THE TAPESTRY OF BLACK BUSINESS OWNERSHIP IN AMERICA:

UNTAPPED OPPORTUNITIES FOR SUCCESS

AEO Association for Enterprise Opportunity
The Voice of MicroBusiness

ACKNOWLEDGEMENTS

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ABOUT AEO

The Association for Enterprise Opportunity (AEO) is the leading voice of innovation in microfinance and microbusiness in the United States. For more than 25 years, AEO and its more than 450 member and partner organizations have helped millions of entrepreneurs contribute to economic growth while supporting themselves, their families, and their communities. AEO members and partners include a broad range of organizations that provide capital and services to assist underserved entrepreneurs in starting, stabilizing, and expanding their businesses. Together, we are working to change the way that capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

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INTRODUCTION

A strong entrepreneurial spirit among Black Americans has spurred the creation of untold numbers of Black-owned businesses going back centuries and, at certain times in history, has resulted in thriving communities of enterprise such as the "Black Wall Street" of Tulsa, Oklahoma, and the bustling Shaw neighborhood of Washington, D.C. However, today, Black-owned businesses on the whole lag behind the average U.S. firm in terms of size and revenue. Ownership rates trail those of nonminority groups, and the failure rate is high. While these facts have been well documented, this particular initiative aims to reframe and restart the conversation associated with support for Black businesses by highlighting the resilient spirit of these aspiring entrepreneurs, painting a vivid picture of the rich diversity of Black-owned businesses, modeling the impact of unleashing their potential economic power, and bringing a new understanding to the unique barriers that these businesses experience.

tap·es·try

ˈtapəstrē/

used in reference to an intricate or complex combination of things or sequence of events. "a tapestry of cultures, races, and customs"

The W.K. Kellogg Foundation funded AEO in 2016 to explore the story of Black-owned businesses. Since previous research had uncovered important differences in business ownership rates and outcomes between native-born and immigrant entrepreneurs of color, the realization arose that there were likely many more important distinctions that needed to be uncovered within subsets of minority-owned firms. Accordingly, this study focuses on Black-owned businesses and seeks to explore the hypothesis that one size does not fit all and that important differences in experience and circumstance likely exist across different types of businesses and owners. If that were true, then the goals, needs, and appropriate supports would also vary across types of businesses and owners. The goal was not just to describe the segments that comprise Black-owned businesses in America, but to also uncover insights that inform solutions that in turn strengthen the role of Black-owned businesses as economic engines in their communities. To do this, we needed to provide new analyses and take a fresh look at existing beliefs, assumptions, and supporting data.

The findings in this report emanate from a multifaceted research effort that included original data analyses commissioned by AEO from Professors William A. Darity, Jr. – on wealth creation via self-employment using the Panel Study of Income Dynamics – and Robert Fairlie – on business characteristics among immigrant and native-born Black business owners, using the American Community Survey.

In addition, a literature review and other pre-work involving an analysis of U.S. Small Business Administration (SBA) 7(a) loan datasets revealed specific issues for Black businesses with respect to credit, which we wanted to more fully explore and understand. Hence, a primary quantitative online research survey module was designed, commissioned, and fielded, obtaining responses from 300 business owners, including close to 200 Black business owners, which investigated their experiences in the capital markets. Marketing & Research Resources, Inc., partnered with AEO on this segment of the project in the spring of 2016.

Finally, an expert panel of advisors met in Washington, D.C., in March of 2016 to candidly discuss impediments to growth of these businesses and thought-starters on possible solutions to lifting those barriers. Participants are listed in the Appendix to this report.

EXECUTIVE SUMMARY

As of the latest census data release, there were 2.58 million Black-owned businesses in the United States, generating $150 billion in annual revenue and supporting 3.56 million U.S. jobs. In fact, there is a long history of entrepreneurship among Black Americans going back to the earliest days of this country and continuing via waves of immigration from the Caribbean in the 1900s and from Africa more recently, as well as from other countries.

Black business owners are wealthier than their peers who do not own businesses, and business ownership creates new wealth faster compared to wage employment. At the same time, small businesses tend to hire from the community, creating jobs for neighborhood residents. Therefore, opportunities for Black entrepreneurs to succeed are critical for economic empowerment in Black communities, where currently there is virtually zero liquid wealth, coupled with higher than average rates of unemployment.

Black-owned businesses in America lag behind other firms in the United States and have done so for decades. There are fewer Black business owners than we might expect given the population size; businesses that do exist have fewer employees than nonminority firms; and revenues are much smaller for Black-owned firms, even when comparing the same industries. Some have suggested this reality stems from a cultural context that includes lack of interest in self-employment, but AEO's research dispels this myth and confirms that the entrepreneurial spirit remains robust in the Black community. In fact, Black business owners are similar to other business owners in terms of vision, passion, and a desire for economic independence. In this report, we assert instead that the interplay of three major persistent barriers is impeding the establishment and growth of Black-owned firms. These are: the Wealth Gap, the Credit Gap, and the Trust Gap. This paper frames these obstacles, which must be considered and solved for in order to unleash the potential economic power of Black-owned businesses in the United States.

It is well documented that Black households in the United States possess on average about one-tenth the median net worth of White households. This wealth gap is perpetuated by a cycle of little to no intergenerational wealth transfer among Black Americans to their children, especially U.S.-born Blacks. Consequently, home ownership and other asset-building activities are suppressed, the ability to locate into higher-quality school systems is thwarted, and fewer people receive postsecondary educations. Limited credentials in turn narrow work opportunities and result in high unemployment figures relative to the rest of the country. Also contributing to the wealth gap was the exclusion of many Black Americans from wealth-building government-sponsored programs that benefited nonminorities during the postwar era. When large groups of people have few opportunities for economic livelihood, the entire economy suffers: our government must spend tax money for supports, and potential consumers have little to no discretionary income.

In order to break this cycle of low wealth, new economic opportunities must be created. One important route is through business ownership. Our research has shown that the median net worth for Black business owners is 12 times higher than Black nonbusiness owners. Further, it is not because they started out wealthier. The analysis also considered people who had never been self-employed and compared wealth levels in the future between those who started a business and those who did not. The business owners grew their wealth more, and grew it faster. Starting a sustainable and healthy business is a viable and critical pathway to breaking the cycle of low wealth.

Business start, stability, and success are correlated with adequate start-up funding, and if family and friends are in a similar wealth situation to the average aspiring Black entrepreneur, one must turn to commercial lenders. But without assets for collateral and proven success in running a business, banks will not readily lend to aspiring entrepreneurs, especially those requesting very small loans, which banks typically cannot underwrite profitably. Adding to the challenge of being credit-worthy is the likelihood that low wealth has resulted in insufficient cushion against income volatility, leading to missed bill payments and other actions that can damage credit scores. For all these and other reasons, most aspiring Black entrepreneurs face a serious lack of access to credit. They may in turn be vulnerable to risky and even predatory financial products as a result of this barrier. A cycle emerges where this credit gap perpetuates the aforementioned wealth gap.

All of these factors combined means that aspiring Black entrepreneurs experience a much tougher road to start-up, business stabilization, and success. Not surprisingly, sectors with low barriers to entry are therefore more often selected by Black entrepreneurs compared to nonminority owners, and these sectors tend to be ones that produce the smallest revenues. The concentration of Black businesses in low-revenue sectors hampers the potential of current Black-owned firms to grow and hire, which, if unleashed, could result in full employment for Black Americans. Our calculations show that if Black-owned businesses were able to reach employment parity with all privately held U.S. firms, close to 600,000 new jobs would be created, and $55 billion would be added to the economy.

