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## Funding and Network Resource Utilization of Black-Owned Businesses in Detroit

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This article presents a summary analysis of a survey based on convenience sampling done in collaboration with several organizations in Detroit to learn about the types of capital products and resource needs of Black-owned businesses.<sup>1</sup> We document the experiences of a group of motivated business owners in a diversity of industries, with businesses spanning across all sizes and revenue categories. Among other resource needs that are deemed unmet, our survey respondents identify distinct needs for more formal funding and networks, minority supplier relationships, and small dollar loans. Based on these survey responses, we identify several potential areas for policy development to support local businesses. Our survey results suggest that capital is needed in many instances for operations, so short-term, relatively small cash flow support may provide the highest benefit. The results also imply that speed in securing financing matters if businesses are facing cash-flow challenges.

Motivated by the stresses among small businesses during the Covid-19 pandemic, the Federal Reserve Bank of Chicago's Detroit Branch, in collaboration with several local organizations, conducted a survey of Black-owned businesses in the Detroit metropolitan area.<sup>2</sup>

We sought to learn about opportunities to support a healthier small-business ecosystem and focused the survey on documenting specifically the experiences of Black-owned businesses regarding the: 1) outlook and motivations of the owners, 2) challenges to financial health throughout the Covid-19 pandemic, 3) sources and uses of funds, 4) experiences with Covid-19 emergency funding, and 5) business needs and barriers to opportunity. The survey took place in the first quarter of 2022. It was deployed electronically using Qualtrics.

The Detroit metropolitan area offers an important and unique setting to explore opportunities to support the Black-owned small business ecosystem in the post-pandemic recovery period, as well as to understand the barriers that hold back Black-owned businesses.

Data from the Annual Business Survey (ABS, 2019) show that the Detroit metro area is an important and unique setting for at least three reasons. First, Black-owned firms are relatively prevalent in the Detroit metro area. According to the ABS, Black-owned businesses are 19% of all firms in Detroit, compared with 11% nationally.<sup>3</sup>

Second, Detroit's Black-owned firms have attributes similar to Black-owned businesses nationally, in that they are small in terms of employees and revenues. Nationally, the average Black-owned firm has no employees, and this is also true in Detroit, where only about 3% have employees. In contrast, 18% of all firms in the United States have employees. The average employer business in Detroit has about 23 employees, compared with 14 employees for the Black-owned employer firm. Similarly, the average non-employer business in Detroit generates about \$46,000 in annual revenue, compared with about \$16,500 for the Black-owned counterpart in Detroit.

Third, Black-owned firms are more likely to be owned by women in Detroit than they are nationally, so Detroit provides us with an opportunity to learn more about this subset of firms. Women own about two-thirds of Black-owned non-employer businesses in Detroit, compared with just over half nationally. Nationally, women of all racial/ethnic groups own about 41% of all non-employer firms.

### Characteristics of business owners

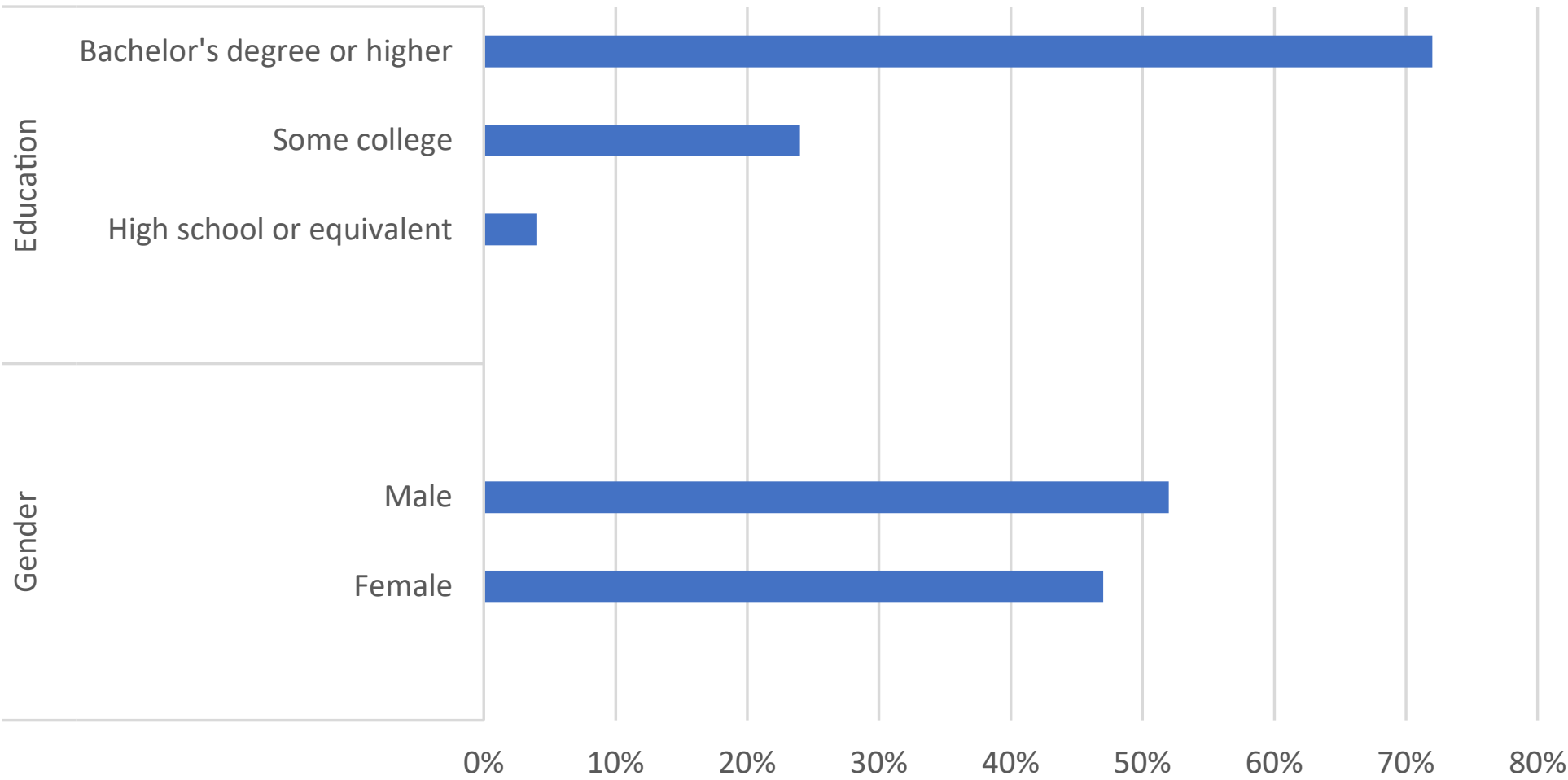
We obtained 96 survey responses. Our analysis in this article covers a sample of 85 businesses in operation located in zip codes in the Detroit metropolitan area. Among those businesses, 59 of the primary or secondary owners identified themselves as Black and 18 as non-Black. (The remaining 19 did not identify their race/ethnicity). More than half of these

85 businesses are located in the city of Detroit.<sup>4</sup>

In our analysis here, we calculate some statistics for the full sample of all 85 businesses in operation, some for men and women, and some for the subset of 59 Black-owned businesses. We do not report the results for non-Black respondents or compare results across ethnic/racial groups explicitly because the number of non-Black respondents is relatively small. In the figure titles, we detail when the tabulations only include the Black-owned businesses. Indeed, this is the case for most of the results we present here because as we mentioned, the prevalence of Black-owned businesses is an important feature of the Detroit environment and surveying these businesses was the goal of our survey. Figure 1 shows business owners’ characteristics by gender and formal education level for all operational businesses.

Among those who identified their gender and education (65 respondents), more than 50% were women-owned enterprises. Business owners with some college or a college degree are overrepresented in our sample survey—at 70%—relative to national data. According to the 2019 Annual Business Survey, 53% of employer business-owners in the U.S. have at least a bachelor’s degree. In Detroit, that number is 52%.

## 1. Business owners by gender and education, full sample



Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

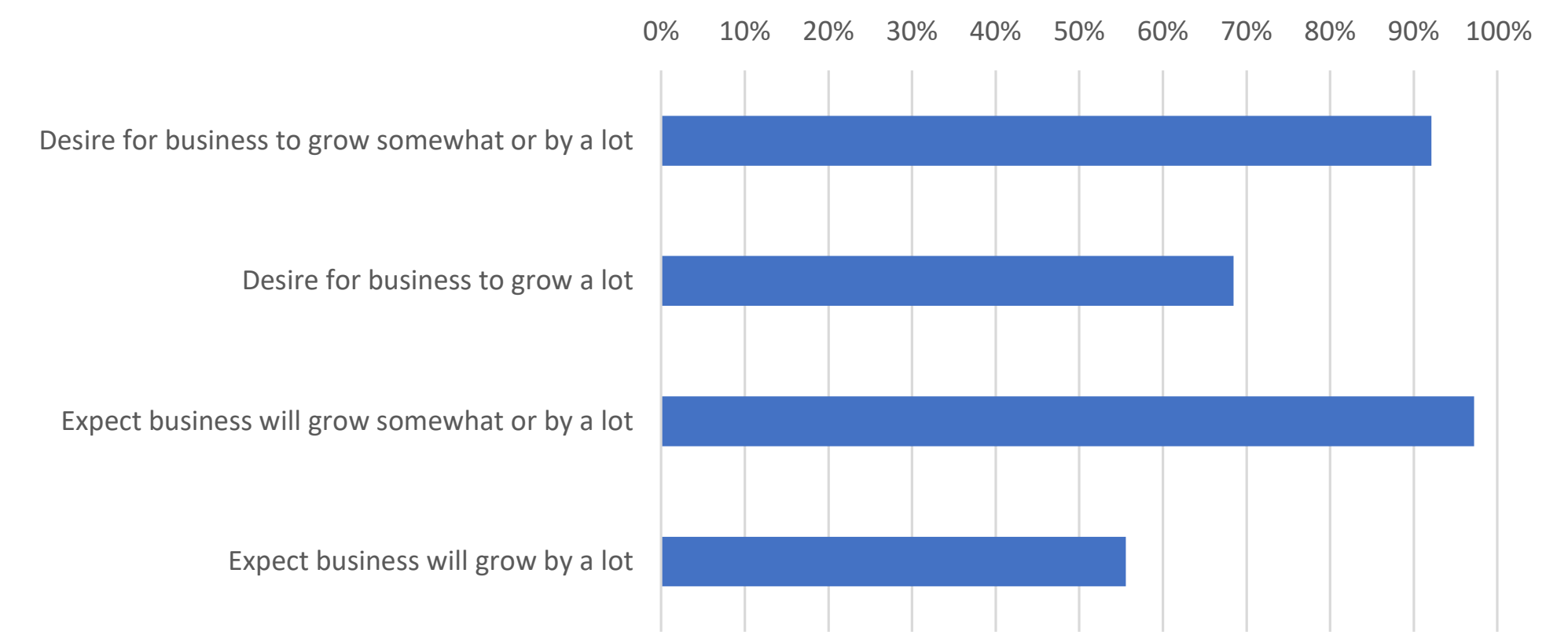
## Motivation and attitude toward business

