

# 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*.

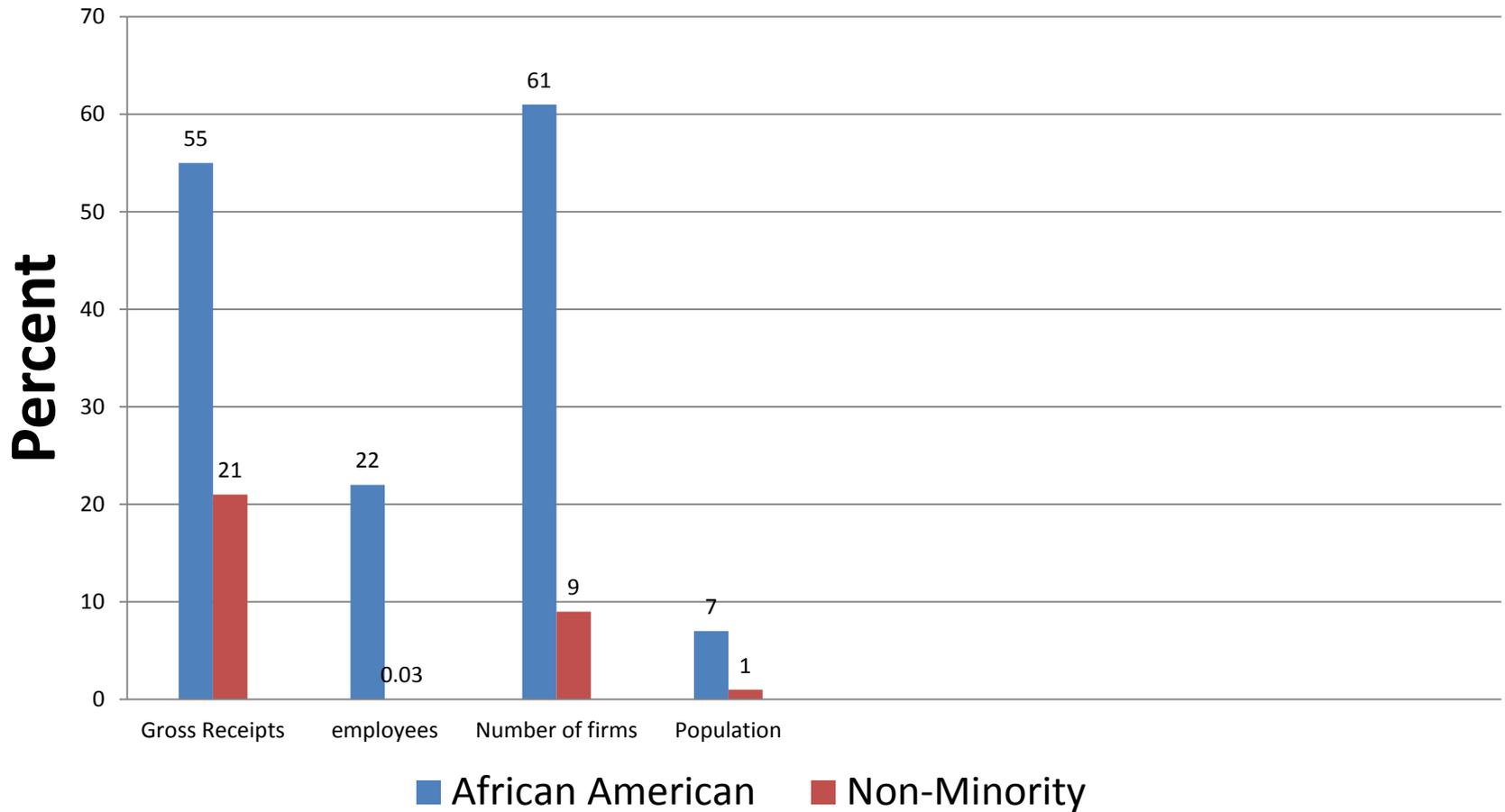
# Review of scope and scale

