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ABSTRACT

This report discusses the findings of a research demonstration project conducted to test the entrepreneurship programming approach, in which dual program objectives are pursued with equal emphasis: (1) training objectives involving the employability development of out-of-school disadvantaged youth, and (2) enterprise objectives involving the development of self-sufficient small businesses. Under this Federally funded project, four organizations developed new small businesses where these dual objectives would be pursued. The businesses were a network of eight auto repair shops in California and Connecticut (Open Road/New Enterprises), a solar hot water heater installation business in Phoenix, Arizona (Sunsol), a restaurant in Philadelphia, Pennsylvania (Beginners Luck), and a novelty boutique store in New York City (Synergy II). Varying emphases were placed on the training components, which included hands-on training, classroom instruction, and employability counseling. Job placement assistance was provided at the conclusion of training. An evaluation of the project by Public/Private Ventures found that (1) enterprise training did not increase youths' employment prospects either at the end of the program or three or eight months later; and (2) the enterprises were not able to pursue, with equal emphasis, training and enterprise objectives. It was concluded that entrepreneurship programming in a new or fledgling small business is not cost effective or otherwise viable approach to the employment and training of disadvantaged youth. (CMG)

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YOUTH ENTREPRENEURSHIP:

TRAINING DISADVANTAGED YOUTH

IN SELF-SUFFICIENT SMALL BUSINESSES

A Project of
The Private Sector Initiatives Demonstratio
of Public/Private Ventures

Final Report
January 1983

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EXECUTIVE SUMMARY

This report discusses the findings of a research demonstration project to test the notion that the employment prospects of disadvantaged out-of-school youth could be improved by training them in new or fledgling small businesses that received subsidies for their own development. The Youth Entrepreneurship Initiative was part of a larger demonstration conducted by Public/Private Ventures (P/PV). This report is one in a series of final reports on private sector involvement in youth employment and training that P/PV has prepared for the U.S. Department of Labor.

THE INITIATIVE'S ENTERPRISES

For this initiative, the term "youth entrepreneurship" is a misnomer, as youth are not trained to be entrepreneurs. However, providing training to youth in a real business environment is one of the variants found in general models involving entrepreneurship programming. Specifically, this report discusses the entrepreneurship programming approach in which dual program objectives are pursued with equal emphases in small businesses: training objectives involving the employability development of disadvantaged young people and enterprise objectives involving the development of self-sufficient businesses.

Four organizations selected by P/PV developed new small businesses where these dual objectives would be pursued.

- The Citizen's Policy Center, Inc., a not-for-profit community development organization, established Open Road/New Enterprises, a network of eight auto repair shops located in California and Connecticut.
- Chicanos Por La Causa, Inc., a not-for-profit community development organization with experience in conducting youth training programs, developed Sunsol, a solar hot water heater installation business located in Phoenix, Arizona.
- The Restaurant School, a Pennsylvania licensed, for-profit school for restauranteurs, established Beginner's Luck, a restaurant located in Philadelphia.

- The Educational Alliance, Inc., a not-for-profit, social services agency, developed Synergy II, a novelty boutique store replicating an earlier and successful boutique, both located on New York City's lower west side.

All of these organizations were to establish their enterprises by attracting additional capital for development; by planning production and marketing strategies to sell their products and services; and by achieving self-sufficiency through realized business profits during the demonstration period.

Although training was provided to youth in all enterprises, varying emphases were placed on the training components. The auto repair enterprises in the Open Road/New Enterprises network concentrated on "hands-on" (on-the-job) work activities in which youths worked under the supervision of a journeyman mechanic. Few training hours were devoted to classroom instruction at Open Road/New Enterprises. At the other enterprises in this initiative -- Beginner's Luck, Sunsol, and Synergy II -- the training components emphasized hands-on work activities plus classroom instruction and employability counseling. All of the enterprises provided job placement assistance to youths at the conclusion of their training.

RESEARCH TASKS

The research focused on three major questions:

- Can training in entrepreneurship programs increase the employability of disadvantaged youth?
- Can enterprises operate with mixed training and business objectives?
- Are entrepreneurship programs cost-effective?

To answer the first question, data were collected by enterprise staff on participants' demographic characteristics, training background and employment experiences at the time of enrollment. Outcome data on participants were also compiled to provide indicators of the extent to which participants completed training and entered private sector jobs, schools or other training programs. Participants who were enrolled at Beginner's Luck, Synergy II and Sunsol were interviewed at three and eight months after their termination from the training programs to provide indications of program effects on the employability of participant youth.

The second question was answered by process and cost information that documented the development of businesses as

well as the tension between training and profitability goals. An analysis of the financial records of three enterprises - Beginner's Luck, Synergy II and Sunsol - was undertaken in order to answer this question.

The third question was addressed through a cost-effectiveness analysis in which enterprises were ranked according to their business profitability and training costs. Only Beginner's Luck, Synergy II and Sunsol were included in this cost-effectiveness analysis.

FINDINGS

The major findings on entrepreneurship programming as an employment and training strategy for out-of-school, disadvantaged youth were:

- Enterprise training did not increase the employment prospects of youth either at the time of termination from the program or at three or eight months after program participation.
- Enterprises were not able to pursue, with equal emphases, training and enterprise objectives.
- Enterpreneurship programming with the dual objectives of training and enterprise development is not cost effective from either a business or training perspective.

Specific employment and training findings were:

- Less than 60 percent of the participants completed their training. The majority of youths enrolled in youth entrepreneurship programs did not enter private sector jobs. At termination, only 33.7 percent of the youth in the initiative had unsubsidized jobs.
- While all enterprises demonstrated an ability to provide some skills training, they demonstrated poor performance in job development and job placement.
- Cost per placement ranged from $12,917 at Beginner's Luck to $21,233 at Sunsol.
- Youth employment after participation in youth entrepreneurship programs was characterized more as transient than stable.

Specific enterprise findings were:

- Enterprises encountered difficulties in establishing themselves as businesses. Most of the problems the enterprises experienced were characteristic of small businesses including insufficient capitalization for development, poor business planning for marketing products or services, vacancies and turnovers in key staff positions, and extraordinary overhead costs (due to training).

- Enterprises took the major portion of their sub-contract period to work through their start-up and general operation problems, and in the process incurred substantial business losses.

- Sharp conflicts between enterprise objectives and training objectives were evident at each enterprise for the duration of the initiative. The result of these unresolved conflicts was that neither of the two objectives were achieved.

- None of the enterprises were in a position to be self-sustaining at the conclusion of P/PV funding. All of the eight enterprises established in the Open Road/New Enterprises network were closed and/or sold to resolve debts incurred during their operation. Beginner's Luck, too, has ceased its operations. Both Sunsol and Synergy II made efforts to continue business operation, but will require substantial subsidies to do so.

POLICY IMPLICATIONS

P/PV's findings strongly suggest that entrepreneurship programming in a new or fledgling small business is not a viable approach to the employment and training of disadvantaged youth. When saddled with the dual and equally emphasized objectives of training and profitability, program outcomes were poor on both objectives. For training to succeed in a way consistent with enterprise survival and development, current models of entrepreneurship programming involving youth and small business should undergo significant modification before further attempts are made to conduct such programs.

CHAPTER I

INTRODUCTION

Since 1978 Public/Private Ventures (P/PV) has been conducting a multi-site demonstration for the U.S. Department of Labor's (DOL) Office of Youth Programs which assesses a variety of strategies for facilitating the private sector placement of out-of-school disadvantaged youth. Program models in this large demonstration include pre-employment services, temporary work experience, targeted skills training, subsidized work experience, incentives for small businesses and entrepreneurship. This report summarizes P/PV's findings on youth entrepreneurship.

DESCRIPTIONS OF THE YOUTH ENTERPRENEURSHIP DEMONSTRATION

Referred to as the Youth Entrepreneurship Initiative, this demonstration was conducted between 1978 and 1981 at eight sites across the country. The Youth Entrepreneurship Initiative had two goals: (1) to improve the employment prospects of out-of-school, disadvantaged youth and (2) to create or fund small businesses specifically designed for the employment and training of youth. The underlying assumptions of the inititive are (1) that creating or utilizing new or existing small businesses would provide a better, "more real" environment for training and (2) that developing economically viable businesses as vehicles for training could have long-run effects on youth's employability and might create new jobs.1/

To carry out the goals of the initiative, P/PV sought out organizations which could develop or had already developed a small business with employment and training functions integrated into the normal role of producing goods or services. Four organizations were selected:

- CITIZEN'S POLICY CENTER, INC., a not-for-profit community development organization which had already established Open Road/New Enterprises, a network of auto repair shops in California with plans to expand the network in both California and Connecticut

- CHICANOS POR LA CAUSA, INC., a not-for-profit community development corporation which would establish Sunsol, a business specializing in the fabrication and installation of solar-powered heating systems

- THE RESTAURANT SCHOOL, a for-profit school for restauranteurs which proposed to establish a fully functional restaurant - Beginner's Luck

- EDUCATIONAL ALLIANCE, INC., a not-for-profit social service agency which would replicate a retail operation (known as Synergy I) by establishing Synergy II, a novelty boutique store.2/

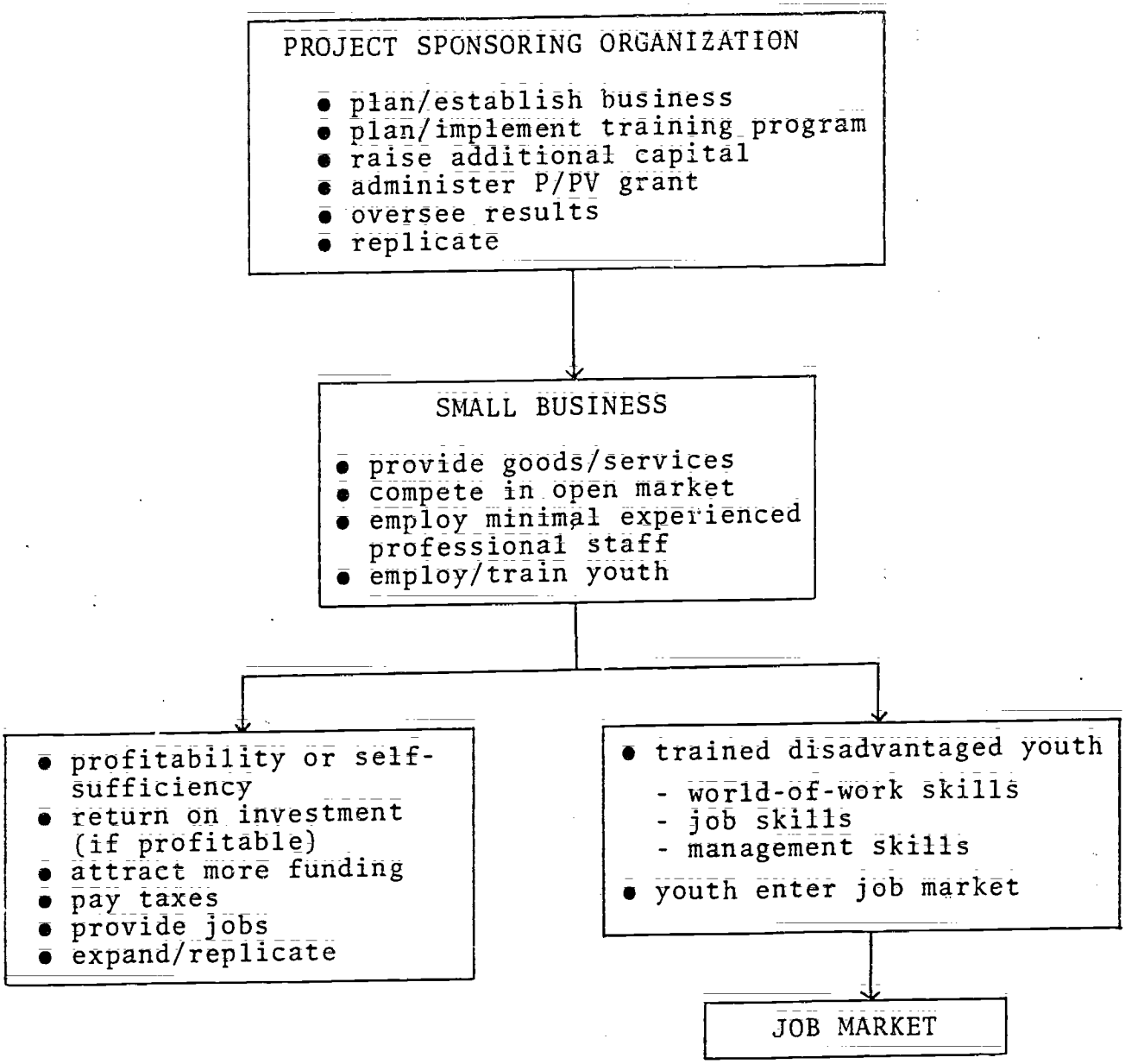
Each organization's business venture was partly capitalized through a one-time, eighteen month subcontract from P/PV to plan, start-up and operate each business. (Because of DOL's knowledge development requirements, some funding was also provided to cover administrative and research tasks for the demonstration.) In addition to the P/PV subcontract, each organization was required to seek other forms of capital, e.g., venture capital, and subsidies or grants, to operate the business during the subcontrct period and beyond.

Pursuant to the goals of the initiative, the objectives of each business were two-fold: (1) to train and place disadvantaged youth in unsubsidized jobs and (2) to develop a profitable business. (See Figure I-1.) The type and degree of training in each skill area could vary. While formal classroom-type training was instituted at Synergy II, Sunsol, and Beginner's Luck, on-the-job training was emphasized at Open Road/New Enterprises. All of these businesses were to offer development of management skills as part of the training for a limited number of youth. At the conclusion of training at the businesses, some youth who had demonstrated talent and drive were expected to become partners (in Open Road/New Enterprises); to become stockholders (in Sunsol and Synergy II); or to be retained as full-time operating or management staff (in Sunsol and Synergy II). However, the majority of the youth were expected to seek or be placed in unsubsidized jobs or to further their employability development outside of the business, e.g., through higher education or other vocational training.

Each enterprise was expected to exhibit conventional business behavior while providing training. Business plans were to be developed by enterprise staff which would chart a development path enabling the enterprise to penetrate its product/service market and to generate revenues through sales. While these were key elements in the business plans

FIGURE I-1

P/PV YOUTH ENTREPRENEURSHIP MODEL



and the production activities of the enterprises, the enterprises were expected to progress steadily toward self-sufficiency or profitability by the end of the P/PV subcontract period.

Although the Youth Entrepreneurship demonstration was different from many traditional training programs because of its dual goals of employability development and enterprise development, it drew on a specific set of past experiences. These experiences are discussed in the next section and are followed by a brief presentation on general models involving youth programming.

ANTECEDENTS OF THE MODEL

Much of what is known about youth entrepreneurship programming as an employment and training strategy is derived from two sets of program experiences: (1) in-school programs which involve youth in various entrepreneurial activities, and (2) training programs which have revenue-generating components.

In-school programs are exemplified by Junior Achievement. The goals and objectives of these programs are straightforward -- that is, to acquaint high school youth with the principles of the free enterprise system by establishing shortlived, youth-oriented businesses during the school year. The general features of in-school programs include entrepreneurial activities, such as development and sale of products or services; determination of salaries, commissions, and prices; resolving problems of taxes, regulations and bookkeeping; and even the liquidation of a business. Another feature of in-school programs is the involvement of local business persons who serve as advisors to the youngsters. There is no employment objective in these programs. Little is done at the conclusion of these in-school programs to encourage youth to maintain their business or to seek work.

The other set of program models which influenced youth entrepreneurship programming were programs designed to generate revenue to reduce training costs and to provide "real work" training. Because these programs served an unemployed, disadvantaged population -- unlike many in-school programs -- their goals and objectives are customarily associated with publicly-sponsored employment and training programs. The goals were two-fold: improving the employability of disadvantaged persons and generating sufficient revenues to offset training cost.3/

Among the best examples of this type are the revenue generation efforts in the National Supported Work Demonstration. This demonstration was conducted between 1975 and 1978 in thirteen cities. It focused on four disadvantaged groups: long-term AFDC recipients, ex-offenders, ex-addicts, and out-of-school youth.

Local operators were expected to raise a substantial share of the funds necessary to run the programs. One source of local funds was "service project revenue" which represented revenue earned from the sale of goods and services produced by supported workers. The basic features of Supported Work are described in an evaluation report, Setting Up Shop by Harvey D. Shapiro.

> By operating revenue-generating projects and selling goods, a Supported Work program could accomplish several things. It could, hopefully, generate significant sums to help pay for operating the program. Moreover, it could test the ability of this kind of program to become self-supporting after the demonstration period. But producing a product also had a programmatic purpose. Having to sell something in the marketplace would inject a note of realism to the program. Work would have to meet the standards of the customers, not just the program staff. While this might toughen the standards of the program, there was a belief that this would better equip the enrollees to handle regular employment. Moreover, if Supported Work gained a reputation for high standards, that could enhance employability of its participants.4/

The report goes on to point out that while revenue generation was an important demonstration objective and was crucial if project sites were to become self-supporting, less than 16 percent of the total demonstration cost ($59.1 million) was recouped through supported work activites. Additionally, none of the thirteen Supported Work sites could claim, without qualification, to be self-supporting at the conclusion of the Supported Work Demonstration.

Youth entrepreneurship programming, as suggested, has been shaped by two different sets of experiences with different goals and objectives. For in-school programs, the goal was to promote the principles of entrepreneurship among high school students by forming short-term, youth operated businesses. In the case of revenue generating programs, the goal was to improve the employment prospects of disadvantaged individuals by establishing partially self-supporting training programs. Whether or not these goals were compatible, two basic themes have emerged from these types of

programs: (1) youth can be exposed to entrepreneurial activites with some beneficial results; and (2) in the course of training, market-oriented revenue generation can take place with the potential for defraying the training cost if adequate management safeguards are taken.

From these two programming strategies, one can develop three types of entrepreneurship/training programs. As these three models are discussed in the next section, the place of P/PV's Youth Entrepreneurship training approach in this typology will be identified.

MODELS OF YOUTH ENTREPRENEURSHIP

The three models can be labelled the In-School Model, the Entrepeneurship Training Model and the Dual Objectives Model.5/ These models are distinguished by their goals, the type of entrepreneurship activities which occur in program operations, and outcomes expected from program participation.

The In-School Model was described earlier. Its goal is to expose youth to the workings of businesses. The basic features of this model are as follows: involvement of students in youth-operated businesses, revenue-producing activities, and involvement of the local business community as program advisors. In addition to Junior Achievement, programs characterized by the In-School Model include public school vocational training programs, such as automotive, and some construction classes where youth provide services to local residents for a small fee in order to gain more realistic work experience. Profitability is not an important objective for the programs exemplified by this model. Businesses are only established temporarily. It is expected, however, that the participating youth would develop an appreciation for professional skills, a strong work ethic, and self-confidence.

For programs characterized by the Entrepreneurship Training Model, the goals are identification and training of potential entrepreneurs. A few national programs exemplify this model: Venture Founders (Cambridge, Massachusetts) and The Hawaiian Entrepreneurship Training and Development Institute (Honolulu, Hawaii).6/ Several features highlight the Entrepreneurship Training Model. First, these programs serve an adult clientele, which reflects the findings from the literature that potential entrepreneurs are overwhelmingly an adult population who have had considerable work experience prior to going out on their own.7/ Second, these programs put prospective participants through a rigorous and intensive process of screening and selection. Third, once

potential entrepreneurs are selected, these participants undertake a concentrated series of learning-by-doing activities which simulate what an actual entrepreneur needs to do in order to establish a business -- market analysis, business planning, mobilization of capital, etc. Fourth, once the potential entrepreneurs have completed sound business plans, some of the programs will help them take the next step -- to obtain financing and set themselves up in business.

The final model for youth entrepreneurship programming is the Dual Objectives Model. Here emphasis is placed on both job training and business start-up as goals. The expected outcomes of programs in this model are viable, new or existing small businesses and the job placement of individuals trained in those businesses. The general features of the Dual Objectives Model can be found in various national demonstration programs funded under the Youth Employment and Demonstration Project Act (YEDPA) of 1977, including the P/PV Initiative.

Three variants of the Dual Objectives Model can be distinguished depending on whether enterprise objectives are superordinate, subordinate, or on a par with employment and training objectives. In one version of the Dual Objectives Model, the goal of establishing viable enterprises is utmost. This version allows for some programmatic variation. On the one hand, a business venture is established by adults who employ and train youth in all aspects of the enterprise--that is, production, sales, and management. Training is accomplished through a gradual transfer of knowledge from adult trainers to the youth at the enterprise site. This process is like traditional on-the-job training. Enterprises developed here, though invariably small businesses, tend to require significant front-end capitalization with the potential of providing significant numbers of unsubsidized jobs. Youth ownership is not a key feature here. However, youth can acquire stock in the existing enterprise or receive assistance in establishing a new venture. Youth enterprises which were developed by the Corporation of Youth Enterprises (CYE) demonstration are representative of this version of the Dual Objective Model in which the enterprise objective is primary. In the case of a supermarket in Baltimore (Maryland) and to a lesser degree, a landscaping and gardening venture in El Paso (Texas), enterprises were created in which adults retained management control. Both of these CYE ventures were established with an Employee Stock Ownership Plan.8/

Conversely, the enterprise-as-primary theme is also exemplified in entrepreneurship programs in which "business-like" risk is assumed by youth throughout the planning, development, and operation of the initial enterprise.

because of early involvement by the youth in the development of the enterprise, skills training oftentimes takes the form of trial and error. The ventures here are usually small. It is questionable whether job creation is significant or occurs at all; however, greater commitment to subsequent spin-off ventures is likely. Two national demonstrations characterize this approach -- The Junior Achievement Adaptation Demonstration Project (JAADP) and the Youth Agricultural Entrepreneurship Demonstration Project (YAEDP). In JAADP, small ventures were developed by youth: catering services, a silk screening business and a flower shop. Agriculture ventures were established by youth in YAEDP to market produce crops. In both demonstrations, youth underwent training before attempting to establish their ventures. While continually receiving technical assistance from the program staff, these ventures provided income through generated revenue to some of the youth operators.9/

A second version of the Dual Objectives Model is exemplified by projects established in the National Supported Work Demonstration. In this approach, enterprise objectives are subordinated to training objectives. The enterprises only serve to facilitate training, by providing a real working environment and to reduce the training costs. Participants served by programs following this version of the Dual Objective Model are expected to move into jobs after training.