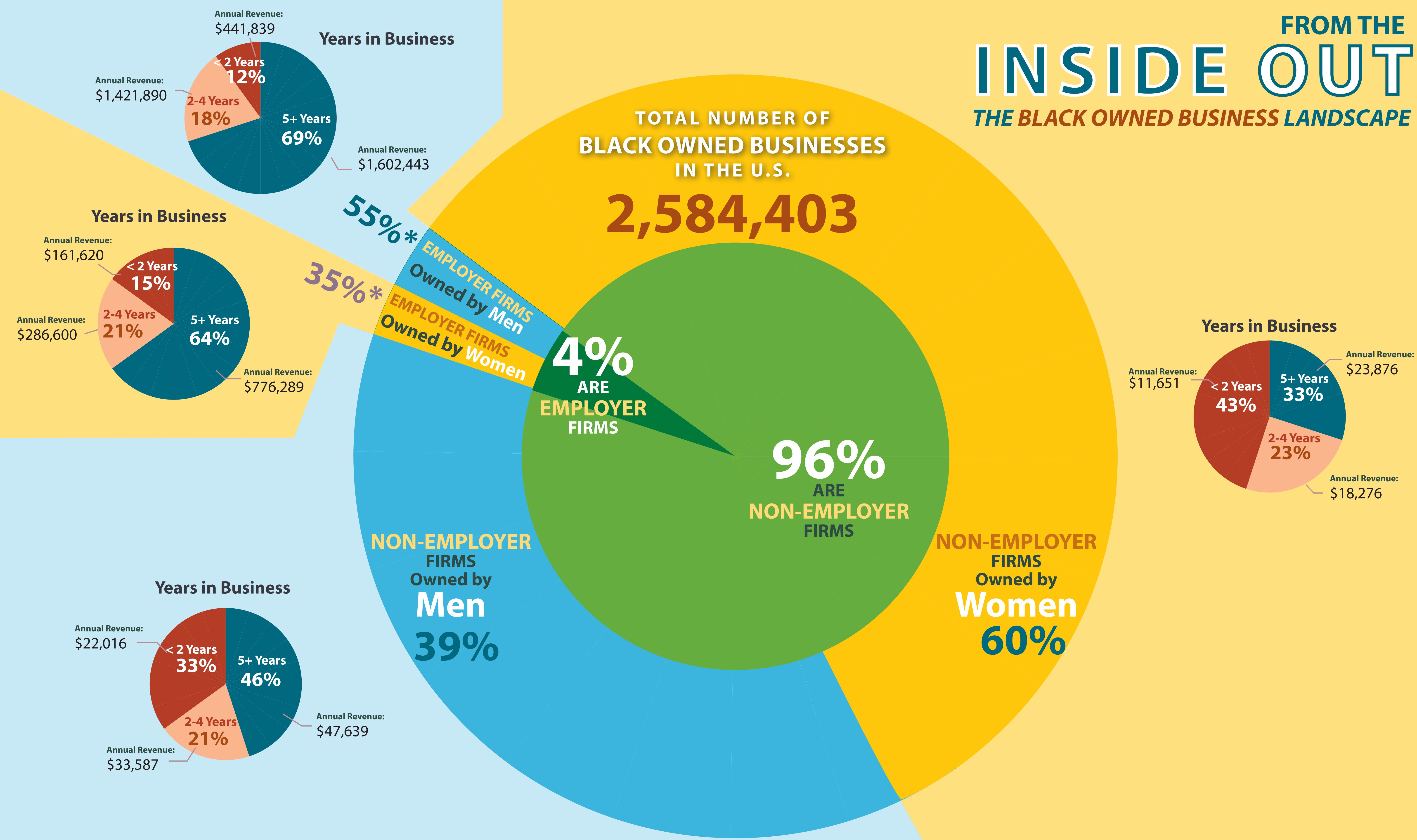
By offering innovative credit products, providing powerful technical supports, and designing pathways for owners to establish more firms in high-revenue sectors, Black-owned firms could grow revenues and supply new jobs in their local communities. But connecting aspiring and current Black business owners to these supports and inspiring participation in them will require addressing a third hurdle: the trust gap. The experience of discrimination, bias, continued disappointment, and these persisting wealth and credit barriers manifest in a wariness – of banks, of other institutions, of potential would-be mentors and consultants – that cannot be denied or ignored. Therefore, outreach strategy must incorporate goals to rebuild that trust and establish renewed connections.

There exists a wide tapestry of Black-owned businesses and their owners in the United States – with different countries of origin, focused on different goals, and with different needs – spreading from coast to coast. This report begins to describe those segments and launches the discussion on how to tailor appropriate supports.

New businesses are critical to our economy – they create most of the net new jobs and spur competition and innovation. More people earning money through operating their own businesses means our economy is stronger and communities are healthier because a larger portion of money spent at local businesses stays circulating in the local region versus money spent at big box stores[1], and main street businesses tend to hire from the local employment pool.

But it is also important to acknowledge during this pivotal time in our nation's history that there are many different groups of people in America who feel left out of the economy's recovery from the Great Recession. Meanwhile, technology is radically and quickly changing the type and number of jobs available overall. Fortunately, we expect that these proposed ideas, which would foster more robust entrepreneurship and help to remove barriers to pursuing economic livelihood via small business creation, would benefit all groups who have found their opportunities limited.

FROM THE
INSIDE OUT
THE BLACK OWNED BUSINESS LANDSCAPE



***10% of Employer Firms are co-owned equally by men and women**

Source: *U.S. Census, Survey of Business Owners 2012*

Part I: Business Ownership is a Path to Wealth & Job Creation in Black Communities

The most recent census data reveals that there are 2.58 million Black-owned businesses in the United States, generating $150 billion in annual revenue and supporting 3.56 million U.S. jobs[2] – a sizable footprint. These businesses are important because self-employment is a vital and viable path to creating wealth.

Business Owners Are Wealthier…

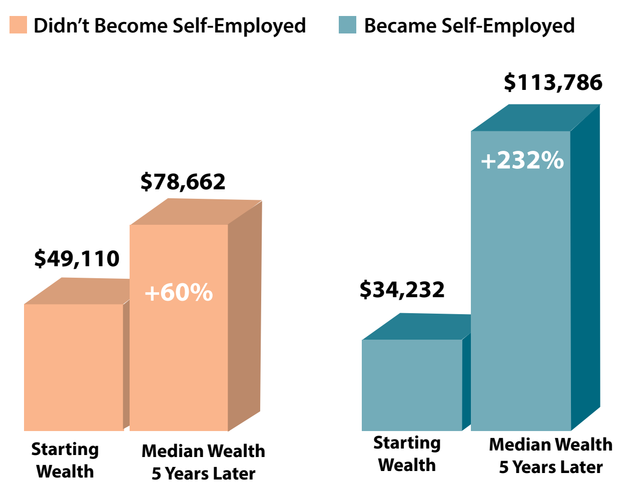
There are substantial wealth advantages for business owners compared to nonbusiness owners; this advantage is even more pronounced for minorities and women. In fact, the median net worth for Black business owners is 12 times higher than Black nonbusiness owners.[3]

Additionally, business ownership is a path to narrowing the racial wealth gap: while White adults have 13 times the wealth that Black adults do, when we compare median wealth of Black and White business owners, the median wealth gap decreases to a multiplier of three.

…And They Didn't Just Start Out With More Assets

In order to ascertain whether business owners started out wealthier, AEO commissioned a study utilizing longitudinal data that followed the same individuals over time and tracked their wealth levels before and after starting a business.[4] The analysis revealed that higher levels of net worth did not substantially increase the likelihood that an individual would become self-employed in the future; in fact, the likelihood of starting a business in the future was inconsistent across the wealth spectrum, among those who were never previously self-employed. However, becoming self-employed did correlate with higher wealth outcomes in the future compared against persons who never became self-employed. In three different comparison intervals, those who became self-employed showed much stronger gains in wealth, compared against all persons who never became self-employed and compared to all employed persons who never became self-employed, displayed in the graph below.

Changes in Median Wealth are Larger for Those Who Start a Business



Compares change in median wealth over three different 5-year intervals, among heads of household never previously self-employed. Excludes unemployed persons. **Source:** Panel Study of Income Dynamics

Busting the Motivational Myth: Black Entrepreneurial Aspirations are Strong

Although starting a business may enable wealth accumulation, as outlined in the previous section, and the unemployment rate for Black adults is currently twice that of White adults[5], White Americans are twice as likely to be in business for themselves than Black Americans.[6] Moreover, this ratio has existed for over 100 years.[7]

Some scholars and policymakers have suggested that this situation remains because of a lack of interest; some claim those that do pursue this alternative to joining the workforce are only negatively selecting this option due to hardship. But neither assertion is supported by the data.

Start-up rates are actually higher among Black Americans than White Americans, indicating ample interest. What is also true, however, is that the failure rate is also higher.[8] In addition, AEO's recent research[9] shows that the motivation for starting a business by Black owners is similar to that expressed by the majority of business owners: a healthy entrepreneurial spirit driven by the desire to be in charge, the birth of a great idea, and inspiration from others. In fact, the most cited reasons for starting a business were "I wanted to be my own boss," "I always wanted to run my own business," or "I sought to fulfill a dream." In addition, having a great idea or seeing a need in the marketplace also ranked very highly in terms of motivation. Most of the influences driven by hardship were ranked lowest, and "no company would hire me" was selected least as a motivating factor for pursuing a start-up, between both groups.

This juxtaposition of motivation and action with higher failure rates and lower ownership levels suggests a serious disconnect between desire and outcome. Further, fewer successful businesses translate into fewer jobs and working community members, since Black businesses tend overwhelmingly to hire Black

employees from the local area. Solutions that assist more of these aspiring entrepreneurs in realizing their dreams to establish, stabilize, and expand their businesses would therefore positively impact local communities.[10] In fact, even modest growth in the number of employees at Black firms could have a significant impact on lowering the unemployment ranks.

Black-Owned Business Employer Parity with All U.S. Firms Would Put Black Job-Seekers at Full Employment

The 3.56 million jobs[11] that Black businesses supply equate to about a fifth of the employed Black workforce. However, that number could be much higher if effective supports enabled Black businesses to increase their revenues so that they could hire and grow. If Black-owned businesses could reach employment parity with all firms, they would create nearly 600,000 new jobs. Assuming these businesses hired mostly Black employees, these new jobs could reduce the rate of unemployment in the Black community to around 5 percent.

In order to achieve this employment parity, 15 percent of Black-owned nonemployer firms would need to hire one more employee. In addition, Black-owned employer firms would need to hire two more people on average. At present, 96 percent of the 2.58 million Black-owned firms are nonemployer firms (or sole proprietors), compared to 81 percent of all firms in the United States. But if 380,000 sole proprietor firms – just 15 percent of all Black-owned firms – were able to hire one more person, the proportion of Black-owned employer firms to nonemployer firms would then reach parity with all U.S. firms. Because the average revenue per employee is $106,000, approximately $33 billion in revenue would be added to our economy.

