



Helping Entrepreneurs of Color Grow Their Business

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Minority Business Ownership

Class 3c Presentation

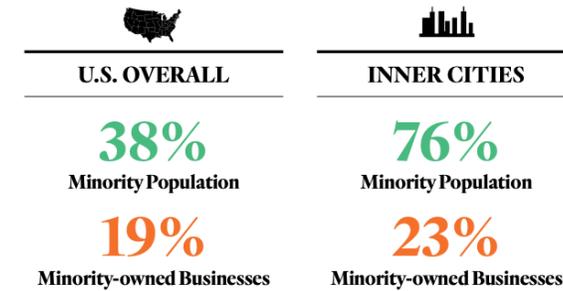
Why Minority Businesses Need Our Help

- Last Class: History of wealth gap, causes of the wealth gap, how the wealth gap impacts entrepreneurs
- BUT how can we help and promote such businesses?

Statistics

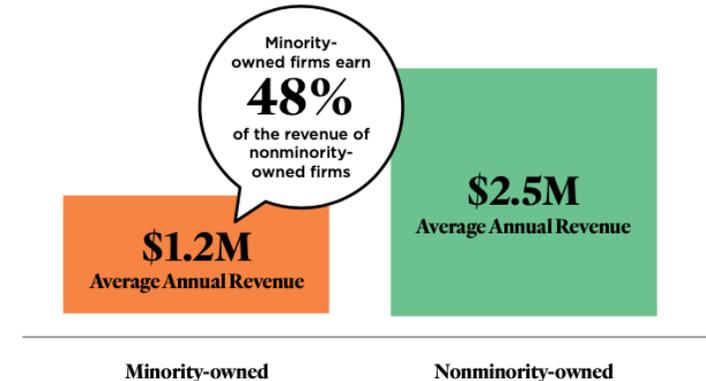
- 38 percent of the US population is minority, but only 19 percent of businesses are minority-owned
- Minority owned firms earn just 48 percent of the revenue of their non-minority counterparts
- Minority owned businesses earn 72 percent of the revenue and just 44 percent of the profits

Figure 2. Disparities in Business Ownership by Race



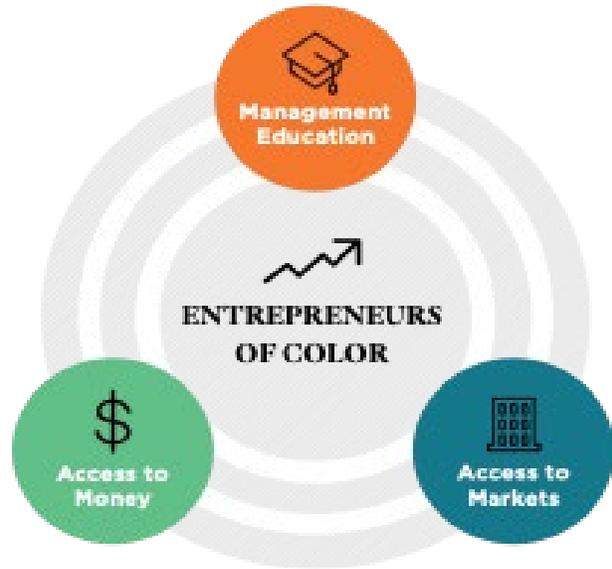
Source: U.S. estimates use 2015 U.S. Census Bureau Annual Survey of Entrepreneurs and 2015 U.S. Census Bureau American Community Survey 5-Year Estimates. Inner city estimates use the 2012 U.S. Census Bureau Survey of Business Owners data for privately held businesses with paid employees, 2015 U.S. Census Bureau ZIP Business Patterns and the 2015 U.S. Census Bureau American Community Survey 5-Year Estimates.

Figure 1. Minority-Owned Firms are Underperforming



Source: 2015 U.S. Census Bureau Annual Survey of Entrepreneurs.