Our survey asks questions about expectations and desire for the business to grow. Figure 2 shows the responses for the Black-owned businesses. The responses to these questions document a group of engaged and self-motivating Black entrepreneurs in Detroit with a stated desire to grow their business (see figure 2).

Regarding the motivation for going into business for all respondents (figure 3), the reasons most commonly cited were a value for self-employment and a desire for independence. Respondents also cited, to a lesser degree, a great idea or to use their professional qualifications. Some respondents said they lacked opportunities in the labor market, needed to supplement income, or started their business out of necessity.

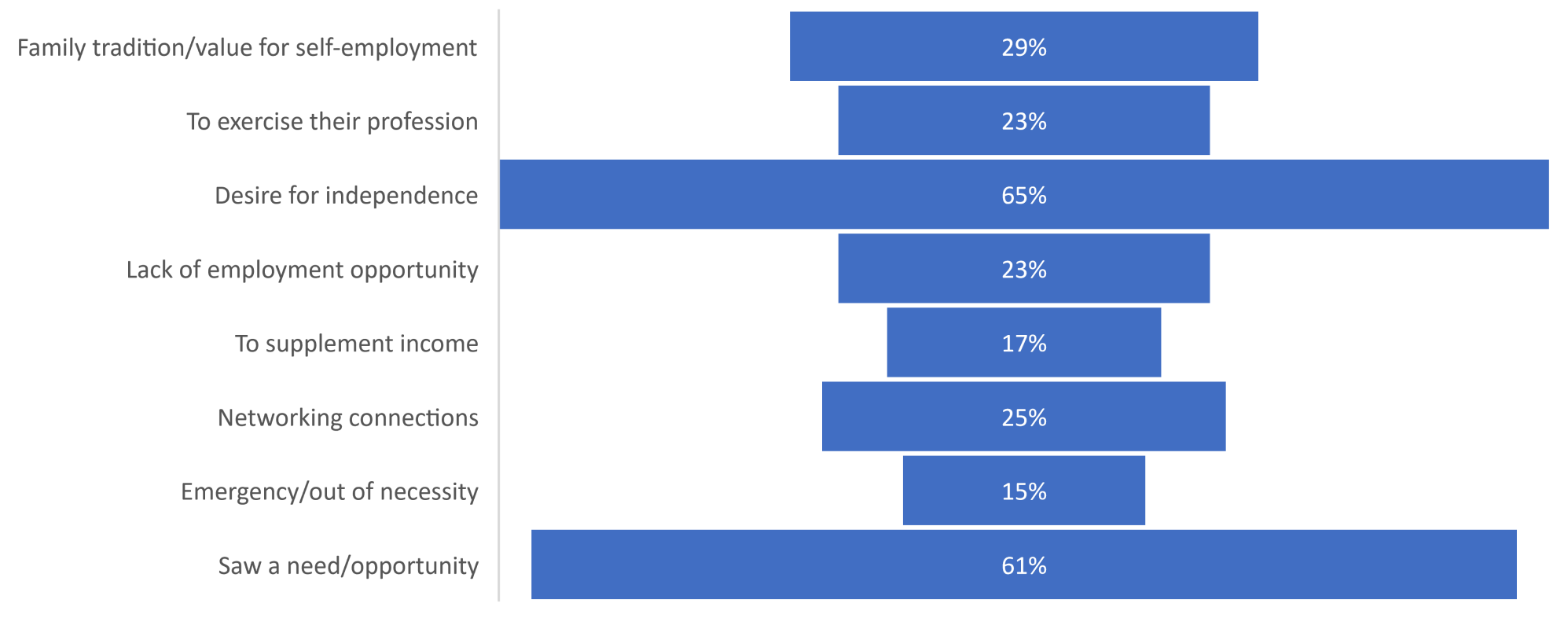
Looking at those who are in business due to economic need by gender, for Black business owners specifically, and by location (figure 4), women-owned businesses and owners of businesses in low-income (quintile) zip codes were more likely to state such reasons.

## 2. Attitudes and expectations of Black business owners



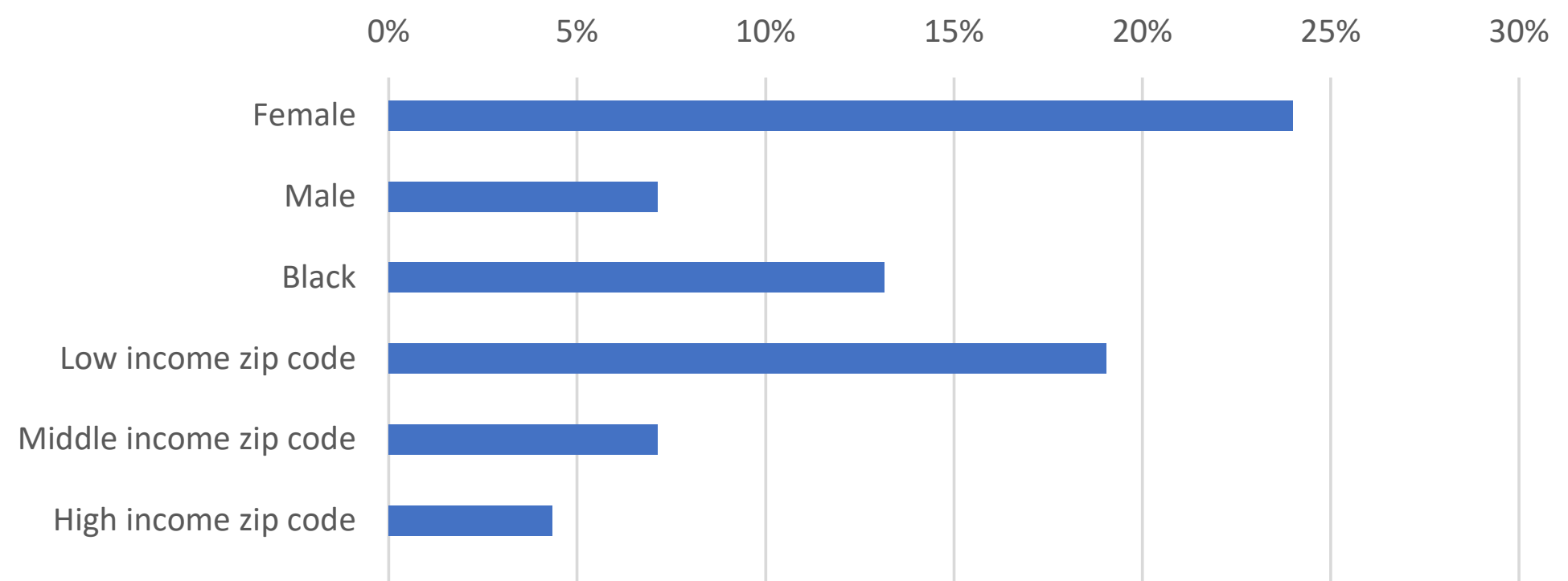
Note: Results for non-Black respondents are not reported due to the small number in this group.  
Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

## 3. Reason for going into business, full sample



Note: The percentages do not add up to 100 because more than one motivation can be identified.  
Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

#### 4. Share of business owners who cited economic reason for going into business, by gender, race, and location, full sample



Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

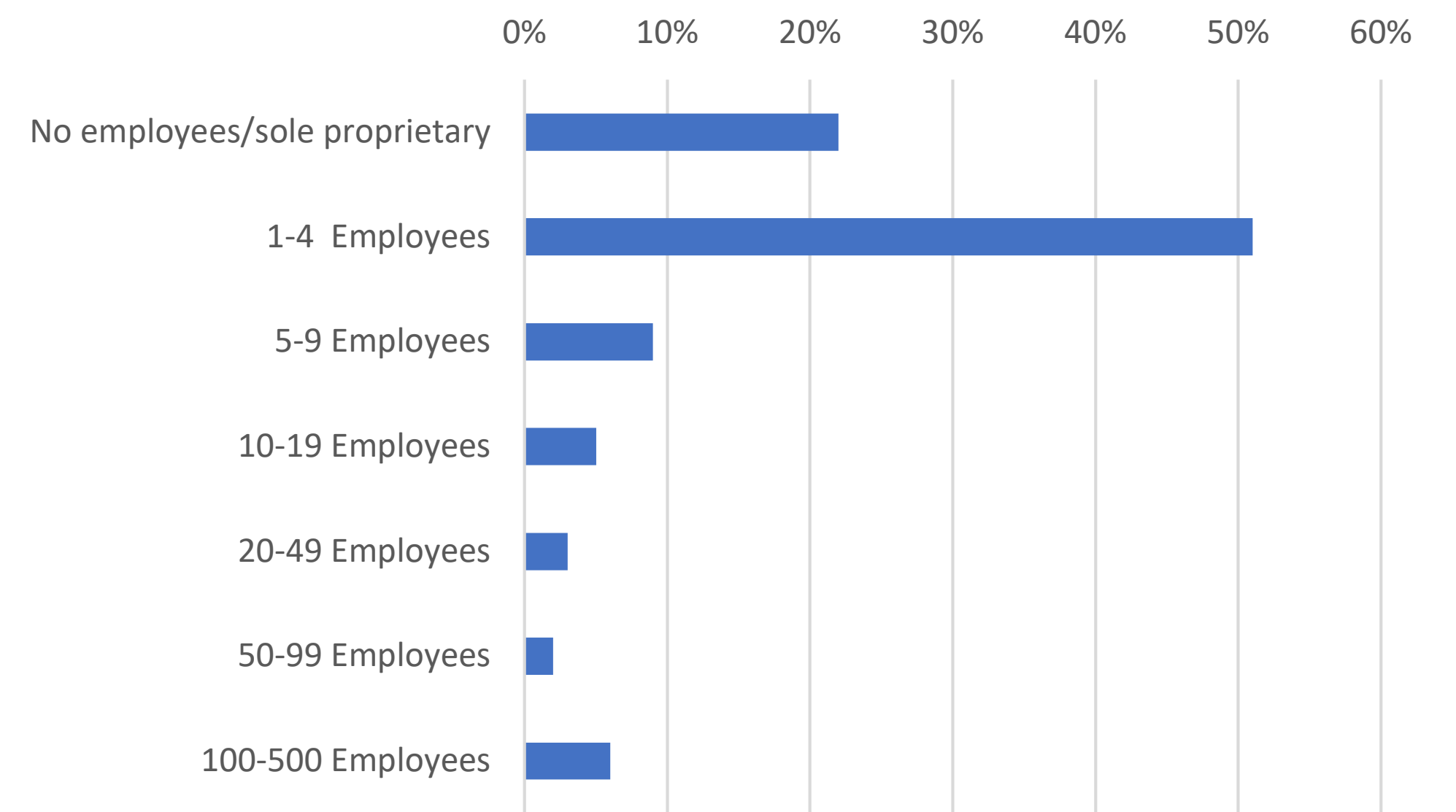
### Characteristics of the businesses

Figure 5 shows the characteristics of the businesses by employee size, and figure 6 shows the revenue distribution.

Half of the responding businesses are very small (micro-enterprises), with fewer than five employees. This is consistent with the United States as a whole, where 62% of businesses have fewer than five employees, according to ABS data.

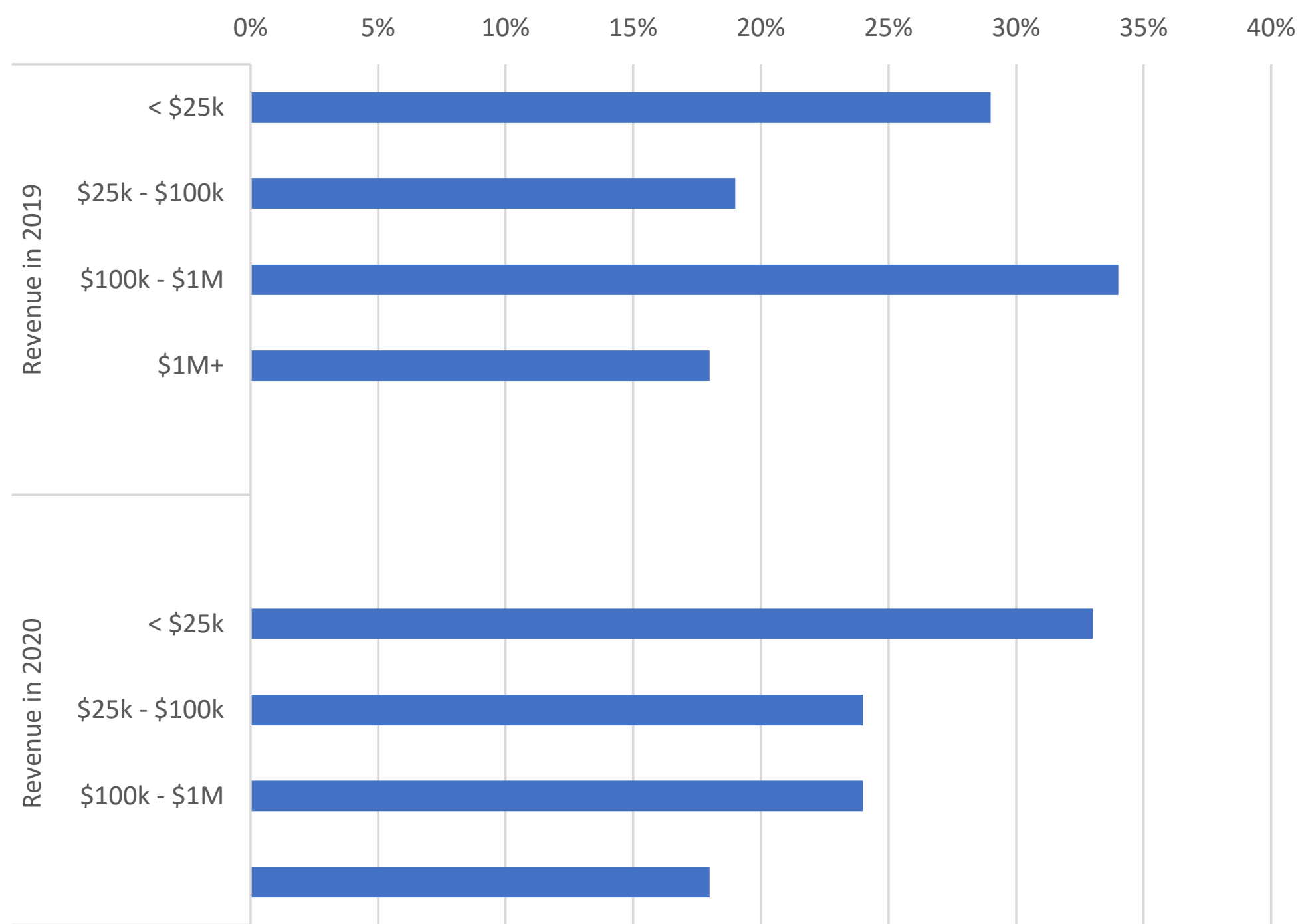
Our sample of businesses had disproportionately higher revenue than other surveys. Close to 30% made less than \$25,000 in revenue in 2019, and 50% made less than \$100,000 (figure 6). By comparison, according to the ABS data, 53% of employer and non-employer businesses in the U.S. had revenue less than \$25,000. In the 2019 Federal Reserve Small Business Credit Survey (SBCS), 19% of employer businesses with fewer than 500 employees made \$100,000 or less. According to the ABS, 67% of all non-employer businesses in Detroit made less than \$25,000, while 88% of Black-owned non-employer businesses in Detroit made less than \$25,000.

5. Businesses by employee size, full sample



Source: Federal Reserve Bank of Chicago's Detroit Branch 2021 Survey of Businesses in Detroit.

## 6. Business distribution by revenue, full sample



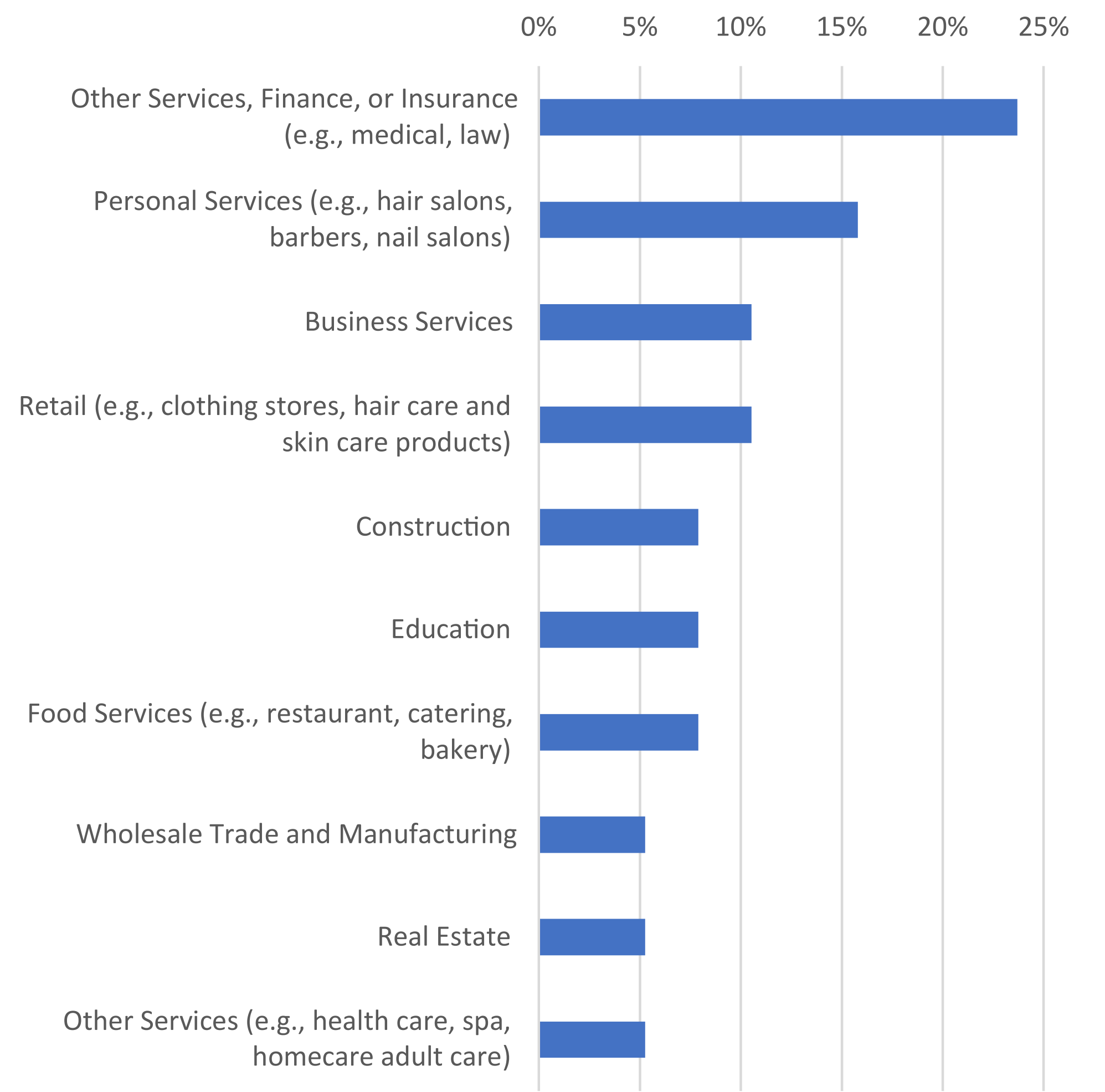
Source: Federal Reserve Bank of Chicago's Detroit Branch 2021 Survey of Businesses in Detroit.