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On the employer side, Black-owned firms employ nine people on average, compared to eleven people for all U.S. firms. If Black-owned small business employers reached parity with their peers, 216,000 new jobs would be created. Based on current average revenue per employee of these firms of $106,000, we calculate that revenue would increase by another $22 billion.

By designing policies, services, funding supports, and programs to assist 15 percent of Black nonemployer firms to hire one more person and by assisting employer firms to hire two more people, approximately one in three of the current unemployed Black labor force in America could be employed. Of course, it is not a simple task. Hiring requires ample revenue to cover expansion, and many or most Black firms are presently concentrated in low-revenue business sectors.

Sectors Where Black Businesses are Concentrated Limit Revenue Growth

Not all firms are poised to hire – they may produce very low revenues, and close to half may be home-based[12], for example. An important goal for Black business owners is to select industry sectors that hold the highest potential for revenue generation, sustainability, and growth – and the ability to hire.

The chart on the next page depicts where one percent or more of White-owned firms are concentrated, and how the Black-owned firms compare in terms of proportion and revenue, among the most granular industry categories available. Also included in the table are the remaining subsectors in Black firms that comprise more than one percent of total firms (bottom three rows).

Black firms are less represented in these areas where White firms earn high revenue: offices of physicians/mental health; plumbing, heating/AC contractors; offices of lawyers; and full-service restaurants. They also earn much less revenue in these sectors. Black firms are much more concentrated in industries where revenue is low and sometimes much lower than what White firms earn. These industries are beauty salons,

Top White Business Sectors Compared to Black

NAICS Code Description	% of All Firms		Rev per Firm		% of White Revenue
	Black	White	Black	White	
All other personal services	8%	5%	$12,529	$27,134	46%
Independent artists, writers, and performers	4%	4%	$27,401	$42,353	65%
All other professional, scientific, and technical services	2%	4%	$27,435	$55,813	49%
Offices of real estate agents and brokers	2%	4%	$34,747	$123,956	28%
Other direct selling establishments	3%	4%	$12,413	$48,043	26%
Janitorial services	7%	3%	$21,674	$57,542	38%
Lessors of nonresidential buildings (except miniwarehouses)	0%	3%	$172,297	$219,441	79%
Beauty salons	16%	3%	$14,100	$56,299	25%
Child day care services	13%	3%	$19,181	$46,206	42%
Other activities related to real estate	1%	3%	$29,793	$96,934	31%
Lessors of residential buildings and dwellings	0.3%	3%	$181,974	$232,655	78%
All other specialty trade contractors	1%	2%	$27,611	$117,202	24%
Insurance agencies and brokerages	1%	2%	$59,776	$234,234	26%
Landscaping services	3%	2%	$16,266	$152,469	11%
Offices of physicians (except mental health specialists)	1%	2%	$402,400	$831,381	48%
Other accounting services	1%	1%	$26,009	$69,576	37%
Painting and wall covering contractors	1%	1%	$25,727	$103,113	25%
Other personal & household goods repair & maintenance	1%	1%	$14,225	$37,616	38%
Plumbing, heating, and air-conditioning contractors	1%	1%	$87,504	$672,886	13%
Office administrative services	1%	1%	$44,561	$149,017	30%
Electrical contractors & other wiring installation contractors	1%	1%	$97,818	$618,735	16%
Home health care services	7%	1%	$32,625	$166,462	20%
Offices of lawyers	0.2%	1%	$289,281	$807,553	36%
Full-service restaurants	0.4%	1%	$299,337	$851,818	35%
Finish carpentry contractors	0.4%	1%	$34,448	$147,232	23%
Offices of all other miscellaneous health practitioners	1%	1%	$24,459	$55,700	44%
Barber shops	4%	0%	$13,408	$31,617	42%
General freight trucking, local	1%	1%	$77,821	$224,392	35%
Tax preparation services	1%	1%	$24,204	$56,285	43%
Total Representation	**82%**	**61%**			

% of White Revenue over 40%   % of White Revenue over 60%   ***Source:*** *U.S. Census, Survey of Business Owners 2012, 6-Digit NAICS Code*

childcare services, home health care services, janitorial services, and barbershops. Further, as with the professional, skilled, and restaurant categories, Black firms take in lower revenue than White firms in these sectors as well.

It is likely that geographic location plays a role in this revenue discrepancy for Black-owned firms, as one-third of firms owned by U.S.-born Blacks are located in the south[13], and the southern states have the highest poverty rates in the country.[14] Customer bases in low-income areas will affect potential revenues and therefore also the size of a firm and its ability to hire.

Also affecting sector distribution is low starting wealth (examined in Part II of this report), which affects the ability to obtain credentials and licenses, as well as to enter fields that require large investment, such as the buying of expensive equipment. Helping current and future Black businesses to transition to higher-performing sectors could greatly increase the productivity of Black businesses as well as their growth, but doing that requires not only greater access to capital, but also greater access to training programs and the funding that makes them possible.

Part II: Black Businesses Have Diverse Characteristics

To inform the design and creation of appropriate and effective supports to assist Black businesses to grow, it is critical to understand the diversity of business owner and firm characteristics. They are simply not homogeneous. The needs, goals, readiness, and experiences of different segments of Black business owners vary and must be considered. For example, female heads of household have different constraints than do single young men. Similarly, individuals transitioning from corporate jobs into self-employment have a different set of needs and challenges compared to citizens returning from incarceration by the criminal justice system. Some will have adequate financial and emotional support, while others may not. Some will have keen business skills and strong financial literacy, and some may have less. Some will have a great idea for a product or service that fills a market gap, and some may not have performed adequate market research. There are differing goals for the businesses, and varying locations will affect potential customer base. Subsequently, as a first step to defining robust needs-based segments, we have begun to explore and identify differences in various cohorts of Black-owned businesses, as well as outlined a framework for a potential segmentation scheme.

Balancing the Books on Work and Family

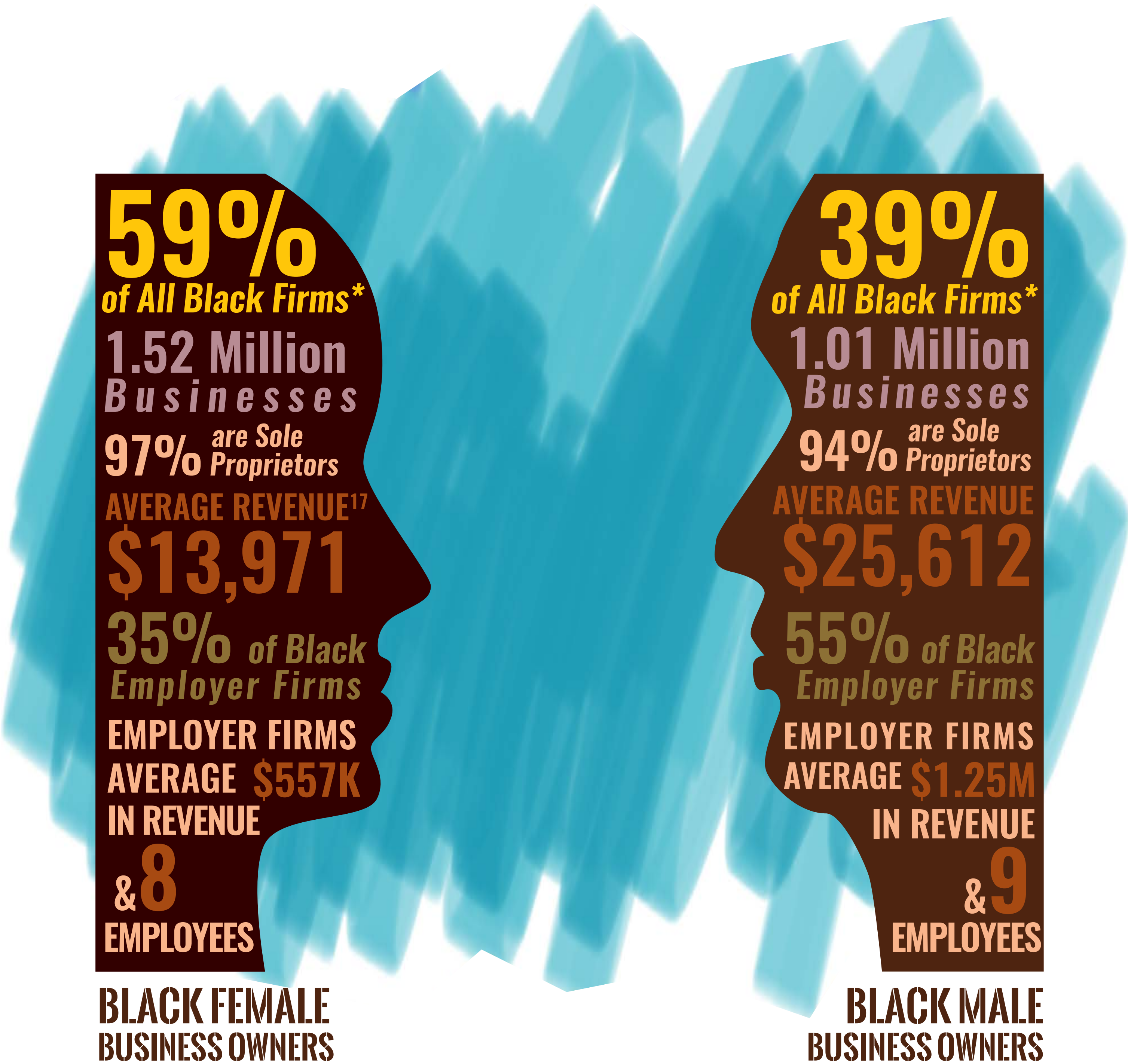
CPA Firm Owner

Nelson and his wife own a CPA firm that they self-financed during their early years. A graduate of the 8(a) minority business set-aside program, the firm has 14 employees.

