

FEDERAL RESERVE BANK *of* CHICAGO



Black-Owned/Minority Businesses

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Detroit Small Business Project

- **Support the economic vision of a diverse business environment in various sectors as well as minority businesses across different neighborhoods.**

Focus of Today's Talk

1. Data review of minority-owned firms
2. Implications of the research
3. The Chicago Fed Detroit Small Business and Minority Business Project and *Community Network Poll*.

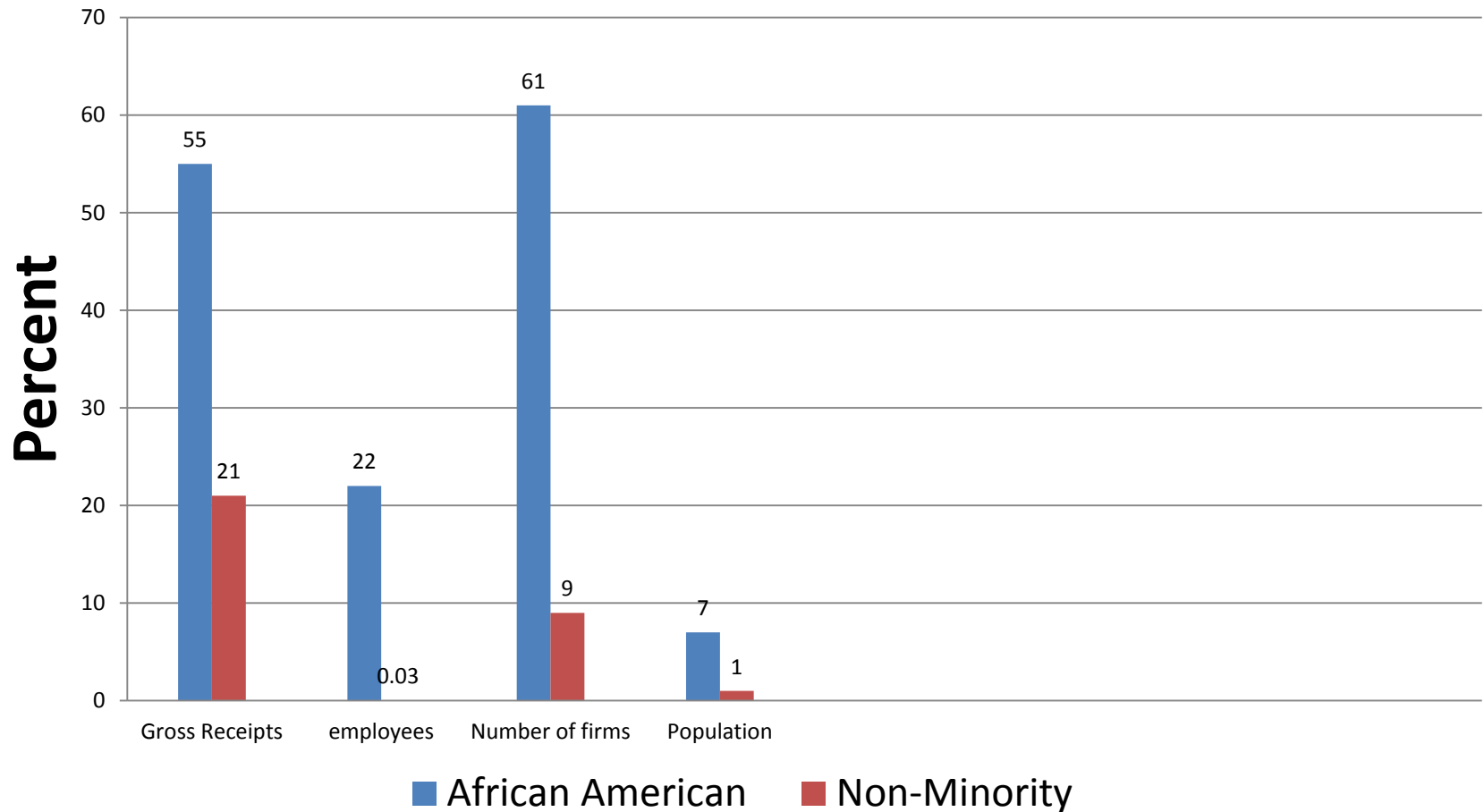
Review of scope and scale

THE DATA

The Importance of Black-Owned Businesses

- Firms owned by African-Americans outpacing others
- Together these firms are an engine of job creation

