3%	4%	2%	5%	0%	0%
MT Department of Commerce	3%	3%	4%	3%	4%	0%
From a lender	2%	1%	4%	0%	0%	5%
From an investor	1%	0%	2%	0%	0%	10%
Montana Manufacturing Extension Center	1%	0%	0%	0%	13%	5%

Table 40: List of other sources

Source	Count
Named individual	7
Montana state government	2
Montana state employee	2
Coworker	1
Email AMRII	1
Email sent to researcher client	1
Family	1
Friend	1
Island Mountain Development Group	1
LinkedIn	1
MT Shared Services Group	1
SBA	1
Online search	1
UM adjunct faculty	1
UM Women's Entrepreneurship Center	1
W.E.L.L.	1
Winery in MT	1
Zero to Five	1



Photo of Flathead Lake, Montana

Respondent Race and Origin

Q30. Are you of Hispanic, Latino or Spanish origin?

Table 41 below presents the Hispanic, Latino or Spanish origin of the respondents to this survey. About 4 percent of all respondents were of Hispanic, Latino or Spanish origin. Slightly more respondents (7%) reporting on businesses with 4-9 or 30 or more Montana employees were of Hispanic, Latino or Spanish origin than were other respondents.

Table 41: Hispanic, Latino or Spanish origin

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
No, not of Hispanic, Latino or Spanish origin	96%	98%	95%	92%	100%	90%
Yes, Mexican, Mexican American, Chicano	2%	1%	2%	2%	0%	5%
Yes, Puerto Rican	1%	0%	0%	2%	0%	5%
Yes, Cuban	0.3%	0%	1%	0%	0%	0%
Yes, another Hispanic, Latino or Spanish origin	1%	1%	1%	5%	0%	0%

Q31.Which race or races do you consider yourself to be?

Table 42 below presents the race or races of respondents. Sixty-three percent of respondents (63%) reported that they are White. Just under one-quarter of respondents (23%) said that they are Native American or an Alaska Native. The remaining 3 percent of respondents said that they are either Black or African American, Asian or Native Hawaiian or Pacific Islander.

Table 42: Race of respondent

	Total number of MT employees					
	All Respondents	0-1	2-3	4-9	10-29	30+
White	63%	58%	66%	63%	81%	76%
Black or African American	1%	1%	2%	0%	0%	5%
Native American or Alaska Native	23%	27%	27%	17%	8%	10%
Asian	1%	1%	0%	1%	4%	0%
Native Hawaiian or Pacific Islander	1%	1%	1%	1%	0%	0%
Other	0%	0%	0%	0%	0%	0%
Didn't answer	11%	13%	4%	17%	8%	10%

More respondents answering on behalf of businesses with 10 or more Montana employees said that they are White (81%) than did other respondents (76%).

The data presented here for Question 31 differ slightly than the data presented throughout this report for the Race demographic variable. The Race variable assigns one category to each respondent who answered Question 31, whereas the data in Table 42 present all of the responses to Question 31, including instances when respondents chose to categorize themselves as being of more than one race.

Recommendations

Based on the findings of this study, the following recommendations are offered as possible solutions to reinforce small business funders and expand responsible, effective financing for small businesses in Montana.

Market Gap 1 – Limited Time and Lean Staff in an Environment of Complex Programs and Financing Options: With a range of financial products and financial services providers for many small businesses, both funders and businesses may be unaware of available options, including potential co-funders and state and federal programs. Several lenders and investors expressed interest in co-funding small business deals, while some state and federal programs noted funds are available and not being fully used. This leads to inefficient program utilization and underutilization of available financing, as noted by a wide range of lenders, investors, and state and federal program staff.

Proposed Solutions:

1. Expand information and training for lenders and investors: Larger lenders and investors often have specialized staff to focus on arranging participation loans and syndications and/or state and federal programs for small business finance. Yet most report lean staffing, without the luxury of specialists in each branch office. Further, many funders may make only a few of these loans or investments each year, so it is often necessary to refresh knowledge of relevant programs for each application. Some programs lenders noted as critically helpful include the Montana Department of Commerce's SSBCI funding program and several Montana Board of Investments programs. Others include widely used programs such as the US Department of Agriculture's Rural Development Program and multiple U.S. Small Business Administration programs.

- Where feasible, state and federal agencies and economic development organizations can further streamline application and reporting requirements for lenders. However, these agencies have reporting requirements and are held accountable for the use of public funds and thus face a delicate balancing act to ensure fair, reasonable, and equitable application, contracting, and monitoring of funding.
- To help funders apply for and successfully deploy financing from available programs, easily accessible information is crucial, including business eligibility and decision criteria, geographic coverage, funding conditions, and available financing (loan guarantees, co-funding, credit enhancements, grants, etc.). Some programs also offer business development services, coaching, or other advisory for qualifying businesses and financial institutions.
- Especially for smaller lenders and/or infrequent users of these programs, many lenders noted the complexity of applying for and reporting to state and federal programs as a hurdle, though many programs offer briefing sessions and respond to phone or email queries. However, it may be necessary to expand online trainings, question & answer sessions, and email and/or phone links to experts on how to complete applications for economic development organizations and state and federal programs.