A third Dual Objective Model approach features equal emphases on training and enterprise objectives. In this case the enterprise is viewed as a suitable vehicle to provide a "real work" environment for training disadvantaged youth. The expected participant outcome is job placement in unsubsidized employment. The expected enterprise outcome is a viable business that progresses toward profitability. The enterprises developed in the P/PV Initiative fit this last variant of the model.

From the model typology discussed above, it is clear that a variety of approaches exist involving entrepreneurship programming. However, it should be clear that this report can only assess one approach which was identified with the Dual Objectives Model--that is, entrepreneurship programming where equal emphases are on training and enterprise development.

RESEARCH PLAN TO THE P/PV INITIATIVE

This evaluation of the Youth Entrepreneurship Initiative focuses on three major questions:

- Can training in youth entrepreneurship programs increase the employability of disadvantaged youth?

- Can enterprises operate with mixed training and business objectives?

- Are entrepreneurship programs cost effective?

These questions are answered by reviewing quantitative and descriptive data on the four program enterprises--Open Road/New Enterprises, Beginner's Luck, Synergy II, and Sunsol. Chapter II discusses and assesses critical factors in the area of enterprise development and program training. The status of each enterprise (at the time of this report) is also provided. Chapter III reviews available data on the youth in the initiative. Here, enrollment and termination data are reviewed for the four program enterprises. Follow-up data are presented on Beginner's Luck, Synergy II and Sunsol; Open Road/New Enterprises was not included in the follow-up survey. Chapter IV considers the potential conflict between training functions and enterprise profitability at all the enterprises except Open Road/New Enterprises. Utilizing data from earlier chapters on enterprise profitability and participant outcomes, Chapter V provides a cost effectiveness analysis on three enterprises (Synergy II, Sunsol, and Beginner's Luck) and generalizes about the effectiveness of the Initiative's approach where equal emphasis is placed on training and enterprise development. Chapter VI offers recommendations on the use of youth entrepreneurship programming for out-of-school, disadvantaged youth.

NOTES

1/Public/Private Ventures, "Private Sector Initiative Demonstration Project, Youth Entrepreneurship: A Concept Review Paper," Philadelphia, 1978 (mimeographed).

2/For a discussion on P/PV's search procedures see Public/Private Ventures, "Youth Entrepreneurship: Third Interim Research Report," report to U.S. Department of Labor, Office of Youth Programs, Winter, 1980, pp. I-4 to I-8.

3/Descriptions of several In-School programs can be found in Bernadine Watson, Youth Entrepreneurship: The State of the Art, (Philadelphia: Public/Private Ventures, 1980).

4/Harvey D. Shapiro, Setting Up Shop: A Report on the Role of Revenue-Generating Work Projects in the National Supported Work Demonstration. (New York: Manpower Demonstration Research Corporation, 1981), p.7.

5/For another typology of general entrepreneurship models, see Verne McCarthy, "Youth Entrepreneurship Demonstration Project: Interim Report #2," to U.S. Department of Labor, Office of Youth Programs, Washington, D.C., (Manchester, New Hampshire: New Hampshire College, 1980).

6/See the Entrepreneurship Institute, Case Study Profiles: Project NEED IT - New Enterprise & Economic Development. Initiative Today (Worthington, Ohio: The Entrepreneurship Initiative, 1981).

7/See Norval D. Glenn and Charles N. Weaver, "Profile of the American Small Businessman," Texas Business Review, July-August, 1979, pp. 129-32; Eugene Gomalka, "Characteristics of Minority Entrepreneurs and Small Business Entrepreneurs," American Journal of Small Business, Vol. 2, July, 1977, pp. 12-21; William S. Linko, "Entrepreneurial Success Factor," MA Thesis, Massachusetts Institute of Technology, June 1966; Edward B. Roberts, "Entrepreneurship and Technology: A Basic Study of Innovators; How to Keep and Capitalize on Their Talents," Research Management, Vol. 11, 1968 pp. 249-266; and Jeffrey A Timmons, "Characteristics and Role Demands of Entrepreneurship," American Journal of Small Business, Vol. 3, July, 1978, pp. 5-17.

8/James W. Bronn, "Evaluation of the Concept of the Corporation of Youth Enterprises," Boston, 1981 (mimeograph).

9/Bernadine Watson, The State of the Art, pp. 1-9.

CHAPTER II

PROCESS ANALYSIS: ENTERPRISE DEVELOPMENT AND TRAINING

This chapter briefly reviews business and training activities which were key components of the operations of P/PV's Youth Entrepreneurship programs. A summary of enterprise characteristics is shown on Table II-1.

PROGRAM DESCRIPTION AND PROCESS EVALUATION

Open Road/New Enterprises (OR/NE)

OR/NE's project was divided into three regional networks, which operated a total of eight auto repair shops in southern California, northern California, and Hartford, Connecticut. The project was initiated in 1976 by the Citizen's Policy Center, Inc. -- a not-for-profit corporation located in Santa Barbara, California, and developed by New Enterprises, Inc.-- an economic development corporation within the Citizen's Policy Center organizational structure. Initial funding for the development of the two California networks was provided in 1976 by the Economic Development Administration, through a one-year technical assistance and planning grant. At that time, the Economic Development Administration made a commitment to fund the development of OR/NE over a future three year period -- a commitment which could not be met because of federal budget constraints. Also, in 1977 OR/NE was awarded a three-year, renewable planning grant by the Aetna Life and Casualty Company to explore and establish a similar auto repair shop network in Hartford. It was not until May 1978, with the approval of DOL's Office of Youth Program (via a recommendation from Economic Development Administration), that OR/NE became the first project funded in the P/PV Initiative. With funding through the eighteen month P/PV subcontract and the Aetna grant, OR/NE planned to open seven new enterprises, four in California and three in the Hartford area, and to further develop the three existing shops in California.

Enterprise Developments. Although ten auto repair shops were planned for operation in the OR/NE networks, only eight shops were developed: four in southern California, three in northern California, and one in Hartford. Planning and capitalization problems prohibited the development of one shop in the southern California network and two shops in the Hartford network.

The staffing pattern was the same for the eight enterprises. Each enterprise had a manager responsible for business management and training within the auto shops. Reporting to each enterprise manager was a journeyman mechanic who did automotive repairs -- thus generating the

TABLE II-1

SUMMARY OF PROGRAM CHARACTERISTICS

Element \ Program	Open Road / New Enterprises	Beginner's Luck	Synergy II	Sunsol
Geographic Location	Santa Barbara, CA Los Angeles, CA San Francisco, CA Hartford, CA	Philadelphia, PA	New York, NY	Phoenix, AZ
Funding Sources	• EDA • P/PV • Aetna Life Insurance Company • CETA P/S OJT wage subsidies • Private Investors • Citizens Policy Center	• P/PV	• P/PV • Synergy I (EA)	• P/PV • Career Mobility • CPLC/Youth Training Center • Chicanos Industries • Corp Youth Enterprises
Prior Related Experience	• Under prior grants from EDA, CPLC planned and implemented New Enterprises, a program which opened Santa Barbara Motor Works, an auto repair shop which employed and trained youth.	• As an educational institution TRS operated its own public restaurant, using its students in all aspects of the restaurants operation.	• EA operated Synergy (I) Boutique for five years as a training site for substance/alcohol abusers in retailing, coupled with business related courses. This profit-making Boutique served as a model for Synergy II.	• No directly related experience in this industry. Some experience in community development.
Type of Training Provided	No classroom--all hands-on (OJT) supervision by enterprise journey level mechanics and manager.	Classroom training conducted at TRS--during Cycle II trainees were integrated into many ongoing TRS classes. Practicum--hands-on training through operation of BL restaurant, under supervision of BL staff.	Classroom training conducted by training director. Hands-on training through operation of boutique under supervision of Assist. Manager.	Classroom and hands-on training all conducted by enterprise staff.

TABLE II-1

SUMMARY OF PROGRAM CHARACTERISTICS (Continued)

Element \ Program	Open Road / New Enterprises	Beginner's Luck	Synergy II	Sunsol
Program (non-enterprise)	• Project Director • Financial Director • Director of Operations and Training • Enterprise Developers (4)	• Project Director • Evaluator/ Data Coordinator • Training Director (Cycle II only) • Controller • Secretary • Classroom Instructors	• Project Director • Director of Training • Management Information Coordinator • Secretary	• Project Director (also served as Enterprise General Manager)
Enterprise Type Number of Sites	Auto Repair (8)	Restaurant (1)	Retailing (1)	Solar Heating-Retrofit (1)
Number of Trainees Per Training Cycle	1-4 per shop, depending on site, amount of business.	18-20	11	13-17

SOURCE: Boone, Young & Associates.

business's revenues. The mechanic provided the hands-on training to youth. Managers and mechanics had both a strong background in automotive repair shop operation/management, and a commitment and ability to work with and train youth.

Capital for the development of each auto repair venture included both public and private dollars. Through New Enterprises Program, Inc., the Citizen's Policy Center solicited public sector funds to support the planning and start-up phase of a potential venture. Additional development capital was obtained from the sale of stock shares in the ventures. Stock was classified in one of two categories -- Class A (voting shares) and Class B (non-voting shares). Class A stock was sold only to the Citizen's Policy Center which made these stock purchases with funds obtained through loans and grants from private and corporate foundations. Class B stock was offered and sold to outside investors. Because few investors were attracted to the New Enterprises' Class B stock, the Citizen's Policy Center purchased the majority of the shares in both stock classifications. (See table A-1 in appendix.)

OR/NE marketing strategy for its enterprises, particularly in California, was organized around its commitment to the development of profit-making small businesses which could provide quality goods and services. This attitude was consistent among the Citizen's Policy Center staff and OR/NE shop managers. Efforts toward developing a broad-based clientele which would produce "repeat" business were made in each shop. This was to be accomplished through careful workmanship and quality control by enterprise managers and their staff. In addition, the Citizen's Policy Center staff provided technical assistance to shop managers to help each business attain a sound financial position.

OR/NE was not without its developmental and operational problems, most of which were typical of small businesses. Insufficient start-up capital and poor business planning were the major ones. Few businesses can survive when they are undercapitalized by as much as 75 percent of their projected needs. This was the case in two of the California shops. Survivability is also questionable when plans are not developed for penetrating an unfamiliar market area, as was the case in the Hartford network.

Vacancies in staff positions due to frequent turnover, particularly among the mechanics, was a problem affecting OR/NE. To increase the likelihood of attracting and retaining "top-notch" mechanics, OR/NE offered a pay plan which included wages plus a percentage of the sales receipts from repairs; but this plan had consequences. It was in the

mechanic's self interest to increase his or her pay by maximizing the volume of repairs. The mechanics eventually saw training as a hindrance to their ability to do repairs and generate sales.

Training. Consistent with the initiative, OR/NE provided training to 53 out-of-school, disadvantaged youth. Training was in two major areas--auto repair skills (mechanical) and auto shop management. Repair skills training included automatic and manual transmissions, ignition tune-up and electrical work, engine valve work, brakes and lubrication. Training in the enterprises varied from four to six months, depending on the trainee's interest.

Management training included parts ordering, service order writing, clerical training and public relations. Both mechanical and managerial skills were taught almost entirely through hands-on, on-the-job training. Some job readiness training was also provided, e.g., employability counseling. At the conclusion of training, youth were to be placed on unsubsidized jobs; to be provided an opportunity to become a stockholder or partner; and/or to be assisted in starting their own business by OR/NE.

Status of the Enterprises. Over the life of the P/PV demonstration, the eight OR/NE auto repair shops experienced chronic business problems which were due to poor planning, undercapitalization and low volume of repair sales. All of the enterprises required subsidies for the length of the subcontract period. None of these enterprises generated enough revenue to cover their operating expenses and, consequently, did not achieve profitability as a business venture. By the conclusion of their subcontract period, OR/NE had closed five of its eight enterprises and liquidated these shops' assets to pay outstanding debts incurred during this operating period. The three remaining shops were sold by the Citizen's Policy Center to individuals who were shop managers during the subcontract period.

Beginner's Luck

Beginner's Luck, a restaurant venture, operated in the initiative from January, 1980 to June, 1981. It was established by the Restaurant School, a state licensed training institution with some national prominence for developing independent restauranteurs.

Enterprise Development. Beginner's Luck planned to utilize three sources of funds for its development: (1) the P/PV subcontract ($283,584) with the Restaurant School, (2) in-kind contributions from the Restaurant School (25% of the subcontract budget) and (3) projected revenues ($175,000) from business activities. Subcontract funds and in-kind contributions would cover the planning and start-up costs.

The ongoing operating costs for Beginner's Luck were to be covered through the subcontract and augmented with revenue generated by the restaurant. Training costs were to be covered in full by the subcontract.

Of the three sources of funds, projected restaurant revenues were viewed as key to Beginner's Luck's development as a business. Its planned revenue-producing activities were in three service areas -- lunch and dinner services, catering operations, and a private, subscription "Eating Society." Because these activities would be conducted by the youth to enhance training as well as generate revenue, Beginner's Luck planned to phase the activities into the overall (training) activities of the project. Meal services were planned to begin immediately with the opening of the restaurant. By the third month of operation, Beginner's Luck had expected to implement the other two revenue-producing activities -- the subscription "Eating Society" and the catering service. The combined revenue generation activities were projected to make Beginner's Luck profitable and able to meet its on-going expenses.

Beginner's Luck experienced few business start-up problems. A nearly fully-equipped kitchen was located at the International House, a residential facility on the campus of the University of Pennsylvania. Some renovations were made in the dining area, but these were accomplished in a short time. However, Beginner's Luck did not begin operations until March, 1980, three months after inclusion in the initiative, because of problems related to recruiting youth. With the pursuit of additional revenue missing as a business element, Beginner's Luck functioned simply as a training facility.

Beginner's Luck, however, did experience three major enterprise-related problems which inhibited its development.

- Lack of Enterprise Development: While plans called for the development of an independent restaurant venture, Beginner's Luck made little effort toward this objective. Few, if any, attempts were made to attract additional capital or improve the restaurant's revenue generating activities.

- Poor Marketing: Beginner's Luck did not have a clear restaurant marketing strategy. Beginner's Luck vacillated between serving lunch or dinner or both, and (2) became fully operational at a point when their primary market, the college and university community, would soon be going away for the summer months.

- Failure to Implement Additional Revenue Generating Activities: Of the three revenue-generating activities planned by Beginner's Luck, two activities -- the sub-

scription "Eating Society" and the catering service -- were not implemented. A poor market focus for the "Eating Society" and, according to Beginner's Luck staff, trainees' inability to handle a catering service accounted for the abandonment of these potential revenue-producing activities.

Because Beginner's Luck could not overcome these problems, it abandoned efforts to develop a viable restaurant business. This was a point of conflict between Restaurant School and P/PV staff since P/PV believed revenue generation was critical to enterprise profitability. With the pursuit of additional revenue missing as a business element, Beginner's Luck functioned more as a training facility than a business seeking self-sufficiency.

Training. Beginner's Luck provided training to 38 youth in food preparation, kitchen operation, and, to a limited degree, restaurant management. The key features of training were:

- Orientation to training, a two week period of information exchange between youth and staff on training at Beginner's Luck and careers in the restaurant industry
- Training contracts, agreements between youth and Beginner's Luck staff which were negotiated at the conclusion of orientation and were designed to chart the youth's skills acquisition
- Classroom training, a four week preparatory course given in basic kitchen and restaurant techniques supplemented with additional classroom instruction throughout the six month training period at the enterprise
- Hands-on training, activities at the Beginner's Luck Restaurant where youth rotated in performing functions until they wished to develop a specialty.
- Job placement, assistance which was available to youth upon completion of training.

Two major difficulties were encountered in providing training which were:

- Recruitment and Certification: Recruitment of youth who were of school age, i.e., less than 18 years old, was delayed because the Philadelphia Prime Sponsor and the State Employment Security Agency would not certify youth as CETA eligible without prior certification as "out-of-school," i.e., youth should not have attended a school during the school year.

- Integration of Classroom and Hands-on Training. Because classroom training was given at the Restaurant School and hands-on training at Beginner's Luck, the Restaurant School instructors tended to view the trainees as "special students," i.e., disadvantaged youth who were viewed as different from the Restaurant School's enrollees.

Status of the Enterprise. Beginner's Luck ceased operating at the conclusion of the subcontract. Neither the outgoing president, nor the new owner of the Restaurant School wished to continue the enterprise/training activities.

Sunsol

Chicanos Por La Causa, Inc. (CPLC), a not-for-profit community development corporation in Phoenix, Arizona, was awarded an 18 month subcontract to initiate and develop Sunsol--a business specializing in the fabrication and installation of solar hot water heating systems. Fifty-nine youth were enrolled at Sunsol.

Enterprise Development. Sunsol, as a solar venture, was considered by CPLC as a potentially profitable business because of a growing local interest in solar power as an alternative energy source. However, CPLC was unable to capitalize on this local factor, thereby, failing to develop Sunsol's potential. Key problems experienced by Sunsol are summarized below.

- Organizational problems. Organizational problems hindered the development of the Sunsol enterprise. The relationship between CPLC, as the parent organization, and Sunsol, as its project, remained in a state of flux for the duration of the initiative. On at least four occasions, the administrative responsibility for Sunsol was changed within CPLC. Staff turnover and vacancies were high with direct consequences on sales. For more than a third of the subcontract period, the sales manager's position was vacant, creating an even more haphazard approach to marketing. The net result of Sunsol's organizational problems, as well as the ones mentioned above, was that the business never got on the proper track.

- Business and marketing plans. For all practical purposes, Sunsol did not develop a business plan or a marketing strategy. P/PV made funding available for such activites and encouraged the Sunsol staff without effect. Given this, the marketing strategy was simple

-- to sell solar heating systems to low and middle income groups. This simple approach to marketing resulted in poor sales performance by Sunsol.

- Sunsol's licensing status. All solar installation firms wishing to operate had to be in possession of a "qualifier's license." Sunsol did not acquire its license until July, 1980, nearly four months after it opened shop. In the interim, no installation work could be done which meant no sales revenue could be generated.

Training. The training program at Sunsol was divided into six cycles into which trainees entered, completed program objectives in manufacturing and installing solar hot water heating systems and then exited into jobs.

The basic training which was provided during the first nine week period consisted of a combination of classroom and hands-on techniques. Training was structured as follows: two weeks on elementary solar-related theory; one week on sales techniques and protocol; and six weeks on fabrication and installation. Since the training program was short, it was conducted in the solar shop so that trainees could immediately reinforce what they had learned. The installation training was designed to provide youth with basic plumbing and electrical skills. The application of these skills beyond solar-related work could allow youth to seek access to apprenticeships or entry level jobs in the plumbing, electrical, or roofing trades.

In addition, trainees demonstrating supervisory and management potential received some basic leadership training. This training included basic operations and skills development; supervision of new trainees and completion of installation jobs; and management training in sales and enterprise development.

The organizational problems which were discussed in the context of enterprise development had "spill-over" effects on the fulfillment of training objectives. The turnover in Sunsol staff, particularly in the sales manager slot where the responsibility lay for generating business (job orders), resulted in trainees receiving an uneven exposure to needed hands-on experience required in the solar trade.

Another problem was the lack of support services for trainees. A comprehensive system of support services from intake to termination was proposed by CPLC. In reality, few resources were committed to ensure that the services were provided. Sunsol relied on CPLC's Youth Training Center

which was serving youth in other CPLC programs. The P/PV subcontract with Sunsol did not provide any direct funding to support the Youth Training Center, nor any Sunsol staff positions such as job developers or counselors. The Youth Training Center, as such, provided only minimal staff support services. This problem resulted in poor placement performance by Sunsol. (Only 8 trainees out of 59 got jobs.)

Status of Enterprise. Since the demonstration, Sunsol has continued to operate as a business. However, Sunsol has been reorganized, and is now a general construction company, having expanded its work to include housing renovation. No solar installation work, however, has been done since the conclusion of the P/PV subcontract in April 1981.

Synergy II

The Educational Alliance, Inc., a social service agency in New York City, was awarded a fourteen month subcontract (April 1980 to May 1981) by P/PV to develop and open Synergy II, a business which provided training in retail sales. Synergy II was a replication of a similar boutique, Synergy I, which was also developed by the Educational Alliance.

Enterprise Development. Capitalization of Synergy II was acquired through two sources: (1) the P/PV subcontract which covered the major operating costs, e.g., store rent and staff salaries; and (2) Educational Alliance funds which were provided from excess revenue from Synergy I to cover start-up costs such as store renovations and initial stock items. Store revenues were to be used to cover any additional costs that were not covered by P/PV or Educational Alliance funds.

Synergy II sold items ranging from tee shirts, roller skates, note cards and buttons, in the earlier stages of the project, to tote bags, sweat suits, backpacks and "Western look" items in the later stages. Tee shirts, though, remained the main stock item for the store. Generally, the boutique remained open for eight to ten hours per day, seven days a week. However, because of the large number of trainees relative to the size of the store, two shifts were developed after the first few months of operation.

Although drawing on the experience of the older Synergy I boutique, some problems were encountered at Synergy II. For instance, chronic shortages in store inventory occurred during the first two months of Synergy II's operations and again in late 1980 and early 1981. These problems hampered enterprise development, since sales could not be made without inventory. Another problem which continued throughout the course of enterprise development was the "excess number" of trainees in the rather small store. However, instituting

two work shifts to reduce participant overcrowding, not only facilitated training to some degree, but provided an opportunity to generate additional sales revenue because of the longer store hours.

Training. Retail and sales training were provided to 37 youth in two seven month cycles. Three employability development areas were emphasized: (1) work adjustment skills, (2) hands-on, entry-level and management skills, i.e., core training in retail sales, and (3) career development i.e., career planning. Of these three areas, most of the trainee's time was devoted to hands-on training in the Synergy II store where they functioned as workers for approximately seven hours daily. While in the store, trainees were expected to gain experience in buying and selling goods, pricing merchandise, maintenance of store records, and making general management decisions. At the conclusion of training, youth were to be assisted in locating employment by the Synergy II staff and an Educational Alliance counselor was assigned part-time for this purpose.

The large number of youth in each training cycle resulted in two related problems. Because of the size of the store and the on-the-job training format, overstaffing made rotation among the various facets of store operations almost impossible. Unable to gain first-hand experience, many trainees, according to Synergy II staff, lost interest and/or did not complete their training. (Synergy II had the highest trainee non-completion rate, 65 percent, in the initiative.) Some efforts were made, with little success, to overcome these apparent problems, e.g., increasing store hours and offering incentives such as bonus payment for most sales and commissions on specialty items.