### Some industry opportunities

Figure 7 shows the industry distribution of new businesses (started less than five years ago) for Black business owners in the survey sample. The most popular areas of new business ventures are in professional services and personal services, such as health care, spa, homecare and adult care, and food services.

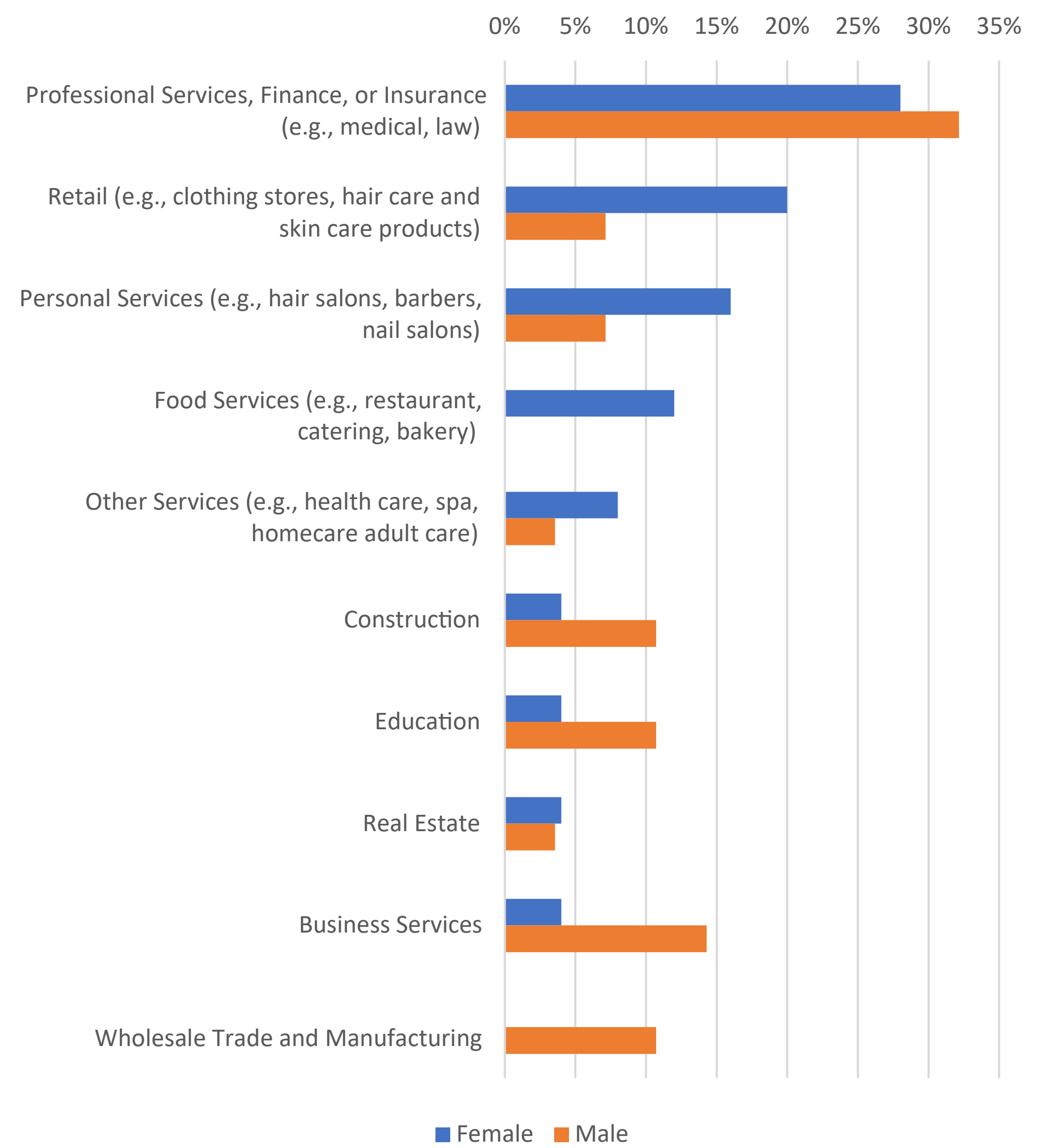
Figure 8 shows the gender distribution by industry. Women-owned businesses are concentrated also in professional services and industries, such as retail clothing stores, hair care and skin care products, and personal services, such as hair salons, barbers, and nail salons. Women were the only business owners in our sample in food services, and they were entirely absent from some larger industries, such as wholesale trade and manufacturing.

7. Industries of new Black-owned businesses



Note: Results for non-Black respondents are not reported due to the small number in this group.  
Source: Federal Reserve Bank of Chicago's Detroit Branch 2021 Survey of Businesses in Detroit.

## 8. Industries by gender of business owners, full sample



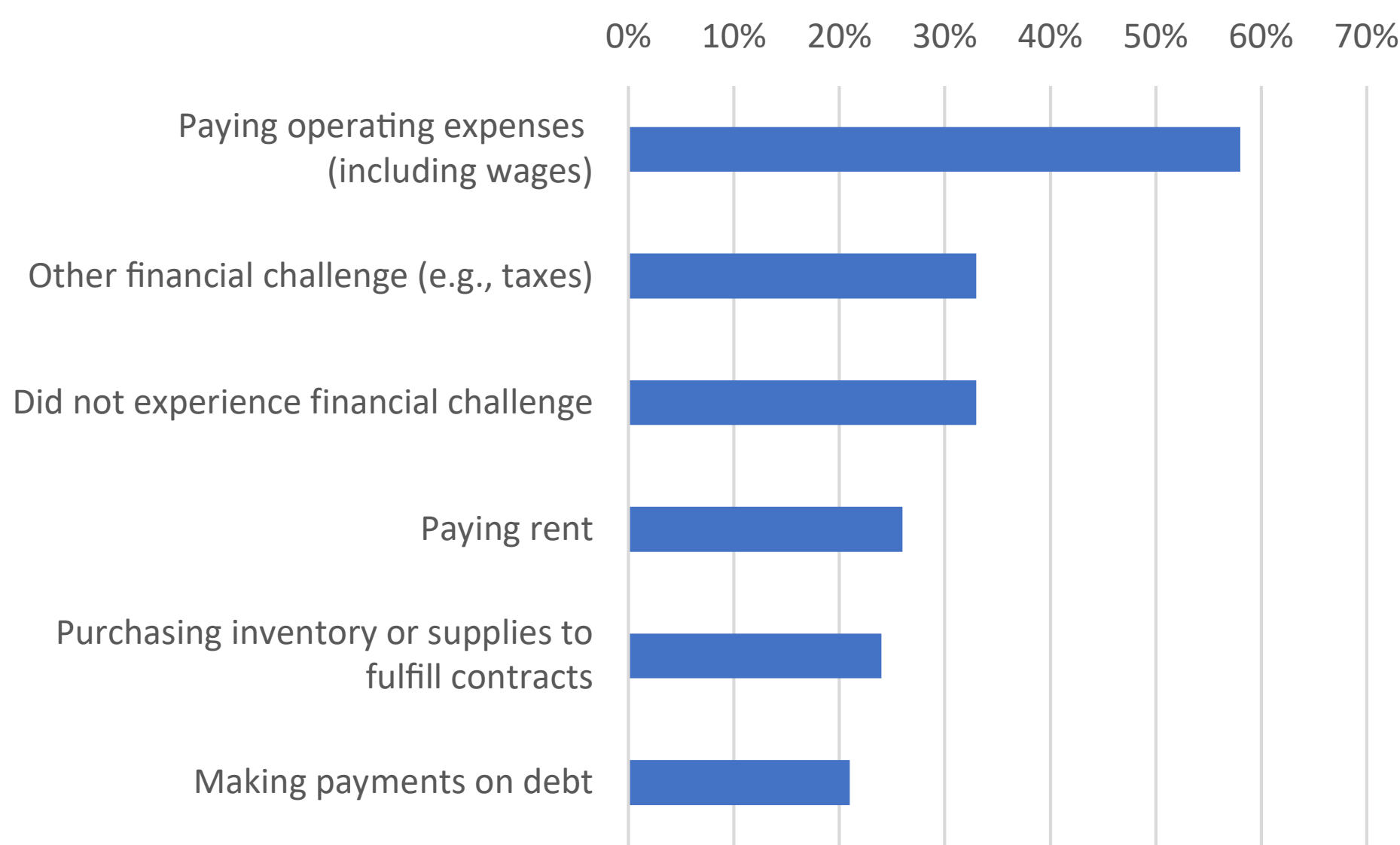
Source: Federal Reserve Bank of Chicago's Detroit Branch 2021 Survey of Businesses in Detroit.

## Financial health

Many businesses reported experiencing financial challenges due to Covid-19-related stress, consistent with the SBCS data (figure 9). The main challenge for the Black business owners had to do with paying operating expenses, including wages.