2. Expand awareness of training, technical assistance, and financing opportunities for small businesses:

Respondents for this second report on small businesses flagged access to finance as their main business challenge, followed by marketing, staffing, and location issues. When talking with lenders, however, there may be an expectations gap when business owners are not realistic about their prospects for funding, interest rates, and/or amounts or likely timing for a loan to be approved. Businesses contacted for this report requested help in knowing about available lenders and investors in their area, developing business plans and financial projections, right-sizing their financing needs, preparing loan applications, understanding financing terms and conditions, designing effective marketing, and other technical assistance needs.

- Several economic development organizations and business incubators across the state offer these types of training and technical assistance, and marketing these programs more broadly would help business owners be aware of these resources. The survey findings indicate that businesses rely on personal savings, retirement savings, and credit cards as their most significant source of financing. However, this is a risky and expensive strategy, and outreach efforts to small businesses could include awareness of the importance of establishing an early relationship with a lender and/or community development organization. Awareness raising could also include the importance of asking lenders to specify the reason(s) why they are not approved for a loan—and how to address those issues for future financing needs.
- A clearing house for small business financing in Montana would gather information on lenders and investors in one place that could be readily available online. Appendix C of this report is a step in this direction by listing lenders and investors active in Montana, and this could be expanded to include financing options, eligibility, terms, and conditions.
- Raising awareness of access to finance issues for small businesses in Montana would be effective during business events including chambers of commerce, state government events, industry association meetings, co-working spaces for small businesses, and other related events.

3. Deepen capacity of funders working at the community level: Many community-based lenders and economic development organizations work with limited staff and resources. Building their capacity—through skills-based training, creative use of mentorships, database of specialists, etc.—would reinforce loan portfolio management, risk management, asset-liability management, fundraising, and other operations.

4. Explore shared services for lenders and investors: Finance is a volume business with economies of scale, and making small loans or investments often requires similar staff time and costs as for much larger deals. This can lead to unintended consequences of funders shifting to work with larger businesses over time to mitigate costs. To help increase efficiencies, shared services across multiple organizations may be helpful. For example, small community lenders, loan funds, and/or CDFIs could hire and share staff, perhaps working remotely, for grant writing, fundraising, customer acquisition, marketing, regulatory reporting, and other back-office functions.

Market Gap 2 - Limited Liquidity for Onlending: Some lenders and investors noted they are overliquid and seeking more business clients. However, the majority of community-based lenders interviewed reported being starved for capital to onlend or relend to small businesses, and some investment funds are trying to raise additional capital. Smaller community banks, CDFIs, and economic development organizations with revolving loan funds are experiencing more demand for their services, perhaps as traditional bank lenders are being required to tighten their lending criteria. Many community-based lenders noted they are rationing funds and maintaining waiting lists for qualified business borrowers. Strategic public-private partnerships can leverage the expertise, geographic reach, funding, and skills of institutions in Montana to increase funding for small businesses.

Proposed Solutions:

1. Scale up existing successful programs: Several state and federal programs for small businesses have been successfully deployed in response to the COVID-19 pandemic, with many people praising how the Montana Department of Commerce managed the use of federal ARPA and SSBCI funds over the past three years. Several interviewed for this study also praised the Montana Board of Investment's programs including loan participations and the Intermediary Relending Program (IRP). However, many lenders have used their full allocation of these useful programs. As public and philanthropic funding allows, scaling up these programs may be an efficient way of leveraging the private sector to increase funding for small businesses across Montana. Studying the factors that worked well with these programs would provide a foundation of lessons for future programs on qualifying lenders, risk sharing, criteria for business loans, combinations of loans and grants, funding terms, and other factors.

2. Explore new linkages between public and private funding: Each type of funder can play a role across the broad spectrum of financing for business and economic development. As noted above, several state and federal funding programs are effectively deploying funding through community lenders and economic development organizations. In addition, many lenders, investors, and private foundations already work well together by referring clients, co-financing deals, providing onlending funds, providing credit enhancements such as loan guarantees and subordinate capital, and other collaborations. New models of funding are being explored across Montana through community-based lending and investing, private credit funds, cooperative investment funds, investment crowdsourcing, revenue-based lending, and others. This diversity of roles for funders, risk appetite, and funding terms for small businesses are welcome innovations and should be encouraged and supported.