A large portion of their business comes from government contracts, which Nelson feels provides a much more stable income than doing equivalent work in private industry.

Although it was tough qualifying for a loan, Nelson did secure a line of credit that they used sparingly to help with cash flow during lean times. "Being in the business of understanding money was a big leg up" as compared to other Black owned businesses. "The thing we could have used was more advice on how to run the business. We had to figure a lot of things out on our own, and that slowed our growth." Because of limited capital for expansion, Nelson made the decision to sacrifice the growth of the business in order to maintain quality of life. "Being part of our kids' lives is very important," says Nelson. That means passing up opportunities that cannot be staffed at current levels, like projects that require excessive hours or lots of out-of-town travel. "Choosing between time and money is tough. But we wouldn't trade time with our family for anything."

Black-Owned Businesses: A Gender Breakdown



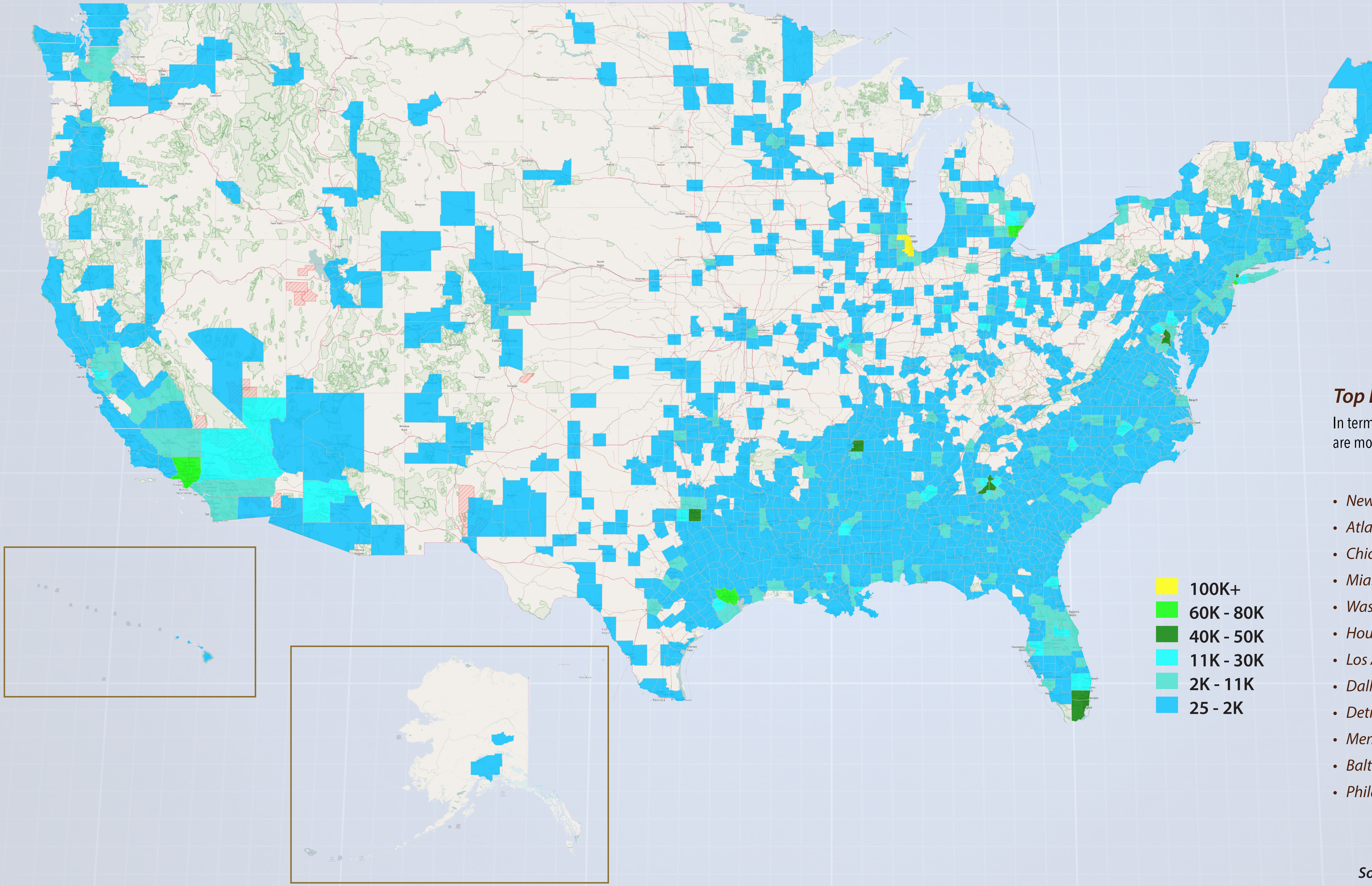
*2% of all Black-owned Businesses and 9% of Employer Firms are co-owned equally by men and women.

Source: *U.S. Census, Survey of Business Owners 2012*

Black Businesses in the U.S. by County

While there is diversity within the 2.5 million Black-owned businesses in terms of gender, country of origin, skills, focus, and goals, there is also wide representation across most populated areas of the United States, as depicted in the heat-map graphic below.

Black-owned businesses can be found from coast to coast and beyond, in Hawaii and Alaska.



Top Locations by County:

As depicted in the map, the counties with the largest number of Black-owned firms are these:

- *Cook County, Illinois*
- *Los Angeles County, California*
- *Harris County, Texas*
- *Kings County, New York*
- *Wayne County, Michigan*
- *Broward County, Florida*
- *Miami-Dade County, Florida*
- *Shelby County, Tennessee*
- *Prince George's County, Maryland*
- *Fulton County, Georgia*
- *Dallas County, Texas*
- *Bronx County, New York*
- *DeKalb County, Georgia*

Top Locations by Metropolitan Area:

In terms of larger geographical tracts, Black-owned businesses are most prevalent in these metro areas:

- *New York-Newark-Jersey City, NY-NJ-PA*
- *Atlanta-Sandy Springs-Roswell, GA*
- *Chicago-Naperville-Elgin, IL-IN-WI*
- *Miami-Fort Lauderdale-West Palm Beach, FL*
- *Washington-Arlington-Alexandria, DC-VA-MD-WV*
- *Houston-The Woodlands-Sugar Land, TX*
- *Los Angeles-Long Beach-Anaheim, CA*
- *Dallas-Fort Worth-Arlington, TX*
- *Detroit-Warren-Dearborn, MI*
- *Memphis, TN-MS-AR*
- *Baltimore-Columbia-Towson, MD*
- *Philadelphia-Camden-Wilmington, PA-NJ-DE-MD*

Source: *U.S. Census, Survey of Business Owners 2012*

SIX SEGMENTS

Another approach to understanding the diverse landscape of Black-owned businesses is to consider how they are concentrated and grouped by focus: how skills, services, and goods are employed to take care of our bodies, environments, livelihoods, hearts, and minds. Using U.S. Census data as a base, then layering on qualitative insights and texture from other data sources, six main segments emerge as a suggested structural paradigm for consideration in designing supports that meet the varying challenges, goals, and needs of each.

A Piece of the Pie

Pastry Chef

Mark comes from a family of entrepreneurs; his cupcake and dessert baking and delivery business shares space with his mother's catering business. He used his personal savings as seed capital when starting out, but he quickly discovered it wasn't enough. The cost of goods, staff, equipment and other expenses depleted the money sooner than anticipated. To Mark's dismay, he had to "pick and choose" which suppliers got paid in any given month. Within a year after start-up there were many mishaps with hiring, materials, production and delivery which eventually ruined his personal credit.

After several years, Mark formed a lucrative subcontracting relationship with a national florist network, providing edible gift baskets and desserts to their local customers, that brought a much-needed influx of steady business. Even now that revenue has improved and business is thriving (doubling sales year-over-year), he still can't get credit. "Lenders don't look at current income or years of experience, just the credit score," he says. Last year, he started using PayPal's working capital loans to help ease cash flow problems, but it hasn't given him a large enough cushion to expand operations. His mother is in a similar situation with her catering business - although demand has increased and clients are raving about her service, she is rapidly outgrowing the available production space and can't get credit even with more than 20 years of experience in business. "More capital could change our businesses and lives in a big way," he says.

About the Businesses:

These enterprises do not necessarily need brick and mortar spaces for their establishments, as services can be home-based or offered in other people's homes. Further low barriers to entry include minimal equipment needs, and training, certification, or licensing may be easily obtained or not even required.

These types of firms are likely to be concentrated in the south and stake a local footprint, in terms of customers, according to AEO's survey of business owners.

These are female-dominated occupations and mostly lower-revenue producing: the vast majority earn between $14,000 and $19,000, while Home Health Care averages $32,000. Nearly all are sole proprietor firms.

Across all the segments identified in this report, the owners who are providing Care & Comfort are most likely to be single mothers (12 percent).