Status of the Enterprise. Synergy II continued operations after its participation in the initiative. It has reduced its staff, retaining one of the youth trained during the initiative, and has even showed a slight increase in sales. As for enterprise training, Synergy II has been considered (as of January, 1982) by the New York State Department of Labor for funding as a youth training site.

SUMMARY REMARKS

Each program's training component had positive and negative features. Modifications in the projects' training components were allowed so that training could be better coordinated with project needs. By the conclusion of funding, some positive aspects emerged:

- a structured, training program that taught skills as well as some parts of entrepreneurship

- use of training staff who know the trade and who could teach and work with youth
- youth responsibility for applying the training information to work activities at the enterprise.

It is not clear that the overall quality of skills training was enhanced by integrating this objective with enterprise development. Yet, it was evident that poor implementation of either the training feature or enterprise activities had adverse effects in both components of the project.

The enterprises also had problems. While these varied across the initiative some common ones were:

- undercapitalization
- poor planning and development
- lack of continuity in the generation of revenue from sales
- little expansion into planned revenue generating activities
- varying degrees of tension between training and business development.

Attempted remedies by the businesses in the P/PV demonstration accomplished little in the way of resolving their development problems. As such, the businesses' inability to overcome these problems had consequences on the viability of the enterprises during and subsequent to the P/PV initiative. Few businesses in the demonstration survived after the P/PV demonstration.

NOTE

1/Some efforts were made to offer limited partnerships and co-ownerships in the auto repair shops. Only two of the California shops were capitalized in this manner. (See Table A-1 in Appendix.)

CHAPTER III

EVALUATION: EMPLOYMENT AND TRAINING

Although all of the enterprises experienced some start-up problems, training components were established in each enterprise. The question now becomes: were enterprises successful in meeting their employment and training objectives? Training disadvantaged youth in these functioning, revenue-generating enterprises was expected to have positive effects on the trainees' employment status. Completing training objectives, enrolling in schools or other training programs, and entering unsubsidized employment, the "bottom line" objective, were viewed as desirable outcomes for youth. This chapter reviews the data obtained from enterprise records and through post-training interviews. The data provide indicators of the enterprises' performance in meeting their employment and training objectives.

However, before reviewing the data on trainee outcomes, we discuss briefly the characteristics of the youth served in the initiative.

Profile of the Youth

At entry, data were collected by enterprise staff on the youth's demographic characteristics and employment background. Table III-1 summarizes the data.

Even though 65.8 percent of the youth trained in the initiative were males, the distribution of youth by sex varied by enterprise depending on the sex label of the occupation in which training was provided at each enterprise. Males were more likely than females to enter training at OR/NE (75.8 percent) and Sunsol (83.1 percent), where training was provided in male-dominated occupations, automotive repair and plumbing. At Synergy II, where the training specialty was retail sales, 62.8 percent of the trainees were women.

Some age differences were apparent across the initiative even though all youth were eligible for training. While 52.9 percent of OR/NE's trainees were at least 20 years of age, the majority of the trainees at Beginner's Luck (78.9 percent), Synergy II (67.6 percent), and Sunsol (93.3 percent) were 19 years of age or younger. The distribution of slightly older trainees at OR/NE can be attributed in part to pre-initiative enrollment (under Economic Development Administration funding) when recruitment emphasized the older youth.1/

TABLE III-1

SELECTED PARTICIPANT CHARACTERISTICS AT ENROLLMENT

Characteristics	Open Road/ New Enterprises		Beginner's Luck		Synergy II		Sunsol		Total	
	#	%	#	%	#	%	#	%	#	%
Sex										
Male	40	75.5	20	52.6	14	37.2	49	83.1	123	65.8
Female	13	24.5	18	47.4	23	62.8	10	16.9	64	34.2
Age at Enrollment										
<18	5	9.4	4	10.5	2	5.4	6	10.2	17	9.1
18-19	16	30.2	26	68.4	23	62.2	49	83.1	114	61.0
20-21	20	37.7	8	21.1	12	32.4	4	6.7	44	23.5
>21	8	15.1	0	----	0	----	0	----	8	4.3
Unknown*	4	7.5	0	----	0	----	0	----	4	2.1
Ethnicity										
White	22	41.5	4	10.5	0	----	9	15.2	35	18.7
Black	7	13.2	30	78.9	21	56.8	15	25.4	73	39.0
Puerto Rican	2	3.8	2	5.3	12	32.4	1	1.7	17	9.1
Mexican American	18	33.9	0	----	0	----	29	49.2	47	25.1
Other	1	1.9	2	5.3	3	8.1	0	----	6	3.2
American Indian	1	1.9	0	----	0	----	5	8.5	6	3.2
Asian	2	3.8	0	----	1	2.7	0	----	3	1.6
Participant's Education Level										
<9	0	----	0	----	0	----	3	5.1	3	1.6
9-11	13	24.5	15	39.5	26	70.3	38	64.4	92	49.1
HS/GED	27	50.9	21	55.3	9	24.3	17	28.8	74	39.5
Other Schooling**	3	5.7	2	5.2	2	5.4	1	1.7	8	4.2
Unknown**	10	18.7	0	----	0	----	0	----	10	5.3

TABLE III-1 (con't)

SELECTED PARTICIPANT CHARACTERISTICS AT ENROLLMENT

Characteristics	Open Road/ New Enterprises		Beginner's Luck		Synergy II		Sunsol		Total	
	#	%	#	%	#	%	#	%	#	%
Number of Dependent Children										
0	31	58.5	32	84.2	29	78.4	50	84.7	142	75.9
1	13	30.2	6	15.8	4	10.8	6	10.2	32	17.1
2	4	7.5	0	----	4	10.8	2	3.4	10	5.3
>2	2	3.8	0	----	0	----	1	1.7	3	1.6
Prior Employment										
Yes	44	83.0	25	65.8	31	83.8	42	71.2	142	75.9
No	9	17.0	13	34.2	6	16.2	17	28.8	45	24.1
Prior Job Training										
Yes	9	17.0	8	21.1	10	27.0	29	49.2	56	29.9
No	44	83.0	30	78.9	27	73.0	30	50.8	131	70.1
Employment Status										
Unemployed	43	81.1	34	89.5	37	100.0	56	94.9	170	90.9
Underemployed	2	3.8	0	----	0	----	1	1.7	3	1.6
Unknown	8	15.1	4	10.5	0	----	2	3.4	14	8.5
Receiving Public Assistance										
Yes	12	22.6	21	55.3	16	43.2	6	10.2	55	29.4
No	41	77.4	7	44.7	21	56.8	53	89.2	132	70.6

NOTE: Percentages may not total 100% due to rounding.

*/Unknown refers to missing/non-reported data on program participants.

**/Other schooling includes post secondary, vocational, and technical training.

Nearly 82 percent of the enrollees in the initiative were minority group members, mainly blacks and Hispanics. However, at OR/NE 41.5 percent of the trainees were white.

Over all programs, less than 40 percent of the youth had high school diplomas or general educational development (GED) certificates when entering training. However, 50.9 percent of the youth at OR/NE and 55.3 percent of the youth at Beginner's Luck had completed high school or had obtained a GED prior to training. Only 28.8 percent of the youth at Sunsol and 24.3 of the youth at Synergy II had attained a comparable level of education before program participation.

Slightly less than 25 percent of all trainees reported that they had dependent children. However, 41.5 percent of the trainees at OR/NE claimed to have one or more children. The larger number of older and, perhaps, married males at OR/NE accounted for this occurrence.2/

Data indicating attachment to the labor market, prior work experience and employment status at entry, show similar patterns across the initiative with no significant variation among enterprises. Youth tended to have some work experience prior to training, but the majority were unemployed at the time of entry into training. On a related indicator, a large number of Sunsol youth (49.2 percent) reported that they had job training before entering the enterprise, while only 27.0 percent or less of the youth at the other enterprises had prior job training.

Thus, the data indicate some differences in the characteristics and background of youth entering training in the four enterprises. However, when differences exist by enterprises, a dichotomy emerges between youth enrolled at OR/NE and, as a group, youth enrolled at Sunsol, Beginner's Luck, and Synergy II.

Youth Status at Termination

While enterprises in the P/PV initiative were successful in recruiting unemployed, disadvantaged youth for training, these enterprises were unsuccessful in meeting their training and job placement goals. As shown in Table III-2, less than 60 percent of the youth who entered training completed their enterprise-defined training objectives. Completing training objectives did not necessarily result in a positive outcome at termination such as entering a job, full-time enrollment in school or a training program. Only 38 percent of the youth terminated from the programs with "positive" outcomes: 33.7 percent of the youth entered jobs; 2.7 percent entered full-time school; and 2.2 percent entered training.

TABLE III-2

PARTICIPANT OUTCOMES: TRAINING AND TERMINATION

Category	Open Road / New Enterprises		Beginner's Luck		Synergy II		Sunsol		Total	
	#	%	#	%	#	%	#	%	#	%
Training Outcome:										
Completed Training	26	49.1	26	68.4	13	35.1	42	71.2	107	57.2
Yes	23	43.4	12	31.6	24	64.9	17	28.8	76	40.6
No	4	7.5	0	----	0	----	0	----	4	2.1
Unknown										
Total Enrollment	53	100.0	38	100.0	37	100.0	59	100.0	187	100.0
Termination Outcome:										
Positive Termination by Type	31	58.5	14	36.8	10	27.0	8	13.6	63	33.7
Unsubsidized Job	0	----	1	2.6	2	5.4	2	3.4	5	2.7
Full-time School	0	----	0	----	0	----	2	3.4	2	1.1
Other CETA Training	0	----	0	----	0	----	1	1.7	2	1.1
Non-CETA Training	1	1.9								
Total Positive Termination	32	60.4	15	39.4	12	32.4	13	22.1	72	38.6
Negative Termination by Type	0	----	0	----	0	----	2	3.4	2	1.1
Laid-off	1	1.9	0	----	0	----	1	1.7	2	1.1
Health	0	----	3	7.9	2	5.4	0	----	5	2.7
Pregnancy	3	5.7	0	----	1	2.7	0	----	4	2.1
Family	1	1.9	0	----	0	----	1	1.7	2	1.1
Transportation	0	----	2	5.3	2	5.4	5	8.5	9	4.8
Relocate	4	7.5	0	----	7	18.9	10	16.9	21	11.2
Quit	0	----	0	----	6	16.2	1	1.7	7	3.7
Involuntary	0	----	13	34.2	1	2.7	24	40.7	38	20.3
Unemployed-seeking work	6	11.3	4	10.5	1	2.7	1	1.7	12	6.4
Other	6	11.3	1	2.6	5	13.5	1	1.7	13	7.0
Unknown										
Total Negative Terminations	21	39.6	23	60.5	25	67.5	46	78.0	115	61.5

NOTE: Percentages do not necessarily add to 100 due to rounding.

Although there is little available in the way of statistical data that could clearly account for these dismal outcomes, a few general points can be made, some in light of earlier process documentation discussions.

- Since placement efforts were directed at program completers, the shortfall in the number of youth completing training objectives had an adverse effect on job placement.

- The job placement rate was higher at OR/NE (56.6 percent), where between one and five youth entered training at any one time, than at Beginner's Luck (36.8 percent), Synergy II (27.0) and Sunsol (13.6 percent), where between 11 and 18 youth entered training at each period.

- When job placement did occur, the majority of youth entered full-time jobs (96.8 percent) in training related occupations (68.3 percent). (See Table III-3)

- Although comparable wage data were not available for the Open Road/New Enterprises youth who got jobs, data for the other three programs indicate that few youth were placed on jobs where the starting hourly wage was $5.00 or more.

Even with sketchy data on termination outcomes, the available data showed that the majority of youth who entered training in the enterprises did not enter private sector jobs once they completed training.

Post-Training Follow-up

In order to provide some indication of the "long-run" employability effects of training in the enterprises, youth were interviewed at three and eight months after termination from the program. Only youth trained at Sunsol, Synergy II and Beginner's Luck were administered follow-up questionnaires; OR/NE youth were not included in the follow-up survey.

Table III-4 shows summary data on selected responses obtained from youth trained at three enterprises in the initiative. One must be cautious about generalizing from the data since less than half of the total youth trained at Sunsol, Synergy II, and Beginner's Luck were interviewed. Only 35.4 percent of youth interviewed at three months and 45.2 percent of the youth interviewed at eight months after program termination reported that they were "presently" working at a full-time job. Although unemployed when interviewed, 13.8 percent of youth at three months and 24.2 percent at eight months indicated that they had worked on a

TABLE III-3

CHARACTERISTICS OF EMPLOYMENT FOR TRAINEES ENTERING UNSUBSIDIZED EMPLOYMENT AT TERMINATION

Category	Open Road/ New Enterprises		Beginner's Luck		Synergy II		Sunsol		Total	
	#	%	#	%	#	%	#	%	#	%
Total Enrollment	53	----	38	----	37	----	59	----	187	----
Total Employment	31	----	14	----	10	----	8	----	63	----
Employment as a % of Enrollment	--	58.5	--	36.8	--	27.0	--	13.6	--	33.7
Type of Employment										
Full-Time	31	100.0	13	92.9	9	90.0	8	100.0	61	96.8
Part-Time	0	----	0	----	1	10.0	0	----	1	1.6
Data Not Available	0	----	1	7.1	0	----	0	----	1	1.6
Type of Job										
Labor	0	----	0	----	0	----	1	12.5	1	1.6
Training Related	22	71.0	10	71.4	8	80.0	3	37.5	43	68.3
Skilled/Other	9	29.0	3	21.4	2	20.0	4	50.0	18	28.6
Data Not Available	0	----	1	7.1	0	----	0	----	1	1.6
Hourly Wage										
$3.00-$4.99	0	----	12	85.7	9	90.0	4	50.0	25	39.7
$5.00-$6.99	0	----	1	7.1	1	10.0	4	50.0	6	9.5
Data Not Available	31	100.0	1	7.1	0	----	0	----	32	47.6
Referred by Program										
Yes	22	71.0	13	92.9	9	90.0	4	50.0	48	76.2
No	9	29.0	0	----	1	10.0	4	50.0	14	22.2
Data Not Available	0	----	1	7.1	0	----	0	----	1	1.6

NOTE: Percentages may not total 100% due to rounding.

TABLE III-4

SELECTED RESPONSES FROM THREE MONTH AND EIGHT MONTH PARTICIPANT FOLLOW-UP SURVEY

	Beginner's Luck		Synergy II		Sunset		Total	
	3 mo	8 mo	3 mo	8 mo	3 mo	8 mo	3 mo	8 mo
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Working Full-Time								
Yes, presently	34.8	42.1	27.3	35.0	45.0	56.5	35.4	45.2
No, but worked since training	13.0	31.6	4.5	10.0	25.0	30.4	13.8	24.2
No, but worked part-time	13.0	10.5	13.6	15.0	10.0	4.3	12.3	9.7
Never worked	39.1	15.8	54.5	40.0	20.0	8.7	38.5	21.0
Has hourly wage								
Increased	21.7	26.3	22.7	25.0	50.0	52.2	30.8	35.5
Decreased	8.7	---	9.1	5.0	15.0	13.0	10.8	6.5
Same	13.0	15.8	4.5	20.0	10.0	8.8	9.2	14.5
Never Worked	39.5	15.8	54.5	40.0	20.0	8.7	38.5	21.0
No Response	17.4	42.1	9.2	10.0	5.0	17.3	10.7	22.5
Number of Respondents	(23)	(19)	(22)	(20)	(20)	(23)	(65)	(62)
Response Rate Rate at Each Wave	60.5%	50.0%	59.5%	54.1%	44.9%	40.0%	48.5%	46.2%

NOTE: Participants interviewed at eight months are not necessarily the same youths who were interviewed at three months.

full-time job since leaving the program. Nearly 39 percent and 21 percent of youth responding to the three and eight month survey, respectively, had not worked since they had left the program.

Few of the youth interviewed reported increases in their hourly wages, if they were or had been employed since training. Only 30.8 percent of the youth interviewed at three months and 35.5 percent interviewed at eight months reported an increase in their hourly wages on their jobs.

Concluding Comments

The follow-up data here is minimal and conclusions must be drawn with care. Even with the limited data, it is clear that none of the enterprises were successful in meeting their employment and training objectives, particularly in placing youth in unsubsidized jobs. For the few youth who were placed, the available data did not permit a determination of the length of time these youth remained employed after program termination. However, the majority of youth interviewed in the post-training survey were unemployed both at three and eight months after program termination. Though not conclusive, when taken together, the available data suggest that enterprise training did not improve the employability of the majority of youth who were enrolled in the initiative. The data further suggest that employment among youth after training was characterized more as transient than stable.

NOTES

1/Under its EDA funding, OR/NE was permitted to recruit persons who were as old as 24 years of age. Persons already enrolled at OR/NE were permitted to complete their training under P/PV funding.

2/Forty (40%) percent of the trainees at OR/NEP were identified as the family "head" when they entered training. See Public/Private Ventures, "Youth Entrepreneurship: Third Interim Research Report," report to U.S. DOL, Office of Youth Programs, Washington, D.C., Winter, 1980 (Philadelphia, Winter, 1980).

3/For the eight enterprises in the OR/NE network, the number of youth in training ranged from one to five persons. At Sunsol, Beginner's Luck and Synergy II, average participant enrollment during each training cycle was eleven, eighteen, and seventeen youth, respectively.

CHAPTER IV

EVALUATION: ENTERPRISE DEVELOPMENT

This chapter evaluates the success of three of the enterprises in the P/PV's Youth Entrepreneurship Initiative in fulfilling enterprise objectives--sales, profitability, expansion and, most fundamentally, enterprise survival. Because of the lack of availability of comparable financial information, OR/NE is not reviewed in this section. (Related findings were discussed in an earlier P/PV report and are included in Appendix A.) A basic issue to be resolved is the compatibility of enterprise and training objectives in the context of a new small business. Before proceeding with the analysis, some discussion of this and other important enterprise development problems and issues is in order.

ISSUES AND PROBLEMS

Reconciling Business and Training Objectives

There appears to be no inherent incompatibility between attaining (or maintaining) profitability and training individuals to carry on the purposes of a firm. This is especially true in large organizations with considerable resources in terms of human and physical capital, financial assets and leverage. In the case of small businesses, however, especially new small businesses, the drain on existing time and scarce resources which training involves, takes away from the immediate concern of the firm--short term survival and profitability. P/PV-funded enterprises fell into the latter category in that they were small businesses. They had to contend with all the problems that conventional small, struggling businesses face; and they had the added responsibility of meeting training goals.

For these firms, it is appropriate to ask whether enterprise and training objectives can be optimally, or even adequately, attained as joint objectives. The implied hypothesis is that the inclusion of training as a goal parallel (if not superior) to that of generating business profits seriously challenges the short-term survival of the firm in two ways: (1) by inducing an allocation of resources which is suboptimal from the standpoint of efficiency or profitability; and (2) by imposing a social objective--the training and placement of disadvantaged youth--which entails added costs. These threaten to turn the ostensibly profit-making character of the business into a hybrid profit/not-for-profit enterprise, i.e., one in which the quality of training services to clientele takes precedence over, or is of equal value with, business profitability.

Methods/Levels of Capitalization

There were two basic sources of capitalization for the Youth Entrepreneurship enterprises: (1) P/PV subcontract and (2) other sources, e.g., individual investors, corporations, foundations, and even the project's sponsoring organization.

In the first phase of the initiative, OR/NE made a strong effort to market their enterprises and attract other sources of capital. Their efforts were successful initially, as capital investment came in from corporations, foundations and individual investors. Two significant points can be made: (1) the sponsoring organizations and enterprises prepared a marketing "prospectus," and (2) both the enterprises and the investors expected return on capital. In the second phase of the initiative, none of the three enterprises, Beginner's Luck, Synergy II or Sunsol actively or systematically sought outside investment or funding. All three relied on P/PV resources, and projected earned revenue and potential investment from the sponsoring organizations, with little or no expectation of return on capital by either the "investors" or the enterprises.

Enterprises and the Local Markets

Each enterprise was established with a product/service which represented a potential growth market in the geographic area in which the enterprise was located. The problem, however, concerned the way in which the enterprises focused on and approached their market or "segment of the market." With the exception of Synergy II, the enterprises made either judgment or timing errors which severely affected the sales and revenues generated.

Beginner's Luck was located in a large university complex which could reasonably have been identified as a ready-made market. This market, however, was depressed during the summer months, when most students were away, and Beginner's Luck did not develop a plan and was unable to market its services successfully to the summer population.

Sunsol chose to focus on a segment of the market which was financially unable to create a strong demand for Sunsol's goods and services. Low and moderate income people may have considered solar energy products a "luxury."

Synergy II knew its market--New York City--since the experience of both the Educational Alliance and Synergy I provided Synergy II with management, market strategies and analysis, and prior experience in the retail clothing business.

New Business vs. Existing Business

Existing business operations have a better chance for success than new business start-ups. The start-up problems of Sunsol far exceeded those of Synergy II, which was a replication of another retail clothing store, Synergy I. Beginner's Luck, which was modeled after its very successful parent, the Restaurant School, would have been operational much faster if local governmental requirements had not blocked rapid recruitment of the targeted youth. Both Synergy II and Beginner's Luck were able to avoid some of the start-up operation pitfalls which plagued Sunsol because they were able to draw on the resources of existing and parallel enterprises, that is, their parent organizations.

Success/Failure of Enterprises in Relationship to Patterns of Similar Small Businesses

In general, the three enterprises fit the development pattern of small businesses in that the P/PV-funded enterprises had a high failure rate. Although two enterprises, Sunsol and Synergy, may continue, they will do so with subsidies, rather than with only retained earnings or outside capital. Of the three industries--restaurant ownership, retail clothing, and solar unit fabrication, Beginner's Luck is in an industry with one of the highest first-year failure rates -- over 70 percent, while Synergy II in the retail clothing field had the best chance of success.

Staffing -- Patterns/Levels/Capabilities

All enterprises were affected by substantial and significant staff turnover. At the middle and top management levels, these staff changes resulted in shifts in operating policies. Because of turnover and shifts, key positions went unfilled (or were not clearly defined) for varying periods of time at critical points in program operations.