The Importance of Black-Owned Businesses



Author's calculations based on 2007 Survey of Business Owners, U.S. Census

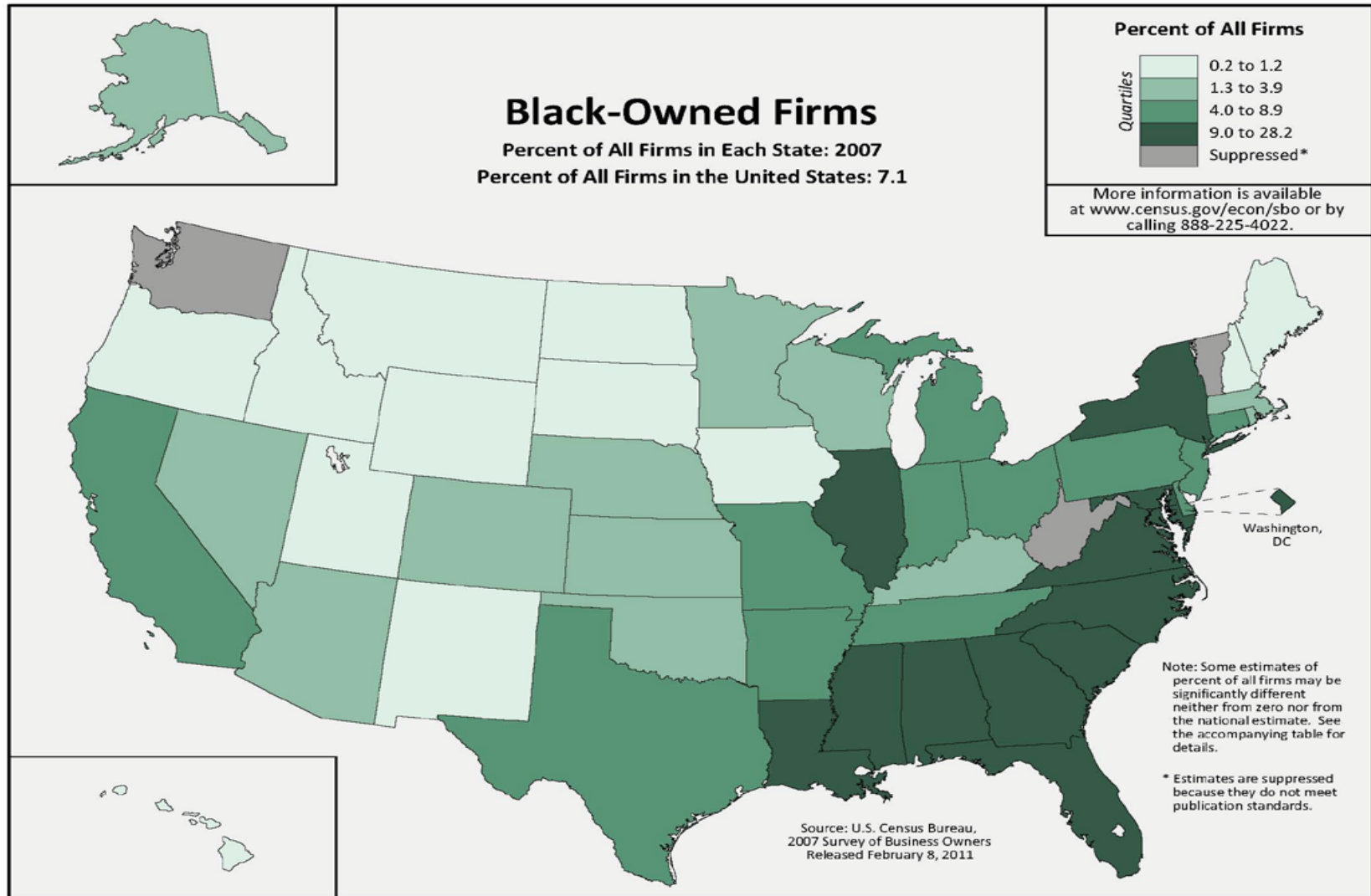
Rising Entrepreneurship among Minority Groups

	Share of new entrepreneurs, 1996	Share of new entrepreneurs, 2011	Index of entrepreneurial activity, 1996	Index of entrepreneurial activity, 2011
White	76.40%	60.20%	0.33%	0.29%
Black	8.40%	9.10%	0.21%	0.23%
Latino	10.50%	22.9	0.33%	0.52%
Asian	3.50%	5.30%	0.29%	0.32%
Other	1.20%	2.50%	--	--