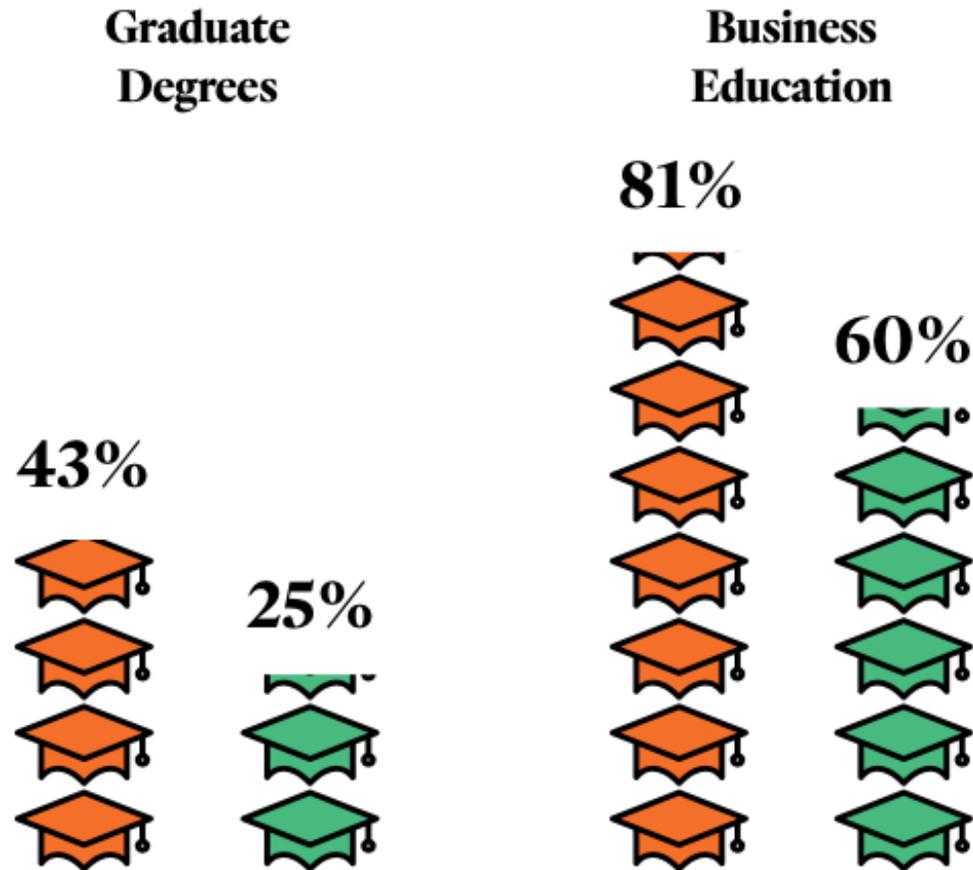
Figure 6. The Ascend 2020 Three M Model



The Three M's

- Management Education
- Access to Money
- Access to Markets

Figure 7. CEO Education Comparison by Race Among High-Growth Inner City Businesses



Management Education

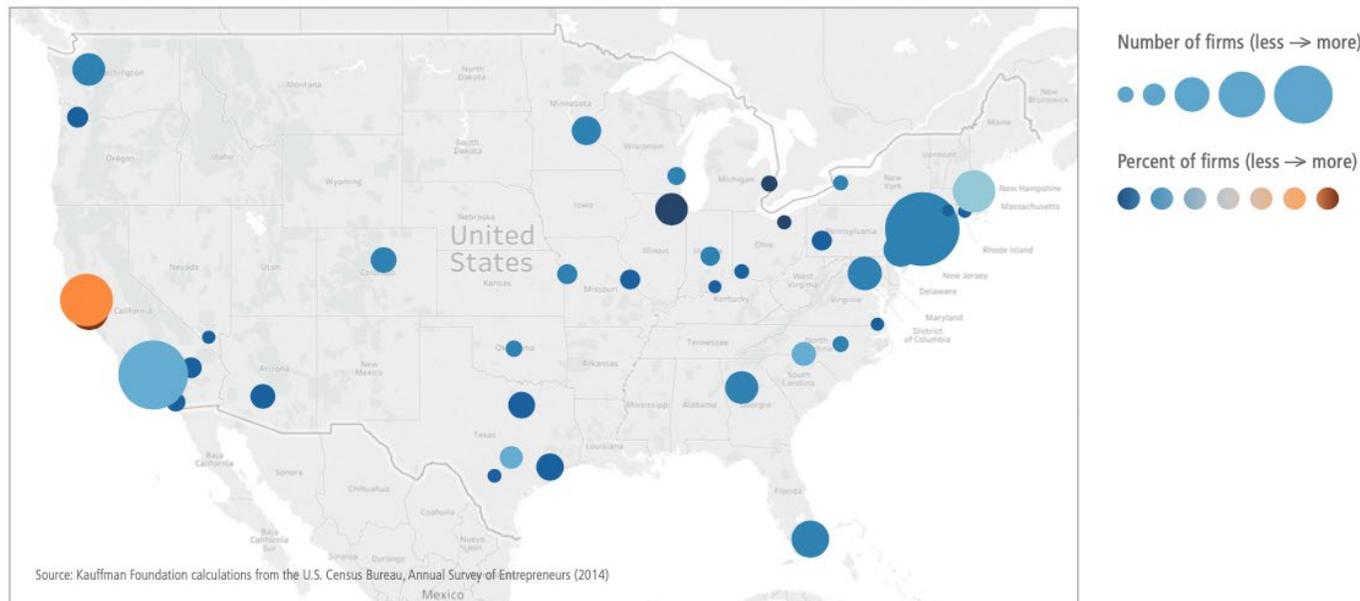
- Minorities are behind non-minorities in terms of business management education and experience
 - Underrepresented in the business school admissions pipeline
 - Less likely to have self-employed family members

Access to Money

- Minority owned businesses typically operate with substantially less capital
- Minority business owners
 - tend to pay higher interest rates and receive smaller loans than nonminority counterparts
 - are more likely to be denied credit
 - less likely to apply for loans because they believe their applications will be denied

Access to Money (Cont.)