All of the enterprises carried larger staffs than similar businesses of their relative size. (Staff is referred to in a broad context which includes project and trainee personnel.) The greater staff size was due primarily to training requirements. Additionally, because of funding requirements and training obligations, the businesses were unable to reduce staff when sales/revenues failed to meet projections.

EVALUATION OF ENTERPRISES AS ENTERPRISES

Methodological Problems

Trained labor is a normal joint-product or by-product of any going concern, but this does not imply the production of salable output. The latter is primary and the former secondary, if, indeed, it is recognized as an objective at all. The fundamental issue or dilemma is the degree of compatiability or conflict between "training" and "production" objectives. Presumably, like most economic objectives, their relationship is a mixture--partly complementary and partly a trade-off.

Training of individuals for both line and staff functions is an on-going process, and the quality of this trained manpower is one of the most crucial elements in the long term survival and success of larger firms. To what extent do enterprise expenditures on labor training further enterprise development or production objectives, and to what extent do they serve other objectives? It suggests a second methodological dilemma--that, somehow, training inputs and outputs must be divided into two parts though they are both embodied in individuals. Training inputs and outputs are only separable in a "classroom training model," in which one set of persons, "the trainers," provide the inputs and another set, "the trainees," become the outputs. Here, the input/output distinction is unclear or inappropriate.

Even with these methodological problems, efforts were made in this evaluation to identify time spent on training functions and to measure the cost of trainees' "direct labor" in helping to produce salable output. We cannot identify, however, the value of learning on-the-job, nor the value of sales foregone because of poor quality work by trainees. Nevertheless, we shall see that the data permit a reasonable judgment to be made about the combination of training and business objectives in the enterprises.

Sunsol

The data from Sunsol, though not without problems, are far more complete than data from the other enterprises. Analysis of these permits us to probe most of the basic questions raised by the Youth Entrepreneurship Initiative, whereas data from the others allow only a more superficial treatment. At a minimum, the analysis suggests the degree to which training and enterprise objectives are in conflict.

The fiscal analysis included in this evaluation represents program cost and enterprise cost as subsets of demonstration cost. These three categories are defined as follows:

- demonstration cost, cost associated with the initiative's objectives--learning, evaluation, replicability;
- program cost, cost associated directly with operating both the training and enterprise components; and
- enterprise cost, cost attributable only to business operations.

After making necessary adjustments for compatibility, Table IV-1 and Table IV-2 show these costs as defined above. (A detailed discussion of the method used in adjusting the cost data is provided in Appendix B.) As indicated by Table IV-1, total program cost ($402,674) accounted for 89.9 percent of the total demonstration cost. Enterprise operations--the "business" side of the Youth Entrepreneurship project--accounted for about $233,000, which is 52 percent of total cost and nearly 58 percent of project cost. Participant and training costs--representing the "training" side of the project--accounted for nearly $170,000, about 38 percent of total cost and 42 percent of program cost.

However, categorizing cost in this manner does not provide a complete picture of the cost of solar business operations. Table IV-2 shows these costs, broken down into gross categories. Of the $232,894 estimated for enterprise operating costs, administrative overhead and office and communication expenses (specific to the enterprise) accounted for 34.2 percent and 10.7 percent, respectively. Slightly more than 55 percent of the operating cost was attributed to the sale of solar units, i.e., "cost of goods sold," which included direct labor and materials cost.

Although industry data are not available for this type of business for comparison, we can make some general remarks about the profitability of the enterprises and effects of training objectives on profits (or the lack of profits).

Excess Overhead. High overhead can doom a fledgling business. This was the case with Sunsol. As measured by its sales volume, Sunsol had an average gross profit of $476 on each solar unit sold. Although this gross profit permitted nearly $21,000 in overhead, the actual overhead was nearly $80,000--thus an excess overhead of almost $59,000.1/

TABLE IV-1

SUNSOL: COMPOSITION OF COSTS

	Demonstration*		Program	
	$	%	$	%
Administration	$ 45,311	10.1	--------	----
Enterprise Operating Costs	232,894	52.0	$232,894	57.8
Participant Costs	127,358	28.4	127,358	31.6
Training Costs	42,512	9.5	42,512	10.6
Total	$448,075	100.0	$402,674	100.0

*/The in-house costs of P/PV's R&D work are not included since it has not been possible to disaggregate these on a project or program basis.

TABLE IV-2

SUNSOL: TOTAL ENTERPRISE OPERATING COSTS

Cost Category	Level ($)	Percentage (%)
Administrative Overhead*	$79,691	34.2
Office & Communications**	24,812	10.7
Cost of Goods Sold***	62,970	27.0
Other Operating Costs	65,421	28.1
Total	$232,894	100.0

*/Includes: Staff salaries allocated to enterprise operations, centralized corporate services, and consultant and professional services, all calculated from the monthly invoices.

**/Includes: Office expenses, telephone, occupancy; postage, express, etc.; and consumable supplies, all as itemized on the monthly invoices, except, in the case of Sunsol, for 20% ($540) of telephone expenditures allocated to Administration (A).

***/Includes: Direct labor, direct material, donations, installation supplies, fabrication supplies and other "expenses" as itemized on the profit and loss statements.

Enterprise Profitability. Enterprise profitability is shown in Table IV-3. The Sunsol enterprise sustained significant losses in every one of its 14 months as a P/PV project, from a high 939 percent of sales in July 1980, to a low of about 28 percent of sales in the last month (April, 1981). Total losses were $175,311, or 210 percent of sales. In a standard business enterprise, the extent of these losses would be judged with respect to capital invested. Strictly speaking, there is no investment capital in Sunsol, i.e., no debt or equity on which a "return" is expected or required.2/ Yet in every sense except a legal sense, most of the grants provided to Sunsol for the Youth Entrepreneurship Initiative should indeed be viewed as "capital." If the P/PV subcontract amount, $246,690, is used as a reasonable approximation of Sunsol investment capital 3/, Sunsol's return on investment was (-) 66.7 percent--a loss of two-thirds of its capital. (See Table B-1 in Appendix B.)

Training Effects. Sunsol provided training to 59 youth. (As mentioned in an earlier discussion, only eight were placed in jobs at the conclusion of training.) The estimated cost to provide this training was:

Direct Training Cost	$ 42,512
Trainee Wages	127,358
Excess Overhead	61,644
Total Estimated Training Cost.	$ 231,514 4/

This total cost is an indicator of the excess burden to be borne if employment and training objectives are accorded an importance as great as production or profit objectives in the Sunsol enterprise.

This estimate of training cost is only indicative of the effects of training on enterprise profitability. First, sales would have had to increase substantially to cover training cost. With an average unit sale price of $1,895, Sunsol would have had to sell 122 more units during the subcontract period simply to cover its training cost. (Only 44 units were sold.) Second, Sunsol would have needed to reduce either the number of individuals in training at any one time or the number of trainees used on installation jobs as a means of reducing training costs. Yet, this would only have reduced some training costs, while other training costs would have remained relatively fixed, e.g., equipment and materials. In short, few routes existed to adjust the cost of training downward.

TABLE IV-3

SUNSOL: ENTERPRISE PROFITABILITY
(March 1980 to April 1981)

Month	Sales($)	EOC($)*	Net Profit/ Loss	EOC/ Sales	Profit (loss) as % of Sales
March	-0-	9,066	$(9,066)	------	------ %
April	690	12,145	(11,455)	17.60	(-)1660.1
May	2,213	12,641	(10,428)	5.71	(-) 471.2
June	2,093	14,452	(12,359)	6.90	(-) 590.5
July	2,270	23,588	(21,318)	10.39	(-) 939.1
August	9,109	20,275	(11,166)	2.23	(-) 122.6
Sept	6,633	37,942	(31,309)	5.72	(-) 472.0
Oct	8,854	21,008	(12,154)	2.37	(-) 137.3
Nov	4,764	15,582	(10,818)	3.27	(-) 227.1
Dec	7,603	18,264	(10,661)	2.40	(-) 140.2
Jan	843	14,301	(13,458)	16.96	(-)1596.4
Feb	16,343	22,634	(6,291)	1.38	(-) 38.5
March	15,616	28,629	(13,013)	1.83	(-) 83.3
April	6,548	8,363	(1,815)	1.28	(-) 27.7
TOTAL	83,578	258,890	(175,311)	3.10	(-) 209.8%

*/Only a summary project report was available indicating how sales dollars were allocated against various cost categories. There is, therefore, no month-by-month accounting of this, so the total sales dollars used to defray Enterprise Operating Cost (EOC) items are simply allocated using a straight monthly average of $5,351 per month ($74,918 ÷ 14 months).

Other highlights of Sunsol's financial performance are:

- Sales were slow to develop and were very erratic. Overall, for the 14 months of data, the sales curve does show some upward movement; but every time there was an increase in a particular month sales fell back the following month. (See Figure B-1 in Appendix.)

- Enterprise operating costs tended to decline somewhat during the subcontract period, from an astronomical 16.96 times the January 1981 sales figure to less than 1.83 times the March 1981 sales total. For the 13 month period, operating cost averaged over 1.5 times sales. The thirteen months of net losses can be attributed to the erratic yet consistently high level of operating cost.

- Staff salaries (including fringe benefits) were consistently the largest operating expense item, averaging 46 percent of the total monthly invoice expense. Clearly, this is the single largest item contributing to high operating costs.

Sunsol's financial performance was extremely poor. The enterprise did show some growth in its sales, but this growth was unsteady. This problem was compounded by an excessive cost to produce and sell solar units, due in large part to the high operating expenses incurred by professional and trainee salaries and wages. Sunsol's constantly changing relationship to its parent organization, Chicanos Por La Causa, and the resultant absence of a clear marketing strategy contributed to the financial uncertainty of the business as well.

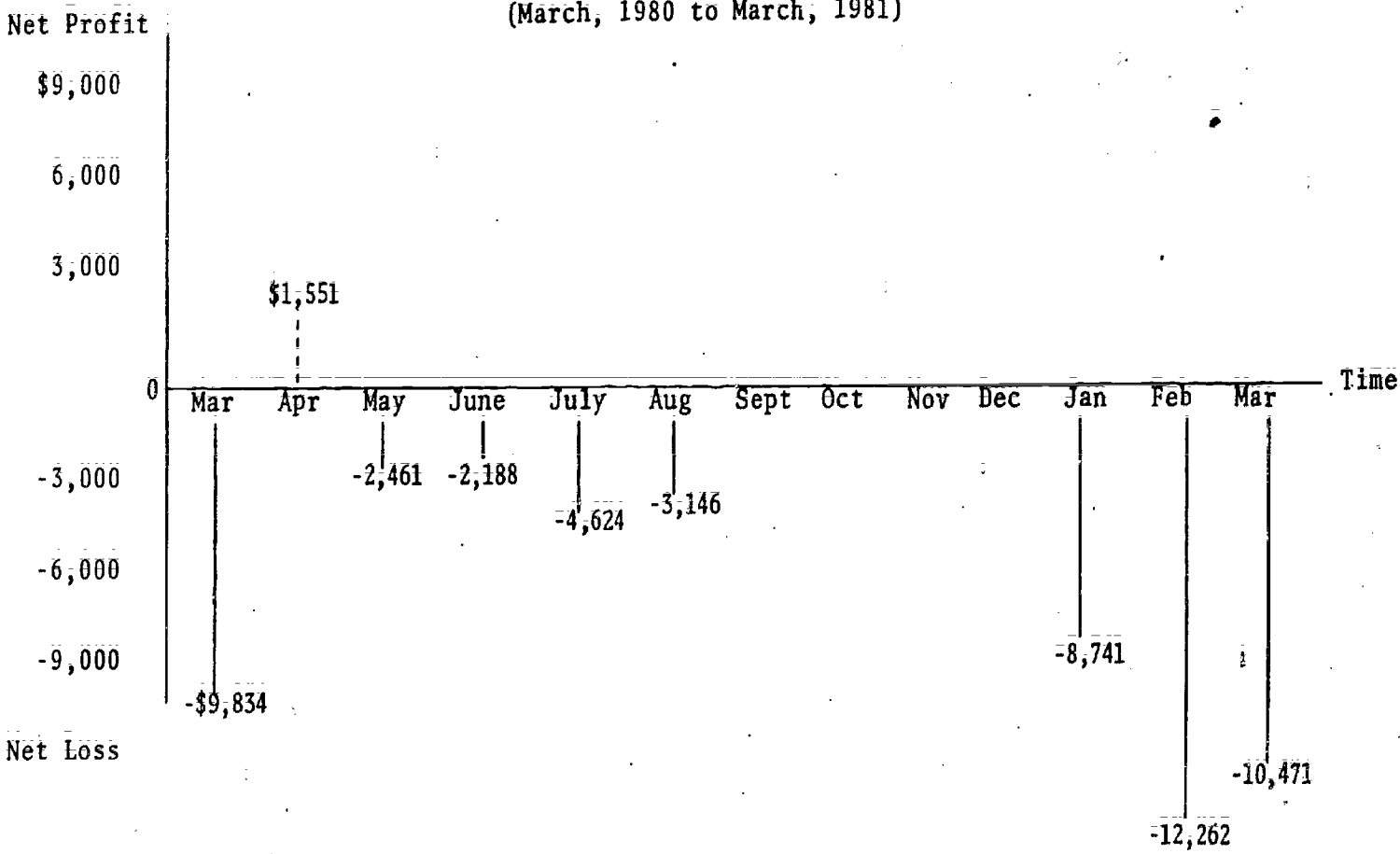
Beginner's Luck

The Beginner's Luck restaurant opened on March 7, 1980 and closed on June 30, 1981. Nine monthly profit and loss (P/L) statements are available--from March, 1980 through August, 1980 and from January, 1981 through March, 1981. None are available for the final three months of operation. The Beginner's Luck data also do not permit identification of enterprise costs distinct from demonstration costs. The following points can be made based on available data:

- In eight of the nine months of profit/loss data, losses were registered. Only April 1980 showed a small profit. (See Figure IV-1.)

FIGURE IV-1

BEGINNER'S LUCK: MONTHLY PROFIT OR LOSS
(March, 1980 to March, 1981)



NOTE: The Beginner's Luck contract period was from January, 1980 to July, 1981. Beginner's Luck was not in operation for period 9/1/80 to 12/31/80. Monthly Profit/Loss statements were not available for April, May and June of 1981.

- Sales were erratic. They show an initial increase, from $13,899 in March 1980 (the first month of operation) to $18,482 as of April 1980. The next four months, from May to August 1980 show a steady decline in sales. Sales increased steadily upward from $8,575 in January 1981 to $15,558 as of March 1981. (See Table B-2 in Appendix.)

- Operating expenses while moving in the same general direction as sales and cost of goods sold, averaged 101.78 percent of sales during the nine months of data availability. This is more than twice the industry average figure of 45.4 percent. The extremely high operating expense figures are the single most important reason for the heavy losses incurred by Beginner's Luck. For five of the nine monthly profit/loss statements, operating expenses averaged approximately 130 percent of sales. No small business can survive such a tremendous outflow of resources for long. (See Table B-2 and Figure B-4 in Appendix.)

- The adverse impact of high expenses on the profitability of Beginner's Luck is apparent from examination of the behavior of wage and salary expenses over the life of the business. A nine month analysis of data shows that two thirds (67 percent) of all operating expenses can be accounted for by wages and salaries. Even during the slow months of June, July, and August, wage and salary expenses averaged well over 68 percent of monthly operating expenses.

- Given the data for Beginner's Luck, without reducing operating expenses the restaurant would have had to average an additional $5,486.50 per month of revenues to break even during the eight months showing net losses. However, given Beginner's Luck inability to stem the rapid increase in cost of sales and operating expenses, this is an especially conservative estimate.

The financial performance of Beginner's Luck reflects a number of programmatic factors, such as the lack of continuity and direction caused by the high staff turnover rates. The decline in sales from May to August corresponds with a drastic reduction in the restaurant's student clientele produced by the University's summer break in classes.

The improvement in sales beginning in January 1981 coincides with the beginning of the new reformatted second cycle of Beginner's Luck training and operations.

In the case of Beginner's Luck, we lack the data to render an accounting and analysis of enterprise versus training costs as in Sunsol. The data presented above on profitability, operating costs, etc., suggest conclusions similar to the Sunsol case. There appear to be excessive operating costs, due in large part to the salaries and wage component which may be largely analogous to the excess overhead identified in Sunsol. There is here, too, a consistent pattern of losses, totaling $53,257. The latter implies a (-)19.3 percent return on the P/PV "investment" of $275,420. In sum, the failure of Beginner's Luck as an enterprise is also apparent from this evaluation.

Synergy II

The Educational Alliance's subcontract with P/PV to establish Synergy II commenced on April 1, 1980 and terminated on May 3, 1981. Although charges were made to the P/PV subcontract during this period, actual operation of the business did not commence until late June, 1980. Financial analysis of Synergy II is impeded by the following problems:

- Unlike Beginner's Luck and Sunsol, most monthly profit/loss statements for Synergy I and II are not available. While charges to P/PV per the monthly invoice summaries indicate monthly costs by project component, comparable sales summaries are not available for all months.

- The three Quarterly Fiscal Operating Reports available treat Synergy I and II as one business enterprise. Treating Synergy I and II in a consolidated manner allowed Synergy I to subsidize some of Synergy II's losses. This tended to inflate Synergy II's profit.

- One bank account was maintained for both businesses and some operating expenses were taken from a joint fund which does not appear to have been reimbursed by Synergy II when funds were used for that specific enterprise.

These problems mean that we are observing not Synergy II, but a composite of a new and an already established enterprise. Thus, to an unknown degree, the reported statistics are clearly biased as a representation of the performance of Synergy II. Profitability is overstated; and costs understated. Given the constraints of the data, certain analytical points can still be made.

- Viewed together, Synergy I and II (hereafter, simply "Synergy") generated sales of $99,708 during a nine month period (from April 1980 to December 31, 1980). Month-to-month, these sales increased, then decreased. (See Table IV-4.)

- It appears that although Synergy showed a strong capacity to generate business revenue, there was a lack of consistency in this trend. (See Table IV-5.)

- Based upon the computed quarterly expense figures, Synergy showed a profit in only one quarterly period of operation.

- Cost of operations for the June, September, and December quarterly statements remained considerably above the 60.4 percent industry average for apparel and accessory stores.

Synergy II appears to have been the least financially troubled of all three project enterprises and the one most likely to continue to operate successfully after the P/PV grant period. The boutique benefited from the earlier experience of Synergy I, both financially and through the seasoning which derives from having already operated a similar business. It is impossible here, as with Beginner's Luck, to provide quantitative estimates of the extent to which overhead, training and demonstration activities saddled the enterprise with excess costs and impaired enterprise viability.

CONCLUDING OBSERVATIONS

The three enterprises we have analyzed are very different--in locations, industries, histories and personnel. Yet their performance reveals similarities suggesting some general observations.

First, the tension between enterprise and training objectives is apparent in all cases, not only in the process documentation but in the numerical analysis presented thus far. This is not a surprising observation. The pursuit of a mixed training and profit agenda is especially problematic for new small businesses. Entrepreneurial histories point repeatedly to the compulsive, single-mindedness which characterizes an entrepreneur's efforts to build a business. With little capital and little help, the task of enterprise formation is consuming and difficult enough even for the

TABLE IV-4

SYNERGY II: SALES*
(June, 1980 to May, 1981)

Month	Gross Sales
June (5 weeks)	$ 6,719
July (3 weeks)	5,916
August (5 weeks)	41,841
September	12,492
October - December**	34,374
January	2,598
February	4,104
March	5,500
April	4,717
May	n/a

*/Gross Sales reported after the subcontract period or as follows: June, $13,313; July, $16,168; and August, $22,207.

**/ Gross Sales for this period are reported as a quarterly amount to P/PV by Synergy II.

TABLE IV-5

SYNERGY I & II: QUARTERLY SALES & EXPENSES
(April, 1980 to December, 1980)

Subcontract Quarter	Sales	Operating Expenses*	Net Profit or Loss
I**	$13,956	$16,149	($ 1,538)
II	60,249	44,434	$15,815
III	25,503	41,254	($15,751)

SOURCE: Youth Entrepreneurship Initiative, Quarterly Fiscal Operating Reports for quarters ending 6/30/80, 9/30/80, and 12/31/80.

*/Operating expense do not include participant training-related items.

**/Operating expenses for the quarter ending 6/30/80 are for a period of 5 weeks. Quarterly estimates for sales and operating expenses are $36,285 and $41,987, respectively.

most capable entrepreneurs, undistracted by other objectives. From the standpoint of business development, training functions are literally a distraction from the primary, most critical tasks, one which no new business can afford if it is to survive.

It would appear from the business literature that, to the extent multiple private and social objectives are pursued by business, they are pursued mainly by big businesses, by business excutives in their roles as socially conscious individuals lending time and money to charitable organizations. Even the largest businesses, though, never confuse their objectives--business development objectives are always primary and training objectives always secondary. Thus, one lesson from the enterprise standpoint of the P/PV Initiative is that mixed agendas do not work--both sets of objectives can be served on a sustained basis only if one set is clearly primary and the other is clearly secondary.

Second, the contrast in performance between Synergy and the other enterprises suggests the importance of starting up a enterprise from an existing business. Sharing of costs and the receipt of advice and management assistance from a similar successful business must be counted as factors contributing to Synergy's relative success. Again, to the extent that training activities are a significant demand on personnel time, the experience of Sunsol suggests that a new business in particular is not the framework in which to employ such activities.

Finally, the enterprises in this initiative probably should be viewed as variations on a theme of failure from the standpoint of capital consumption. Relative to most new small businesses, the enterprises in the P/PV Initiative enjoyed a small advantage in having access to large amounts of working capital. All of these enterprises, except Synergy, consumed capital at a rate which ensured business failure, even if the project-life time horizons were extended. Poor production management, poor marketing strategies, and inadequate fiscal systems doomed these enterprises--an outcome not unusual for small businesses.

NOTES

1/Average cost, average gross profit, and excess overhead were computed based on Sunsol estimates reported by CPLC which indicated that the average selling price for its solar units was $1,895. This implies 44 "units" were sold during the life of the project. The number 44 is an averaged rather than an actual number which accounts for the fact that the actual output was a mix of "installations" and "assemblies." Thus, the average cost of goods sold (COGS) per sales unit was $1,419, implying a gross profit per unit of $476 (25 percent of sales price). This permits nearly $21,000 in overhead to be sustained, where "overhead" means indirect costs of production. Actual overhead is estimated to be $79,691. Thus "excess" overhead in the Sunsol enterprise was nearly $59,000 ($79,691 - $20,944 = $58,747), a very high proportion (25 percent) of total EOC. If, in addition, one assumes that the enterprise must count depreciation costs against gross profit, then a lesser portion of gross profits is available to sustain overhead--only $18,000. This means that the "excess" is correspondingly greater: $61,644, or 26.5 percent of EOC. This is the more appropriate figure since an enterprise must be able to maintain and/or replace its capital stock.