**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

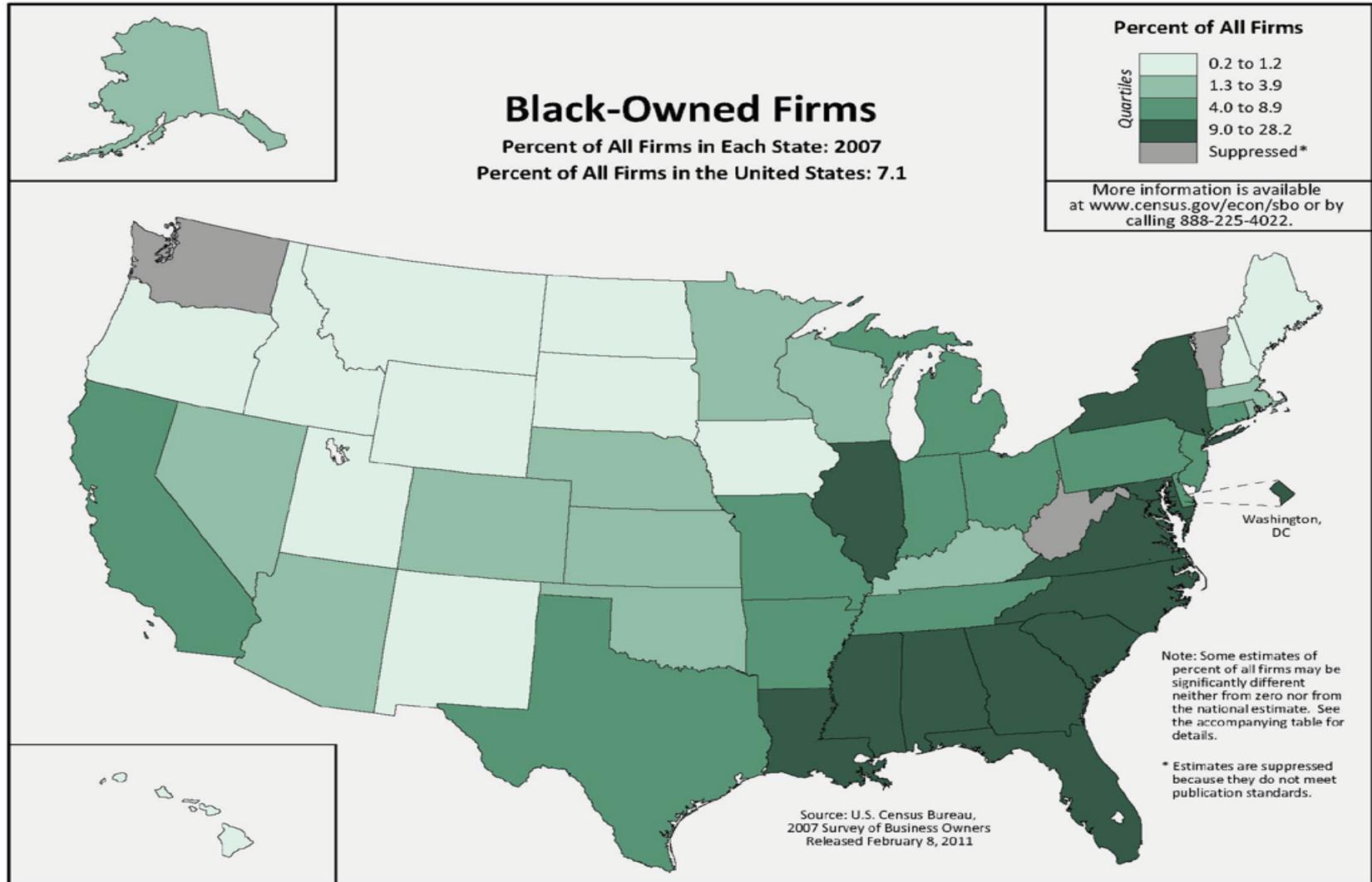
# Rising Entrepreneurship among Minority Groups