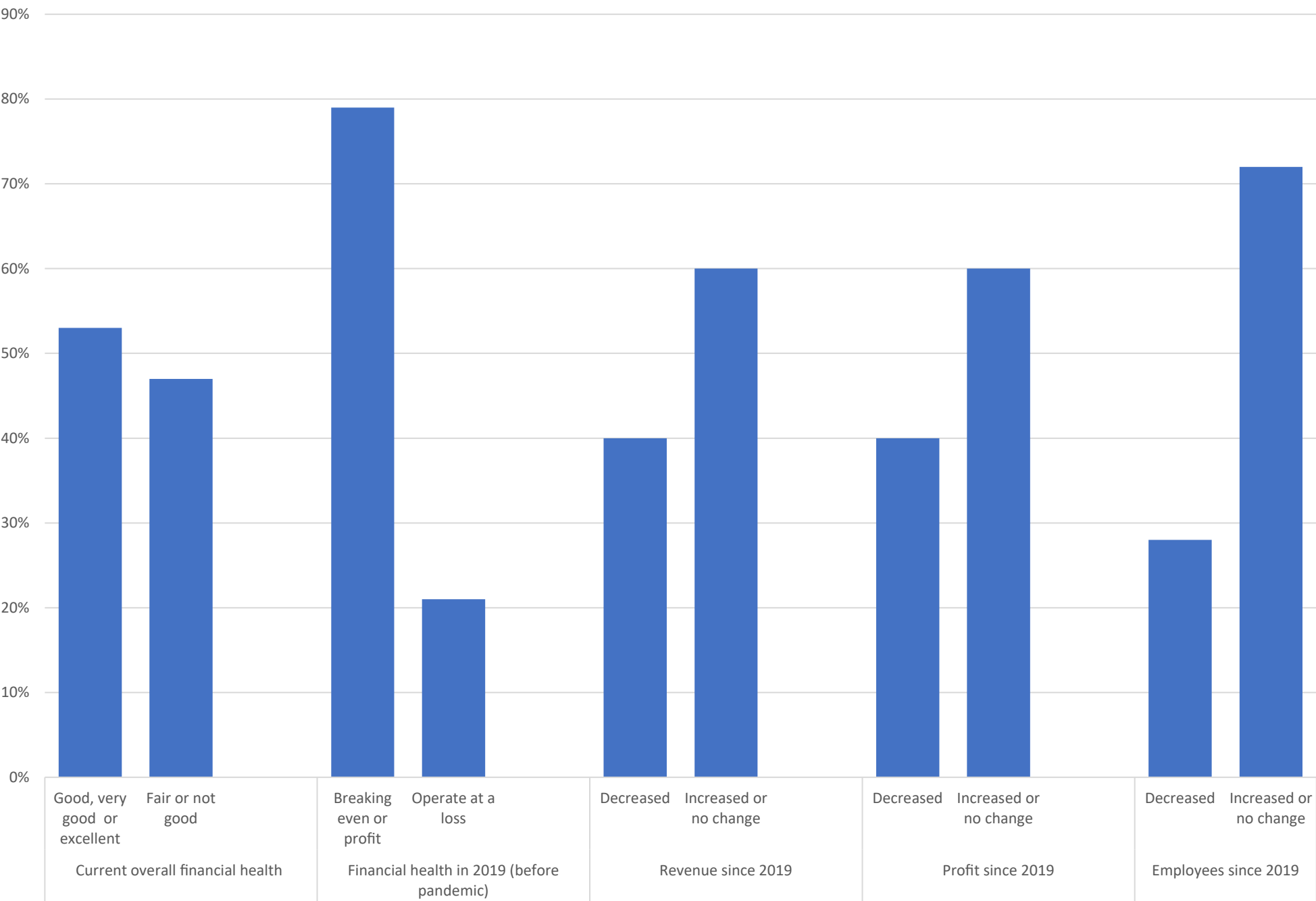
Just under 50% of the Black business owner respondents stated that their business health was not good or was only fair (figure 10). Compared to the SBCS data for the East North Central census division (which encompasses Michigan), 56% of respondents considered their business financial health was fair or poor. Fifty percent were operating at a loss, 61% reported having seen their revenue decrease since the start of the pandemic, and 45% reported having decreased their number of employees.

## 9. Challenges of Black-owned businesses during the Covid-19 pandemic



Source: Federal Reserve Bank of Chicago's Detroit Branch 2021 Survey of Businesses in Detroit.

## 10. Financial health of Black-owned businesses



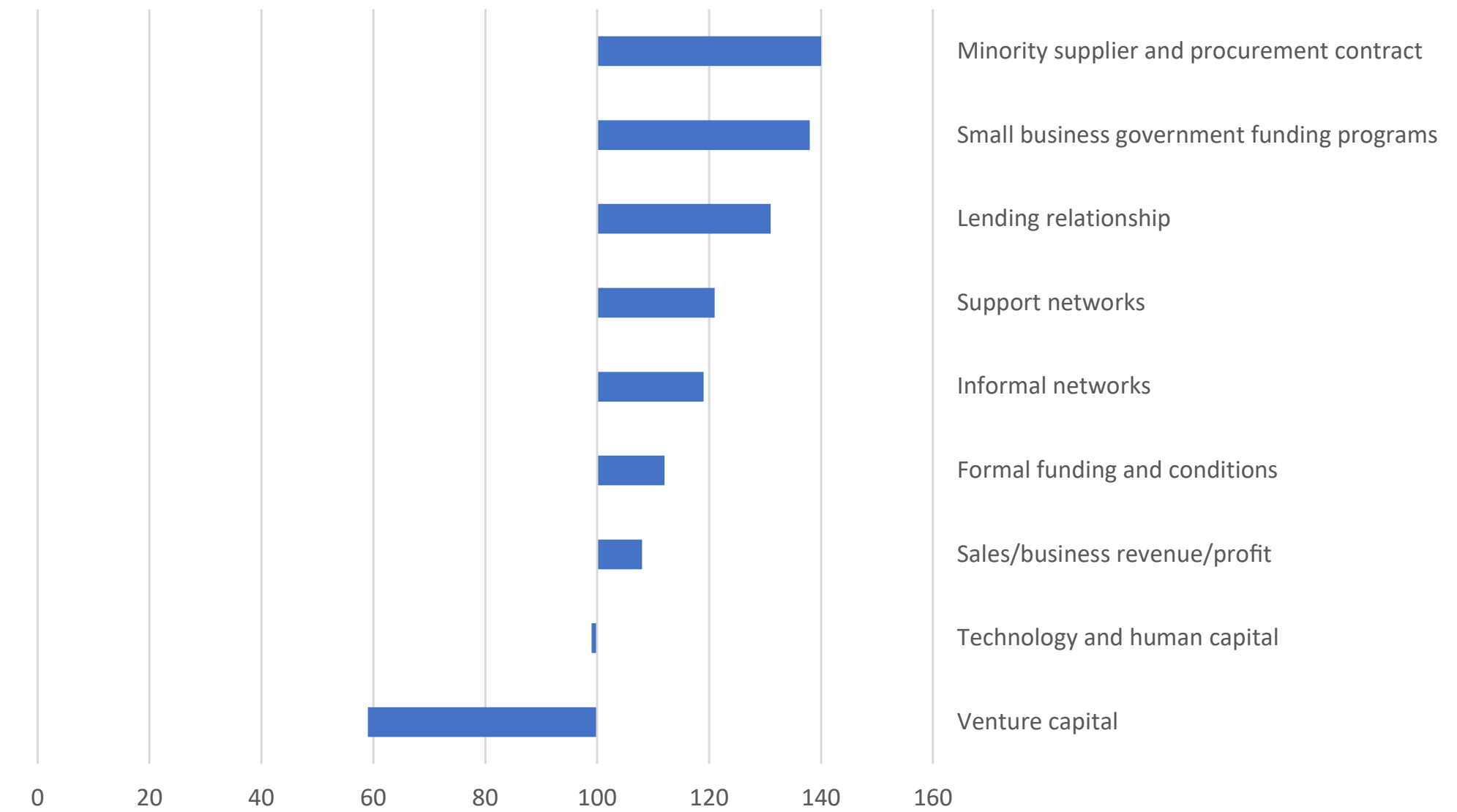
Note: Results for non-Black respondents are not reported due to the small number in this group.  
Source: Federal Reserve Bank of Chicago's Detroit Branch 2021 Survey of Businesses in Detroit.

# Funding and resource needs

A contribution of our analysis is our identification of needs. The bulk of our survey focused on questions about the kinds of capital programs businesses need and whether these needs are being met. We apply simple statistical techniques to help identify and prioritize those needs for different types of businesses. Specifically, we listed many “needs” and “challenges” in the survey for the respondents to choose from, and we asked them to rate their needs and challenges on a scale of 1 to 5—from least to most important. We asked them to rate how well those needs were being met on a scale of 1 to 3. Rather than showing response rates for each possible answer, we use exploratory factor analysis to organize the polling responses from the listed items and identify needs deemed important but unmet. We computed index scores for those needs.