Source: Robert Fairlie, using CPS

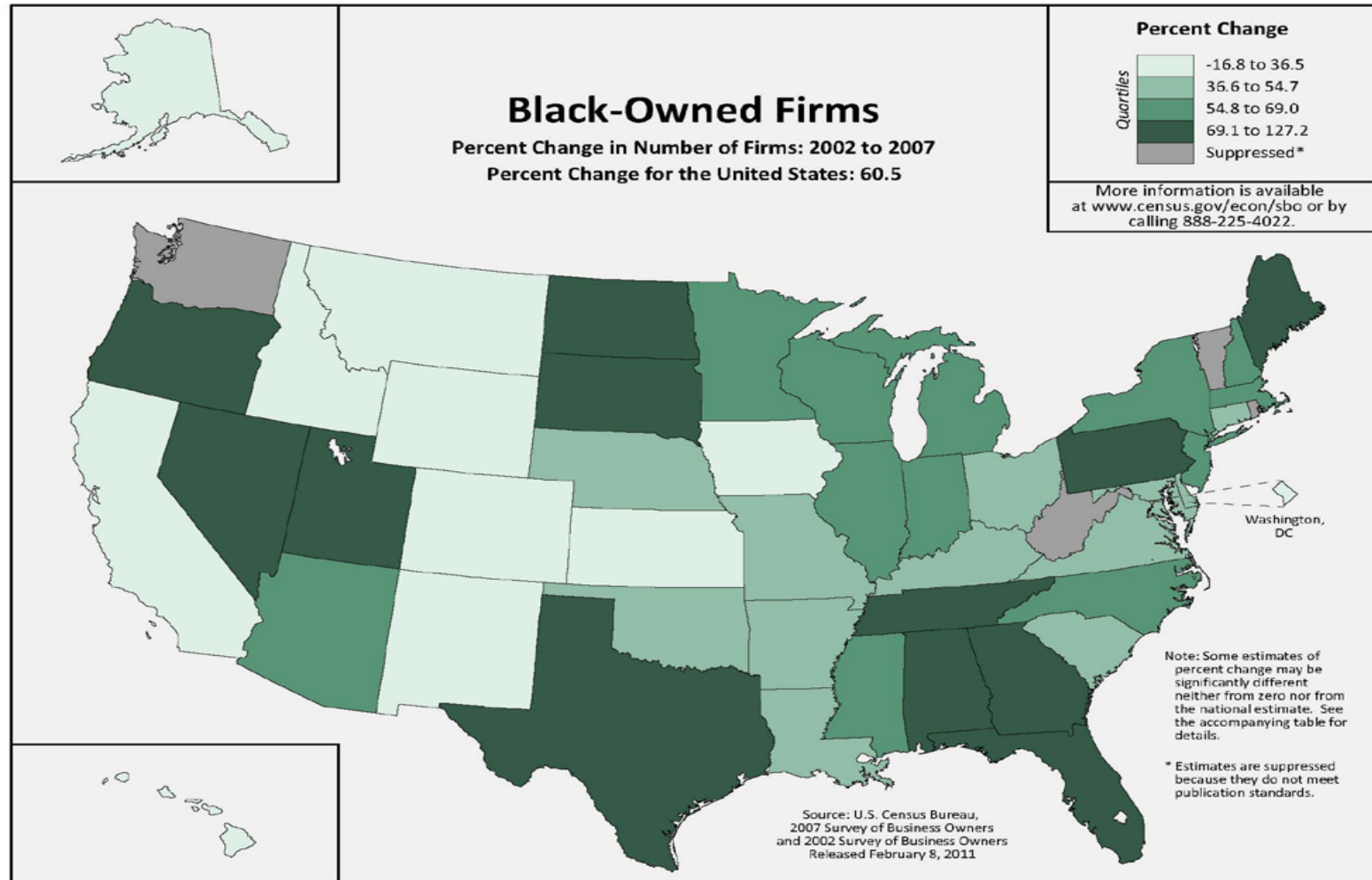
MICHIGAN

One of the States with the Highest Proportions of Black-Owned Firms



MICHIGAN

One of the States with Highest Growth of Black-Owned Firms



True Economic Potential is Still Unrealized

- Nationwide, **only 6 percent** of these firms (107,000) had paid employees
- **Just 14,500** had revenues greater than \$1 million
- Average gross receipts of these firms **decreased** by 3 percent from between 2002 and 2007
- 2007 figure of **\$72,000**, well below that of non-minority-owned firms (\$490,000).

True Economic Potential is Unrealized

- Entrepreneurial parity gap
- Parity would mean:
 - 3.3 million firms (vs. of 1.9 million)
 - \$1.4 trillion in gross receipts (vs. \$138 billion)
 - 7.1 million new jobs (instead of 921,000)

MICHIGAN

Data Portrays a Mixed Picture

	# of Firms	Gross Receipts (\$1000s)	Avg. Gross Receipts	# of Employer Firms	Employer Firms' Receipts	Avg. Employer Receipts (\$1,000s)	Paid Employees
African American	72,554	\$4,694,384	\$64,702	2,789	\$3,590,769	\$1,287,475	30,874
American Indian and Alaska Native	6,079	\$754,576	\$124,128	614	\$636,838	\$1,037,195	5,160
Asian	21,589	\$7,740,865	\$358,556	6,363	\$7,069,070	\$1,110,965	66,293
Native Hawaiian and Other Pacific Islander	487	\$281,022	\$577,047	47	\$265,206	\$5,642,681	1,046
Hispanic	10,770	\$3,876,360	\$359,922	1,517	\$3,636,342	\$2,397,061	18,508
Minority	108,932	\$17,485,956	\$160,522	11,465	\$15,408,986	\$1,344,002	122,413
Data is for the state of Michigan							
Source: 2007 Survey of Business Owners							