Twice the proportion of all U.S. firms are in this category.

35% of Black-owned Firms

Includes Businesses focused on:

creating beauty for people, like
Beauty Salons & Barber Shops

raising and nurturing our youngest through
Childcare Services

aiding the sick, disabled and elderly with
Home Health Care Assistance

The Challenges:

While Physicians, Dentists, and Mental Health experts are also in this segment, Black-owned firms in these subsegments are underrepresented versus all U.S. firms by about half; they comprise less than 2 percent of Black-owned businesses, which is a concern as these firms earn substantially more in revenue.

The challenge in this sector is how to increase revenues for the firms that exist and how to direct future business owners into more professional sectors, like those mentioned above.

The owners report being least confident in using technology to operate their businesses, as well as in managing financial or IRS documents, but they do feel highly equipped to manage day-to-day operations. In terms of top challenges experienced when starting up, most Care & Comfort business owners cited applying for loans and the inability to secure adequate funding; they also seemed more susceptible to economic conditions than most segments.

"Prepare to live on very little. Prepare to work very long hours. Make sure you have family support. Success takes a long time - don't think you will be successful in 2 years, it takes 10. Make sure you have enough money. Take the dollar amount you think you need and double it."

- AEO Survey Respondent, Childcare

The Opportunities:

It has been suggested that while automation will be eliminating some or a lot of work in the near future, the need for human connection and caring will undoubtedly remain.

Why They Do It:

When asked about what success means to them, this group defined that as "providing for their families" and "making a difference in the lives of other people."

GroundWorks

15% of Black-owned Firms

These firms deal with the places we live and work:

Approximately ***125,000*** *businesses located in* **Janitorial Services**

another ***60,000*** *in* **Landscaping**

"Investigate every opportunity presented before jumping in. Seek out others who are currently in the business that you're considering (or similar), they give great insight. Write a plan and talk it over with an insider and outsider. And remind the person in the mirror how great you are."

— AEO Survey Respondent, Real Estate Manager

About the Businesses:

This segment also includes businesses related to real estate, home repair, construction, and specialty trades.

It is a male-leaning category and contains some easily entered occupations as well as others that require licensing or special tools.

According to AEO's survey, 84 percent of businesses in the GroundWorks category are owned by men, and most are located either in the south (39 percent) or the midwest (37 percent). While firms in the first segment were mainly looking locally for customers, businesses in this segment have a city-wide footprint.

Janitors, the largest subset of this segment, average about $22,000 in revenue per firm.

Landscapers average a lower revenue level, at $16,000.

The Challenges:

Black-owned firms in this space are underrepresented versus all U.S. firms mainly because there are fewer businesses in the overall construction category (half the proportion relative to all firms, index of 50).

The owners also said that they were reasonably confident in using technology for business operations but did not think they had the skills to adequately deal with financial documents or maintain a robust website or develop long-term strategic plans for their businesses.

When starting their businesses, owners in GroundWorks said applying for a loan and getting support from financial lenders were their top challenges. In addition, along with the Care & Comfort segment, they were also more vulnerable to economic conditions, while the segments in Professional, Retail and Transportation sectors were not as likely to name that as a top challenge.

The Opportunities:

This segment is one of three illustrated in this report most likely to offer economic pathways for the formerly incarcerated. The other two – Stepping Out and Creative Expressions – are discussed below. Because it may be harder to enter certain fields that might impose various licensing restrictions on returning citizens, the most common and accessible industries for reentry include hospitality and tourism, art and culture, landscaping, construction, and cleaning and janitorial services.[15]

Why They Do It:

"Having a profitable business" is what success looks like to owners in this segment.

About the Businesses:

The dominant sectors in this category include Office Administration, which averages $44,000 in revenue, Insurance Agencies ($60,000), and Tax Preparation ($24,000).

This segment also includes Patent Brokers, Appraisers, and those involved with Arbitration Services.

Firms in AEO's survey in the WorkFlow segment were just slightly more male-owned (57 percent) and had the largest proportion of older owners (15 percent of ages 65–74). In terms of territory, while 70 percent of firms are located in the southern states, 70 percent of firms also say that their businesses have regional, national, or global reach.

This segment is most likely among the six to encompass owners who are transitioning from skilled jobs as employees in other firms, desiring to strike out on their own and be their own boss. What is also likely in these cases is that there may be a highly honed professional skill but a critical lack of knowledge related to all the aspects of running a successful business.

10% of Black-owned Firms

These firms keep businesses operating:

*Over **140,000** Black-owned firms are in professional, financial and administrative capacities such as*

Tax Preparation,
Insurance Agencies,
and Accounting Services

The Challenges:

This group may be focused on business mechanics but is underrepresented in more lucrative areas including Law Offices, Engineering Services, Offices of CPAs, Computer Programming & Systems Design Services, Veterinary Services, Architecture, and Advertising Agencies.

While Law Offices take in close to $290,000, there are just 3,600 of them per the latest census data. Similarly, there are just slightly over 1,000 firms involved in Custom Computer Programming, and those average $1 million in revenue.

This group cites least confidence in marketing their services, followed by keeping up with website technology. In terms of starting their businesses, these owners were most challenged by health care costs, increasing sales, building information technology infrastructure, and getting support from government agencies.

The Opportunities:

In order for business owners to move forward in this professional sector, it is likely that more time and investment in training and postsecondary credentials is required, perhaps starting with building attractive and effective STEM programs in schools, in tandem with robust entrepreneurial training in the primary grades.

Why They Do It:

Success for owners in this category is about "having a business I can be proud of."

Stepping Out

10% of Black-owned Firms

These firms represent the places where we shop, eat and stay:

This segment is a grouping of businesses

Retail Trade,
Food Establishments,
Hotels,
and Wholesale Businesses

"I never thought I was going to be a small business owner. It has always been a dream of mine but if I had not just decided to go for it I would not have my own business now."
- AEO Survey Respondent, Hair Care Products

About the Businesses:

There are slightly more female owners (60 percent) in this category than male, and these firms are also concentrated in the south. The business footprint is local and city-wide.

The largest sector in this category is in Cosmetics, Beauty Supplies, and Perfume Stores, earning just $15,000 in revenues.

The next largest sector is in Used Car Dealers, earning $90,000 in average revenues.

The Challenges:

This category is also underrepresented compared to the category of all U.S. firms by 40 percent.

They are least confident in strategy to grow and expand their enterprises.

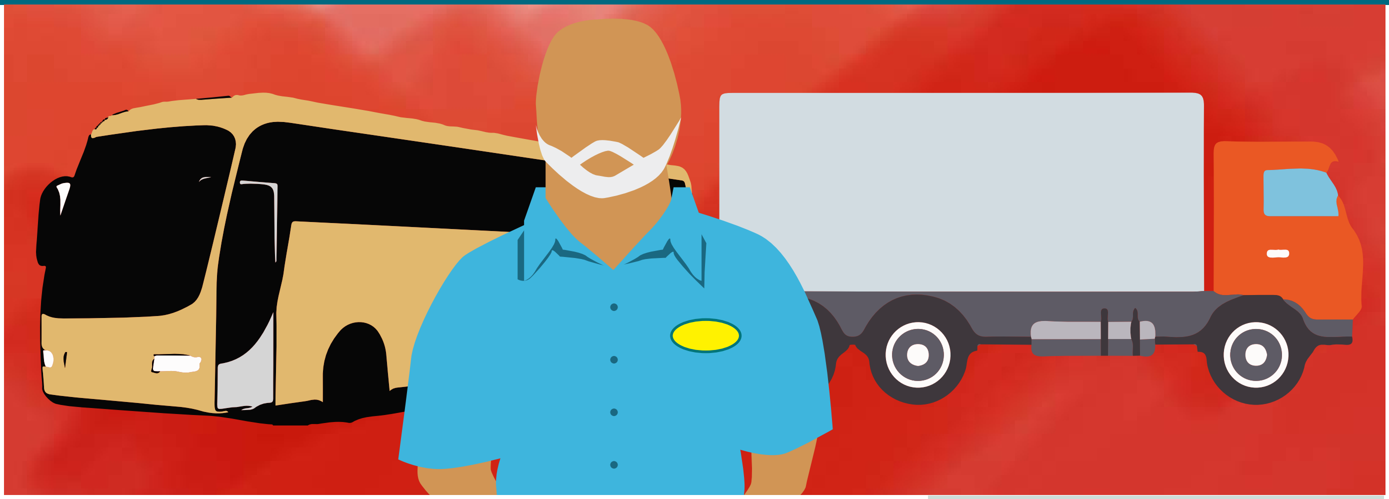
When starting their businesses, they cited lack of support from financial lenders, finding ways to increase sales, and finding qualified employees as top challenges.

The Opportunities:

Since this segment is likely to be most affected by the ability to operate their businesses in brick and mortar locations compared to the other segments described in this report, finding innovative solutions to creating communal and low-cost spaces will help to grow the number of firms in this category.

Why They Do It:

In terms of what success looks like for owners in our Stepping Out segment, responses were generally spread across many various goals, with 50 percent selecting "having a profitable business."



About the Businesses:

They are overrepresented in this category compared to all U.S. firms by a factor of two.

Foreign-born Black entrepreneurs are especially concentrated in transportation businesses and located largely in the northeast.

Owners in this category are mostly male (83 percent) and most likely of all the segments to say their firms are in financial good health and their customers are local.