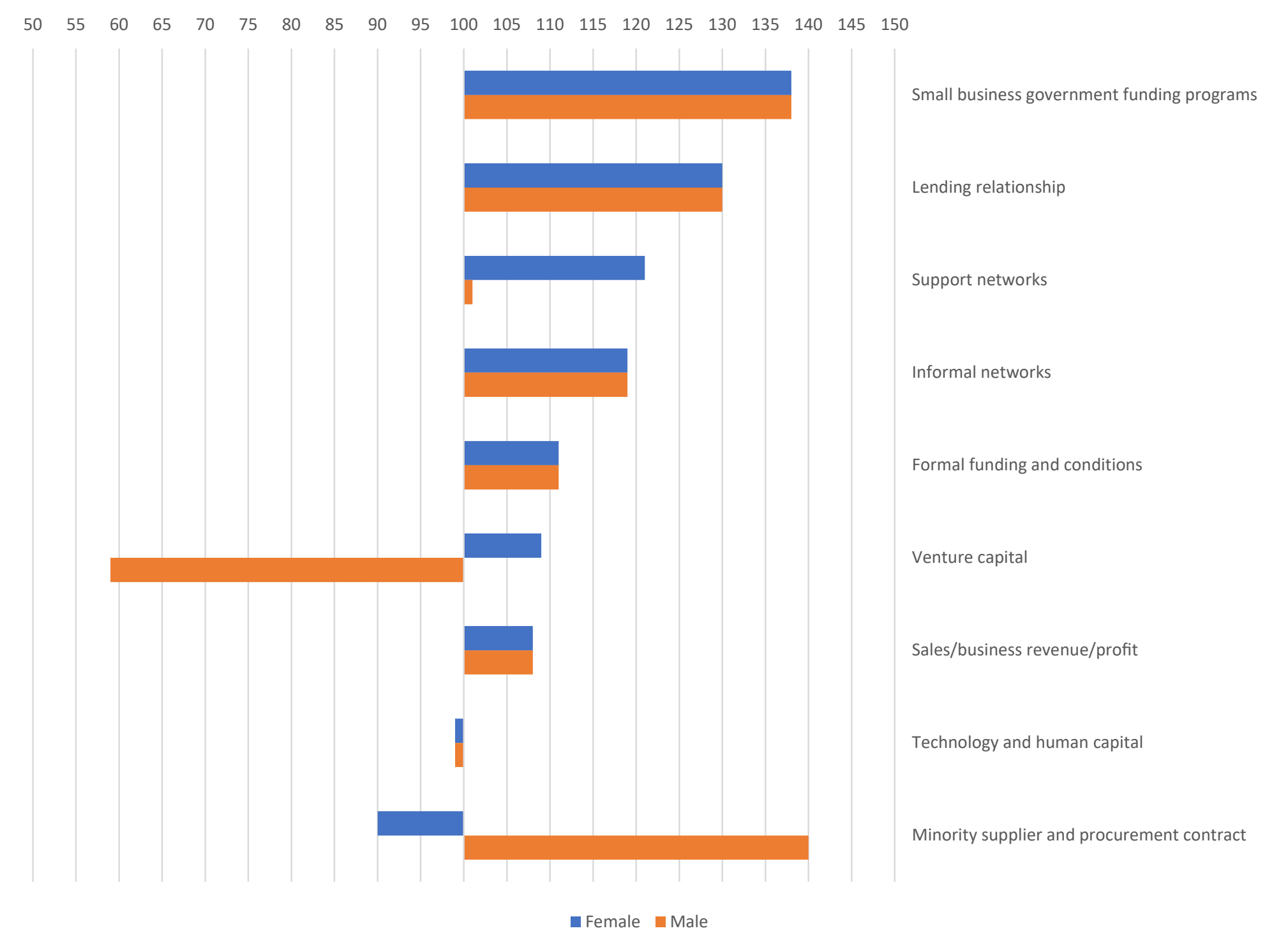
- Black business owners tended to score high on the needs for minority supplier and procurement contracts, small business government formal funding, lending relationships, funding support networks, and formal (bank) funding. (See figure 11.)
- Women-owned businesses (which are relatively newer, smaller, and in lower revenue industries) tended to score high on the need for support networks and startup/venture capital. (See figure 12.)
- There were also distinct primary areas of needs identified by stage of business, size, and industry. For example, small home-based businesses scored high on the needs for technology support, government funding, and lending relationships (results not shown).

## 11. Funding and resource needs, index scores for Black-owned businesses



Notes: The mean value for the sample is set at 100 with a standard deviation of 10. Values less than 100 mean that the respondent has a lower mean than the average in the sample, while values more than 100 indicate that the respondent has a greater mean than the average. Results for non-Black respondents are not reported due to the small number in this group. Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

## 12. Funding and resource needs, index scores for men- and women-owned businesses



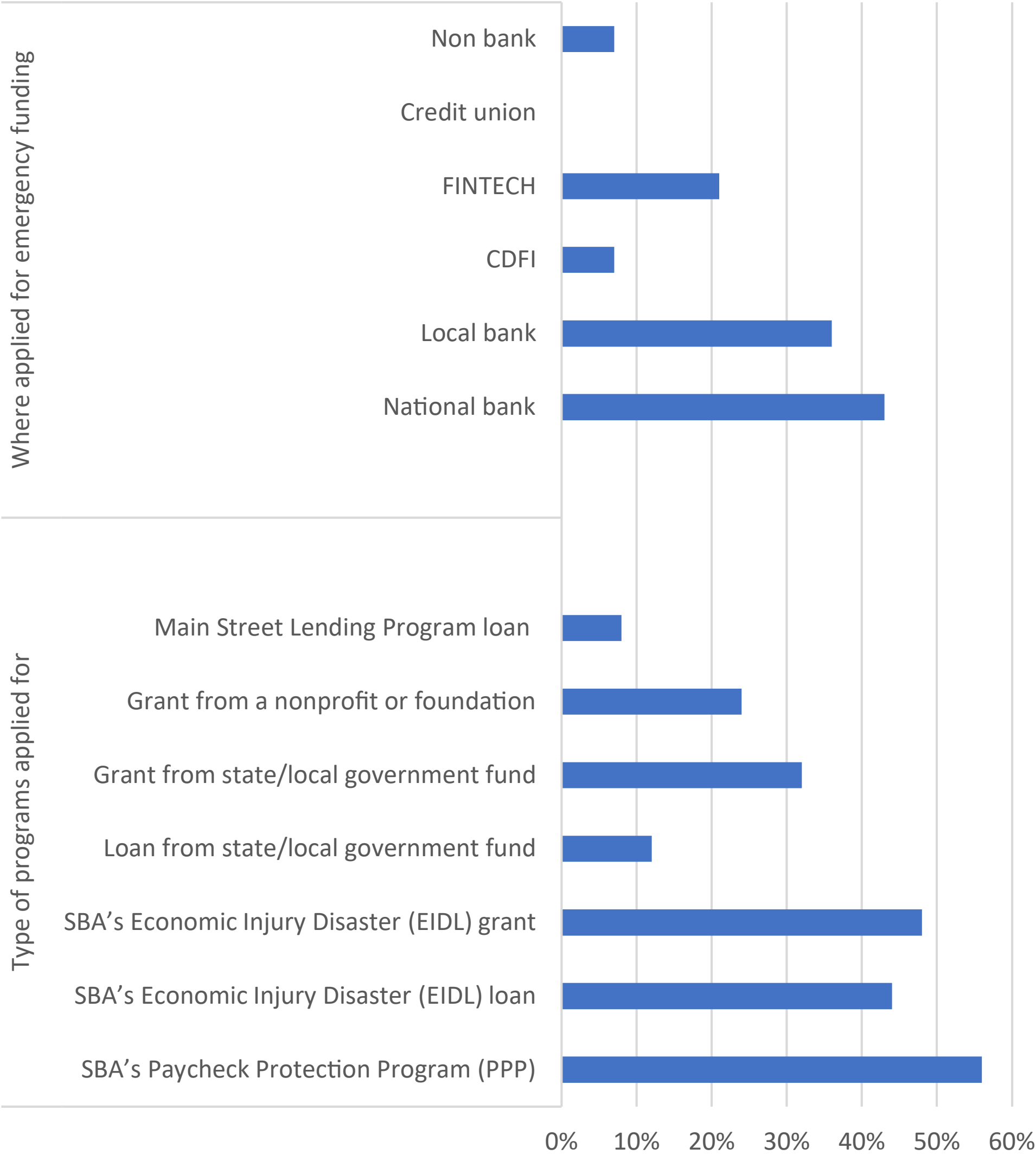
Notes: The mean value for the sample is set at 100 with a standard deviation of 10. Values less than 100 mean that the respondent has a lower mean than the average in the sample, while values more than 100 indicate that the respondent has a relatively greater mean than the average.  
Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

## Receipt and use of pandemic aid

Figure 13 shows our results for whether and where Black respondents applied for emergency pandemic-related assistance, as well as the type of assistance they applied for. Most of these applications were to banks, followed by financial technology firms (FINTECH), and some to community development financial institutions (CDFIs) or nonbanks.

Our survey shows that around 50% of Black-owned businesses applied for Covid-19 related emergency assistance. A [study](#) of microbusinesses in Detroit also reports the rate of application among Black businesses at above 40%. A smaller percentage, 30% percent or less, applied to other types of programs, such as grants from state/local government funds and nonprofit organizations and foundations.