	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

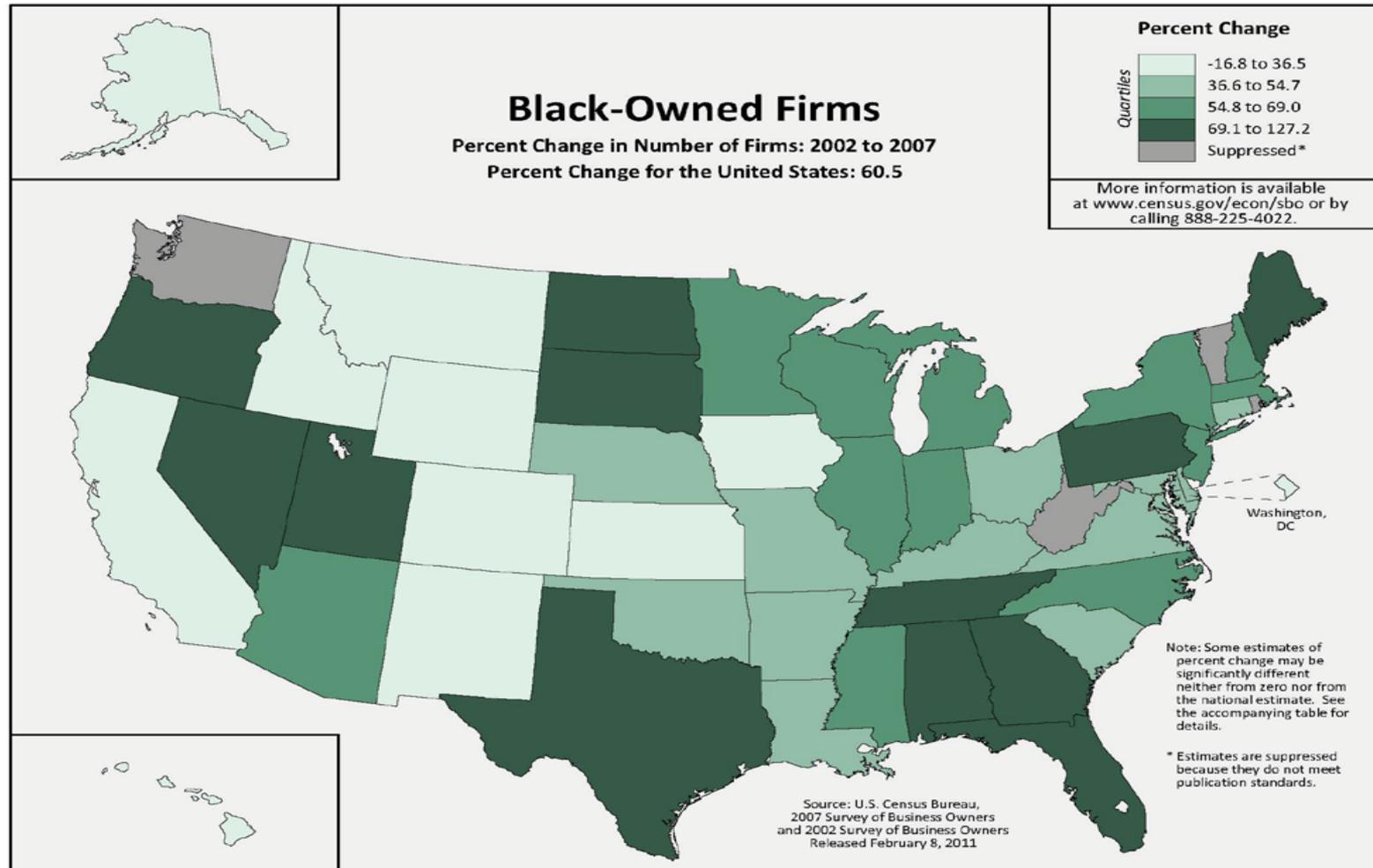
# MICHIGAN

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
<b>African American</b>	72,554	\$4,694,384	\$64,702	2,789	\$3,590,769	\$1,287,475	30,874
<b>American Indian and Alaska Native</b>	6,079	\$754,576	\$124,128	614	\$636,838	\$1,037,195	5,160
<b>Asian</b>	21,589	\$7,740,865	\$358,556	6,363	\$7,069,070	\$1,110,965	66,293
<b>Native Hawaiian and Other Pacific Islander</b>	487	\$281,022	\$577,047	47	\$265,206	\$5,642,681	1,046
<b>Hispanic</b>	10,770	\$3,876,360	\$359,922	1,517	\$3,636,342	\$2,397,061	18,508
<b>Minority</b>	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
<b>Firms (total)</b>	987	2372	113	300	259	379	206	306
<b>Receipts</b>	61461	1653416	30569	120315	4337	61312	3347	6070
<b>Firms with paid employees</b>	28	377	1	84	0	70	0	5
<b>Receipts (for firms with paid employees)</b>	45613	1609147	-	116508	0	56686	0	5
<b>Number of paid employees</b>	107	3281	-	326	0	399	0	5
<b>Annual payroll (\$1,000)</b>	4055	133915	-	11207	0	17387	0	5
<b>Number of firms without paid employees</b>	959	1995	112	-	259	-	206	296
<b>Receipts (for firms with no paid employees)</b>	15848	44269	1334	-	4337	-	3347	5097
<b>Percent of total (with classifiable race/ethnicity)</b>	27%	65%	25%	67%	39%	57%	42%	63%
<b>Average receipts (\$1,000)</b>	62.27052	697.0556	270.5221	401.05	16.7452	161.7731	16.2476	19.8366
<b>Percent with paid employees</b>	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.