3. Expand smart subsidies and policy incentives to help address real and perceived risks in small business finance: Montana businesses and funders benefit from several state and federal policy incentives, and it is critical to ensure that organizations are aware of the existing programs and how to use them effectively. Successful aspects of these programs and policies could be used to target strategic industries, underserved populations, and/or distressed or lower-income geographic areas of the state. During interviews and through survey responses, many Montana businesses were not aware of these business support programs. Targeted marketing, such as messaging on these programs when businesses complete their annual Montana registration, would be an effective way of raising awareness.

Examples of successful programs include:

- The Montana Board of Investments offers incentives for businesses that create or retain quality jobs by reducing their lending interest rate.
- The federal New Markets Tax Credit program offers tax incentives to attract private investment to distressed communities.
- The Community Reinvestment Act (CRA) encourages national banks, savings associations, and state-chartered banks to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Community lenders are proven leaders in reaching small businesses and working across urban, rural, and tribal areas, including populations and geographics that qualify for CRA credits. Some of the larger CDFIs in Montana are able to attract funds from larger regional and national banks that need to increase their exposure to CRA qualified loans. This approach could be expanded to other community lenders.

Next Steps

We hope this report on small businesses and the accompanying report on funders will serve as a catalyst to increase successful small business finance across the state, ultimately resulting in more resilient small businesses and greater economic development in Montana. Exploring these recommendations as well as pursuing others will take the insights of many in Montana's small businesses finance ecosystem. Accelerate Montana will continue to support this effort by gathering and disseminating needed data, convening ecosystem members, and exploring solutions to identified gaps.

Accelerate Montana has dedicated resources to lead a multi-year effort that will focus on:

1. Increasing financing for rural-based businesses, Native American-owned businesses and women-owned businesses across Montana
2. Supporting the growth of technical assistance for entrepreneurs state wide
3. Helping develop a skilled workforce prepared to be part of growing businesses.

We believe that all three of these efforts will improve the successful deployment of financing and foster inclusive economic prosperity for all Montanans. If you are interested in being part of this effort please contact us at Accelerate Montana. <https://www.acceleratemt.com/>



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Appendix A: People Contacted for this Study

Marcy Allen, Missoula Community Foundation
Patrick Barkey, Bureau of Business and Economic Research
Lad Barney, United States Department of Agriculture Montana, Business and Cooperative Programs
Kelcie Bates, Great Northern Development
Dave Bayless, Human Scale Business
Joel Bertolino, Beartooth Resource Conservation and Development
Diana Bigby, Island Mountain Development Group
Shayna Blaser, Prospera Business Network
Jim Brown, Montana Independent Bankers
Marcell Bruski, Big Sky Economic Development
Hikmet Budak, Montana BioAg
Scott Burke, First Security Bank of Montana
Lorena Carlson, Small Business Administration
Sarah Certel, NeuroField
Steve Clairmont, Mission West Community Development Partners
Laura Clark, Opportunity Bank of Montana
Andrew Connor, Center for Community Ownership
Andrew Conrad, University of Northern Iowa
Graham Conran, Frontier Angels
Brian Cooley, Stockman Bank
Mary Craigle, Montana Department of Commerce Census and Economic Information Center
Tony Crawford, University of Montana Finance Department
Brent Donnelly, U.S. Small Business Administration
Jenn Ewan, Sova PLLC
Grant Ferguson, Unsecured Funding Source - UFS
Ed Garding, Retired CEO of First Interstate Bank and former Dean of the MSU Billings Business School
Paul Gladen, Accelerate Montana
Dave Glaser, MoFi
Manny Goetz, HomeManager
Jenni Graff, Early Stage Montana
Jodi Heard, Reach Higher Montana
Christina Henderson, Montana High Tech Business Alliance
Doug Hill, State Loan Funds at Montana Board of Investments
Kiah Hochstetler, Good Works Ventures
Brett Howl, Opportunity Finance Network
Andrew Huff, Center for Indian Country Development, Federal Reserve Bank of Minneapolis
Shelby Humphreys, Missoula Social Media
Charlene Johnson, Plenty Doors Community Development
Al Jones, Business Development Specialist
Carolyn Jones, Department of Commerce
Jael Kampfe, Indigenous Impact Co.
Scott Kesler, AgWest Farm Credit