### 13. Use of pandemic aid among Black-owned businesses



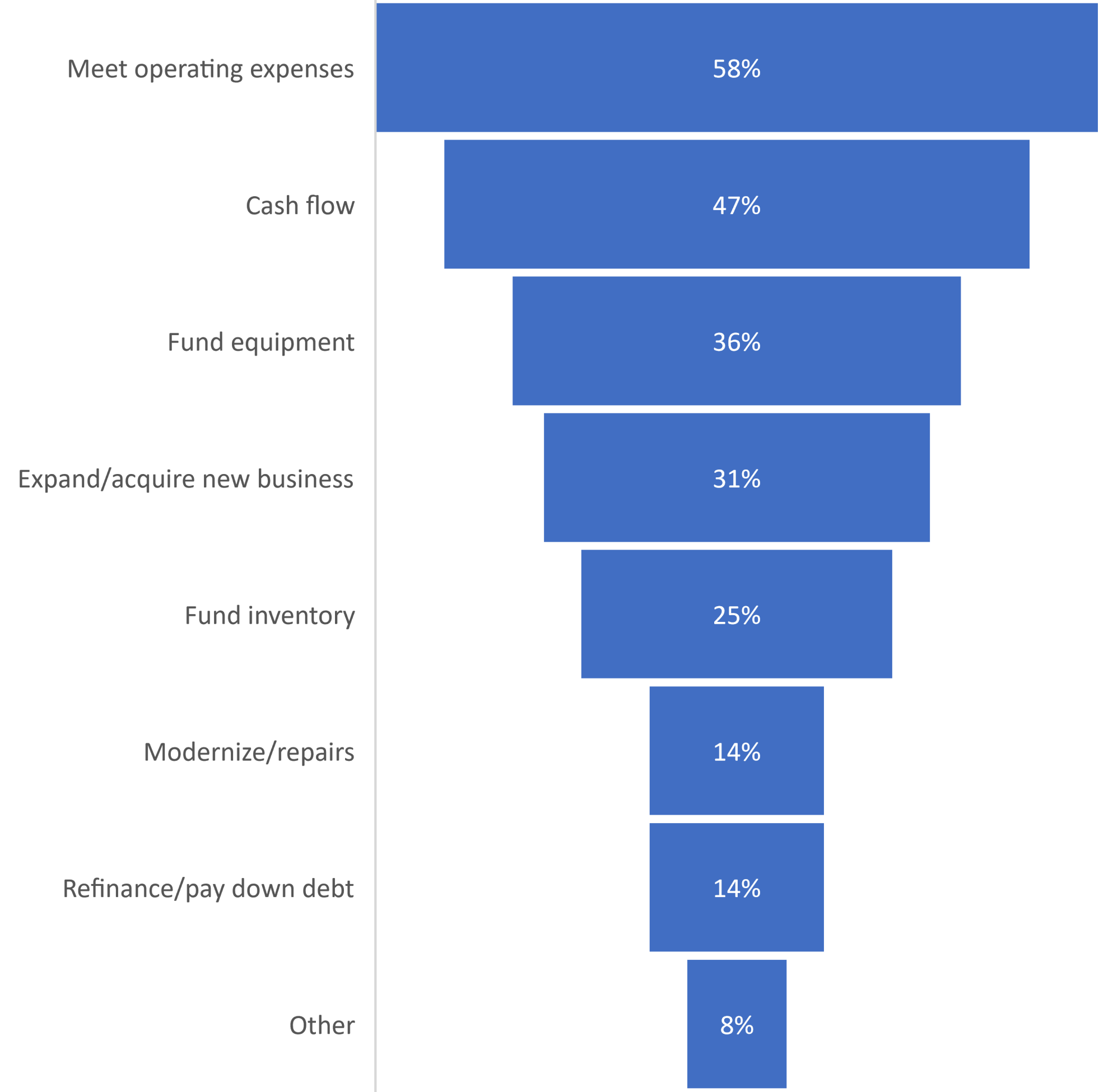
Note: Results for non-Black respondents are not reported due to the small number in this group.  
Source: Federal Reserve Bank of Chicago's Detroit Branch 2021 Survey of Businesses in Detroit.

### Sources of funds for financing and operating businesses

Black business owners reported needing funds mainly for operating expenses and cash flow. (See figure 14.) They made use of a variety of sources to fund operation or for financing, notably their retained earnings and their personal and business credit cards. (See figure 15.)

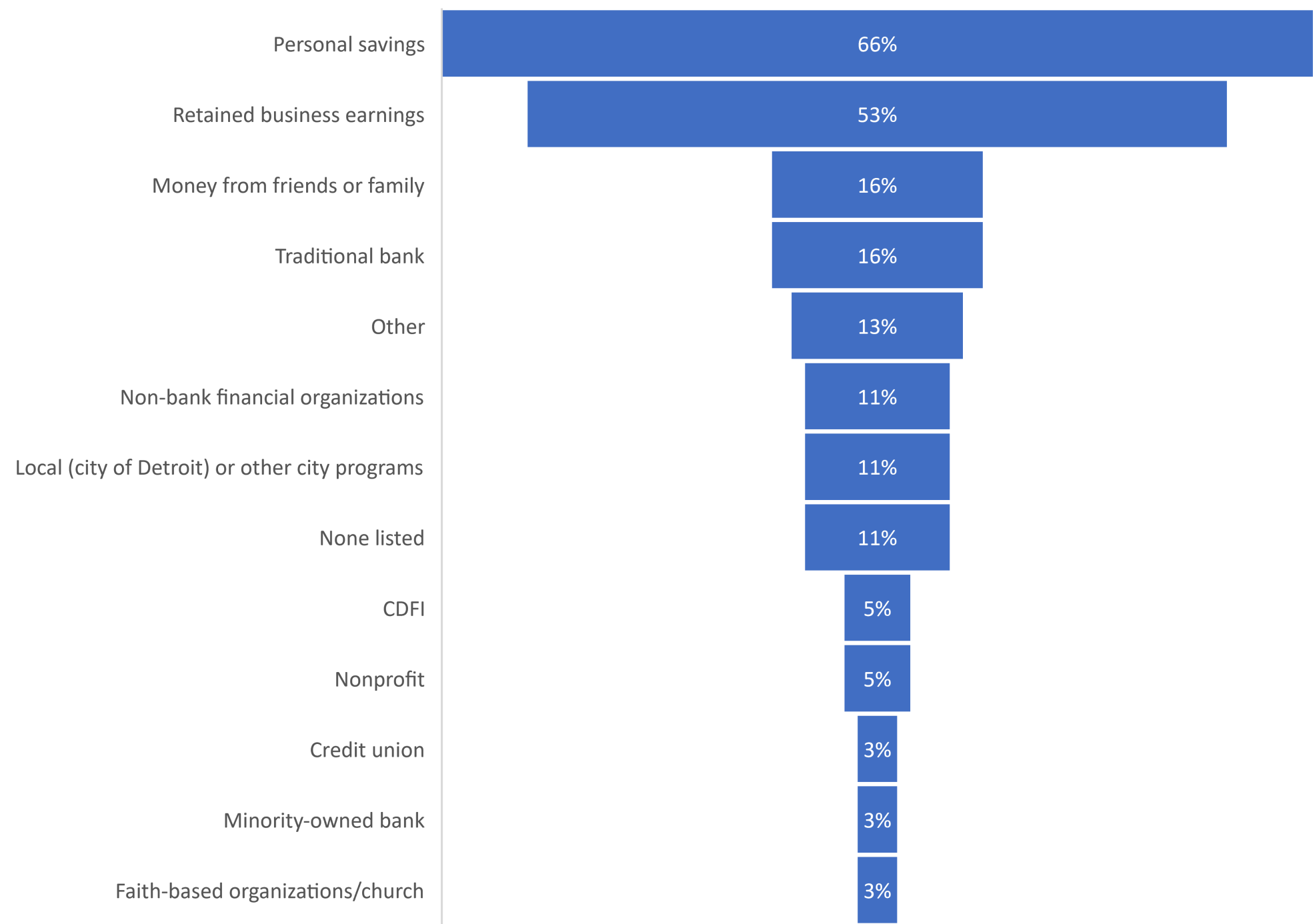
The usage and the reasons for use of non-pandemic-related funds generally did not differ by gender. One exception was women business owners that reported needing to fund inventory for their new businesses. Women were also more likely to have nonprofit, community-based, and philanthropy organizations as sources of financing. (See figure 16.)

14. Types of funds for Black-owned businesses



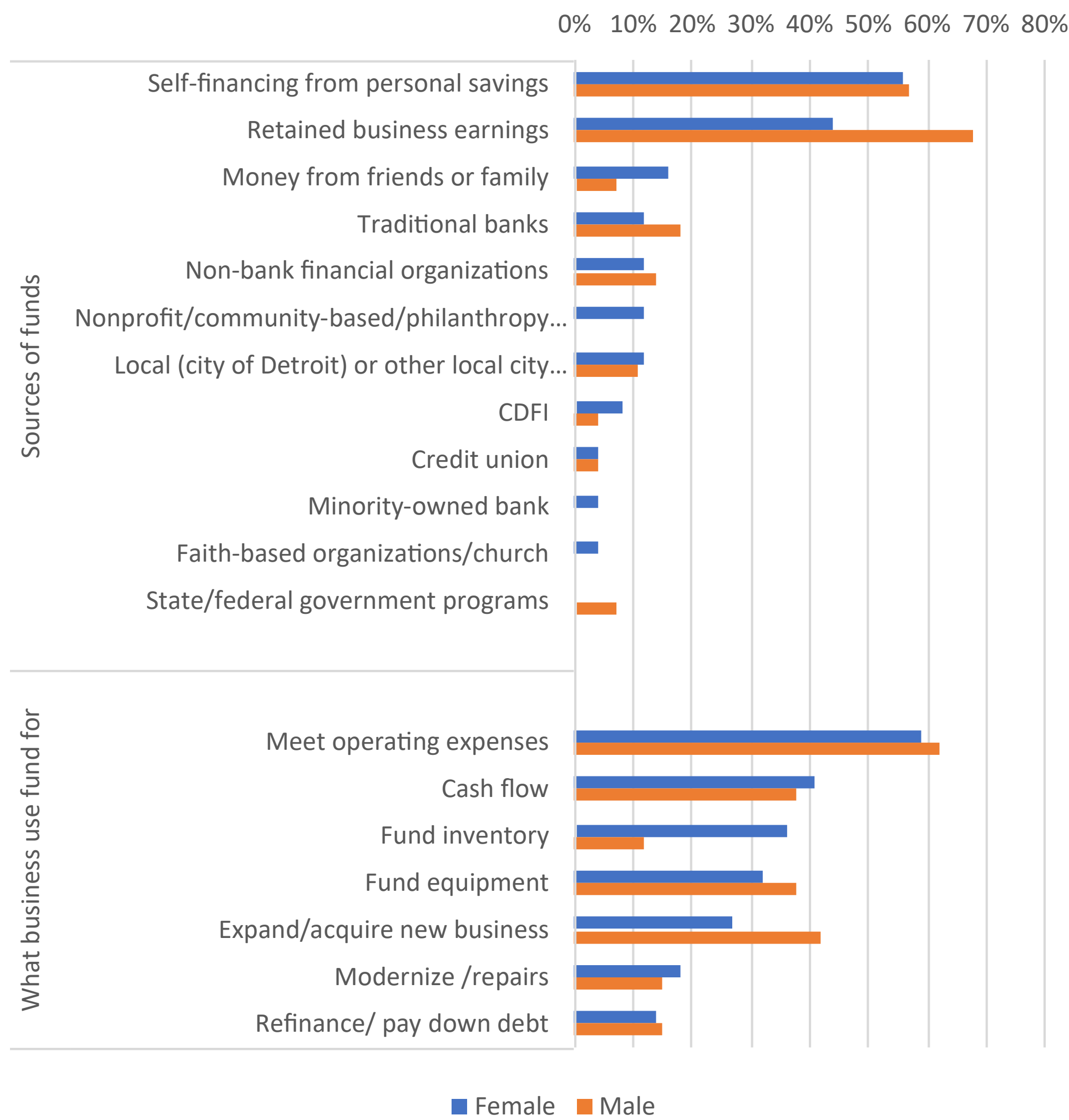
Note: Results for non-Black respondents are not reported due to the small number in this group.  
Source: Federal Reserve Bank of Chicago's Detroit Branch 2021 Survey of Businesses in Detroit.