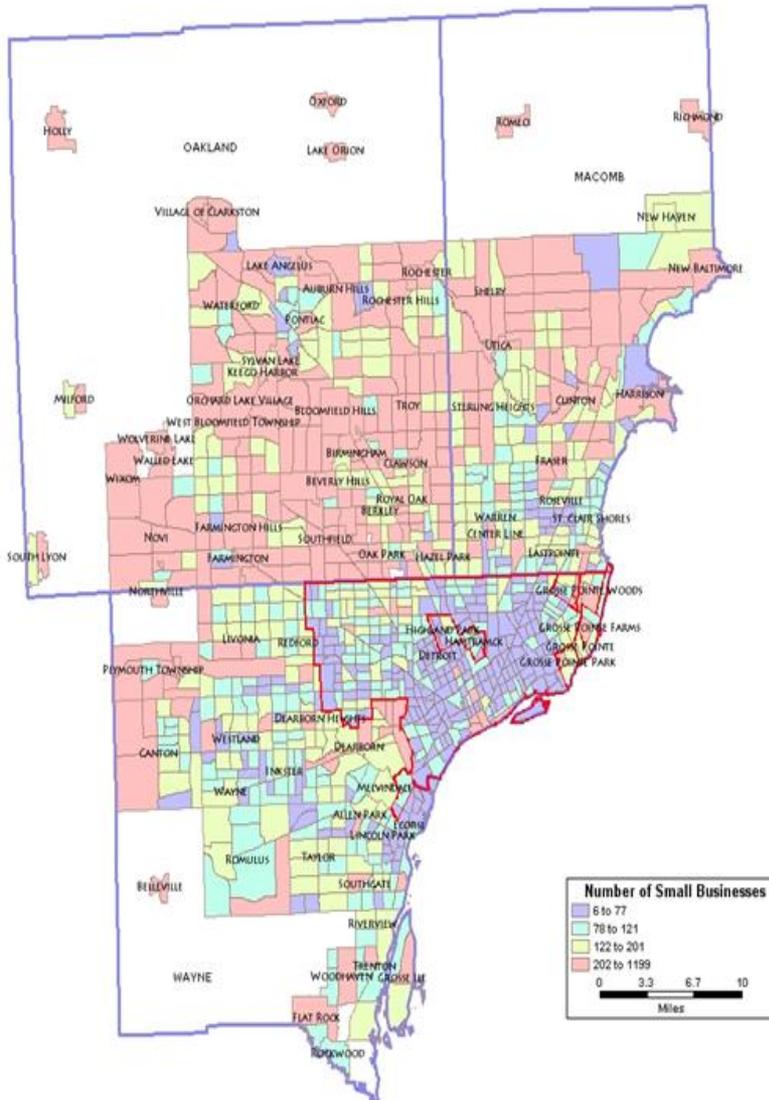
# Detroit Small Business Project

- 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.