Ypsilanti (charter township), Black-Owned Firms by Sector

	All sectors		Retail		Health Care		Other Services	
	Black-Owned	Non-minority	Black-Owned	Non-minority owned	Black-Owned	Non-minority	Black-owned	Minority-Owned
Firms (total)	987	2372	113	300	259	379	206	306
Receipts	61461	1653416	30569	120315	4337	61312	3347	6070
Firms with paid employees	28	377	1	84	0	70	0	5
Receipts (for firms with paid employees)	45613	1609147	-	116508	0	56686	0	5
Number of paid employees	107	3281	-	326	0	399	0	5
Annual payroll (\$1,000)	4055	133915	-	11207	0	17387	0	5
Number of firms without paid employees	959	1995	112	-	259	-	206	296
Receipts (for firms with no paid employees)	15848	44269	1334	-	4337	-	3347	5097
Percent of total (with classifiable race/ethnicity)	27%	65%	25%	67%	39%	57%	42%	63%
Average receipts (\$1,000)	62.27052	697.0556	270.5221	401.05	16.7452	161.7731	16.2476	19.8366
Percent with paid employees	3%	16%			0%	18%	0%	

Source: Author's calculations based on 2007 Survey of Business Owners, U.S., Census

Data Analysis

IMPLICATIONS

Data Analysis

- Data helps **identify** opportunities, **inform** programs, and **improve** services
- Data helps us **grow capacity** and **competitiveness** of African-American-owned businesses

Detroit Small Business Project

Research and Outreach

RESEARCH

- Data Analysis and Community Business Survey
- Produce and disseminate policy studies on key financing issues

Detroit Small Business Project

Detroit Small Business Project

- Provide forums to share best practices to leverage resources for small businesses.
- Bring together practitioners, financial institutions and other interested parties to collaborate on initiatives that support small businesses.
- Sponsor/support activities to serve small businesses.

Detroit Small Business Project

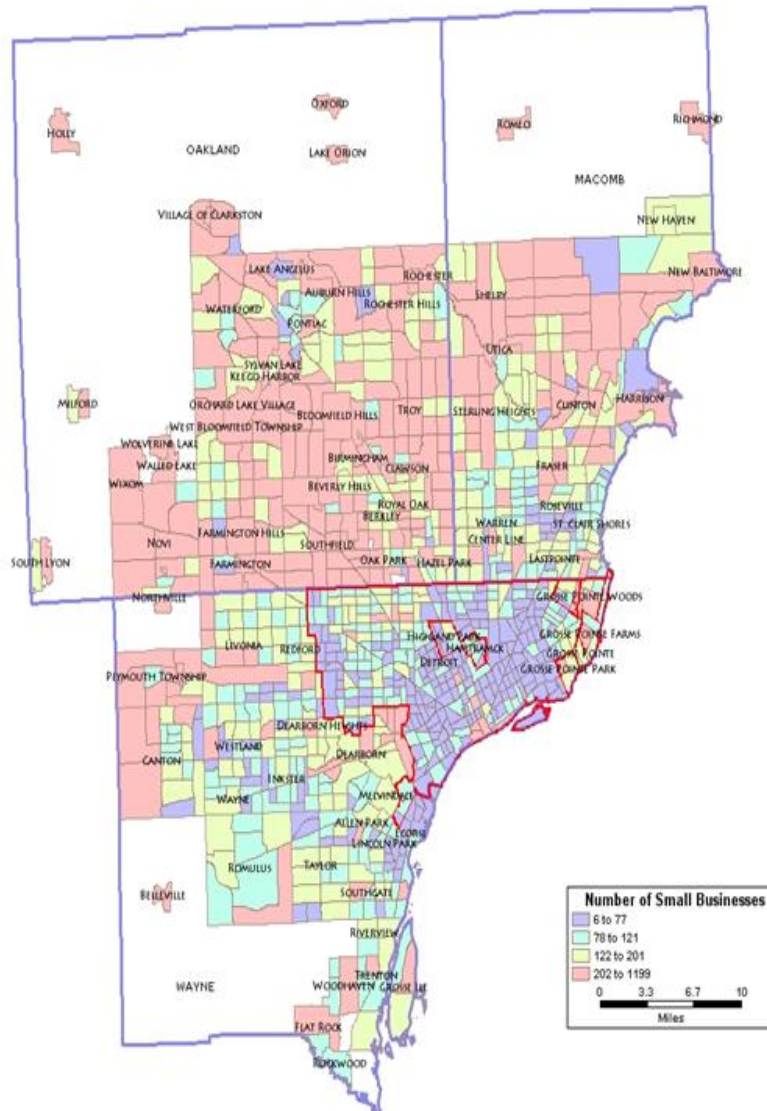
- Financial Infrastructure and Small Business Funding in LMI Neighborhoods in Detroit, Maude Toussaint-Comeau and Robin Newberger, **CDPS White Paper**, December 2012.
- Developing Small Businesses and Leveraging Resources in Detroit, Robin Newberger, Maude Toussaint-Comeau, **Chicago Fed Letter**, 2013, No. 306a, January.
- Developing Small Businesses and Leveraging Resources in Detroit: An Informed Discussion among Financial Institutions, Policymakers and Other Stakeholders in Detroit, Robin Newberger, Maude Toussaint-Comeau, **Profit Wise News and Views**, 2013, April.