# 15. Sources of funds for Black-owned businesses



Note: Results for non-Black respondents are not reported due to the small number in this group.  
Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

16. Notable differences by gender in sources and uses of funds, full sample



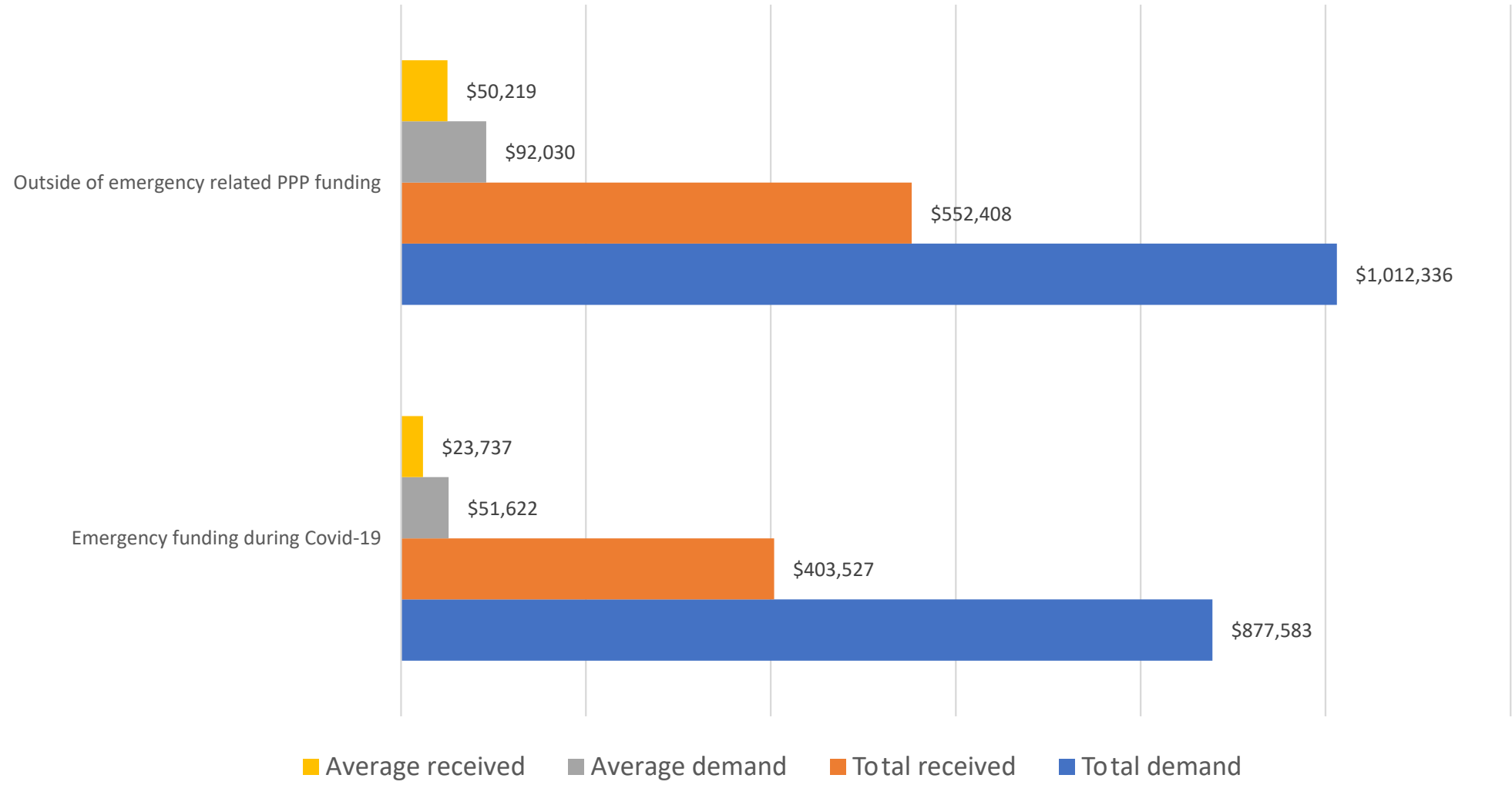
Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

Demand for small dollar loans

The evidence from the analysis suggests that there remains a gap in financing for small-dollar business loans. According to our survey sample results, businesses are asking for small dollar loans between \$50,000 and up to \$100,000 loans, on average, and they generally receive 50% less than they request. (See figure 17.)

According to data from the Federal Reserve, the average loan amount from large national banks is \$564,000; from small banks, it is \$184,000.<sup>5</sup> According to the 2019 SBCS, 18.5% of businesses sought loans for under \$25,000, and 39.8% of businesses sought loans for under \$100,000. Forty percent of business owners applied to large banks, 35% to small banks, and 33% to online lenders. Forty-nine percent applied for a business loan, 40% for a line of credit, and 20% for a Small Business Administration loan. Seventy-nine percent of businesses were approved for financing, but only 50.8% received the full amount requested. According to the 2020 SBCS, 47% of business applied for an Economic Injury Disaster Loan (EIDL), 35% for a grant from the EIDL program, 28% for grants from state/local governments, and 81% for funds from the Paycheck Protection Program (PPP).

# 17. Loan amounts requested and received by small businesses, full sample



Source: Federal Reserve Bank of Chicago’s Detroit Branch 2021 Survey of Businesses in Detroit.

## Conclusion

Federal programs provided funding to support people and businesses to offset the impact of the Covid-19 pandemic. Research suggests that these critical resources may have indirectly contributed to encouraging new business formation among Black entrepreneurs.<sup>6</sup>

Our sample of businesses in the Detroit survey is, by default, a sample of survivors. Moreover, our sample may be overrepresenting education levels and revenue levels and, therefore, may be underrepresenting businesses’ resource needs. The extent of utilization of funding noted also may overestimate the extent of utilization of funding during the pandemic for businesses in general in Detroit. To the extent that Black-owned businesses were less likely to apply for/receive funding, the gap in access may have undermined the growth of the Black businesses sector overall in the economic recovery for the area.

We found several specific potential areas for policy interventions moving forward. For example, our results point to the need for small-dollar loans. If such capital needs are usually for operations, as our survey suggests, then short-term, relatively small cash flow support may provide the highest benefit. Our survey also suggests that speed in securing financing matters when businesses are facing a cash-flow challenge.

New sources of funding have been made available since the survey’s fielding. Most significantly, the Emergency Capital Investment Program, provided up to \$9 billion in capital directly to depository institutions that are MDIs or CDFIs to provide loans, grants, and forbearance for small businesses, minority businesses, and businesses in low- and moderate-income and other underserved neighborhoods.

Our study points to the need for additional research and conversations among policymakers to evaluate how existing and new sources of funds are being allocated and how delivery mechanisms can be improved to minimize bias and ensure equitable and meaningful support for viable businesses.

## Notes

<sup>1</sup> Convenience sampling (also known as availability sampling) is a specific type of non-probability sampling method that relies on data collection from population members who are conveniently available to participate in the study.

<sup>2</sup> We partnered with several organizations to administer the survey. These organizations sent the electronic link of the survey instrument directly to their lists of thousands of businesses of all sizes and industries in the city of Detroit and beyond. We also conducted an advertisement campaign to disseminate the survey through social media (Facebook and LinkedIn). All the surveys were taken online, either on computers or mobile devices, and fielded from December 2021 to

February 2022. We thank the following organizations for distributing the survey to their business contacts and constituencies: the [Detroit Regional Chamber of Commerce](#), the [National Business League](#), [Detroit Economic Growth Corporation](#), the [Hispanic Chamber of Commerce](#), and the [Urban Entrepreneurship Initiative](#).

<sup>3</sup> The following statistics were gathered from the U.S. Census Bureau's [Annual Business Survey](#). The tables used were AB1900NESD01 and AB1900NESD02, which are searchable on the Census Bureau website. The data includes information for employer firms as well as information from the ABS [Nonemployer Statistics by Demographics \(NESD\) series](#), which covers non-employer firms.

<sup>4</sup> In addition to the 85 businesses in operation, 11 more responded but had closed by the time of the survey. These businesses are not included in the analysis in this article due to missing information. Of note, the survey asked about the revenue of the businesses but not about the income of the owner. Based on the zip code of the business location, in some parts of the analysis, we classify income as low-, middle- and upper- quartile of the median income of the Detroit metropolitan area. The sample size of 96 businesses is a convenience sampling, and it is not necessarily representative of the true population of businesses in Detroit. However, we believe that the boots-on-the-ground approach in collaborating with organizations to survey their constituencies helped us capture some of the unique aspects of experiences among Black-owned businesses in Detroit.

<sup>5</sup> See [online](#). These numbers are from 2017.

<sup>6</sup> See, for example, [Fazio et al. \(2021\)](#), and [Perry, Donoghoe, and Stephens \(2023\)](#).

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