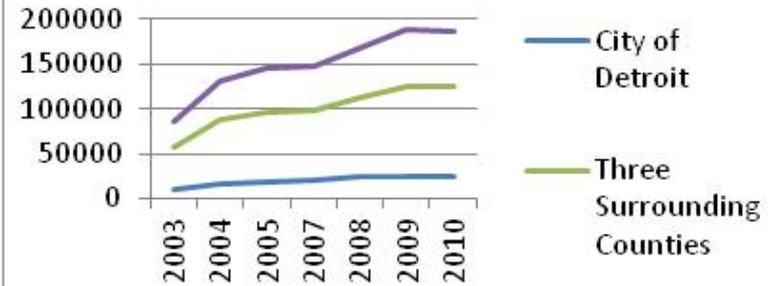
# Detroit Small Business Project

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

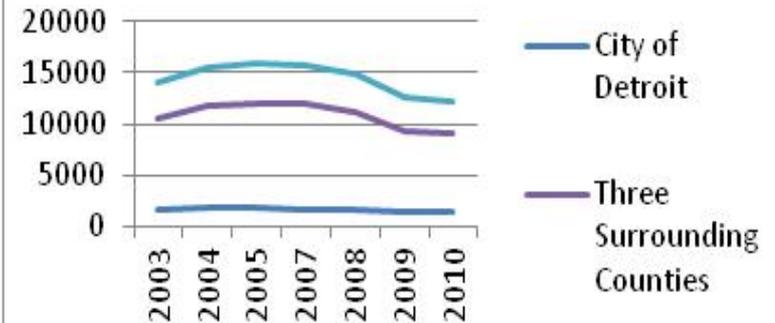