They feel confident in managing day-to-day operations but do not necessarily know how to grow sales or manage financial documents.

The Challenges:

Businesses in Logistics & Transit were most hampered by applying for a loan when starting their enterprises – 80 percent of the respondents to AEO's survey in this category said that was their main challenge.

The Opportunities:

While a lucrative sector, automation may be eliminating some of the need for transportation and logistics in the future. Perhaps pivoting to focus on alternative aspects, like tourism for example, may help sustain success.

Why They Do It:

About three-quarters of the owners said "making a difference in the lives of other people" was the best definition of success for them, and close to 60 percent also selected "providing for my family."

7% of Black-owned Firms

These businesses represent the most lucrative for Black-business owners with the highest revenues being in:

School and Employee Bus Transport ($147,000)

Taxi Service ($86,000)

Local Freight Trucking ($77,000)

"You will, without question, face hardship. There will be days where you will feel like you have nothing left to offer, but find solace in the fact that failure is not the end of the story, but the start of a new chapter.

– AEO Survey Respondent, Shipping

Creative Expression

5% of Black-owned Firms

These businesses are focused on:

- **The Arts**
- **Entertainment**
- **Play**

“I did well with my business, but could not move beyond a small, six-figure threshold. When I realized that I needed help, getting that help became a full-time job just by itself because I had to keep calling people over and over again, while trying to understand government procedures and requirements to grow my business.”

—AEO Survey Respondent, Graphic Design

About the Businesses:

There are over 70,000 Black-owned firms represented by Independent Artists, Writers, and Performers who are furthering the arts.

Another 9,000 firms are agents and managers of artists and athletes.

While this sector alone is a small slice of Black-owned firms, it ranks just below Janitorial Services in terms of sheer numbers.

Recreation-related businesses are also included here, but they are few in number.

The owners are also slightly skewed male (55 percent) and claim customer reach that is regional, national, or global.

The Challenges:

The owners surveyed in AEO’s research who work in Creative Expressions most often mentioned securing funding as a major challenge to starting their business.

The Opportunities:

Encouraging aspiring young entrepreneurs to participate in the arts could be a pathway to enhanced success in school, work, and life.

According to Johns Hopkins University, academic achievement, social skills, critical and creative thinking, higher-order thinking, analysis, and problem-solving are all enhanced and improved when people are involved in the arts.

In addition, the arts may serve as a pathway to self-expression, increased understanding, and connection with others.

In schools, some are advocating for arts to be added to STEM programs, creating STEAM.

Why They Do It:

For this segment, success means “having a profitable business” and “creating wealth for my family.”

Immigrant and U.S. Born Have Differing Wealth Levels

In addition to the segments based on business focus, the difference between immigrant Black business owners and U.S.-born Black business owners is examined. In general, research tends to evaluate Black entrepreneurs as one large group when, in fact, experiences are likely to differ widely depending on place of origin. AEO commissioned a report that pursued a novel comparison of the experiences of U.S.-born Blacks and immigrant Blacks, shedding new light on the barriers faced by Black Americans in creating and running successful businesses.

There are important differences between U.S.-born Black and immigrant Black business owners. Understanding these differences can help to ensure that support mechanisms are geared appropriately to businesses with varying needs. There are two intriguing data points from this examination. First, Black immigrants have a significantly higher business ownership rate (5.1 percent) compared to U.S.-born Blacks at 2.5 percent, but both are behind the ownership rate of non-Hispanic Whites (7 percent). Second, immigrant Blacks tend to locate, on average, in similarly lower-performing industrial sectors.

The reasons for the substantially higher ownership rate for immigrant Blacks may be a result of their higher median wealth, which would facilitate start-up. The median wealth differential is a function of higher marriage rates (half of immigrant Blacks are married versus about a third of U.S.-born), which correlates with higher household income (+33 percent); and they have higher home values (on average, 56 percent higher), thus allowing for easier access to credit. In fact, our study found that the most important factor limiting business ownership among U.S.-born Blacks is lack of wealth.[16]

However, although the household balance sheet characteristics differ widely for immigrant and U.S.-born Blacks, business revenues and industries are fairly similar across both groups. About half of businesses owned by both subgroups of women are concentrated in Health Care and Social Services, and in Other Services (which includes Personal and Laundry Services). For men, while the businesses are also roughly distributed similarly among industries such as Construction and Professional Services, there is one large difference: immigrant men are twice as likely to be in Transportation.

What this means is that starting a business is harder for U.S.-born Blacks, on the whole, and supports that address the capital needed to start and fund growth are more critical for them, on average, than for immigrant Black groups. In addition, U.S.-born Blacks comprise 80 percent of Black firms. Both groups, however, may need assistance with moving into higher-revenue industry sectors, discussed above.

Location and, therefore, customer base are also different for these two groups: 58 percent of U.S.-born Blacks live in the south while 43 percent of immigrant Blacks are located in the northeast, where potential customers may have higher median income.

PART III: Challenges to Black-Owned Businesses

Black business owners experience the same "typical" challenges that all entrepreneurs do in starting and growing businesses. Yet for Black-owned businesses, lower starting wealth, limited access to capital, and a "trust gap" more acutely and systematically stand in the way of success. Each of these challenges presents material barriers to the successful launching or growing of businesses, and the interplay of these three barriers has created seemingly insurmountable challenges for Black business owners specifically.

The Wealth Gap Drives a Credit Gap

On average, Black business owners have fewer assets, lower wealth, and less disposable income to invest into the business than White business owners.

- ***Home values are lower for Black business owners versus Whites:*** Black business owners in our survey reported home values that were more than $100,000 less than White business owners, which is similar to the value gap per the U.S. Census.[18] Further, in the general population, just 45 percent of Black Americans even own a home, compared to 71 percent of non-Hispanic Whites,[19] presenting a tougher challenge in qualifying for credit.
- ***Household incomes are lower:*** Black business owners reported household incomes that are only 79 percent of the household income of their White peers. However, as we saw earlier, business owners are generally wealthier than nonbusiness owners. In the overall population, the median net worth of Blacks is only 11 percent of that for Whites, even when working full time.[20] Finally, "liquid" wealth in Black households is basically at zero.[21]
- ***Black business owners have more family obligations making claims to household income:*** Black business owners in AEO's survey were three times more likely than White business owners to report having personal financial obligations such as caring for elderly or disabled relatives.

Not surprisingly, given the wealth gap just illustrated, business owners report less access to formal credit, but the need still exists.

- ***Demand for credit is higher:*** According to Pepperdine's Private Capital Access Index report,[22] demand for financing is much higher for Black businesses, as 80 percent desired financing for planned growth or expansions versus 55 percent of the total sample.
- ***Application rates do not reflect the higher expressed demand:*** About the same proportion of Black businesses applied for external financing as the total sample in the Pepperdine sample (ostensibly due to discouragement or perceived lack of credit-worthiness), although the Kauffman Foundation puts application rates lower for Black firms versus all firms.[23]
- ***More than half report having insufficient collateral/assets to qualify for a loan:*** Because of that fact, 52 percent of the respondents in our survey believed they would not have qualified for a loan product from a mainstream lender.
- ***In fact, banks are rarely a source of credit for Black businesses:*** Just six percent of Black business owners said their primary source of credit came from banks (versus 23 percent for the total sample).[24]
- ***If Black business owners are approved for credit, it is for lower amounts than their White peers:*** For those that did qualify, at $25,000 the median loan amount for the Black business owners in our survey was less than half of the loan amounts extended to their White peers ($58,000).

- ***More Black business owners get less than they asked for:*** 30 percent of Black business owners reported receiving less than the amount requested, significantly higher than the 12 percent of White business owners that reported receiving less.[25]
- ***Approval rates for minority firms are less than half the rate of White firms:*** The Kauffman Firm Survey reveals that 28 percent of minority credit seekers were always approved for loan requests, versus 67 percent of White.
- ***Approval rates are low, even for credit products designed specifically to serve small business owners:*** Only one percent of Black businesses in the Pepperdine sample were able to procure an SBA-backed loan.
- ***Black business owners more often receive no credit:*** According to Pepperdine, 64 percent of Black business owners said they received no credit in the previous quarter (versus 40 percent of the total sample).
- ***Not surprisingly, Black Business owners find it harder to raise capital:*** 76 percent said raising new external financing was difficult, while just 57 percent of the total sample said the same.[26]

This lack of credit availability hinders Black business growth:

- Twenty-eight percent of Black business owners say the lack of credit availability is by far their most difficult challenge, three times the percentage of all owners who say the same thing.[27]
- Seventy-nine percent of Black business owners claim the current business-financing environment is restricting growth opportunities for their business.[28]
- And 73 percent of Black business owners say that the current business-financing environment is restricting their ability to hire new employees.[29]

Inadequate funding leads to less stable businesses and the application of riskier remedies:

- Slightly less than half of Black business owners in AEO's survey reported strong financial health, and when they noticed the business was struggling, they were much more likely than White business owners to pay bills and mortgages late or not at all or to take out a payday loan.
- Black business owners start businesses with half the capital of White business owners,[30] and since research has shown that firms that start with more capital have higher survival rates,[31] this lack of funding may contribute to Black firms having a higher failure rate, even though they actually exhibit a higher birth rate than their White counterparts.[32]

We observe a vicious cycle related to business instability, suppressed wealth accumulation, and, among other things, damaged credit scores:

- Black business owners in our survey report having lower credit scores on average: Just over half of the Black business owners report having credit scores in the range of "excellent" or "very "good" compared to more than three-quarters of White business owners (78 percent).