Appendix A Continued

Nan Knight, Beartooth Resource Conservation and Development
Herb Kulow, Banking Specialist
Krystal Langholz, Calvert Impact
Pat LaPointe, Frontier Angels
Nathan Lillegard, Lundquist College of Business, University of Oregon
Shaheen Lokhandwala, Entrepreneurship Initiatives, University of Arkansas
Megan Mackay, Interstate Healing and Recovery
Angie Main, NACDC Financial Services Inc.
Chris Manos, Montana Assistance Business Connection
Liz Marchi, Two Bear Capital
Dawn McGee, Good Works Ventures
Tracy McIntyre, Montana Cooperative Development
Tiffany Melby, Bear Paw Development Corporation
Mark Menke, Montana Business Assistance Connection
Chad Moore, Small Business Development Center State Director
Jeremy Morgret, Stockman Bank
Jennifer Mudd, CDFI Specialist
Rebecca Myers, Montana Economic Developers Association
Ryan Nunn, Assistant Vice President for Applied Research at Federal Reserve Bank of Minneapolis
Jenny Nygren, Wells Fargo
Matthew Olson, Montana Chamber of Commerce
Mark O'Neill, Opportunity Bank of Montana
Scott Osterman, Montana Department of Commerce
Kenneth Poole, The Center for Regional Economic Competitiveness
Mark Ranalli, BioSqueeze Inc.
Luke Robinson, State of Montana Indian Country Programs, Montana Department of Commerce
Katie Rollyson, Wells Fargo
David Rook, Clearwater Credit Union
Joel Rosenberg, Three Rivers Bank
Mary Rutherford, Montana Community Foundation
Jade Shipman, Jade Shipman Economics
Sharon Small, People's Partner for Community Development
Adrienne Smith, Opportunity Finance Network
Candace Strauss, Montana Chamber of Commerce
Tom Swenson, Chairman and CEO of Bank of Montana
Christy Tatsey, Parallel Connections
Liane Taylor, Montana Department of Commerce
Jim Thaden, Mission West Community Development
Brett Theodos, The Urban Institute
Paul Tuss, Bear Paw Development Corporation
Maria Valandra, Clearwater Credit Union
James Wasem, Days at Donrovin
Javon Wing, Inspired Life Coaching
MEDA Revolving Loan Fund Working Group
Women's Entrepreneurship and Leadership Lab, Board Members

Appendix B: People Interviewed for this Study

The following people agreed to be interviewed for the qualitative study, and this formed the basis of many quotes, text boxes, and other materials included in this report:

Lad Barney - USDA Montana, Business and Cooperative Programs
Jeff Batton - Homestake Fund
Dave Bayless - Founder of Human Scale Business
Joel Bertolino - Beartooth Resource Conservation and Development
Shayna Blaser - Prospera Business Network
Hikmit Budak - Montana BioAg
Scott Burke - First Security Bank
Sarah Certel - NeuroField
Steve Clairmont - Mission West Community Development Partners
Laura Clark - Opportunity Bank of Montana
Andrew Connor - Center for Community Ownership
Graham Conran - Frontier Angels
Brian Cooley - Stockman Bank
Les Craig - Next Frontier Capital
Grant Ferguson - Unsecured Funding Source - UFS
Ed Garding - Retired CEO of First Interstate Bank; former Dean of the MSU B Business School
Dave Glaser - MoFi
Manny Goetz - HomeManager
Leslie Graves - Pintler Billing Services
Jodi Heard - Reach Higher Montana
Doug Hill - State Loan Funds at Montana Board of Investments
Lorene Hintz - SBDC Regional Director, Big Sky Economic Development (BSED)
Kia Hochstetler - Good Works Ventures
Shelby Humphreys - Missoula Social Media
Al Jones - Economic Development Specialist
Scott Kesler - AgWest Farm Credit
Nan Knight - Beartooth Resource Conservation and Development
Herb Kulow - Banking Specialist
Pat LaPointe - Frontier Angels
Megan MacKay - Innerstate Healing and Recovery
Angie Main - Native American Community Development Corporation (NACDC)
Chris Manos - Montana Business Assistance Connection (MBAC)
Liz Marchi - Two Bear Capital
Dawn McGee - Good Works Ventures
Tracy McIntyre - Montana Cooperative Development
Mark Menke - Montana Business Assistance Connection
Mark O'Neill - Opportunity Bank of Montana

Appendix B Continued

Mark Ranalli - Biosqueeze

David Rook - Clearwater Credit Union

Joel Rosenberg - Three Rivers Bank

Mary Rutherford - Montana Community Foundation

Sharon Small - People's Partner For Community Development, Morning Star Credit Union

Tom Swenson - Bank of Montana

Christy Tatsey - Parallel Connections

Liane Taylor - Montana Department of Commerce

Paul Tuss - Bear Paw Development Corporation

Maria Valandra - Clearwater Credit Union

Kayla Vokral - SBDC Business Advisor, Big Sky Economic Development (BSED)

James Wasem - Days at Dunrovin

Javon Wing - Inspired Life Coaching

Appendix C: List of Small Business Funders Based in Montana

Banks Headquartered in Montana
American Bank Montana
Ascent Bank
Bank of Bozeman
Bank of Bridger
Bank of Montana
Bank of the Rockies
Belt Valley Bank
Bravera Bank Billings
Citizens Bank and Trust Company
Eagle Bank
Farmers State Bank
First Citizens Bank of Butte
First Interstate Bank
First Montana Bank
First Security Bank
First Security Bank of Deer Lodge
First Security Bank of Roundup
First State Bank of Forsyth
Freedom Bank
Garfield County Bank
Glacier Bank
Granite Mountain Bank
Independence Bank
Little Horn State Bank
Madison Valley Bank
Mahnattan Bank
Northwest Farm Credit Services
Opportunity Bank of Montana
Peoples Bank of Deer Lodge
Rocky Mountain Bank
Stockman Bank
The Bank of Baker
The Bank of Commerce
The First State Bank of Malta
The First State Bank of Shelby
Three Rivers Bank of Montana
TrailWest Bank
Unity Bank
Valley Bank of Kalispell
Valley Bank of Ronan
Western Security Bank
Yellowstone Bank