# The Small Business Landscape

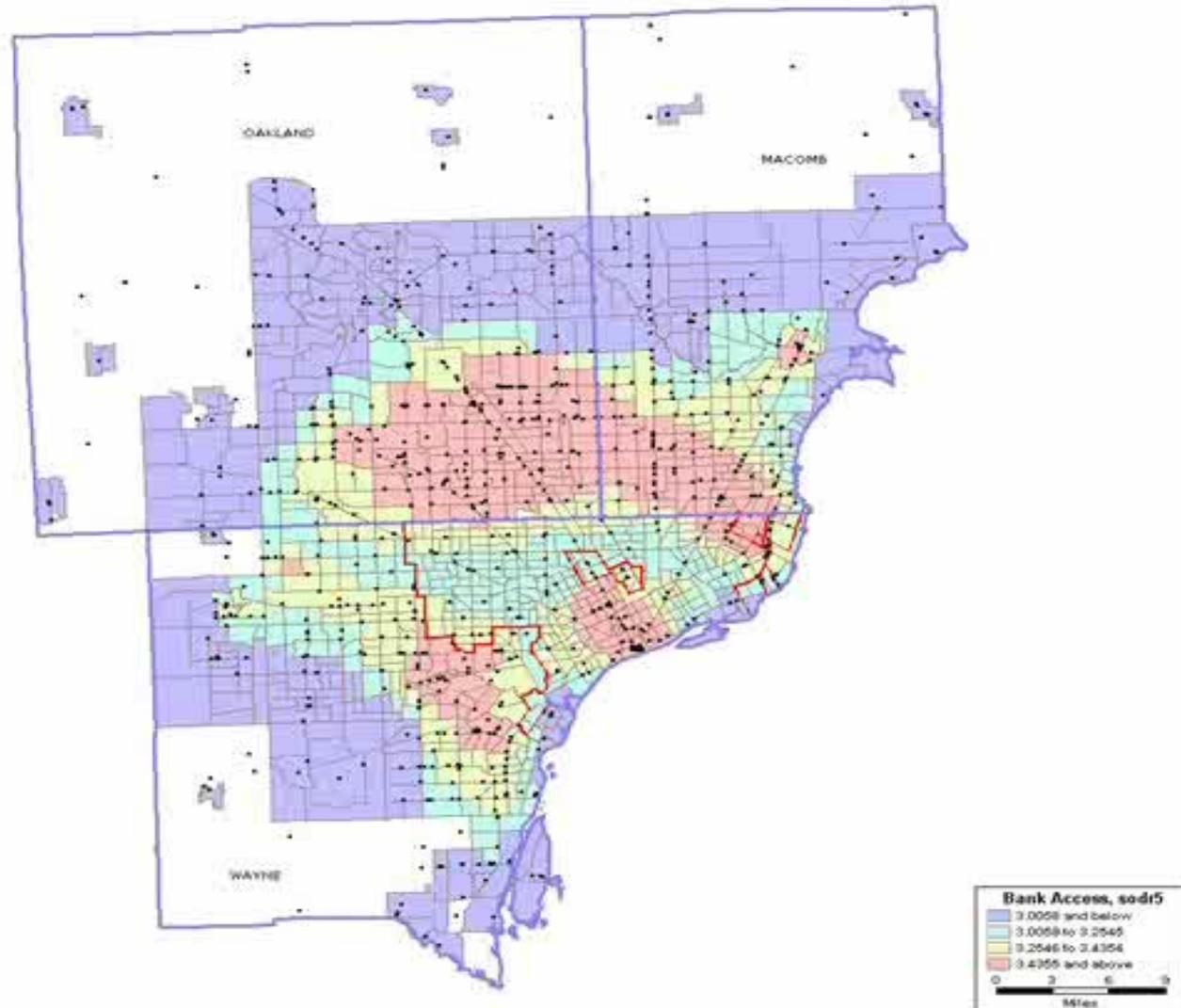


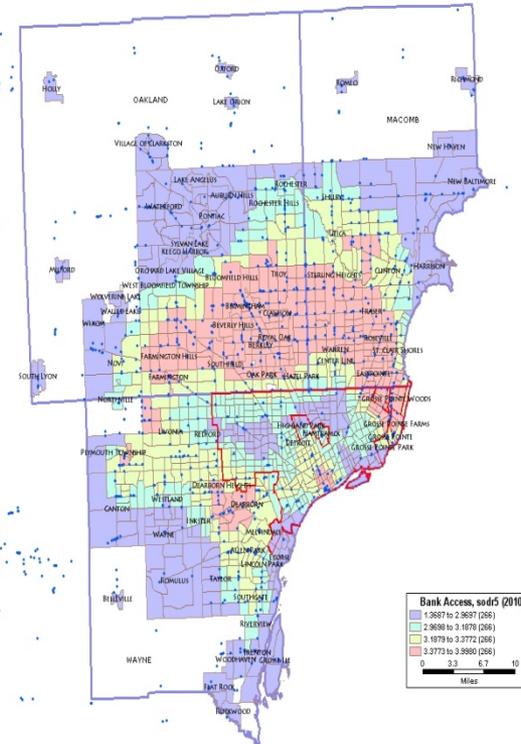
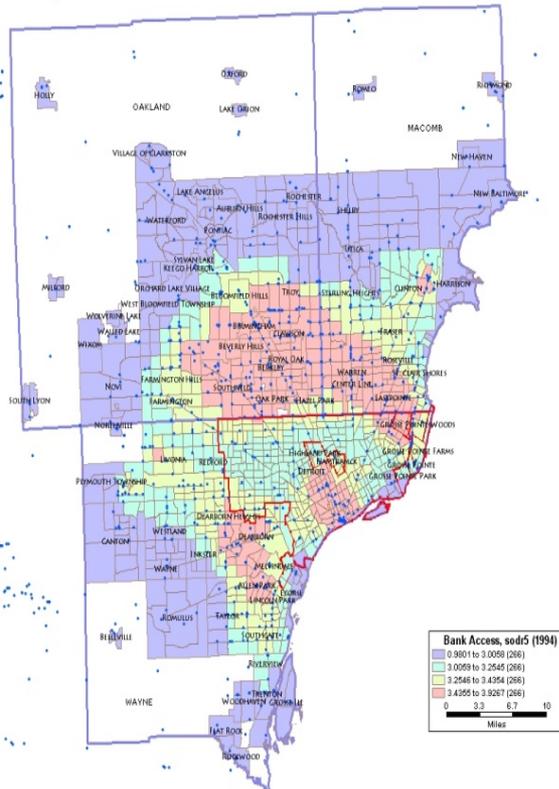
## Establishments with Revenue less than \$1M