2/In Chicanos Por La Causa's fall 1980, breakeven analysis, however, they expressed a desire to attain a 15 percent return on sales.

3/As an approximation, this is biased on the low side. Actually "investment" was higher since grants from other sources provided "working capital" to some degree.

4/Note, furthermore, this is a "program" cost estimate which omits the added burden due to "demonstration" related activities.

CHAPTER V

COST-EFFECTIVENESS ANALYSIS

This chapter presents an evaluation of the cost-effectiveness of "enterprise" and "training" outcomes as separate objectives. It also provides an analytical framework for viewing the trade-off between the two objectives at three of the enterprises -- Beginner's Luck, Sunsol, and Synergy II. OR/NE is not included in this analysis.

ENTERPRISE

A good deal of the cost-effectiveness of the Youth Entrepreneurship Initiative as an enterprise creator has already been indicated by the statistics and remarks of Chapter IV. This section, therefore, reduces the issue of the cost-effectiveness of the enterprises to one of profitability and compares the enterprises along this simple dimension.

The relevant statistics on enterprise profitability are shown in Table V-1. Since it has been established (in Chapter IV) that none of the enterprises were profitable, enterprises can only be ranked according to the extent of negative profits--that is, the enterprise with the least amount of losses. A rank can be ascertained by using a Return on Sales (ROS) index. According to this profitability ranking, Synergy II is preferred over the other two enterprises because it suffered the least amount of losses; and is followed by Beginner's Luck and Sunsol.

TRAINING

Analysis of the cost-effectiveness of the Youth Entrepreneurship training activities revolves around two aspects:

- the cost-effectiveness of the training activities, and
- the cost-effectiveness of "adding on" enterprise objectives to what is otherwise a training project.

TABLE V-1

YOUTH ENTREPRENEURSHIP ENTERPRISE PROFITABILITY

Enterprise	Return On Sales (ROS)	Variation*	Trend
Sunsol (14 mos.)	-66.7%	113	slightly up
Beginner's Luck (9 mos.)	-51.7	65	down
Synergy (4 qtrs.)	- 1.5**	2,800**	slightly up

*/This is the coefficient of variation, equal to the monthly mean of ROS's divided by their standard deviation (x100). This is an indication of uncertainty in profit performance.

**/These estimates for Synergy are crude, based on only quarterly data with two quarters (the first and second of 1981) missing and one quarter the first one following the end of the P/PV contract. The variation is large because of a large loss (-62%) during one quarter. The ROS's for the other quarters were, in sequence, 10.7%, 26.3% and 19%.

Table V-1 shows the index of profit variability for each enterprise which indicates the degree of uncertainty in profit performance. In the case of Synergy, the higher variation should not be interpreted as negating the significance of their higher profitability. The estimate is not based on monthly data, there are several month's data missing and the business is seasonal. There is bias, however, because some of Synergy II's costs were subsidized by Synergy I, so that the figure above (-1.5 percent) is an overestimate of Synergy II's profitability. Variation in profitability of each enterprise is high and there are no significant trends, except perhaps for Beginner's Luck.1/ (See Figures B-2 and B-4 in Appendix.)

Let us consider each of these in turn.

First, the cost-effectiveness of training activities can be viewed in terms of simple ratios which can be used to assess most federal training projects:

- cost per positive termination, and/or
- cost per job placement.

In these terms, negative terminations are viewed not as outcomes but simply as costs to be borne in producing positive outcomes.2/ Training costs are here defined as a combination of training costs per se (cost of instructors' time, etc.) and participant wages or stipends.

Table V-2 shows the average participant training cost for a positive termination generally, and for a job placement, specifically.3/ Beginner's Luck had the lowest cost per job placement, followed by Synergy and Sunsol. When considering cost per positive outcome, the same order emerges: Beginner's Luck had lowest cost and Sunsol the highest cost. In all cases these costs are noticeably high due to poor placement performances by the enterprises.

Thus, we rank the enterprises in terms of training cost-effectiveness as follows:

1. Beginner's Luck;
2. Synergy; and
3. Sunsol.

Second, the cost-effectiveness of adding enterprise objectives can be interpreted in economic terms as the "opportunity cost" of enterprise activities to a project-as-a-training program. The question to be asked then becomes: do the added benefits (revenues) exceed the added costs (extra materials and supplies, tools and equipment, management, marketing, etc.) for production and sales of goods or services? Sunsol is the only project for which this question can be answered with some degree of confidence, and the answer is clearly: no. Estimates (shown in Appendix B) indicate that the "marginal cost of enterprise" was over $149,000. This is about $50,000 higher than the most optimistic estimate of project sales revenues, which are the marginal benefits to enterprise,4/ if the extra (sales) revenues were to exceed the extra (enterprise) costs. Otherwise, the projects would be more cost-effective if the enterprise objectives were removed with training as

TABLE V-2

TRAINING COST FOR
BEGINNER'S LUCK, SYNERGY II, AND SUNSOL

	Beginner's Luck	Synergy II	Sunsol***
Total Training Costs*	$180,850	$151,117	$169,870
Total Job Placements	14	10	8
Total Positive Placements**	15	12	13
Average Cost per Job Placement	$ 12,918	$ 15,112	$ 21,233
Average Cost per Positive Placement	$ 12,057	$ 12,593	$ 13,067

*/Total training costs are participant costs and training.

**/Total positive placements include total Job Placement and Other Positive Placements.

***/$113,917.12 or 73% of all of Sunsol's total trainee costs were provided by Career Mobility. These figures incorporate the adjustments mentioned in the discussion of the Sunsol accounting scheme as shown in Appendix B.

the only project objective. Sunsol would have been more cost-effective by at least $6,250 per job placement (29.4% more cost-effective than actual) if, as a training program, it had not been "saddled" with the task of building a business. With similar accounting of project costs and similarly detailed data, one could make such estimates for the other enterprises in the initiative.

OVERALL EVALUATION

An overall picture of the projects' cost-effectiveness in terms of the initiative's two primary objectives is shown in Table V-3 and Figure V-1.

Clearly, Sunsol is the worst case since it generated the greatest loss per dollar of sales and the highest cost per job placement. On the enterprise score, both in terms of profitability, i.e., sustaining the least losses, and survival, Synergy is clearly the best case. However, Beginner's Luck should not be judged better than Sunsol since Sunsol may yet survive in some form.

The cost-effectiveness summation is still a mere juxtaposition and comparison of the separate outcomes, not an overall evaluation. The latter requires weights to be assigned to the multiple objectives to arrive at an overall evaluative measure. Since the weight assigned to the enterprise objective vis-a-vis the training objective is a value judgment on which thoughtful people can disagree, we have computed overall measures using three alternative sets of weights, as shown in Table V-4.

Sunsol is least cost-effective overall and Synergy the best. Synergy would be ranked second rather than first overall only if the training objective were given considerably more weight than the enterprise objective since Synergy's profitability is highly overestimated.

Conclusion

The cost-effectiveness of the enterprises in the P/PV experiments has been impaired by dual objectives. The evidence indicates that the burden of a mixed agenda works both ways--the cost-effectiveness of a youth entrepreneurship program-as-enterprise is reduced by the addition of heavy training responsibilities, and the cost-effectiveness of a youth entrepreneurship program-as-training program is reduced by the addition of heavy enterprise responsibilities. In the future, program designers should clearly designate one goal as "primary" and the other as "secondary," and design the program accordingly. Cost-effective program design and implementation suitable to serving the "enterprise" goal are very different from those suitable to

TABLE V-3

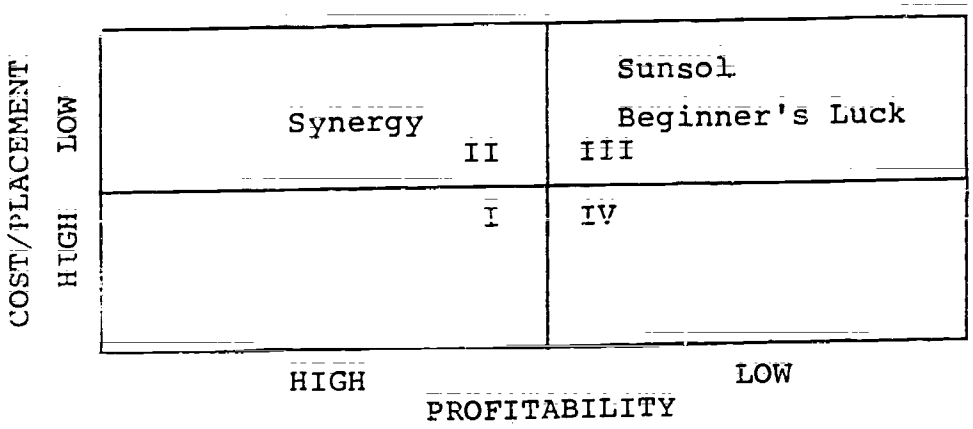
COST EFFECTIVENESS SUMMARY

	Profitablity		Cost per Job Placement	
	Return On Sales	(rank)*	Cost	(rank)*
Sunsol	-66.7%	(3)	$21,233	(3)
BL	-51.7%	(2)	$12,917	(1)
Synergy	- 1.5%	(1)	$15,112	(2)

*/"Rank" is from most favorable (1) to least favorable (3).

FIGURE V-1

BLOCK DIAGRAM-OVERALL EVALUATION



QUADRANT I - PREFERRED OUTCOMES
QUADRANT II - MODERATELY PREFERABLE OUTCOMES
QUADRANT III - UNPREFERABLE OUTCOMES
QUADRANT IV - MODERATELY PREFERABLE OUTCOMES

TABLE V-4

OVERALL EVALUATION MEASURES*

	Training	Enterprise	Ranking Sets** Set 1	Set 2	Set 3
Sunsol	1.41	44.47	22.9	33.7	12.2
Beginner's Luck	0.86	34.47	17.7	26.1	9.3
Synergy	1.00	1.00	1.0	1.0	1.0

*/Training and enterprise scores shown in Table V-4 were computed with the figures from Table V-3. Synergy is the base lone numerator to which the others are being compared.

**/The weights were assigned to enterprise and training objectives in the ranking sets as follows: in Set 1, enterprise (0.50) and training (0.50) objectives have equal emphais; in Set 2, enterprise (0.75) objectives are given greater emphasis than training (0.25) objectives; and in Set 3, enterprise (0.25) objectives are given less emphasis than training (0.75) objectives.

Thus, the overall evaluator measure for each program was computed as follows: $M = (\alpha * T) + (\beta * E)$ where M is the overall evaluator measure for each ranking set 1, 2, 3; α is the weight assigned to training objectives for each ranking set 1, 2, 3; T is the training score; β is the weight assigned to enterprise objectives for each ranking set 1, 2, 3; and E is the enterprise score.

serving the "training" goal, and vice versa. This conclusion is reinforced further by observing that project rankings along enterprise measures differ from those along training measures. One set of outcomes does not imply the other; i.e., to be cost-effective at training does not imply that program managers are cost-effective at enterprise development (and vice-versa).

NOTES

1/Trend is indicated by visual inspection of the graphs on enterprise profitability, not by statistical curve-fitting. See Figures B-2 and B-4 in Appendix.

2/As in the Sunsol case, where possible participant costs have been derived net of enterprise payment for actual productive time on-the-job.

3/"Participation" is not, and should not be defined, merely as a "body" count of enrollees. We adjust the participation figures to account for different numbers of program hours spent by participants in each project. (See Appendix B.)

4/"Most optimistic" refers to the likelihood, expressed in a Sunsol final report to P/PV, that Sunsol could liquidate its inventory at book value, thus generating $9,849 more in Sales revenues. This would raise total sales close to $100,000.

CHAPTER VI
FINDINGS AND RECOMMENDATIONS

SUMMARY

P/PV's Youth Entrepreneurship Initiative represented an investigation of the concept that, with assistance in capital formation or subsidy in the form of planning and technical assistance, firms staffed in whole or in part by young people can, first, compete in the marketplace and, second, have a long-term positive effect on the career prospects of participants.1/ After examining all of the enterprises funded by the initiative, our main conclusions are as follows.

ENTERPRISE TRAINING DID NOT INCREASE THE EMPLOYMENT PROSPECTS OF THE DISADVANTAGED YOUTH WHO WERE TRAINED DURING THE INITIATIVE.

Participation in the program had a short term positive effect on the careers of only a minority of the youth who enrolled in the initiative. Long term effects cannot be assessed.

ENTERPRISES WERE NOT ABLE TO PURSUE, WITH EQUAL EMPHASES, TRAINING OBJECTIVES AND ENTERPRISE OBJECTIVES.

Training objectives within small business enterprise must be secondary to business profitability and development objectives if the business is to survive. Business start-ups cannot serve as a training vehicle for disadvantaged youth without significantly increasing the risk of failure which is already high.

PROGRAM DESIGNS WERE NOT COST-EFFECTIVE FROM EITHER A BUSINESS OR TRAINING PERSPECTIVE.

The extremely poor financial performance of the businesses, combined with inadequate training results measured in terms of placement in private sector jobs, mitigates against finding this program approach cost-effective as either a way to establish a successful business or a way to enable youth to move into career laddering employment opportunities.

SPECIFIC FINDINGS

Employment and Training Outcomes

The findings associated with employment and training outcomes focus on the employability of participating youth.

1. The majority of youth who enrolled in youth entrepreneurship programs did not enter private sector jobs once they left the program. Only 60 percent of the participants completed their training. This shortfall had a negative impact on job placement rates, since placement efforts were directed primarily at program completers. At termination only 33.7 percent of the youth participating in the initiative had unsubsidized jobs.

2. Although very few youth were placed on jobs, youth employment after participation in Youth Entrepreneurship programs was characterized more as transient than stable. Only one participant moved into a management level job, and this was within a program enterprise, i.e., Synergy II Boutique.

3. While all program sponsoring organizations demonstrated an ability to provide some skills training, they demonstrated poor performance in job development and job placement. Training staff knew their subjects and their jobs and liked working with youth. Responses from trainees while enrolled were positive towards both the training content and staff, and most were particularly disposed toward the on-the-job training component. Poor performance in terms of job development and placement was fully apparent in low placement rates and the types of jobs obtained by participants

Enterprise Outcomes

The findings which apply to enterprise issues are concerned primarily with the ability of the enterprises to reconcile employment and training programming with business development.

1. Training and enterprise development could not be pursued as equal, compatible goals. Conflicts between enterprise objectives and training objectives were always sharp. The enteprises' experience demonstrates conclusively that the two sets of objectives cannot co-exist without one being subordinate to the other.

This was fully apparent in the case of Sunsol, where the evidence indicates that either goal alone could have been more cost-effectively pursued in the absence of the other. Conflicts, tensions and interference between the two goals are also revealed in the documentation of the experience of the other projects.

2. Youth entrepreneurship programming should not be pursued in the context of small business start-ups. Much of the observed conflict and/or incompatibility between training and enterprise goals pertains to the circumstances of small business start-ups. Indeed, given that all four programs in the initiative involved the start-up of new enterprises, the evidence cannot be extrapolated beyond this domain to suggest that training vs. enterprise conflicts pertain generally in already established and/or larger businesses. What can be concluded from the initiative is that the conflicts appear to be particularly acute and inimical to business survival in the case of start-ups laden with major training responsibilities. The single case of Synergy, moreover, is at least indicative that prospects for business survival (and some continuation of training activities at a lower level) are enhanced if the enterprise is not started "from scratch."

3. The projects demonstrated little skill in establishing new enterprises. All projects, to varying degrees, suffered from business related problems from planning to start-up and throughout their period of operation. These problems, while not unique among small business, were characteristic of the factors which contribute to their high failure rates. The sponsoring agencies' primary missions were not oriented toward business, but rather toward training and social service. Thus it is not surprising that the business skills necessary to plan, start, and operate a small business were generally not present.

4. All projects took a substantial amount of their subcontract period to become adjusted and work out problems. All of the projects suffered from a variety of start-up and organizational difficulties which caused lasting problems. The difficulties which were encountered had negative effects on enterprise operations, effects magnified by relatively short project lifetimes.

5. Without substantial subsidies none of the enterprises were in a position to be self-sustaining at the conclusion of P/PV funding. All of the enterprises except Synergy had sustained substantial losses when their P/PV grant ended. In order to continue in operation they would have required a further injection of capital. While the Restaurant School had no interest in continuing the Beginner's Luck operation, both Sunsol and Synergy made efforts to remain in business. In both cases, this required a drastic staff reduction. Continuation of the training role at the project's subcontract levels (while in the P/PV Initiative) would have required the continuation of substantial subsidies.

RECOMMENDATIONS AND IMPROVEMENTS TO THE MODEL

The findings described above suggest that the youth entrepreneurship model, where new fledgling small businesses are saddled with responsibilities for training disadvantaged workers, was not successful at meeting either of its equally emphasized objectives. These businesses, on the whole, did not approach profitability and were not very successful at improving the employment prospects of the trainees. This does not mean, however that the basic concept--providing training to disadvantaged youth within the setting of a small business--cannot work. When operationalizing the notion of disadvantaged youth in small business, three recommendations based on the findings in this report are offered:

- Enterprises should not be required to carry any more trainees than normal staffing levels permit.2/

- Linkages with local training and economic development should be forged at the program design stage to ensure that (1) businesses which are selected reflect the strong or growth industries in the community and, (2) businesses which are selected anticipate entry level employment opportunities to continue in coming years.

- Youth entrepreneurship projects should also be linked to neighborhood, community-based organizations and/or private sector businesses which can establish necessary "support systems" to provide technical and management assistance.

In order for training to work in a way consistent with enterprise survival and development, however, youth entrepreneurship program designs clearly must undergo significant modification before there is any further attempt at replication.

Notes

1/Public/Private Ventures, "Private Sector Initiative Demonstration Project, Youth Entrepreneurship: A Concept Paper," Philadelphia, 1978 (mimeograph).

2/What is "normal" should be judged by reference to the level of any subsidy provided and the percentage of entry level employees found in comparable firms.

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APPENDIX A

FINANCIAL NARRATIVE OF OPEN ROAD/NEW ENTERPRISES BUSINESSES

This narrative, which is taken from P/PV's "Third Interim Research Report," (DOL's Office of Youth Programs) describes the financial status of the eight enterprises in the Open Road/New Enterprises Project at the conclusion of their participation in the P/PV Demonstration. Table A-1 shows the methods used to capitalize each auto repair shop. Figures A-1 to A-10 illustrate the profitability of the enterprises.

- Auto Mech International

  Auto Mech International, located in Van Nuys, California began operation in June, 1979. Originally capitalized at $20,000, this investment grew to $48,000 in contributed equity by September 30, 1979. Unprofitable since inception, Auto Mech was plagued by continuing and increasing operating losses through September 30, 1979 (last financial information available). Although well capitalized (e.g. no debt burden), Auto Mech quickly ran through its cash in order to fund the operating losses it was sustaining. Auto Mech subsequently went into a hold position as the New Enterprises Program, Inc., sought to divest itself and bring in new ownership in hopes of reversing the loss situation. Auto Mech International closed in February, 1980, with a total loss of $14,000. $5,000 in debts and various lease costs were still outstanding.

- C & R Garage

  C & R began operation in September, 1979 in Hartford, Connecticut under the auspices of the Citizen's Policy Center and with major funding provided by the Aetna Life Insurance and Casualty Company and the Hartford Insurance Group ($45,000). Of that sum, $27,000 represents an equity investment in C & R by the Citizen's Policy Center following a transitional ownership period during which the New Enterprises Program, Inc., negotiated the phased purchase of the company from its previous owners. C & R began operation under NEP with substantial cash but was incurring a modest loss. During the month of October C & R began making financial progress. However, this could not be sustained and by the end of the year C & R was operating at a

$10,000 loss. In April, 1980 the New Enterprises Program, Inc., decided to terminate its relationship and return the firm to the original owners, forfeiting approximately $20,700 in cash, leasehold improvements and equipment. C & R also was approximately $12,300 in debt including $7,300 owed to the Internal Revenue Service.

- Central City Auto

Central City Auto began operation in late 1979 and was severely undercapitalized at $20,000. Financial information, when available is quite sketchy, however, as in the case of the previously described firms, it is characterized by an initial loss period which continued until the business was closed at the end of the calendar year with an accumulated loss of close to $18,000. Central City Auto closed with $5,000 in debt.

- Crescenta Valley Motor Works

Crescenta Valley Motor Works, located in Montrose, California began operation in the first quarter of 1978. There is little financial information available on the company up to August of 1979 when Crescenta closed. Available information, however, reflects relatively strong capital contributions ($50,000) which are offset by immediate and recurring operating losses. By August 1979, Crescenta had an accumulated deficit of $30,000 which technically made it insolvent without an infusion of funds. At closure $4,000 was due to creditors.

- East Bay Automotive

East Bay Automotive, located in Berkeley, California was organized in late 1979. It was capitalized at approximately $40,000. Again, although the financial information is fragmentary, we can see that chronic operating losses resulted in a severely reduced equity base. The ult[illegible]nclusion was for New Enterprises [illegible], to attempt to divest itself of the [illegible] in early 1980. A conditional agreement of sale was signed in May 1980 for $3,200 cash and $12,000 in back taxes and liabilities.

- Embarcadero Garage

Embarcadero Garage was formed in July, 1979 in San Francisco, California, although it experienced no sales until December. The business was severely undercapitalized at $25,000. An accumulated operating deficit of approximately $10,000 did not prevent the manager from entering into a purchase agreement with New Enterprises Program, Inc. The manager agreed to purchase Embarcadero for $17,000. The business had no debts.

It is possible that Embarcadero will not suffer the same pattern of losses as the other shops. It is typical in the start-up phase to suffer operating losses and, in the case of Embarcadero there is some hope that this pattern may be reversed should it continue operation.

- Precision Motor Works

Precision Motor Works, one of the original New Enterprises Program, Inc., businesses began operation in November, 1977 in Ventura, California. The second venture of NEP, it reached break-even within one month of operation. However, relatively high labor costs depressed the profitability of the company and ultimately, coupled with lack luster sales drove it into loss position. Sufficiently capitalized at $44,000 Precision Motor Works was able to absorb the losses better than the other enterprises. Precision, clear of all debts, was sold to the manager for $5,000.