Credit Unions Providing Small Business Lending
Altana Credit Union
Clearwater Credit Union (also CDFI)
Intrepid Credit Union
Montana Credit Union
Ravalli County Federal Credit Union
Rocky Mountain Credit Union
Southwest Montana Community Federal Credit Union
Whitefish Credit Union
Wolf Point Federal Credit Union

Certified Development Financial Institution (CDFI) Providing Small Business Lending
Butte Local Development Corporation
Great Falls Development Alliance (GFDA)
Mission West Community Development Partners
MoFi
Native American Community Development Corp. (NACDC)
Native Amerian Development Corporation
People's Partners for Community Development

Federal Grant/Loan Programs
Farm Service Agency of USDA
US Small Business Administration
US Department of Agriculture

State Grant/Loan Programs (See Appendix D)
Montana Department of Labor
Montana Department of Commerce
Montana Board of Investments
Montana Finance Facility Authority

Investment Crowd Funding
Crowdfund Montana

Private Investment Funds
Delight and Riot LLC
Frontier Angles
Goodworks Ventures
Homestake
Next Frontier Capital
Two Bear Capital

Economic Development Organizations Providing Loans
Bear Paw Development Corporation
Beartooth RC&D
Big Sky Economic Development
Eastern Plains Economic Development Corp.
Great Northern Development
Headwaters RC&D
High Plains Financial in Great Falls
Mission West Development Partners
Missoula Economic Partnership
Montana Business Assistance Corp.
Montana West Economic Development
Prospera Business Network
Snowy Mountain Development Corp.
Southeastern MT Development Corp.
Sweet Grass Development

Specialized Lenders
Unsecured Funding Source (UFS)
Juniper Capital

Appendix D: State of Montana Funding Programs for Small Business

Montana Department of Commerce Financing and Grants:

<https://business.mt.gov/>

Montana Growth Fund (formally Big Sky Economic Development Trust Fund):

Loan participation, loans and grants for business

Big Sky Film Grant:

Grant opportunities for businesses targeting the B2C market developing eligible production within Montana.

Commercial Property Assessed Clean Energy (C-PACE):

A tool that can finance energy efficiency and renewable energy improvements on commercial property.

Community Development Block Grant:

Fixed-rate financing available at low interest rates, and can offer payment deferrals, lower payments in the first year, and interest-only payments. For businesses targeting the B2C market developing eligible production within Montana.

Export Montana, Trade Show Assistance:

Provides up to \$3,000 to help with out-of-state and international expansion by exhibiting at trade shows.

Growth through Ag Program:

Grant and loan to promote agriculture diversification, can be used for equipment, construction and promotion.

Indian Country Programs:

- Tribal Business Development Grant (new)
- Indian Equity Fund Small Business Grant
- Tribal Tourism Grant
- Native American Collateral Support Program

Microbusiness Financing Program:

Program for businesses with less than 10 full-time employees and less than \$1M in revenues seeking up to \$100,000 in financing.

Private Activity Bonds:

Enables qualified borrowers to access tax-exempt capital markets at investment grade interest rates providing terms up to 20 years.

Montana Board of Investments:

Partnering with Montana banks and EDOs, the Board has designed a series of loan programs that can be tailored to meet unique needs. These programs can enable access to lower, fixed-rate financing with customized loan terms. Job creation projects can further reduce interest rates up to 2.5%.

Montana SBIR/STTR Matching Funds:

For eligible companies working on a project for a federal agency, Montana offers up to \$60,000 matching grant funds for Phase I and Phase II.

Montana State Small Business Credit Initiative (SSBCI):

Dynamic loan participation program through qualified Certified Development Financial Institutions (CDFI) and Revolving Loan Funds (RLF).

Department of Labor Job Training Subsidies:

Contact: <https://dli.mt.gov/>

AccelerateMT:

Custom innovative workforce training and upskilling program which aligns the goals of the business in partnership with leaders in academics, business and government.

Trade Education Employer Tax Credit:

Creates a flexible non-refundable employer tax credit for employer-paid trade education up to \$2,000/per employee with a \$25,000 cap per employer.

Montana Apprenticeship Tax Credit:

State tax credit to launch a new or expand a current training program. May provide up to \$1,500 for each new apprentice with special consideration given for veterans.