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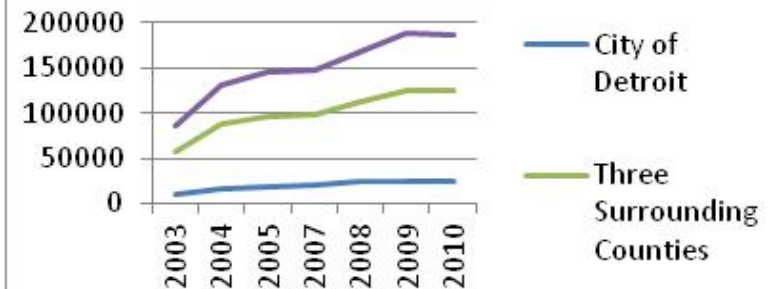
- Research Results
 - The business landscape
 - Banking infrastructure
 - CRA lending
 - Bank access and lending gaps

The Small Business Landscape

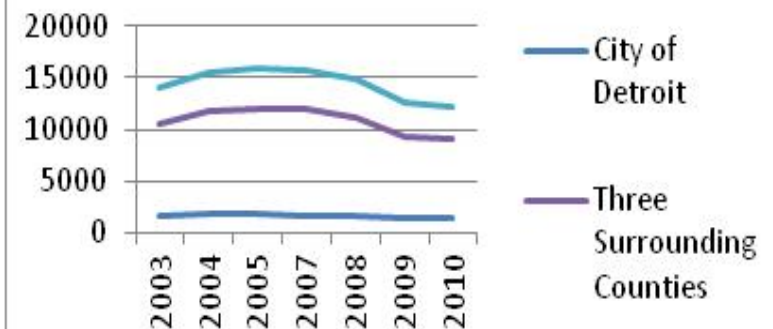