- Santa Barbara Motor Works

Santa Barbara Motor Works, located in Santa Barbara is the first of the New Enterprises Programs, Inc., businesses. Opened in November, 1977 we only have balance sheet information for the period beginning June, 1978. Begun with a well thought out marketing plan, Santa Barbara, however, never reached consistent profitability. Original capitalization was $40,000 although $60,000 was stated as desirable for Santa Barbara Motor Works.

CAPITAL STRUCTURE OF OPEN ROAD /NEW ENTERPRISES

Enterprise	Total Capitalization	CPC/NEP***	Limited Partners	Owners
Santa Barbara Motor Works	40,000	35,000	15,000	000
Precision Motor Works*	44,000	22,000	000	22,000
Crescenta Valley Motor Works**	50,000	20,000	30,000	000
Auto Mech International	48,000	30,000	18,000	000
East Bay Automotive	40,000	40,000	000	wholly-owned by CPC/ NEP, Inc.
C & R Garage	27,000	27,000	000	wholly-owned by CPC/ NEP, Inc.
Central City Auto	20,000	20,000	000	wholly-owned by CPC
Embaracadero	25,000	25,000	000	wholly-owned by CPC

SOURCE: P/PV, "Youth Entrepreneurship: Third Interim Report." Report to U.S. Department of Labor, Office of Youth Programs, Washington, D.C., Winter, 1980.

*/ PMW was a joint venture with the enterprise manager as a co-owner.

**/ CVMW was closed on 5/30/79, CPC transferred its capital contribution to Central City Auto ; partners lost their investment.

***/CPC is used here in place of Citizen's Policy Center, Inc. and NEP is used in place of New Enterprises Program.

FIGURE A-1

PROFIT/LOSS: AUTO MECH INTERNATIONAL
(1979)

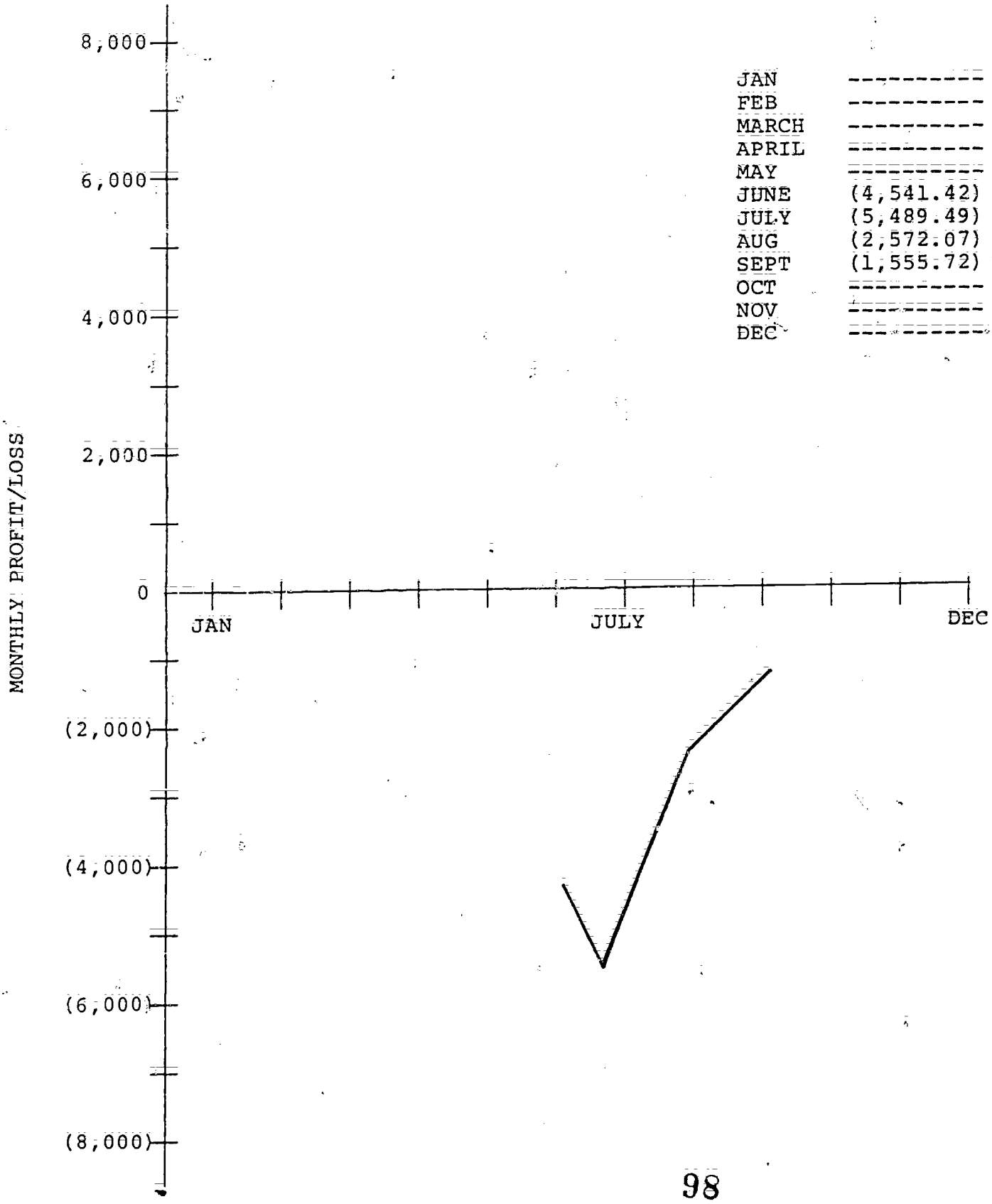
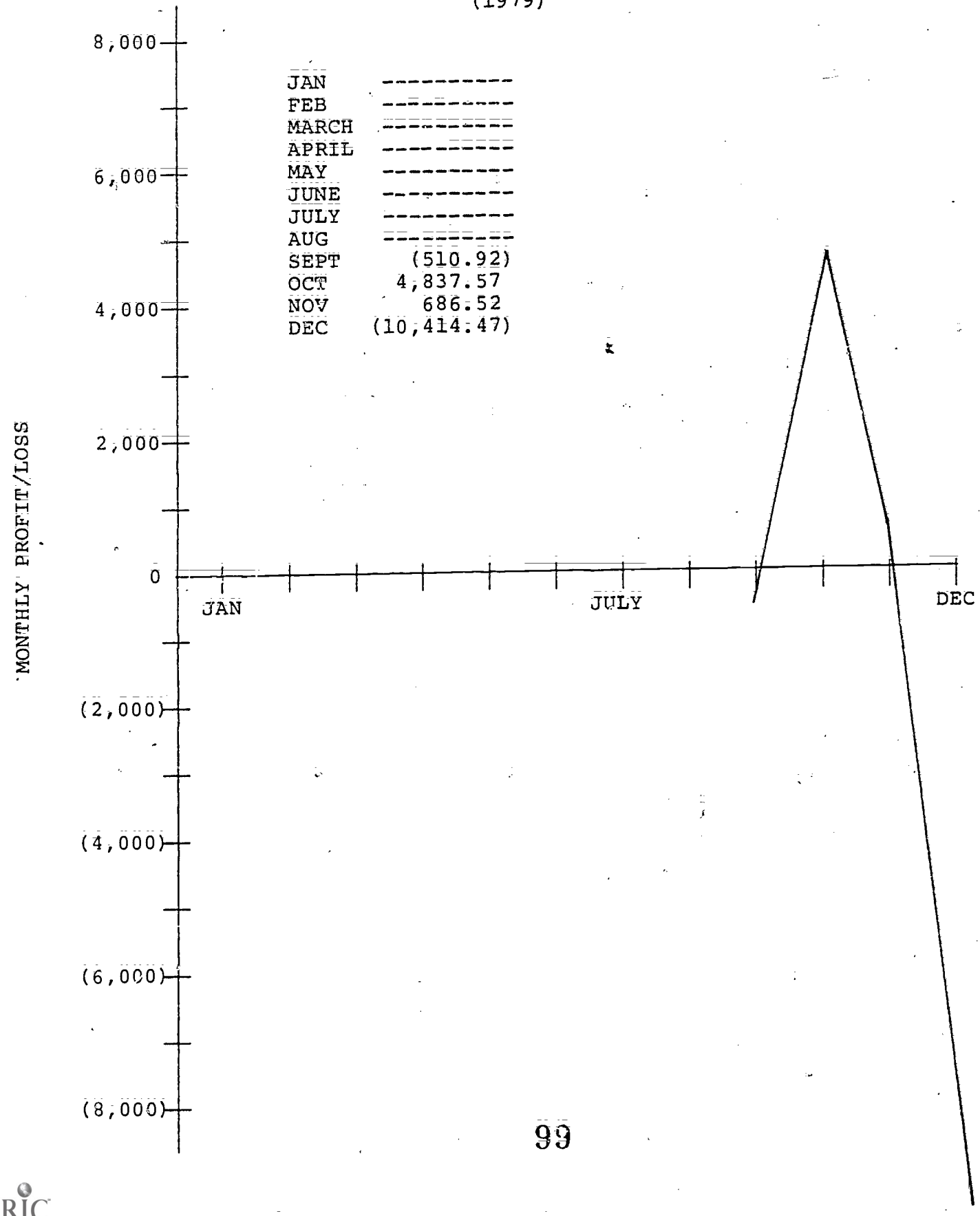


FIGURE A-2

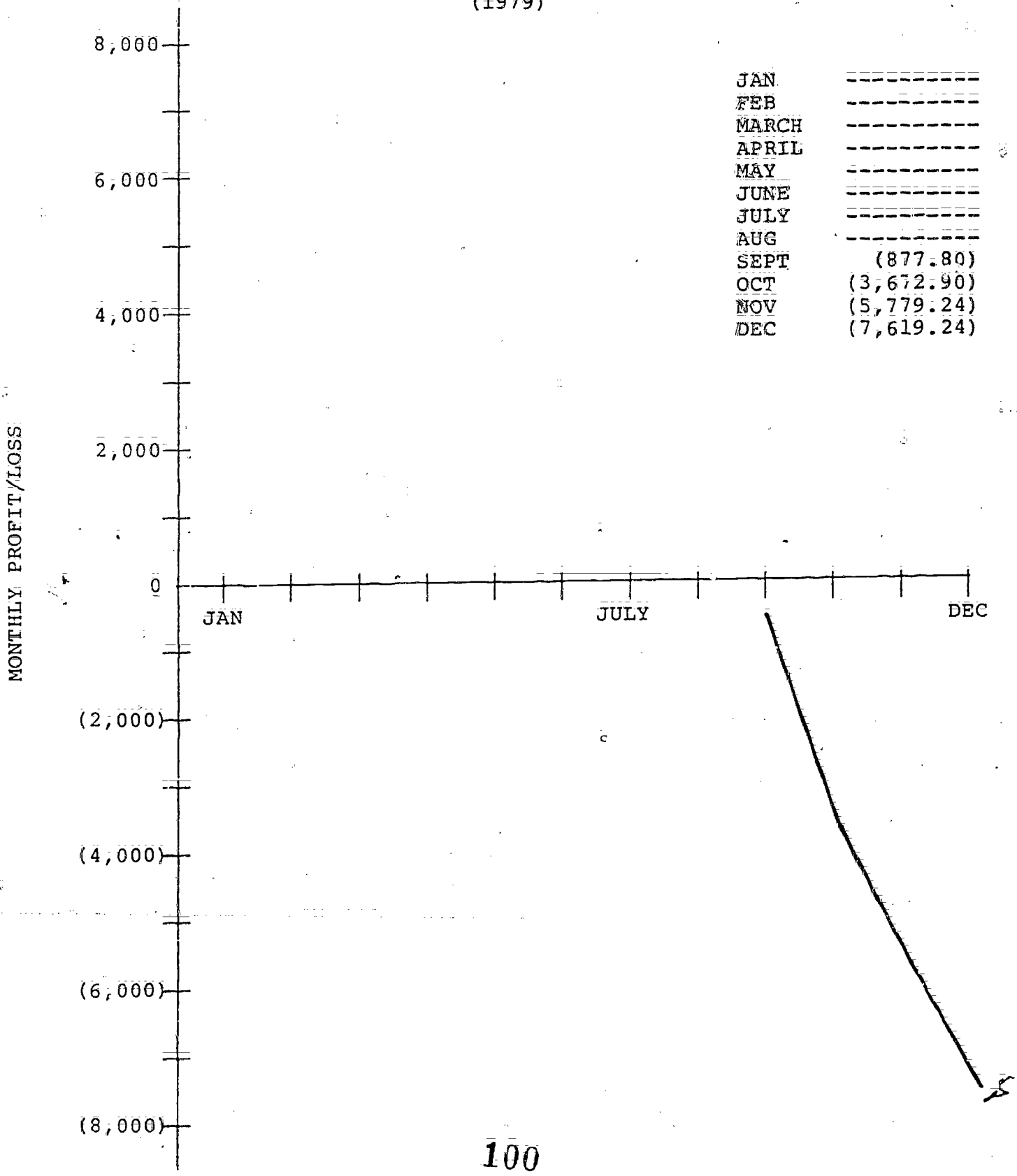
PROFIT/LOSS: C & R GARAGE
(1979)



JAN	----------
FEB	----------
MARCH	----------
APRIL	----------
MAY	----------
JUNE	----------
JULY	----------
AUG	----------
SEPT	(510.92)
OCT	4,837.57
NOV	686.52
DEC	(10,414.47)

FIGURE A-3

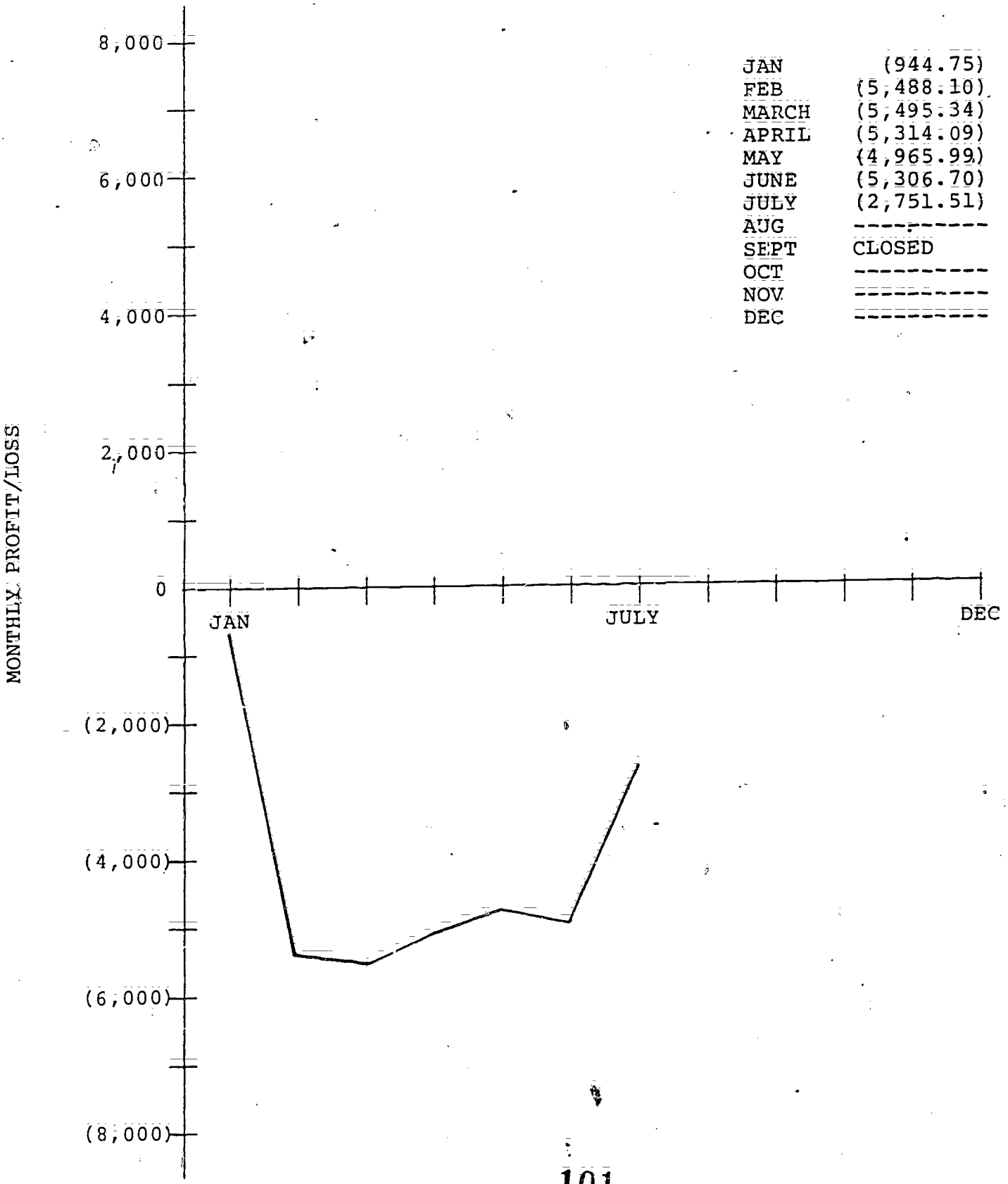
PROFIT/LOSS: CENTRAL CITY AUTO
(1979)



JAN	----------
FEB	----------
MARCH	----------
APRIL	----------
MAY	----------
JUNE	----------
JULY	----------
AUG	----------
SEPT	(877.80)
OCT	(3,672.90)
NOV	(5,779.24)
DEC	(7,619.24)

FIGURE A-4

PROFIT/LOSS: CRESENTA VALLEY MOTOR WORKS
(1979)



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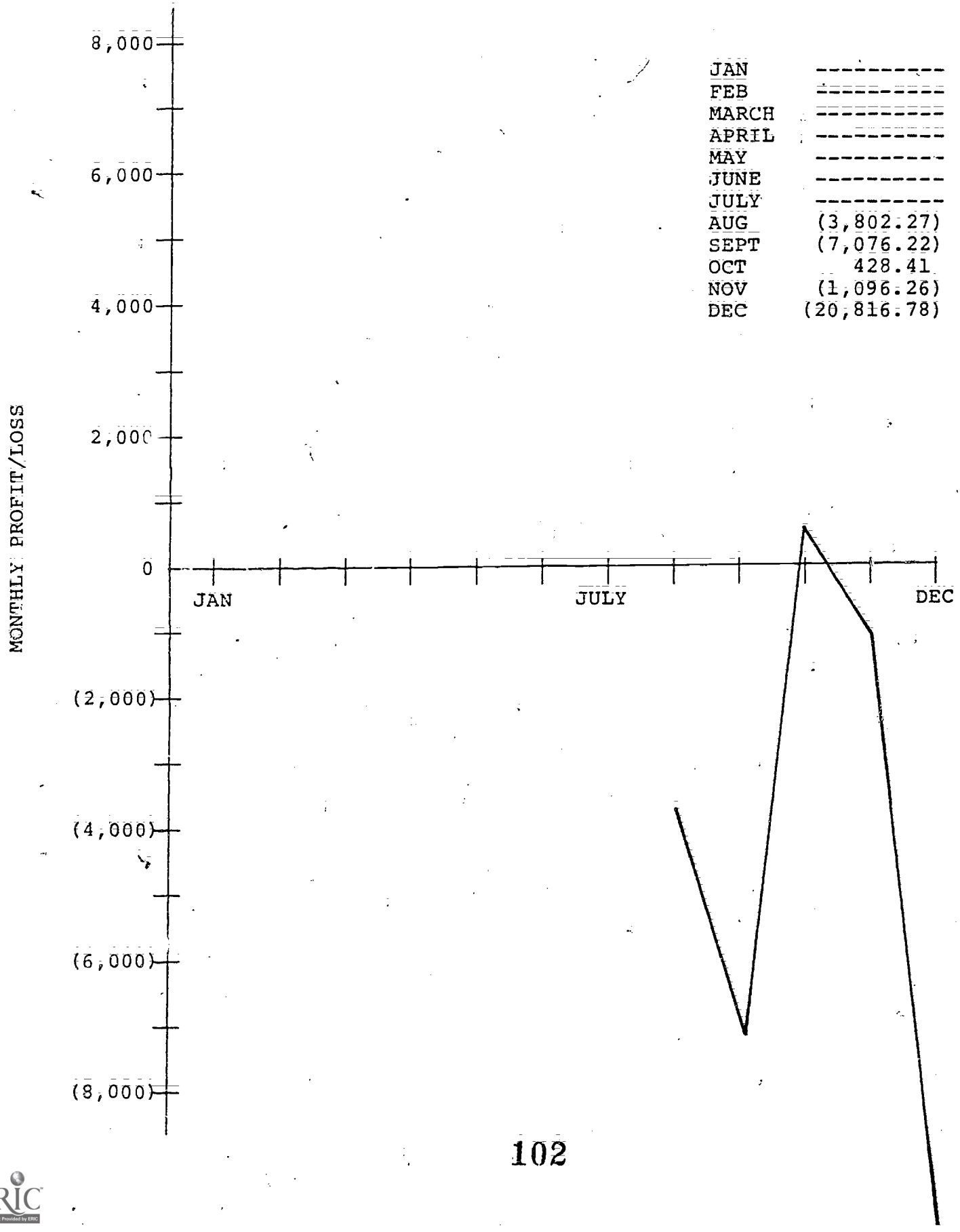
FEB	(5,488.10)
MARCH	(5,495.34)
APRIL	(5,314.09)
MAY	(4,965.99)
JUNE	(5,306.70)
JULY	(2,751.51)
AUG	----------
SEPT	CLOSED
OCT	----------
NOV	----------
DEC	----------