## Establishments with Revenue \$1M and More



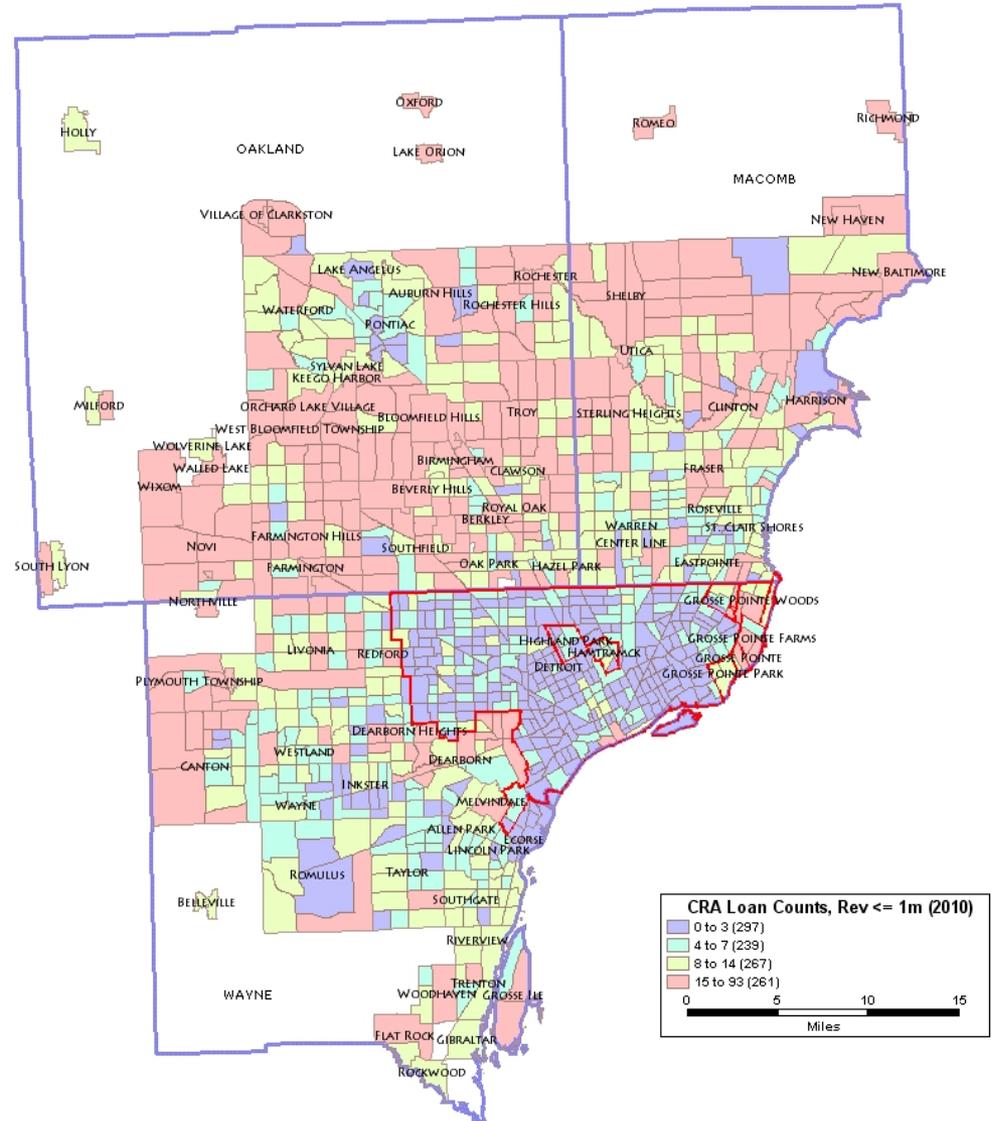
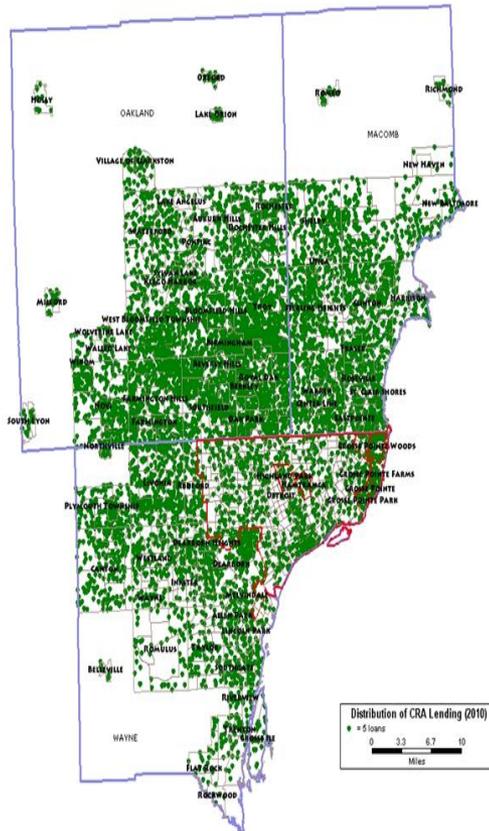




$$\text{Bank Access}_i = \ln \left( 1 + \sum_{k=1}^n \frac{1}{\max(1, D_{i,k})} \right)$$