CDPS Detroit Small Business Project



Establishments with Revenue less than \$1M

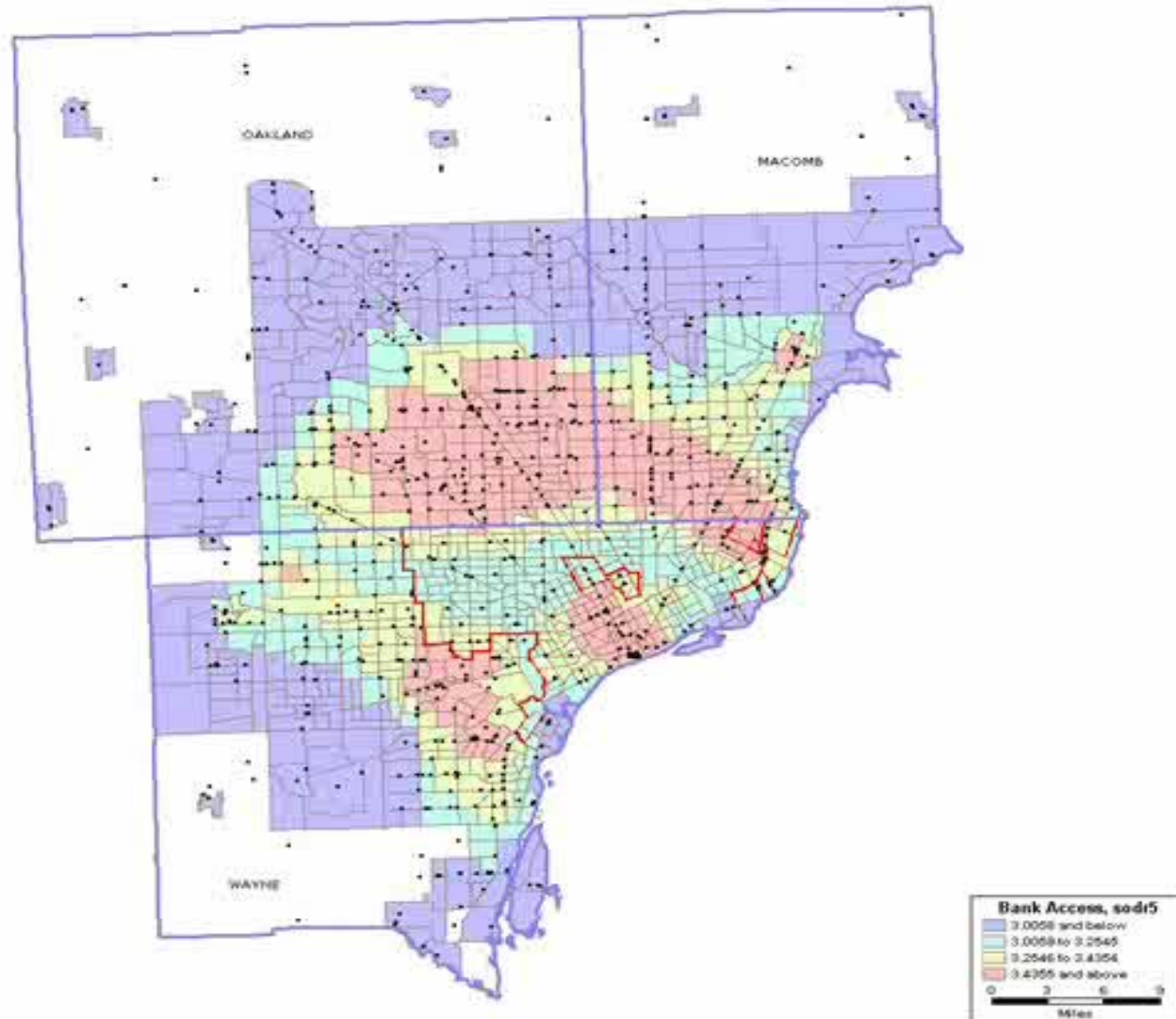


Establishments with Revenue \$1M and More



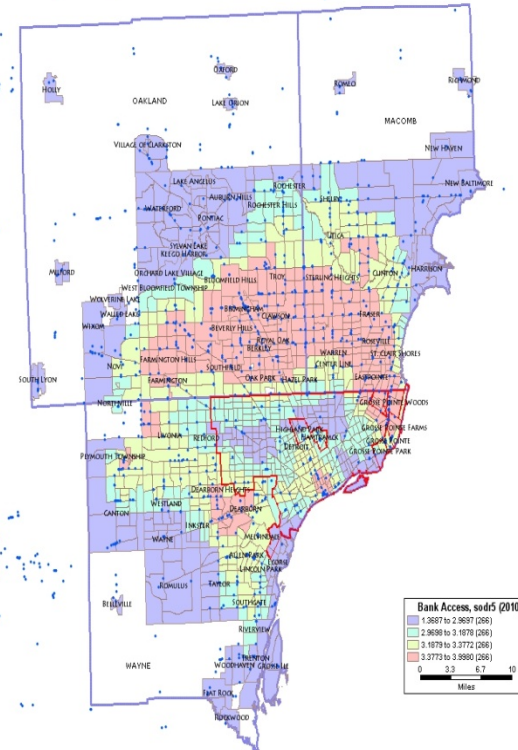
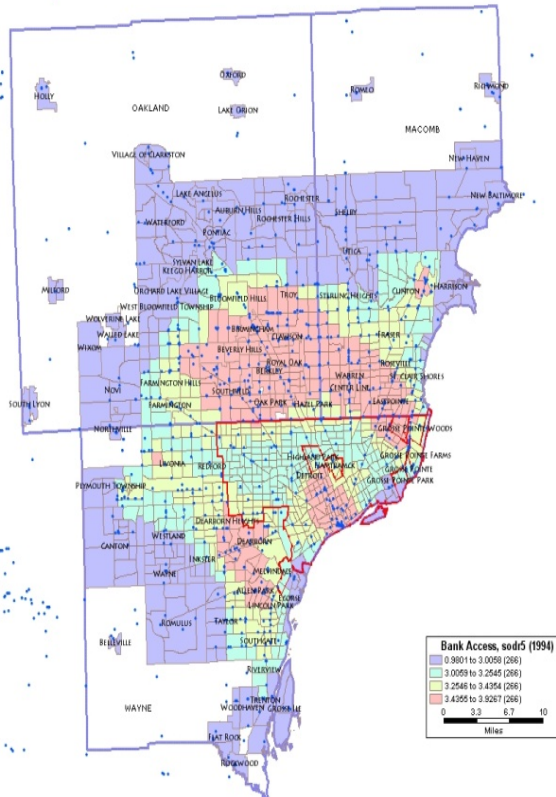
The Banking Infrastructure