FIGURE A-5

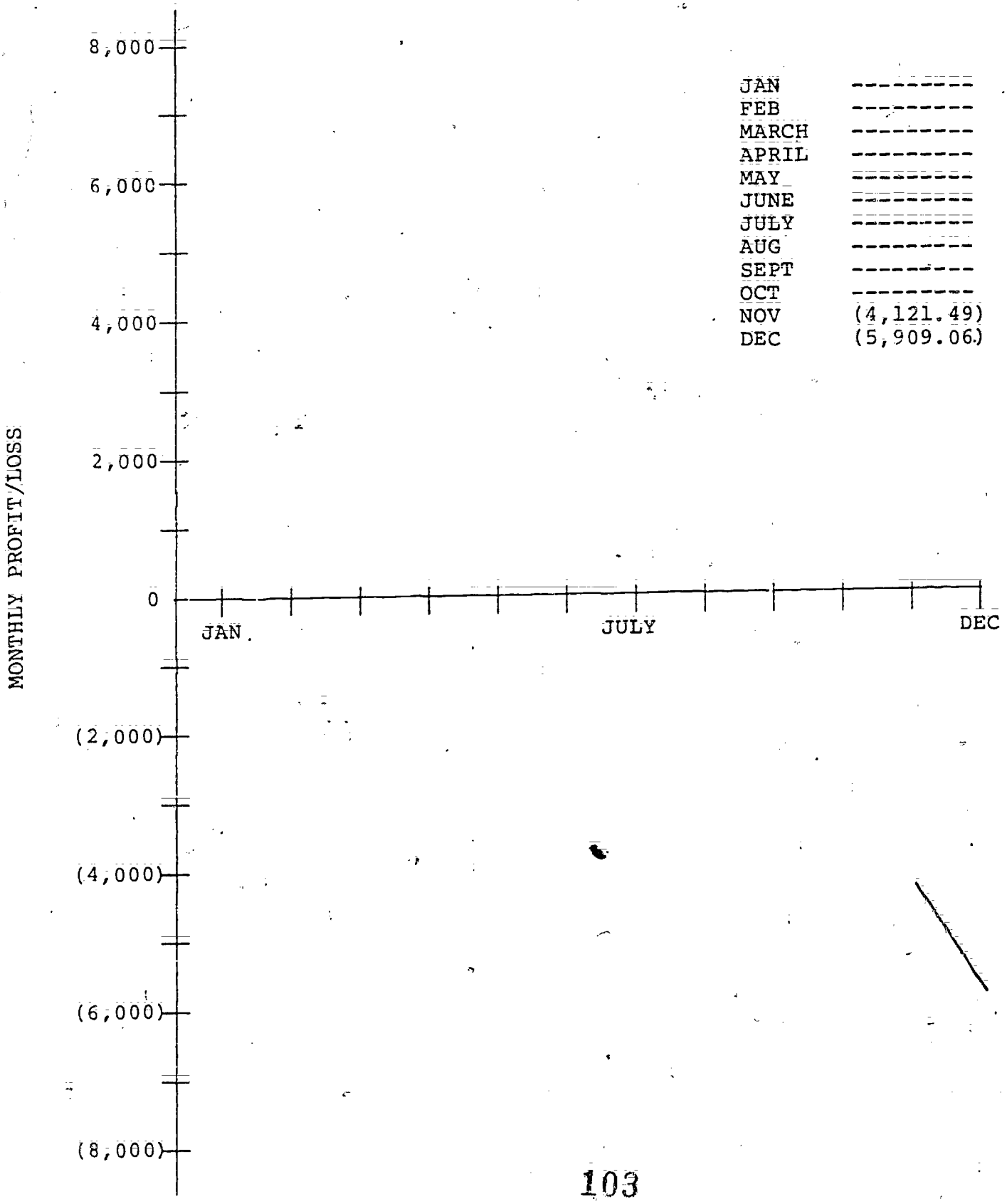
PROFIT/LOSS: EAST BAY AUTOMOTIVE REPAIR
(1979)



JAN	----------
FEB	----------
MARCH	----------
APRIL	----------
MAY	----------
JUNE	----------
JULY	----------
AUG	(3,802.27)
SEPT	(7,076.22)
OCT	428.41
NOV	(1,096.26)
DEC	(20,816.78)

FIGURE A-6

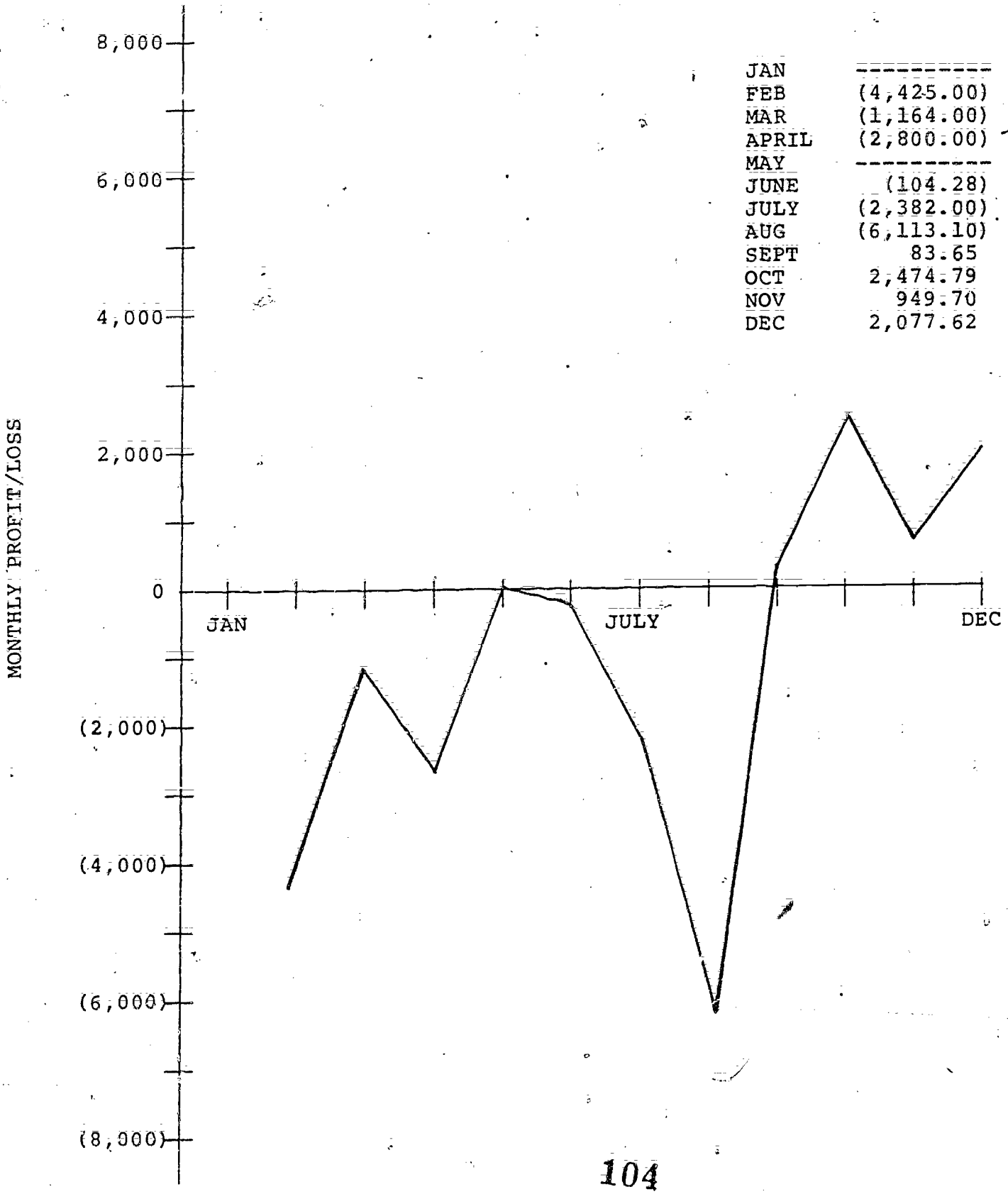
PROFIT/LOSS: EMBARCADERO AUTOMOTIVE
(1979)



JAN	---------
FEB	---------
MARCH	---------
APRIL	---------
MAY	---------
JUNE	---------
JULY	---------
AUG	---------
SEPT	---------
OCT	---------
NOV	(4,121.49)
DEC	(5,909.06)

FIGURE A-7

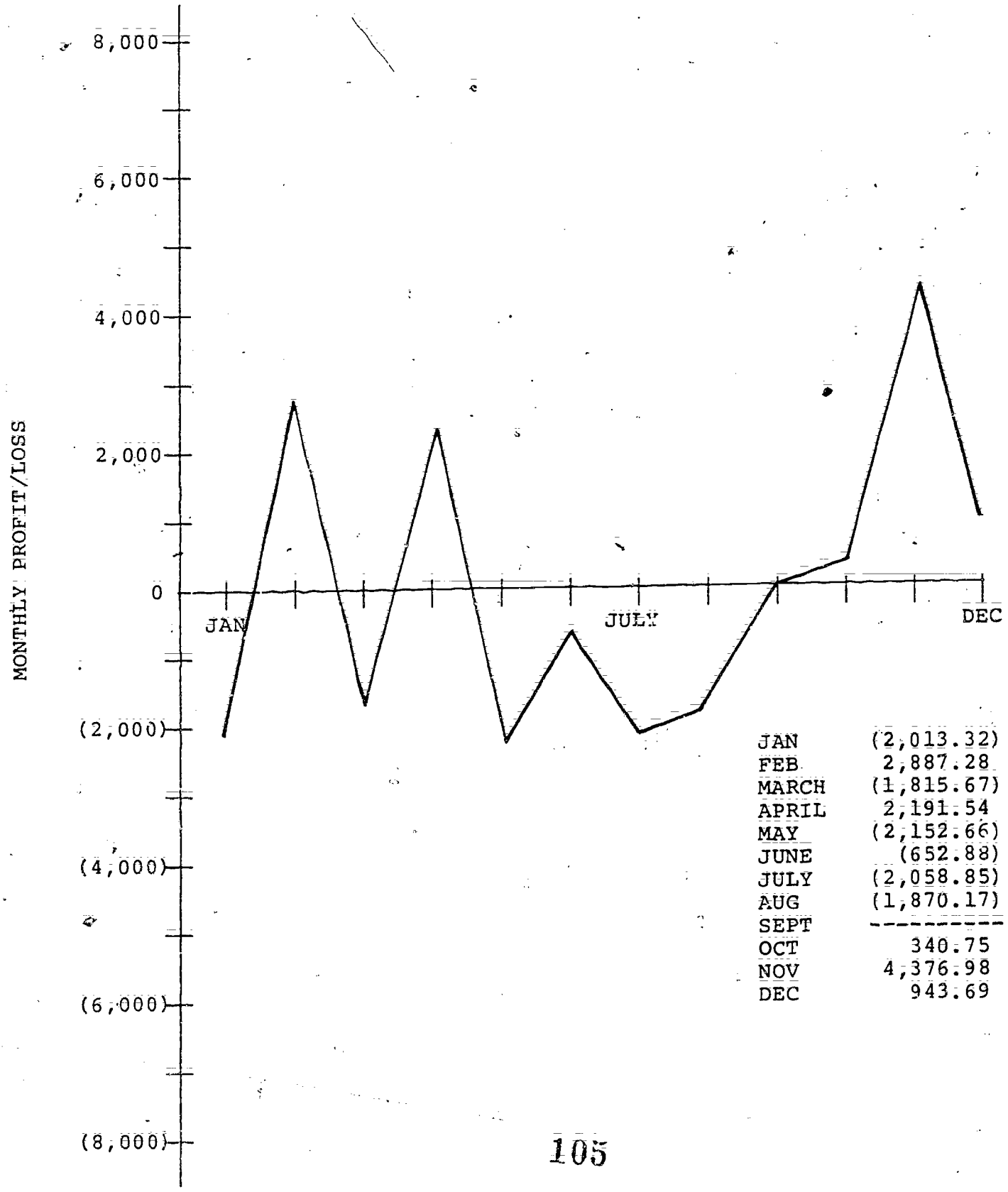
PROFIT/LOSS: PRECISION MOTOR WORKS
(1978)



JAN	----------
FEB	(4,425.00)
MAR	(1,164.00)
APRIL	(2,800.00)
MAY	----------
JUNE	(104.28)
JULY	(2,382.00)
AUG	(6,113.10)
SEPT	83.65
OCT	2,474.79
NOV	949.70
DEC	2,077.62

FIGURE A-8

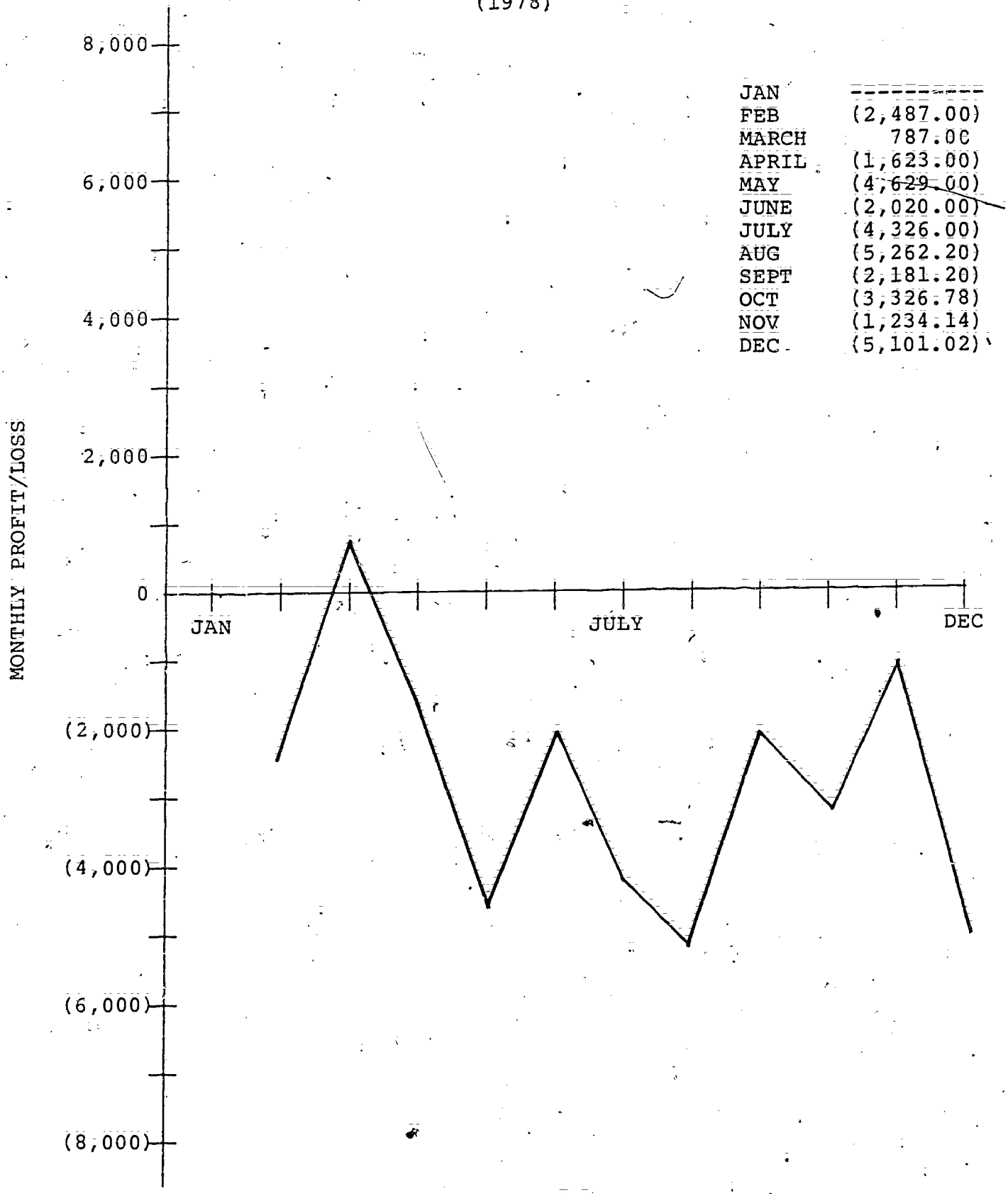
PROFIT/LOSS: PRECISION MOTOR WORKS
(1979)



JAN	(2,013.32)
FEB	2,887.28
MARCH	(1,815.67)
APRIL	2,191.54
MAY	(2,152.66)
JUNE	(652.88)
JULY	(2,058.85)
AUG	(1,870.17)
SEPT	----------
OCT	340.75
NOV	4,376.98
DEC	943.69

FIGURE A-9

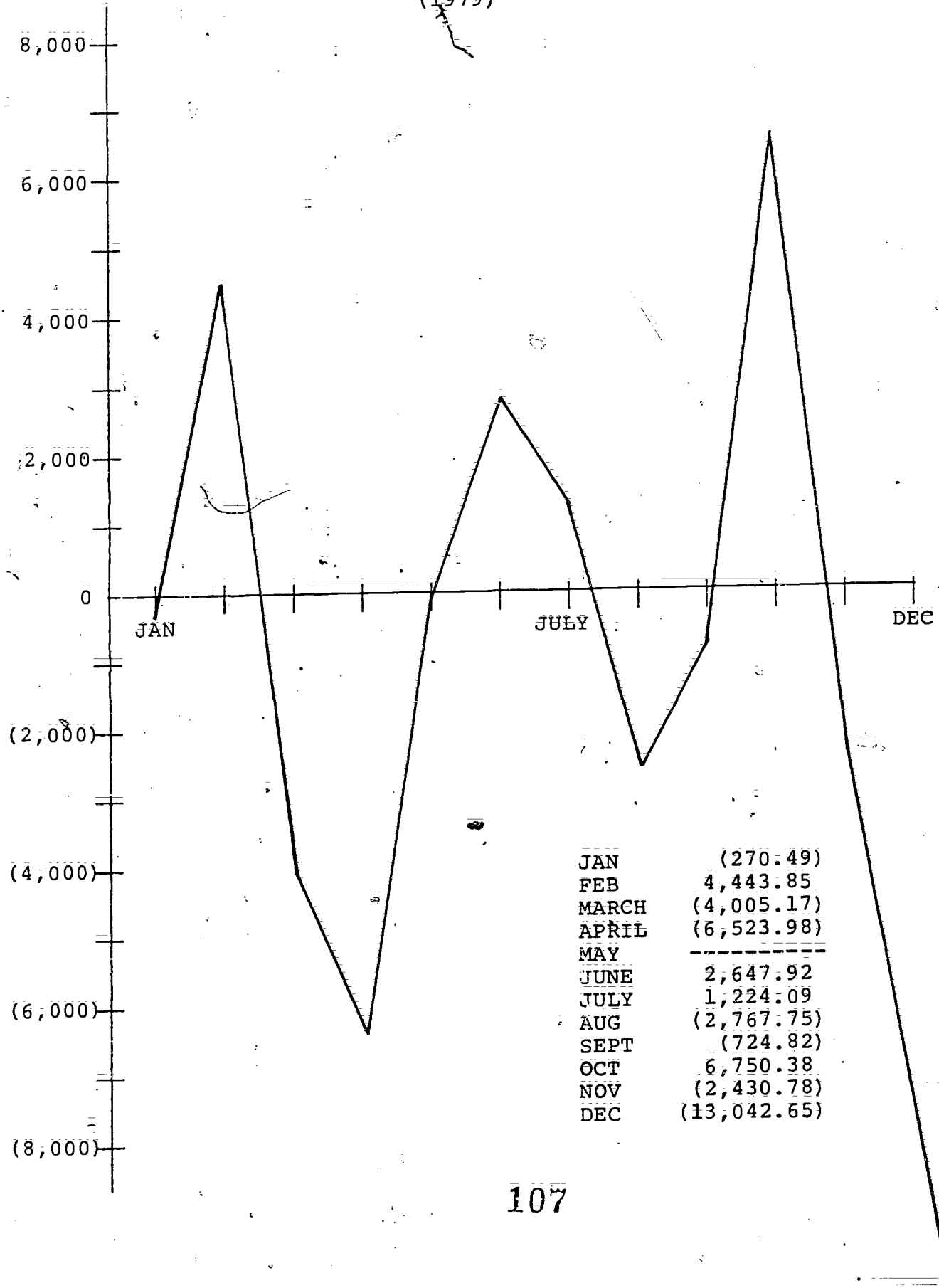
PROFIT/LOSS: SANTA BARBARA MOTOR WORKS
(1978)



JAN	----------
FEB	(2,487.00)
MARCH	787.00
APRIL	(1,623.00)
MAY	(4,629.00)
JUNE	(2,020.00)
JULY	(4,326.00)
AUG	(5,262.20)
SEPT	(2,181.20)
OCT	(3,326.78)
NOV	(1,234.14)
DEC	(5,101.02)

FIGURE A-10

PROFIT/LOSS: SANTA BARBARA MOTOR WORKS
(1979)



JAN	(270.49)
FEB	4,443.85
MARCH	(4,005.17)
APRIL	(6,523.98)
MAY	----------
JUNE	2,647.92
JULY	1,224.09
AUG	(2,767.75)
SEPT	(724.82)
OCT	6,750.38
NOV	(2,430.78)
DEC	(13,042.65)

APPENDIX B

COST CALCULATIONS AND ALLOCATION: ENTERPRISE AND COST EFFECTIVE ANALYSIS

The estimates used in the enterprise development (Chapter IV) and cost effectiveness analysis (Chapter V) were calculated according to allocation methods presented below. Although only the Sunsol enterprise computations are shown here, similar methods were used in cost discussions on Synergy and Beginner's Luck.