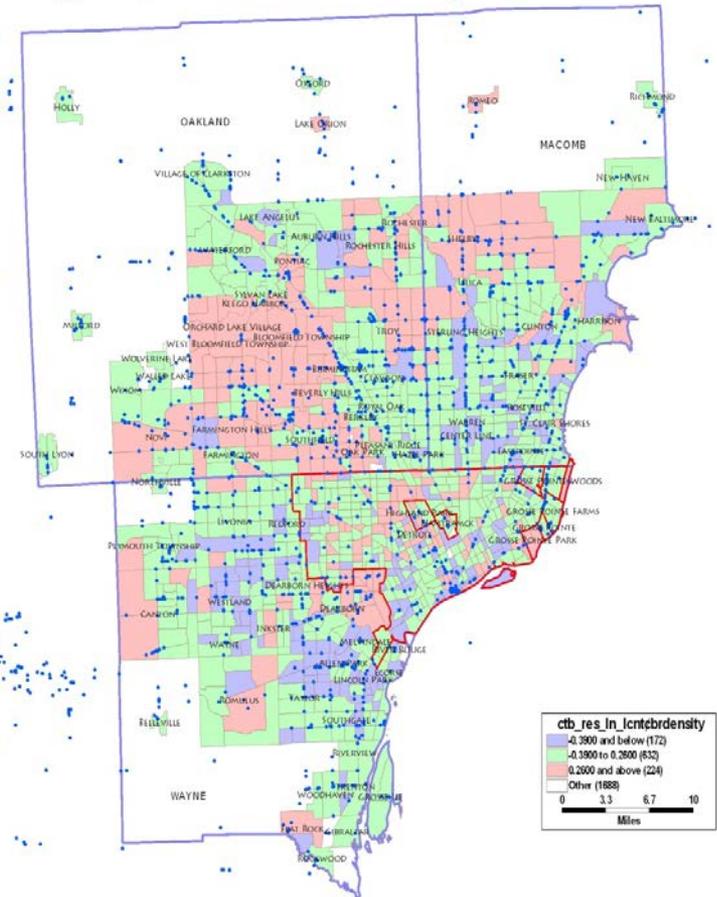
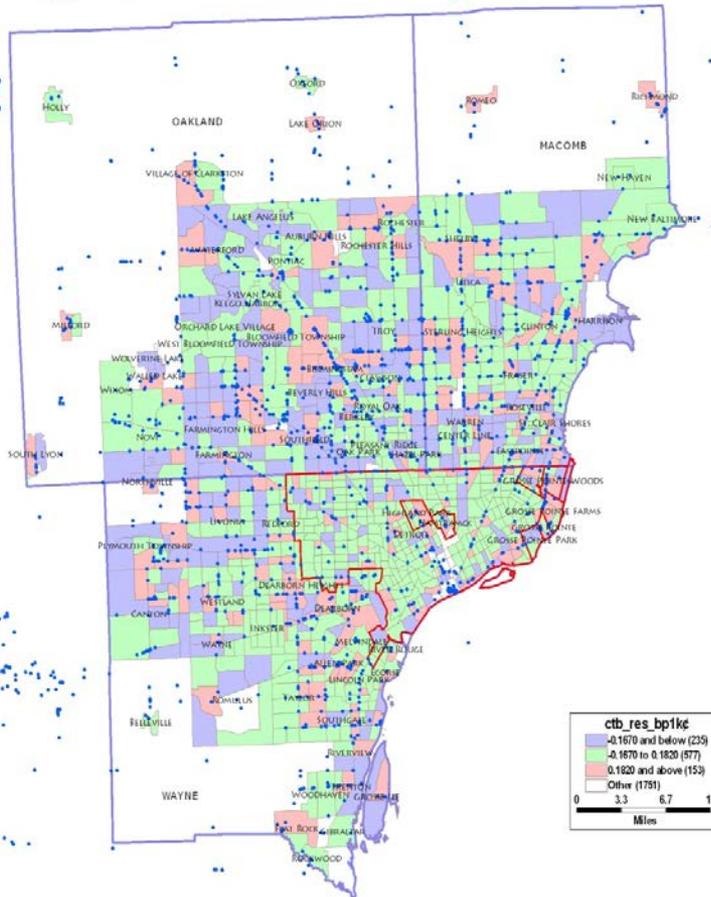
# CRA Loans

## 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