CDPS Detroit Small Business Project



The Banking Infrastructure

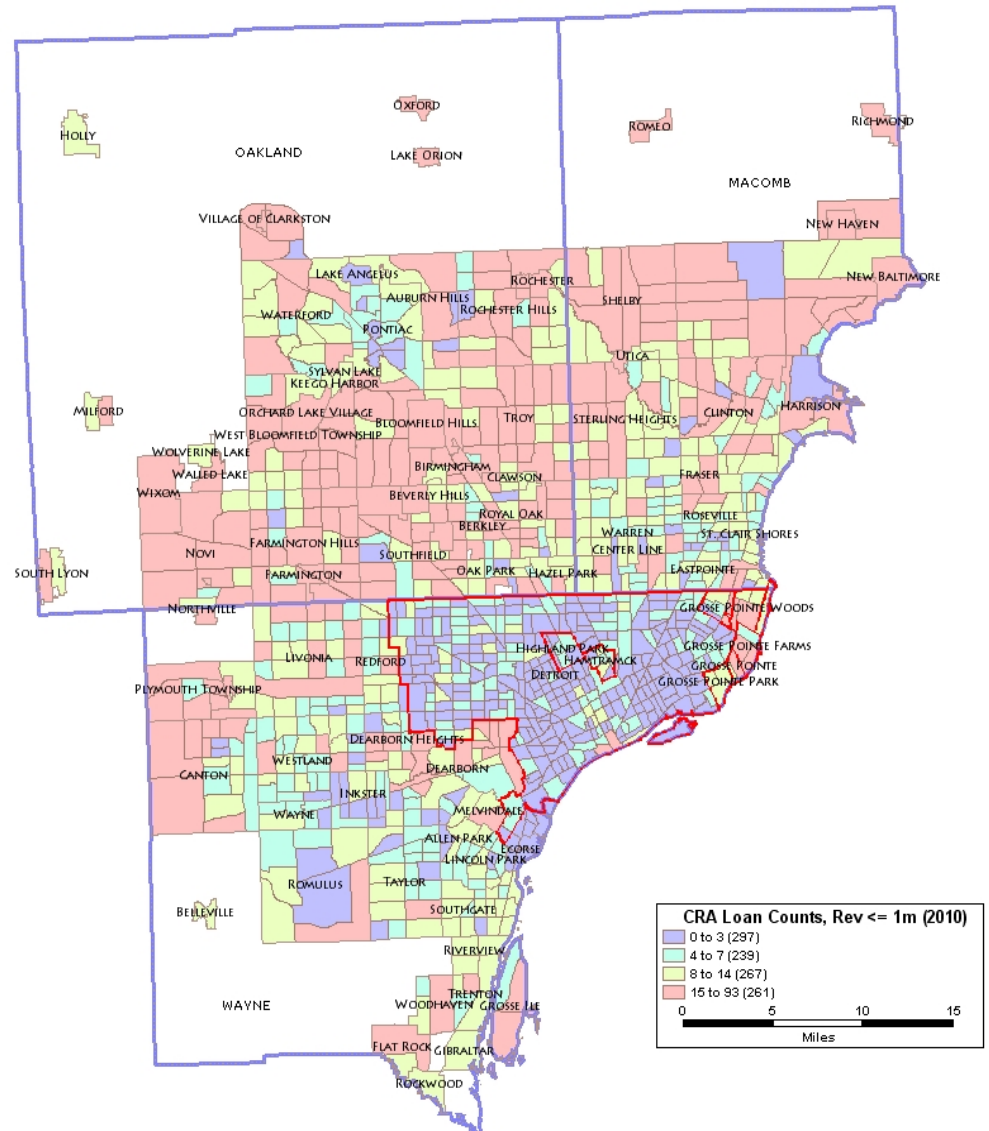
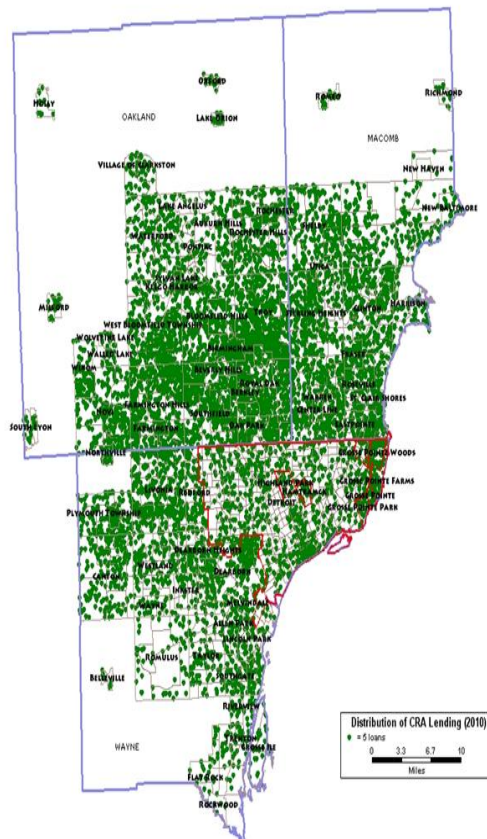
CDPS Detroit Small Business Project



$$\text{Bank Access}_i = \ln \left(1 + \sum_{k=1}^n \frac{1}{\max(1, D_{i,k})} \right)$$