Figure 5: Angel investments in 2014



- Venture capital funding is skewed
 - Minority entrepreneurs only represented 20 percent of entrepreneurs funded by venture capitalists
 - Also tends to be geographically concentrated and inner-city businesses may be geographically isolated from these networks

Angel Investments

- Minority-owned businesses represented only 11 percent of pitches to angel investors in 2017
- Also geographically concentrated

Access to Markets

- This includes contracts with government agencies as well as corporations, universities, and hospitals → referred to as anchor organizations, which are critical for the survival and growth of small businesses
- The challenge is that initiatives focused on eliminating government contracting discrimination (the demand problem) are transaction-based and do not address matchmaking challenges, business capacity issues, and other contracting barriers
- Government programs have been implemented for eliminating government contracting discrimination, which has resulted in an increase in anchor organizations for minority businesses
 - HOWEVER, the overall actual anchor contracting volume with small businesses in the inner city remains limited
 - Two reasons
 - The organization may be hesitant to rely on an untested business
 - The business may not have the capacity to meet the demands of the organization

The Ascend 2020 Model

- Simultaneously addresses the multiple structural challenges of the Three M's to be more productive than addressing each in isolation
- The program for each metro area is designed as a collaboration between organizations specializing in each of the “three Ms.”
- In the first year, three of the Ascend 2020 programs (Atlanta – Morehouse College/TechSquare Labs, Seattle, and D.C.) focused specifically on high-growth sectors, while the remainder serve businesses in all industries.
 - All serve entrepreneurs in the growth stage of their business

Ascend cities



Ascend 2020's Three M Approach

Table 1. Business Performance in Ascend 2020 Markets

	All Businesses	Minority-Owned Businesses	Minority-Owned Businesses in Inner City	Business Growth (2005-2015)	Inner City Business Growth (2005-2015)
Atlanta	16,365	22%	28%	12%	<1%
Chicago	61,545	27%	22%	4%	3%
Los Angeles	106,920	33%	26%	6%	-1%
SF Bay Area	198,550	35%	34%	5%	<-1%
Seattle	26,088	19%	23%	9%	1%
Washington, D.C.	21,338	34%	18%	8%	2%
U.S.	7,643,755	19%	36%	2%	-2%

- In most cities, business schools or academic entrepreneurship centers manage cohort-based entrepreneur education programs that include access to one-on-one consulting services from MBA students or other partners
- a Community Development Financial Institution (CDFI) or other nonprofit lending institution serves as the capital access partner.
 - The “money” partners may directly provide financing to the Ascend 2020 businesses or provide consulting services to make them more capital-ready.
- some Ascend 2020 cities have partnered with a distinct “market access” partner that serves as an intermediary to connect businesses with contracting opportunities.
- Entrepreneurs of color are underrepresented in all six markets, where the share of minority-owned businesses is less than the share of minority population

The Early Impact of Ascend 2020

- Management Education and Experience
 - Almost all of the entrepreneurs supported to date (90 percent) had already received some formal business education before they entered the program and, on average, had experience starting two companies (Figure 11)
 - After participating in the program, 38 percent of the entrepreneurs of color gained financial management skills, 32 percent strengthened their business plan, 32 percent gained more confidence in their ability to deliver a strong business pitch, 31 percent felt more confident setting their business strategy and 30 percent felt more confident in their overall leadership skills

The Early Impact of Ascend 2020 (cont.)

- Access to Money
 - By the end of 2017, the Ascend 2020 entrepreneurs of color had secured a total of \$2.9 million in loans (with an average loan of \$111,387) and raised a total of \$2.2 million in equity
 - equity should be a particular area of focus for Ascend 2020 and capital connections in general may be the greatest area of impact for the program.
 - only 47 percent of those that had tried to raise equity were successful. Only 20 percent of the businesses had ever tried to raise equity. Most of the respondents (70 percent) did not feel that they had sufficient start-up capital and most (67 percent) reported that insufficient capital was a potential barrier to the growth of their business

The Early Impact of Ascend 2020 (cont.)

- Access to Markets
 - Contracts with anchor organizations (large corporations, universities, and hospitals) already represent the largest segment of customers (33 percent) for the Ascend 2020 businesses
 - Before participating in the program,
 - half of the entrepreneurs of color felt that they had weak market research skills and a limited understanding
 - Eighty-two percent reported weak connections with international customer networks and
 - 80 percent reported weak connections with international supplier networks, providing additional indicators that expanding exporting networks for entrepreneurs of color could be an area of significant impact for the program.
 - After participating in the program,
 - 38 percent of the entrepreneurs gained a better understanding of their target markets and how to conduct market research
 - However, only 12 percent reported gains in international customer and supplier networks, suggesting this is a key area of improvement for the Ascend 2020 program