Primary Workforce Training Grant:

Funds to businesses for training new and existing full-time employees with a maximum grant of \$5,000 for each full-time employee and \$2,500 for each part-time employee. Additional \$500 incentive available for five eligible hiring classifications.

Appendix E : Questionnaire for Quantitative Survey of Businesses

Q1 Have you started a business or non-profit or tried to start a business or non-profit in Montana? Please click one button (X) below.

- ☐ Yes (1)
- ☐ No (2)

Q2 Have you, on behalf of your business, ever used any of the following financial services for your business's financing needs? click each button (X) next to the financial service(s) you have ever used for your business?

- ☐ My business has NO ACCESS to any of the financial product or services listed in this question (1)
- ☐ Business checking account (2)
- ☐ Business savings account (3)
- ☐ Business credit card (4)
- ☐ Business loan(5)
- ☐ Business investment (6)

Other financial product or service for the business (please enter the type of financial product or service in the box below) (7)

Q3 Why does the business currently have no checking account, savings account, credit card, other loan, or external investment? Please click each button (X) that applies.

- ☐ The business is self-funded - not using external debt or equity (1)
- ☐ There is no bank, investment fund, or other funding source in my geographic area (2)
- ☐ I don't know who to approach or contact (3)
- ☐ The loan or investment application was too complicated (4)
- ☐ The application was not approved or credit was not offered (5)
- ☐ The loan or equity investment proposed for my business was too expensive - high interest rate, high return requested for equity, etc. (6)
- ☐ The business does not have a business plan or financial projection (7)
- ☐ The business won't qualify for loan or investment. Please describe why that is.(8)

Other - please enter in the box below (9)

Q4 Why was the credit not extended and/or loan application not approved? Please click each button (X) that applies below.

- ☐ Business needs more experience, years in operation (1)
- ☐ Business needs more collateral (collateral=something that can be used as payment for the loan if payments aren't able to be made) (2)
- ☐ Owner's equity in the business is too low and/or business needs more equity (Owner's equity=cash or other assets put into the business by the owner) (3)
- ☐ Business owner's personal credit score was too low (4)
- ☐ Business owner was unable to give a personal guarantee for the business loan (personal guarantee=a agreement with a lender that, as the business owner or loan signee, you are responsible for paying back a loan if the business is unable to make payments) (5)
- ☐ Business profits are too limited (6)
- ☐ Business cash-flow was insufficient (7)
- ☐ Business working capital was insufficient (capital= money to fund day-to-day operations, future growth, or purchase of equipment) (8)
- ☐ Business trends (growth, revenues, profits, etc.) are not improving year on year (9)
- ☐ Business plan and/or financial projections are unrealistic (10)
- ☐ Insufficient information was provided to process the application (11)
- ☐ The business's debt service coverage was too low (12)
- ☐ Other, please explain (13) _____

Q5 FOR THIS BUSINESS, did you use any of the following sources of funds to START the business? Please click (X) each source used below.

- ☐ Personal savings and/or personal retirement account (1)
- ☐ Personal credit card(s) (2)
- ☐ Business credit card(s) (3)
- ☐ Credit from your suppliers (4)
- ☐ Loan(s) from friends or family (5)
- ☐ Investment from friends or family (6)
- ☐ Secured business loan from a physical bank, credit union, etc. guaranteed by business collateral (for ex. equipment, vehicle, or real estate collateral) (7)
- ☐ Business loan from a physical bank, credit union, etc. guaranteed by your personal collateral (such as your personal home) (8)
- ☐ Revolving line of credit from a physical bank, credit union, etc. with no collateral guarantee (9)
- ☐ Business loan from an online bank or other online lender (10)
- ☐ Loan from an economic development organization or CDFI (11)
- ☐ Grant from State or Federal program like SBA, USDA, Indian Equity Fund, or other (12)
- ☐ Loan from a State or Federal program like SBA, USDA, Indian Equity Fund, or other (13)
- ☐ Loan guarantee from State or Federal program like SBA, USDA, Indian Equity Fund, Bureau of Indian Affairs, or other (14)
- ☐ Investment from angel investor, venture capital fund, or other private equity investors(15)
- ☐ Loan, grant, or equity from private foundation (16)
- ☐ Online crowd funding (17)
- ☐ Other (please specify) (18) _____

Q6 FOR THIS BUSINESS, did you use any of the following sources of funds to GROW OR EXPAND the business? Please click (X) each source used below.