Other research corroborates the lower credit scores for Black business owners.[33] However, 85 percent of respondents in our survey said they had an explanation for why their credit score was damaged and could explain the credit rating to a lender. Financial institutions' heavy reliance on consumer credit scores can have a disparate effect on Black-owned small businesses, since credit scores may reflect the impact of inconsistent income and low wealth, which factors are associated with vulnerability to crises and predatory practices in financial markets. Therefore, the personal consumer credit score of the business owner may prove a poor proxy for the health of the person's business. Further, to the extent that credit-scoring models, such as FICO, are based on the credit-worthiness of borrowers who have routine interactions with mainstream sources of credit such as credit cards, revolving lines of credit, small business loans, and other banking services, those scores can provide misleading insight into the credit-worthiness of borrowers who have limited or no interactions with mainstream banks. In fact, 20 percent of Black households are un-banked, compared to just four percent of White non-Hispanic households, and another 33 percent of Black households are underbanked (utilizing nonbank, alternative financial services), compared to 16 percent of White non-Hispanic households.[34]

All of this calculates to an enormous funding gap:

> *Given this high demand for credit combined with the number of barriers that thwart the ability to receive it – fewer assets, less healthy credit scores, and perhaps other variables related to credit-readiness – we calculate a sizable gap in the market between demand and supply, specifically with respect to Black-owned businesses.*

20%
of Black households are un-banked, compared to just 4% of White non-Hispanic households

In a previous analysis for AEO, an expert team estimated that a little less than half of the total loan amounts requested by would-be borrowers to banks are ultimately dispersed, and that translated into between $44 and $52 billion of unmet need.[35]

If the portion of this unmet funding gap for Black businesses equaled their current representation in all firms (nine percent), then $4–5 billion would not currently be flowing to Black-owned businesses that are requesting credit.

However, because funding gaps are ostensibly larger among Black firms (higher expressed need rate, higher denial rate, and higher discouragement factor, tempered by a typically lower loan amount received), we estimate this figure to be actually between $7 and $8.5 billion.

Current and Legacy Bias Create a "Trust Gap"

The capital gap is exacerbated by a **trust gap** that exists within the Black business community, and this manifests in a number of ways.

Credit Applications and Decisions are Fraught with Stress and Emotion

These sentiments are exacerbated for Black business owners. In our survey, more than half (51 percent) of Black respondents indicated they felt unfairly treated by financial institutions (compared to just 26 percent of White business owners). These reactions reflect a blend of perceptions about race and economic status: nearly two-thirds (63 percent) of respondents believe their experience was influenced by their skin color, and just over one third (36 percent) reported socioeconomic status.

Bias & Discrimination Color Credit Decisions & Contract Awards

Discrimination in credit markets based on race and ethnicity is a reality for many small business owners. Empirical research has found that Black firms experience higher loan denial probabilities and pay higher interest rates than White-owned businesses, even after controlling for differences in creditworthiness and other factors described above.[36]

In addition, Timothy Bates, Professor of Economics at Wayne State University, found that on average nonminority firms receive larger loans than Black-owned firms after holding constant other firm characteristics.[37]

Moreover, several studies and case law related to government contracting have found evidence of discrimination in the bonding, insurance, and financing markets.[38]

One report, for instance, concluded that minority entrepreneurs in Atlanta have a lower success rate in obtaining loans and bonding and procuring contracts regardless of their levels of education, training, and business-related experience.[39]

Black Business Owners Implicitly Respond to the Bias

Discrimination by financial institutions is strongly recognized within the Black community and among Black business owners. This experience and expectation of bias discourages small business owners from applying in the first place.[40]

***...more than half** of Black respondents indicated they felt **unfairly treated** by financial institutions*

The SBA found that minority-owned businesses are disproportionately more likely than their nonminority counterparts to be discouraged from applying for additional credit due to the expectation that they will be turned down.[41]

Expectations from Experience Build on a Layer of Mistrust

Black Americans' historical experiences with both institutional and individual racism have led them to be "one of the least trusting groups in America," according to Shayla Nunnally, author of *Trust in Black America: Race, Discrimination and Politics.* Civil rights violations have broken down Black Americans' trust in both government and societal interactions. In particular with Black businesses, the thought was that if you got too big, the White businesses around you were threatened. Therefore, in certain times and places, getting big was not an option, even if desired.

Second, some experts also point to a mentality among entrepreneurs of color that they prefer to hold their cards "close to their vest," perhaps because of a reluctance to trust. This is ascribed to a legacy created by the historic culture in the minority community of having "too little." When raised in an environment of "too little" – education, food, and family resources and, eventually, too little capital, influence, and opportunity – one can revert to a small level of survival driven by an overwhelming sense of resource scarcity and a tendency not to trust. As a consequence, many Black business owners have become entrenched in a go-it-alone mindset and have applied an unintentional cap on their access to opportunity.

Improving trust between Black business owners and financial institutions is essential since firm–lender relationships influence both the decision to apply for a loan and the outcome.[42]

Small businesses with longer lender relationships tend to be less likely to be credit constrained. Black business owners consistently report shorter relationships with their primary financial institutions than nonminority owners.[43]

But decades of failed outreach by banks, as well as the scarcity of Black-owned banks (there are only about 21 left in the United States, half the number there were 20 years ago[44]), and the steady closure of bank branches in low-income communities[45], collectively demand that federal regulatory agencies take a more aggressive and assertive role to ensure that banks appropriately market to the Black community and offer the same types of mainstream products and services to Black customers that are available to all other customers.

*"We don't have an airplane problem or a pilot problem — we have a **runway** problem."*

–Jessica Norwood

Thus far we have been examining the experiences of Black businesses that actually exist. However, the wealth gap, credit gap, and trust gap in combination create a financial situation that result in some would-be businesses never getting off the ground because they lack the start-up capital. This is what we call the "runway" problem. When the top sources of start-up funding for all small businesses are personal savings (76 percent), personal credit cards (36 percent), bank loans (25 percent), and support from family and friends (21 percent)[52], but median wealth in the Black community is very low and there is much less involvement with mainstream banks, it can be assumed that many good ideas never make it to market. The higher failure rate has been previously mentioned, but what is not known is how many potential aspiring entrepreneurs never even get to try.

A Cut Above

Hair Salon Owner

Tommy grew up in the 50's, one of nine siblings and the son of a sharecropper, living in a one-bedroom house on a tobacco farm outside Washington, D.C. As a young teenager, Tommy knew he could never afford college, so he set his mind on learning a trade. He moved in with a relative in DC, got his high school diploma and swept floors at a local barber's shop, learning everything he could about the business by asking "1000 questions." His boss and mentor Mr. Blake encouraged him to get the certification needed to become a barber and Tommy pursued that training, which he obtained for free at the Whitaker Adult Learning Center in the District. After he completed the required internship, Tommy got his license and started working. But he wanted to earn more money and he wanted to open his own salon.

Because Tommy didn't trust banks and operated with cash only, he partnered with a friend who used his GI-Bill to buy a house that later became Tommy's salon. Opening one of the first "men only stylists" salon that also served women – Tommy's salon became very popular. He hired staff and taught his stylists "hair care systems" which helped them to excel in their craft. Ultimately, he became a sought after hair stylist to celebrities in the 1980's.

Eventually Tommy created a hair care line of products that at first he made himself in his own kitchen, because he did not have access to credit that was needed to retain professional manufacturers. Tommy and his staff mixed, bottled and labeled products that he sold from the salon. Later, Tommy sold his name and products to a hair care distributor who paid him only 10% of the proceeds. Tommy's lack of business savvy and solid financial footing prevented him from taking advantage of that tremendous opportunity. Tommy learned from his experiences, however, and recently struck a deal to have his line of products sold in a major grocery store chain.

On Being Invisible[46]

In his 1952 literary masterpiece, Invisible Man*, Ralph Ellison describes the life of a young Black man who feels he travels through life unseen by those around him. The young man realizes he is not truly invisible but that others refuse to see him; as a result, they are unable to understand his culture, history, struggles, or potential. The playful and disturbing allegory illustrates how powerful political, economic, and social forces conspire to deny Blacks their rights, largely by ignoring their existence. More than six decades later, much of the Black experience in America remains invisible – including contributions to mainstream American economy and society.*[47]

Left Out of Public Initiatives

In national public policy debates that highlight the lagging economic prosperity of Blacks relative to Whites in America, there is rarely recognition of the many government programs and initiatives that have been offered exclusively to Whites to improve their economic and social mobility; many programs that helped boost the middle class for the last 50 years have excluded Blacks.[48]

This has suppressed wealth accumulation. And with low wealth, it is that much harder to fund businesses and fund their growth. In fact, research has shown that businesses with higher levels of start-up capital are less likely to close and more likely to have higher profits and that the disparity in start-up capital is the largest single factor contributing to racial disparities in closure rates, profits, employment, and sales.[49]

However, even so, there has been a long history of entrepreneurship in the Black community, despite the wealth gap, for centuries.