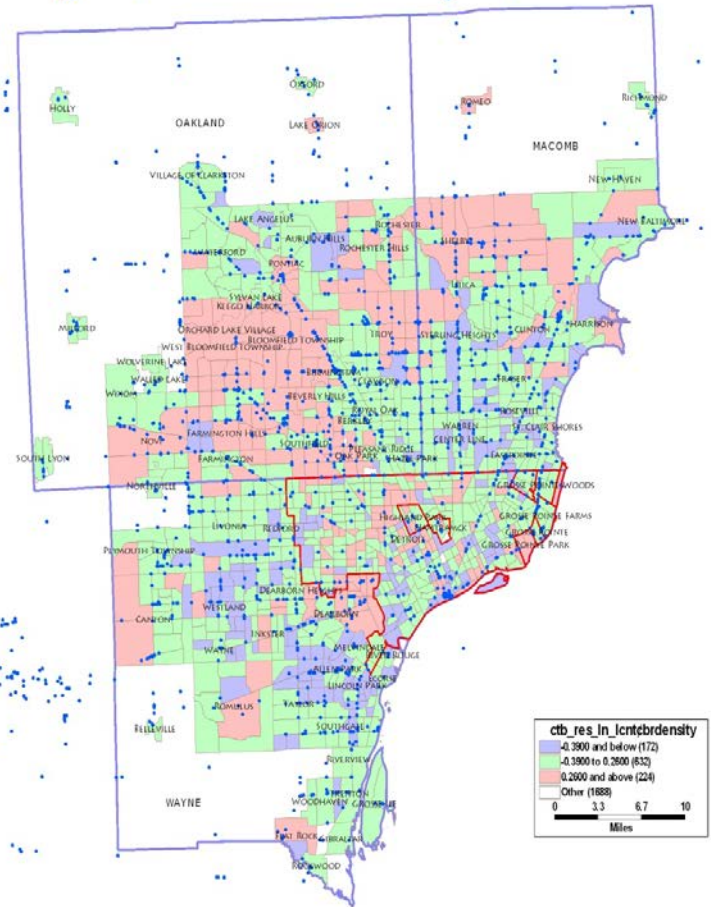
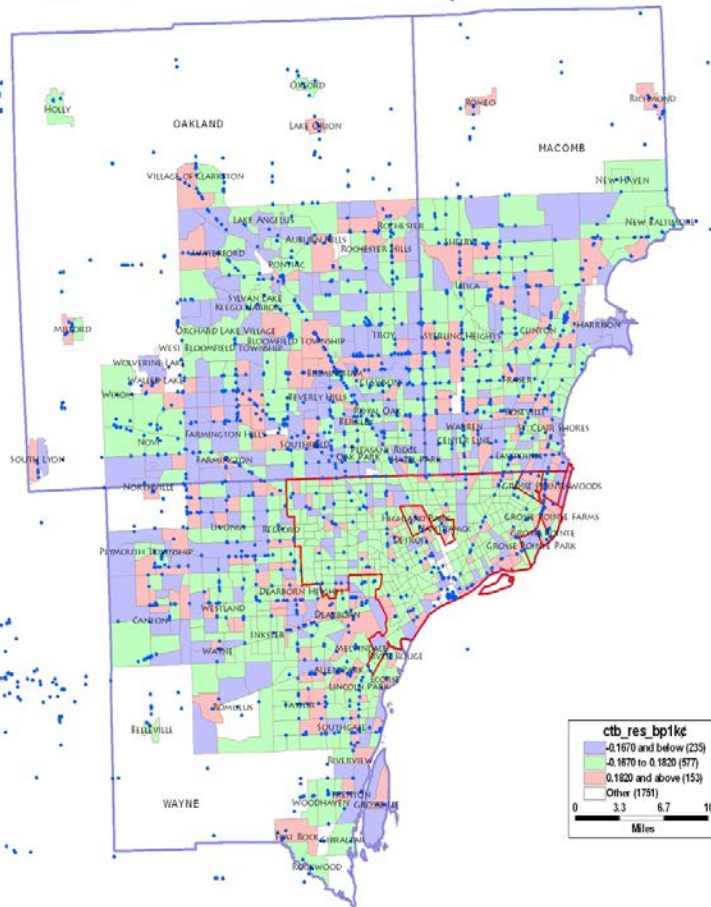
CRA Loans

CDPS Detroit Small Business Project



Gaps Analysis

CDPS Detroit Small Business Project





Small Business Project

Recommendations/Going Forward

- Increase access to funding
- Fill gaps in financing
- Supplement private capital
- Support intermediaries
- Facilitate linkages
- Augment existing linkages
- Support networking opportunities