- ☐ Personal savings and/or personal retirement account (1)
- ☐ Personal credit card(s) (2)
- ☐ Business credit card(s) (3)
- ☐ Credit from your suppliers (4)
- ☐ Loan(s) from friends or family (5)
- ☐ Investment from friends or family (6)
- ☐ Secured business loan from a physical bank, credit union, etc. guaranteed by business collateral (for ex. equipment, vehicle, or real estate collateral) (7)
- ☐ Business loan from a physical bank, credit union, etc. guaranteed by your personal collateral (such as your personal home) (8)
- ☐ Revolving line of credit from a physical bank, credit union, etc. with no collateral guarantee (9)
- ☐ Business loan from an online bank or other online lender (10)
- ☐ Economic development organization or CDFI (11)
- ☐ Grant from State or Federal program like SBA, USDA, Indian Equity Fund, or other (12)
- ☐ Loan from a State or Federal program like SBA, USDA, Indian Equity Fund, or other (13)
- ☐ Loan guarantee from State or Federal program like SBA, USDA, Indian Equity Fund, Bureau of Indian Affairs, or other (14)
- ☐ Investment from angel investor, venture capital fund, or other private equity investors(15)
- ☐ Loan, grant, or equity from private foundation (16)
- ☐ Online crowd funding (17)
- Other (please specify) (18)

Q7 What would have been helpful to you when you were trying to raise money to start or grow your business?

(1) _____

Q8 How long has your business been in operation?

Number of years in operation (1) _____

Q9 What is your gender? Please click one button (X) below.

- ☐ Male (1)
- ☐ Female (2)
- ☐ Non-binary / third gender (3)
- ☐ Prefer not to say (4)

Q10 In what zip code is the main address of your business located?

o Zip code (1) _____

Q11 Did you operate this business before living in Montana? Please click one button (X) below.

- ☐ Yes, Please specify which state(s) you lived in(1) _____
- ☐ No (2)

Q12 How would you compare your ability to raise loans, equity, or other capital in Montana compared with your experience in other states? (capital= money to fund day-to-day operations, future growth, or purchase of equipment) Please click one button (X) below.

- ☐ Easier to raise capital in Montana (1)
- ☐ Same as my experience in other states (2)
- ☐ More difficult to raise capital in Montana(3)
- ☐ Not applicable/don't know (4)

Q13 What is your business's main product or service? _____

Q14 Overall, FOR THIS business, what is the business's biggest challenge? Please click each button (X) that applies below.

- ☐ Access to capital (capital= money to fund day-to-day operations, future growth, or purchase of equipment) (1)
- ☐ Marketing and growing the customer base (2)
- ☐ Hiring/retaining staff and/or worker quality (3)
- ☐ Availability and cost of location(s) for my business (to buy or rent) (4)
- ☐ Regulations(5)
- ☐ Supply chain issues (6)
- ☐ Other (please specify) (7) _____

Q15 If your business is registered or licensed with a local, state, or tribal agency, what best describes the type of business it is registered as? Please click one button (X) below.

- ☐ Not registered or licensed with a local, state, or tribal agency (1)
- ☐ Sole proprietor (2)
- ☐ LLC (3)
- ☐ LLP (4)
- ☐ S-corporation (5)
- ☐ C-corporation (6)
- ☐ Cooperative (7)
- ☐ Non-profit (8)
- Other (please specify) (9) _____

Q16 How many full-time and part-time employees does your company have total including all states and countries? If self-employed, indicate one employee. Your best guess is OK.

- o Total number of full-time employees (1) _____
- o Total number of part-time employees (4) _____

Q17 How many full-time and part-time employees does your company have in Montana? Your best guess is OK.

- o Number of Montana full-time employees (1) _____
- o Number of Montana part-time employees (4) _____

Q18 For your business, what were the business's annual revenues in 2021? Your best guess is OK.

- o 2021 annual revenues (\$) (1) _____

Q19 Are you the business owner or co-owner? Please click one button (X) below.

- o Yes (1)
- o No (2)

Q20 Is this the first business you have owned? Please click one button (X) below.

- o Yes (1)
- o No (2)

Q21 How often have you looked for capital for this business or others? Please click one button (X) below.

- o 0, I have never looked for capital (1)
- o 1, I have looked for capital once (2)
- o 2-5 times (3)
- o 6-10 times (4)
- o more than 10 times (5)

Q22 Is this business your only source of personal income or do you, yourself, have any of the following sources of income or employment in addition to this business? Please click (X) on all that apply.

- ☐ This business is my only source of income (1)
- ☐ I do not take a salary from this business (2)
- ☐ Other paid employment (3)
- ☐ Retirement income (4)
- ☐ Rental income from my real estate (5)
- ☐ Investment income (6)
- ☐ Farm or ranch income (7)
- ☐ Other (please specify) (8) _____

Q23 Would you, yourself, be willing to be personally liable and give your personal guarantee to secure funding for your business? (personal guarantee=a agreement with a lender that, as the business owner or loan signee, you are responsible for paying back a loan if the business is unable to make payments) Please click one button (X) below.

- o No (1)
- o Yes, I have already done this to access a loan for my business (2)
- o Yes, but I have not been asked to do this by a lender (3)
- Other (please specify) (4) _____

Q24 What would be the reason(s) that you would not be willing to be personally liable and give your personal guarantee to secure funding for your business?