Black Businesses Have a Long History

Within two decades of being freed from slavery, Blacks had established tens of thousands of successful businesses in America. But escalating racial tensions made those businesses vulnerable, and at times, businesses were actually destroyed, as in the Red Summer of 1919,[50]*when, from Washington, D.C., to Port Arthur, Texas, disgruntled White mobs skirmished with Blacks, destroying countless Black businesses and leading to the death of thousands. The Tulsa Race Riot followed not long after when "Black Wall Street" was burned to the ground.*[51]

Limited Attempts at Remediation of Injustices

There were, from time-to-time, initiatives to support Black businesses. But most were too short-lived, narrowly focused, or underfunded to have any meaningful impact. For example, Lyndon Johnson's war on poverty gave impetus to a number of programs through the Office of Economic Opportunity that were designed to boost minority business ownership. Further, the Office of Minority Business Enterprise was established under the Nixon administration. But these programs did not prepare Black businesses to compete with White firms in competitive private markets that had benefited from decades of federal support and did not ensure an equitable allocation of lucrative federal contracts that could have greatly increased the number and success of Black firms.

Yet despite all of these obstacles and impediments, a strong community of Black entrepreneurs has, nevertheless, persevered, and an impressive entrepreneurial spirit continues to flourish in Black America.

Part IV: How to Break Down Barriers and Unleash Black Business

Black business owners face common challenges experienced by many business owners and aspiring entrepreneurs. However, these common challenges manifest differently among the diverse subsets of Black business owners; further, current and endeavoring Black business owners experience unique challenges, as discussed in Part III.

1 Address the low ownership rate

To bolster the probability of success, solutions that are designed to improve the current situation and support the ambitions outlined in this report should address the interplay of the three barriers also identified: low starting wealth, the lack of access to capital, and the trust gap. Taking this into account, the following is a list of concepts and ideas that providers of services, donors, policymakers, and investors might consider working toward:

1. Addressing the low ownership rate
2. Growing the number of employer firms from four percent of Black-owned firms to 19 percent by helping 380,000 sole proprietors to hire one person
3. Expanding the number of employees at existing employer firms by two, from an average of 9 to 11, the current level for all U.S. firms
4. Fostering the movement of aspiring and existing Black entrepreneurs into higher-revenue sectors

Regarding low ownership rates and supplementing start-up capital to propel new firm creation, stabilization, and growth:

- Identify new capital products to serve as a proxy for starting equity for Black-owned businesses. Such products would provide the "runway capital" described in the report that Blacks do not have due to their low starting wealth.
- Create a model of crowdfunding that can yield a higher success rate for Black entrepreneurs. An example might be a special philanthropic seed capital fund to provide the first tranche of funding that would encourage the next wave of investors. Provide education on how to design and manage a successful crowdfunding campaign.
- Support innovation, as well as expansion of lending programs that demonstrate successful reach and service into the Black business segment. One idea might be borrowed from the office of the Jersey City Economic Development Corporation. Their Small Business Investors Fund is a forgivable loan program available to small business owners in underserved commercial corridors. The loans range from $5,000 to $10,000, and a portion of the loan is forgiven each year as long as the recipient remains in business in the same location and employs local residents.

2 Help sole proprietors to hire one person

Regarding boosting revenues for existing businesses so that sole proprietors and employer firms can hire:

- Many firms cite the need for assistance with marketing, both in creating collateral, assistance with distribution, and funding to do both.

- Businesses also often mention lack of confidence when it comes to website technology. IT ambassadors could assist small businesses to develop online selling of products and services beyond the local customer base, as well as to develop a robust online presence.
- Nonprofits that supply technical assistance and microloans could devote resources to staffing, outreach, and marketing that is culturally competent and relevant in order to bridge the Trust Gap and increase the level of interaction with and service to Black-owned businesses.
- Boost access to credit that would enable expansion of the business (with marketing, new equipment, and other resources), encourage credit score reform that can include better and broader use of data science and analytics, amnesty programs, and the use of alternative data for risk assessment.
- To increase credit worthiness, existing businesses need to demonstrate viability and potential. The stabilization and growth of a business not only relies on financial capital but also on human capital – the business savvy and acumen to handle finances, marketing, and customers well. But accessing mentors, legal and accounting assistance, and even perhaps emotional supports also demands resource outlay that the business owners may not have. One solution might involve developing a peer-to-peer network that matches business owners with certain skills with business owners who have specific needs to create a barter system that propels businesses forward.
- Support social and business networks that link business owners and aspiring entrepreneurs to valuable resources and business opportunities outside of their closer, more intimate contacts.
- Create a new sustainable system to provide the type of trusted guidance that meets the specific need-states of entrepreneurs. Starting with the perspective of the business owner, tailor offers to the common starting points and resulting needs of entrepreneurs: starting a business, growing a business, or seeking capital. Within these need-state segments, layer-in sector-focused opportunities and other features of the business or the business owner.
- Enlist media to provide Public Service Announcements on radio and television that can connect aspiring and struggling business owners with service providers in their area.

3 Add 2 employees to each employer firm

Regarding creating pathways to acquire new and additional training and credentials – for both trade and professional skills – to facilitate aspiring and existing owners to penetrate higher-revenue–producing sectors:

4 Help entrepreneurs move into higher-revenue sectors

- Entrepreneurial training in the primary grades has been shown to increase high school graduation rates.[53]
- Establish career centers in low-income jurisdictions, with low to zero tuition, which offer training that aspiring entrepreneurs can leverage into self-employment.
- Advocate for robust STEM and STEAM programs, especially for students in lower-income school systems, so that they are better prepared to start businesses in higher-revenue–generating sectors.
- Provide wraparound services such as daycare and transportation plus scholarships for current adult business owners so that they can attend training and educational courses.

Conclusion: Black Business Ownership into the 21st Century

Investing to support the launch and growth of Black-owned businesses could build wealth for individuals and their families, assist with closing the wealth gap, revitalize communities, and contribute to an overall healthier economy, which benefits us all. To do so, thoughtful and innovative approaches are required to overcome the exponential effects of the interplay among the wealth gap, the credit gap, and the trust gap. While challenging, this is worth striving for so that we can move one step closer to an inclusive economy.

Though this particular report focuses specifically on Black-owned businesses, AEO believes that we must strive to create economic opportunities for all, and strongly advocates for ideas, policies and action that leads to inclusive entrepreneurship. If we are going to be successful in that endeavor, it means that we must identify and develop a better understanding of the issues, challenges, aspirations, and opportunities that are common and unique across various population groups in order to create appropriate solutions that are going to bring them into the entrepreneurship community. We must find the solutions that can work for everyone but strive to understand how they might be adjusted to work specifically for the needs of a particular population. We need to have an understanding that is as unique and crystalized as the business owners themselves. One size does not fit all.

This report represents the latest installment in a series of inquiries that AEO has undertaken to more deeply understand the complexity and diversity of the entrepreneurial landscape. What we aim to achieve in this release is an enhanced shared understanding of what it will take to assist more Black-owned businesses in reaching their full potential. We now look forward to further explorations into yet other components of the rich tapestry that characterizes businesses and the experiences of their owners in America, in support of inclusive entrepreneurship.

APPENDIX

Contributions to the Initiative: In aiming to reframe the conversation surrounding Black businesses we talked to experts, surveyed business owners, and data-mined for new insights.

1. Expert Roundtable Discussion, March 29, 2016, Smith Commons Restaurant, Washington, DC. Participants:

Natalie Cofield	Founder & CEO, Walker's Legacy
Donna Gambrell	Consultant; Immediate Past Director, CDFI Fund
Mary Houghton	Founder, ShoreBank
Jill Johnson	CEO, Institute for Entrepreneurial Leadership/Workshop In Business Opportunities
Kevin Jones	Founder, SOCAP
Melinda Kelly	Executive Director, Chatham Business Association
Doyle Mitchell	CEO, Industrial Bank
Jessica Norwood	Nathan Cummings Foundation Fellow
Stephanie Thomas	Senior Investments Associate, Impact America Fund
Hyacinth Vassell	Director, Inner City Capital Connections Program
Pepper Miller	Moderator

A moderated discussion among a panel of experts focused on issues related to Black business formation, failure and success in the U.S. including historical context, access to capital, and structural barriers. The ideas put forth informed the survey.

2. Original Survey Research, designed by AEO, fielded by M&RR

A 30 minute survey was fielded to 192 Black small business owners and 104 White small business owners, aged 18+, who had received some type of loan. The objective was to quantify the circumstances under which business owners could repay loans or not and what contributed to defaults. The firms that participated tended to have more employees and higher revenues than the averages for all firms and thus are not representative of the entire population of firms, but were recruited based on a range of gender, loan term and loan size, similar to the 7a loan recipient characteristics.

3. Analysis of American Community Survey data, 2009-13, by Robert Fairlie, for AEO, Fall 2015

Robert Fairlie, Professor Department of Economics, University of California, Santa Cruz, analyzed five years of American Community Survey data, in order to differentiate ownership rates, revenues, industries and other characteristics of Immigrant Black business owners, and compare to U.S. Born Black business owners.

4. Analysis of Panel Survey of Income Dynamics, by Khaing Zaw, Darrick Hamilton, and William Darity, Jr. for AEO, Spring 2016

In order to determine if business owners are wealthier because they started with higher wealth, this study analyzed longitudinal data and tracked wealth of owners over years, comparing those who became business owners to those who did not.

ENDNOTES

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