I. Enterprise Analysis

Overall Allocation

The distribution of Sunsol's P/PV subcontract funds were based on the report amounts from Sunsol's final invoice to P/PV:

Cost Category	Cost	Percentage of Cost Category	Percentage Attributed to Salaries & Fringes
Administrative	$ 31,828	12.9%	26.2%
Enterprise Operations	140,876	57.1	43.9
Participant	37,651	15.3	----
Training	36,335	14.7	29.9
	$246,690	100.0%	100.0%

Allocation of Receipts from Sales

Total amount received from the sale (of solar products or services) were distributed across cost categories:

Cost Category	Sales $	Sales ($) Allocated to Salaries & Fringes	Sales ($) Allocated to Non Salaries & Fringes
Administrative	$ 4,808	$ 4,808	$------
Enterprise Operations	71,758	8,055	63,703
Participant	------	-------	-------
Training	5,486	5,486	-------
Total	$82,052	$18,349	$63,703

Administrative (Adjustments and Estimates)

Telephone (20%) + Travel ($460)	$ 1,000
Contract Management (invoice)	31,828
Youth Training Center (YTC)	2,365*
Screening (from final contract @$80 per trainee)	4,720
ETS participation (@$10 per trainee)	590
Allocation of Sales $ to Salaries & Fringes	4,808
Total Administrative Cost (for P/PV Demonstration)	$45,311

Enterprise Operations (Adjustments and Estimates)

(-)	Telephone (20%) + Travel ($4,600)	$ -1,000
+	Invoice Total	140,876
+	Cost of Goods Sold/Direct Labor	17,100
+	Allocation of Sales $ to Non-Salaries & Fringes	63,703
(-)	Screening (from final contract)	-1,840
+	Allocation of Sales to Salaries & Fringes	8,055
+	49.3% of "Chiefs" (advanced participants) salaries	6,000
	Total Enterprise Costs	$232,894

Participant (Adjustments and Estimates)

Quarterly Report Total	$156,635
(-) Cost of Goods Sold/Direct Labor	-17,100
(-) "Chiefs" (advance participants) salaries	-12,177
Total Participant Costs	$127,358

Training (Adjustments and Estimates)

Invoice (instructor salaries)	$ 36,335
50.7% of "Chiefs" salaries	6,177
Total Training Costs	$ 42,512

With the calculations above, we can allocate costs as follows:

Cost Category	Total Demonstration $	Total Demonstration %	Total Project $	Total Project %
Administration	$ 45,311	10.1	-------	-------
Enterprise Operating Costs	232,894	52.0	$232,894	57.8
Participant Costs	127,358	28.4	127,358	31.6
Training Costs	42,512	9.5	42,512	10.6
Total	$448,075	100.0	$402,674	100.0

II: Cost Effectiveness

Marginal "Direct Opportunity Costs of Enterprise Vis a Vis Training Functions

Direct Costs:

Business management	$ 64,965
Extra (incentive) wages	58,531
Added Office, space, travel communications expenses (including truck)	
--- travel (all, p[illegible] final contract)	11,356
--- telephone ($75 mo + $47.78 installation charges)	1,600
--- office supplies (½ of contract amount)	3,852

Other Costs:

--- Consultants & Professional Services (legal accounting, screening)	$ 5,703
--- Publications	701
--- License	1,966
--- Conferences, exhibits, etc.	800
Total Cost	$149,474
Sales (deductions)	82,052
Marginal "Direct" Opportunity Cost of Enterprise	$ 67,432

Marginal Opportunity Costs of Training Functions Vis a Vis Enterprise

Training Costs	$ 42,512
Participant Costs over & above Cost of Goods Sold/Direct Labor	127,358
Excess Overhead Costs	45,311
Estimated Administrative Costs	61,644
Marginal Opportunity Cost of Training	$276,825

TABLE B-1

SUNSOL: SALES ENTERPRISE OPERATING EXPENSES (EOC) AND GROSS MARGIN
(March, 1980 to April, 1981)

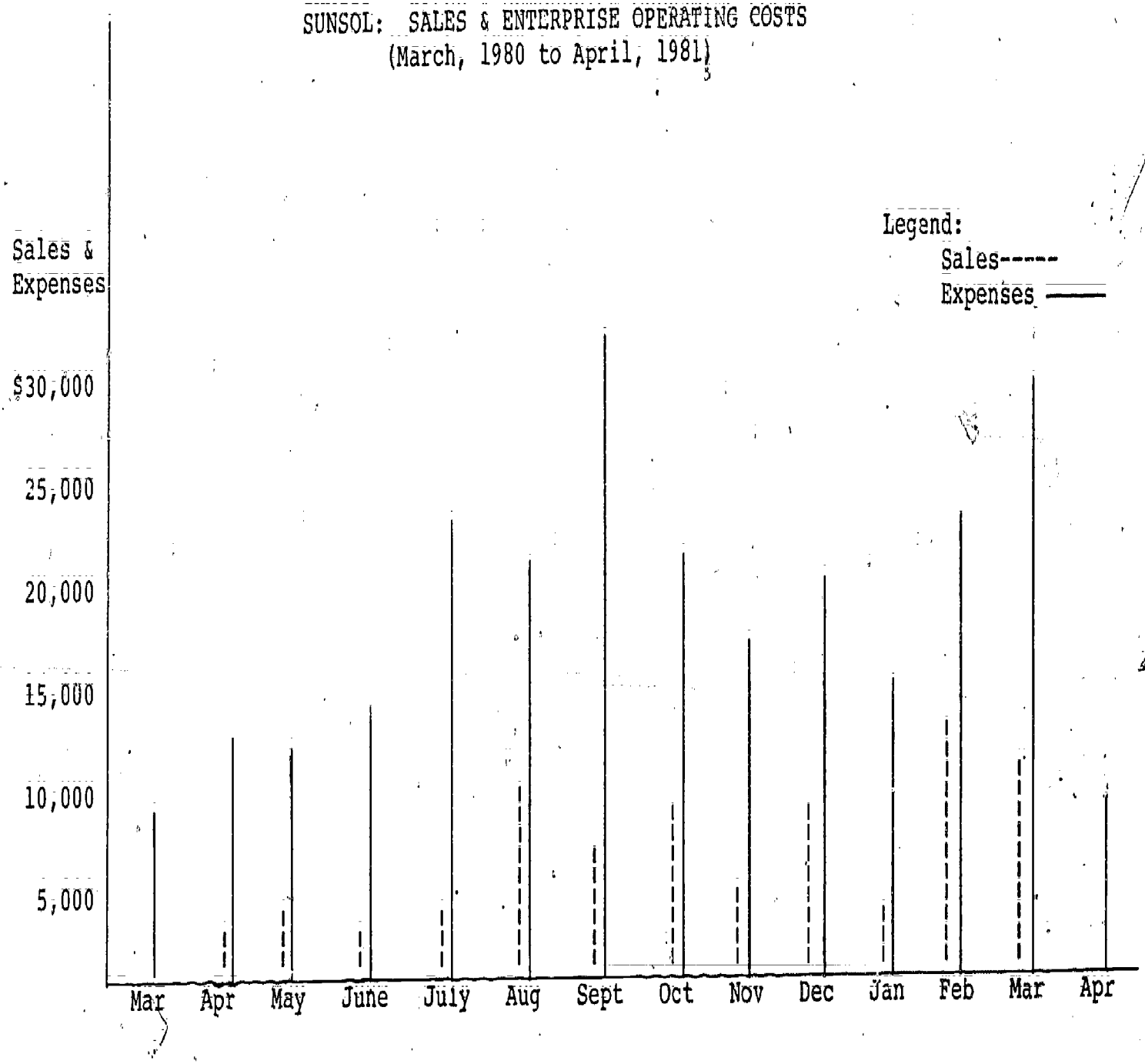
Month	Sales	EOC	COGS	Gross* Margin	EOC plus COGS	Sales/ EOC(%)**	GM/ Sales%	COGS/ Sales(%)
March	0	3,715	0	0	3,715	0		
April	690	6,405	389	301	6,794	10.8	44	56
May	2,213	5,589	1,701	512	7,290	39.6	23	77
June	2,093	7,528	1,573	520	9,101	27.8	25	75
July	2,270	16,650	1,587	683	18,237	13.6	30	70
August	9,109	8,379	6,545	2,564	14,924	108.7	28	72
September	6,633	26,801	5,790	843	32,591	24.8	13	87
October	8,854	9,303	6,354	2,500	15,657	95.2	28	72
November	4,764	7,406	2,825	1,939	10,231	64.3	41	59
December	7,603	8,225	4,688	2,915	12,913	92.4	38	62
January	843	8,324	626	217	8,950	10.1	26	74
February	16,343	2,958	14,325	2,018	17,283	552.5	12	88
March	15,616	9,729	13,549	2,067	23,278	160.5	13	87
April	6,540	19,864	3,018***	3,530	3,012	33.0	54	46
Total	83,579	140,876	62,970		183,976		25%	75%

NOTE: The above listed abbreviated column headings represent the following: COGS is Cost of Goods Sold; GM is Gross Margin; and EOC is Enterprise Operating Costs.

*/The overall average for Sales/EOC (%) is 59.0%.
**/The Cost of Goods Sold for April, 1981 is an estimated figure.
***/The overall average for total Gross Margin ÷ total sales (%) = 25%.
+/The overall average for Cost of Goods Sold ÷ Sales (%) = 75%.

FIGURE B-1

SUNSOL: SALES & ENTERPRISE OPERATING COSTS
(March, 1980 to April, 1981)



NOTE: Based on P/PV reconstructed data, no sales were generated during March, 1980. Sales were not reported for the month of March, 1980 and April, 1980.

FIGURE B-2

SUNSOL PROFIT (LOSS) AS A % OF SALES
(March, 1980 to April, 1981)

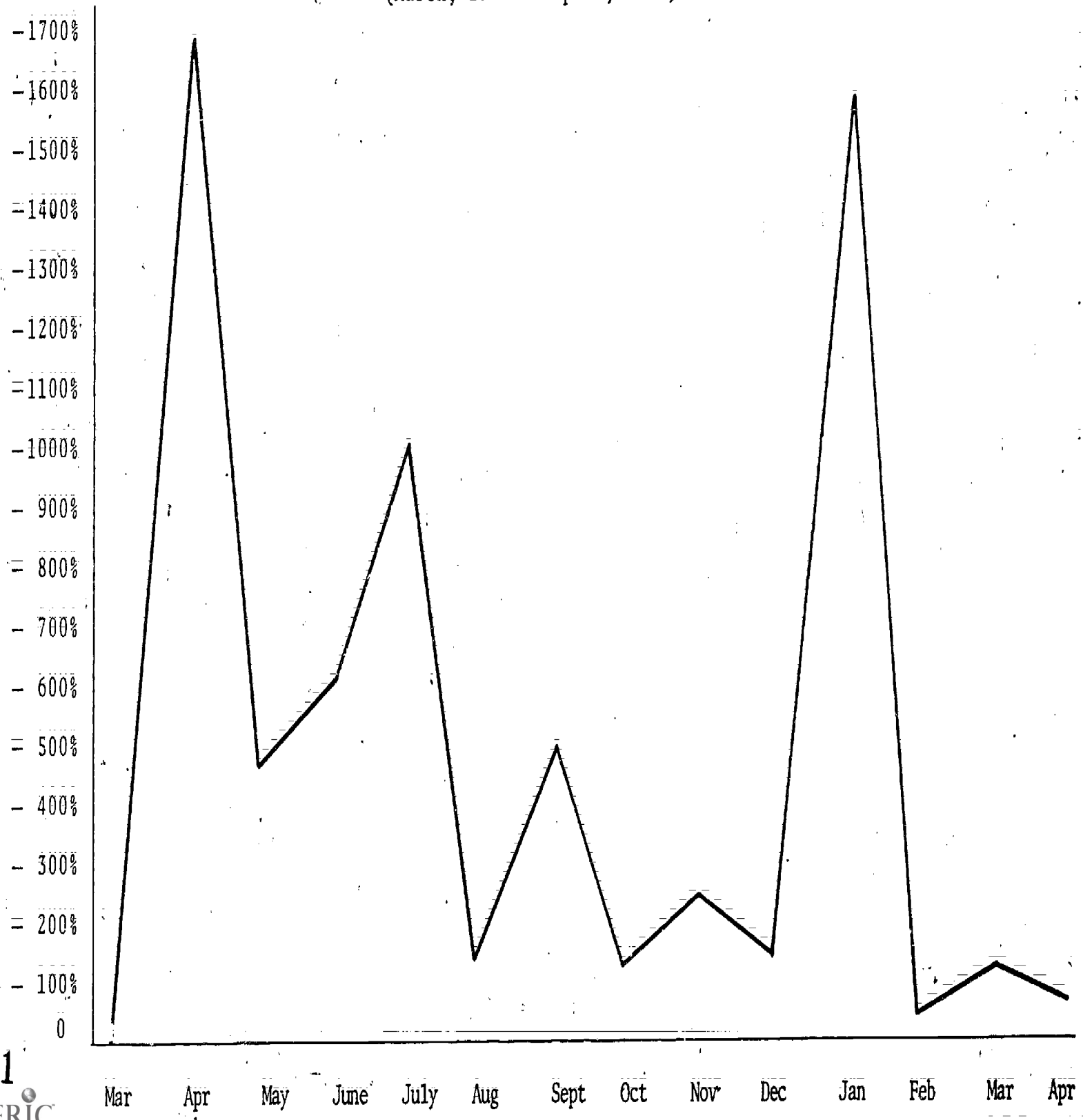


TABLE B-2

BEGINNER'S LUCK: SALES, COST OF GOODS SOLD AND ENTERPRISE OPERATING EXPENSES
(March, 1980 to March, 1981*)

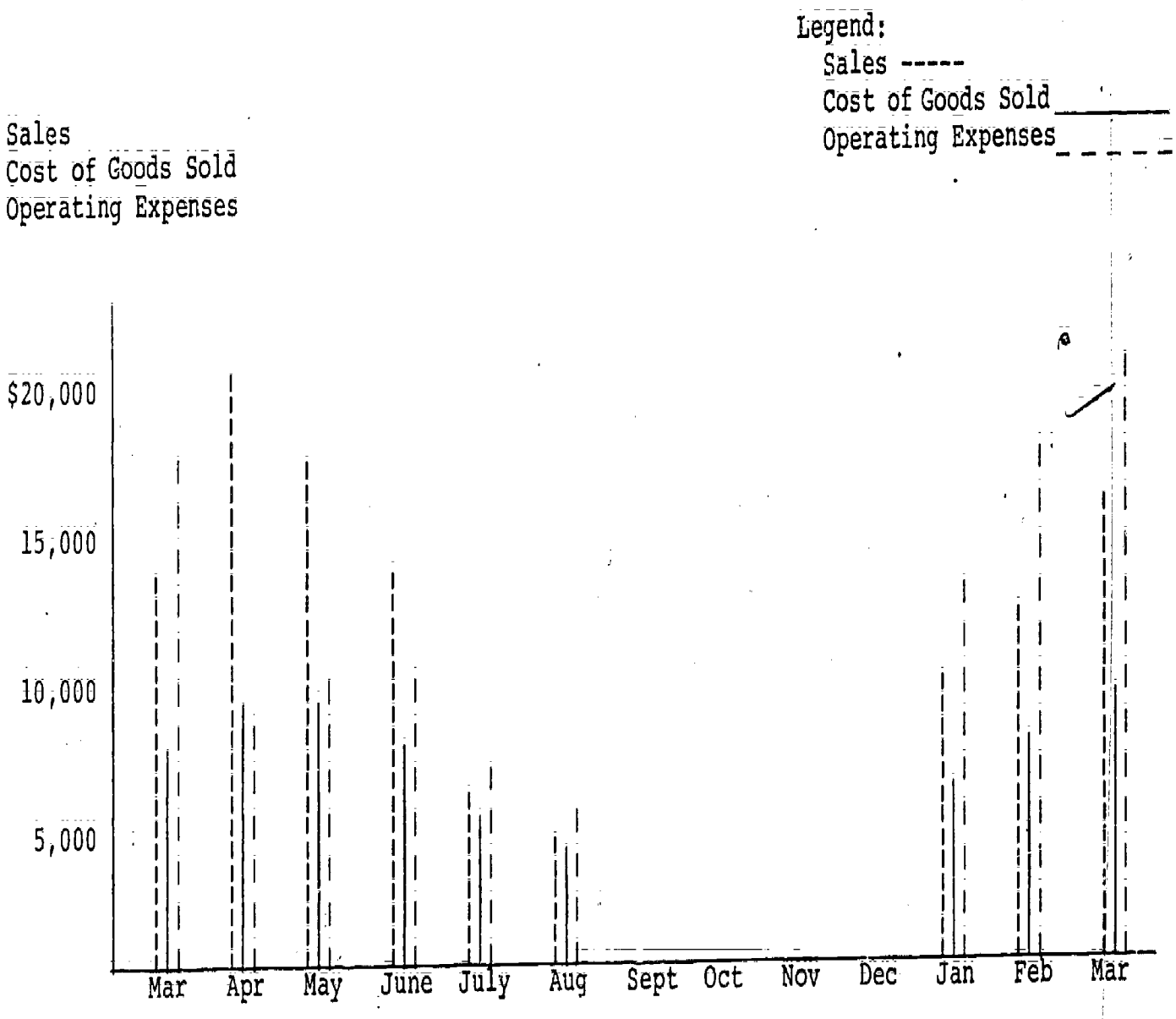
Month	Sales	Cost of Goods Sold	Operating Expenses	Net Profit	Net Profit % of Sales**
March	13,899	7,020	16,713	-9,834	-71%
April	18,482	9,045	7,876	1,561	8%
May	15,017	8,608	9,860	-3,451	-23%
June	10,990	5,292	7,887	-2,189	-20%
July	5,268	4,329	5,563	-4,624	-88%
August	4,303	3,702	3,747	-3,146	-73%
January	8,575	4,802	12,514	-8,741	-102%
February	10,797	6,099	16,960	-12,262	-114%
March	15,558	7,473	18,556	-10,471	-67%
TOTAL	102,889	56,370	99,676	-53,157	-51.7%

*/Beginner's Luck was not in operation from September, 1980 to December, 1980.

**/Average net profit as a percent of sales is 61.1%.

FIGURE B-3

BEGINNER'S LUCK: SALES, COST OF GOODS SOLD AND ENTERPRISE OPERATING EXPENSES
(March, 1980 to March, 1981)



NOTES: Beginner's Luck did not commence business until March 7, 1980. Beginner's Luck was not in operation for period of 9/1/80 - 12/31/80.

Graph includes salaries and wages as an operating expense component for January, February and March, 1981. Sales figures are rounded to the nearest dollar.

TABLE B-3

SYNERGY II: ENTERPRISE OPERATING EXPENSES*
(June, 1980 to May, 1981)

Month	Enterprise Operating Expenses
June (5 weeks)	$2,890 (est.)
July (3 weeks)	1,532 (est.)
August (5 weeks)	2,932 (est.)
September	2,856
October - December**	6,880
January	2,700
February	2,263
March	2,263
April	3,252
May	n/a

*/Enterprise Operating Expenses reported after the sub-contract period are as follows: June, $5,079; July, $5,256; and August, $5,418.

**/"Enterprise Operating Expenses" do not include the cost of goods sold. Operating expenses include such items as utility costs, labor costs, rent, telephone and transportation. Total expenses, including costs of goods sold, were only reported on a quarterly basis as shown in Table IV-5.

TABLE B-4

TOTAL PARTICIPANT PROGRAM HOURS
(April, 1980 to June, 1981)

Month	Beginner's Luck (n=38)	Synergy (n=37)	Sunsol (n=59)
April	263	----	----
May	666	----	1,996
June	3,303	18	2,218
July	3,989	407	3,730
August	-----	956	3,773
September	10,893	1,697	6,218
October	-----	2,673	7,341
November	-----	3,818	8,136
December	-----	3,866	8,949
January	-----	6,569	12,655
February	11,133	8,734	12,679
March	-----	-----	15,338
April	-----	10,848	25,239
May	22,867	18,599	-----
June	23,617	-----	-----
TOTAL	76,731	58,185	108,272

NOTE: Program hours were reported only on participants terminated during the month.

TABLE B-5

PROGRAM WAGES
(April, 1980 to June, 1981)

MONTH	BEGINNER'S LUCK (n=38)	SYNERGY (n=37)	SUNSOL (n=59)
April	$ 610.90	-	-
May	1,547.31	-	$ 5,548.75
June	2,883.63	$ 55.80	6,209.63
July	5,009.62	1,260.69	9,578.29
August	-	2,962.64	9,711.59
September	26,349.76	5,263.62	17,294.15
October	-	8,286.89	20,837.39
November	-	11,804.62	23,835.89
December	-	11,953.42	26,675.56
January	-	20,348.71	40,816.08
February	26,950.54	27,284.43	40,900.08
March	-	-	50,777.96
April	-	34,709.73	90,339.81
May	57,314.43	60,421.44	-
June	59,301.44	-	-
Total	$ 179,967.63	$ 184,351.99	$ 342,525.23

NOTE: Wages were reported only on participants terminated during the month.

TABLE B-6

YOUTH ENTREPRENEURSHIP PARTICIPATION DATA, WEEKS

Enterprise	Cumulative Training Weeks	Participant Enrollment	Average Training Weeks* (per Enrollment)	Adjusted Participant Enrollment (by weeks)	
				Low**	High**
Beginner's Luck	693	38	18.24	44.42	59.18
Synergy	707	37	19.11	45.32	60.38
Sunsol	691	59	11.71	44.29	59.00
Total	2,091	134	-----	-----	-----

*/Average Training Weeks = Cumulative Training Weeks ÷ Participant Enrollment.

**/Low adjusted participant enrollment was computed using an overall average training weks, 15.60 weeks. (Overall average training weeks = total cumulative training week ÷ total participant enrollment.) Low adjusted participant enrollment = cumulative training weeks ÷ overall average training weeks.

**/High adjusted participant enrollment was computed using the Sunsol's average training weeks, 11.71 weeks. High adjusted participant enrollment = cumulative training weeks ÷ Sunsol's average training weeks.

TABLE B-7

YOUTH ENTREPRENEURSHIP PARTICIPANT DATA, HOURS

Enterprise	Cumulative Training Hours	Participant Enrollment	Average Training Hours* (per Enrollment)	Adjusted Participant** (hours) ratio	Adjusted Participant*** Enrollment (by hours)
Beginner's Luck	23,617	38	621.5	1.234	46.89
Synergy	18,599	37	502.7	0.999	36.96
Sunsol	25,239	59	427.8	0.849	50.09
Total	67,455	134	-----	-----	-----

*/Average Training Hours = Cumulative Training Hours ÷ Participant Enrollment.

**/Adjusted Participant ratio = Average Training Hours (for each enterprise) ÷ Overall Average Training Hours. (Overall average training hours = cumulative training hours ÷ total participant enrollment.)

***/Adjusted Participant Enrollment = Participant Enrollment X Adjusted Participant ratio.

TABLE B-8

WAGE SUBSIDY* & TRAINING COSTS
PER (ADJUSTED) PARTICIPANT**

Enterprise	Wage	Training***	Total
Sunsol	$ 2,547	$ 850	$3,397
Beginner's Luck	N/A	N/A	$3,856
Synergy†	$ 1,590	$1,291	$2,881

*/The wages figure employed is not total wages or "Youth expenses" but "participant costs" as estimated for Table III-2.

**/Participant counts have been adjusted to reflect the differing number of hours spent by particpants in each program.

***/Training costs are taken from Table III-1. Wage and training costs, together, are the equivalent of "participant" and "training" costs as estimated for Table IV-1.

†/Based on cumulative figures through 12/30/80.