Q25 For this business, what are the overall major sources of capital as a percentage of your total business financing? (capital= money to fund day-to-day operations, future growth, or purchase of equipment) Your best guess is OK. Please give percentages below--- should add to 100%.

Owner's equity investment in the business (owner's equity=cash or other assets put into the business by the owner) : _____ (1)

Cash-flow from operation : _____ (2)

Loan(s) from friends and family : _____ (3)

Loan(s) from bank, credit union, credit cards, economic development organizations, CDFIs, online lenders, or other formal lending sources : _____ (4)

Equity from private investors (silent partners, including friends and family) : _____ (5)

Equity investments from angel investors, venture capital funds, crowd-sources equity, or other equity sources. : _____ (6)

Grants from state or federal programs, private foundations, etc. : _____ (7)

Other (please specify : _____ (8)

Total : _____

Q26 If you have debt for your business, how would you describe your ability to increase your borrowing? Please click one button (X) below

We are consciously trying to reduce debt for the business, and do not routinely request or receive additional loans _____ (1)

We routinely request and are granted additional loans or other debt as regularly needed to operate our business _____ (2)

We occasionally request and are granted additional loans or other debt when significant capital expenditures require funding _____ (3)

We have not needed to borrow in the past few years but are confident in our ability to borrow more when needed _____ (4)

We routinely or occasionally request additional loan or other debt but are not always approved for the loan or the amount we requested _____ (5)

We have requested new loans or other debt in the past year but have not received approval _____ (6)

We are a new business just starting to establish a borrowing relationship with a lender _____ (7)

Q27 If your business needed additional new capital, which source would you approach first? (capital= money to fund day-to-day operations, future growth, or purchase of equipment) Please click one button (X) below.

☐ State or regional banks headquartered in Montana or neighboring state with multiple local branches across Montana (1)

☐ National banks with local presence in Montana (2)

☐ Online banks or fintechs with no local presence (3)

☐ Credit card issuer (4)

☐ Supplier or vendor credit (5)

☐ Credit unions (6)

☐ CDFIs, loan funds, or economic development organizations (7)

☐ Friends or family (8)

☐ Personal savings (9)

☐ Private investors or venture capital (10)

☐ Crowd funding (11)

☐ Loan, grant, or equity from a private foundation (12)

☐ Grant from a State or Federal program like SBA, USDA, Indian Equity Fund, etc. (13)

☐ Loan from a State or Federal government program like SBA, USDA, etc. (14)

☐ Loan guarantee from a State or Federal program like SBA, USDA, Native American Collateral Support Program, BIA guarantee, etc. (15)

☐ Other (please specify) (16) _____

Q28 If the business had access to additional capital, what is the main way the business would use it? (capital= money to fund day-to-day operations, future growth, or purchase of equipment) Please click one button (X) below.

- ☐ Buy more inventory and/or raw materials (1)
- ☐ Hire additional employees or contractors (2)
- ☐ Pay off existing business debt (3)
- ☐ Increase spending on marketing or sales (4)
- ☐ Increase spending on research and development (5)
- ☐ Add new locations and/or relocate the business(6)
- ☐ Acquire new technology for operational efficiency (like automation) (7)
- ☐ Improve physical location(s) of business (8)
- ☐ Purchase new vehicle(s) or equipment for the business(9)
- ☐ Other - please enter in the box below (10)

Q29 Where did you hear about this survey? Please click one button (X) below.

- ☐ From a lender (1)
- ☐ From an investor (2)
- ☐ From an economic development agency (3)
- ☐ From BBER or Accelerate Montana (4)
- ☐ From another source (please enter the name of the source below) (5)

Q30 Are you Hispanic, Latino or Spanish origin? Please click one button (X) below.

- ☐ No, not of Hispanic, Latino or Spanish origin(1)
- ☐ Yes, Mexican, Mexican American, Chicano (2)
- ☐ Yes, Puerto Rican (3)
- ☐ Yes, Cuban (4)

Yes, another Hispanic, Latino or Spanish origin - please print the origin below (5)

Q31 Which race or races do you consider yourself to be? Please click (X) one or more boxes below.

- ☐ White (1)
- ☐ Black or African American (2)
- ☐ American Indian or Alaska Native (3)
- ☐ Asian (4)
- ☐ Native Hawaiian or Pacific Islander (5)
- ☐ Other - enter race below (6)

End

By clicking on the "NEXT" button below, your survey responses will be submitted and you will be taken to a separate page where you can enter to win a gift certificate. Thank you for your input on this important research subject.

A complete presentation of the number of responses to each question in this survey by various demographic characteristics of respondents is available in a special annex **Number of Respondents Per Question** which can be found and downloaded here:

<https://7343987.fs1.hubspotusercontent-na1.net/hubfs/7343987/AMRII/AMRII%20Downloads/Number%20of%20Respondents%20per%20Question%20Data.pdf>