

WEAVING SUCCESS:

A PROGRESS REPORT ON THE TAPESTRY OF BLACK BUSINESS OWNERSHIP IN THE UNITED STATES



February 2024



Introduction

The Association for Enterprise Opportunity (AEO) has long chronicled the importance of strategic investments in Black businesses to narrow racial wealth gaps and empower Black communities nationwide. In a seminal report published in 2017, *The Tapestry of Black Business Ownership in the United States*, AEO showed that business ownership offers a path to generational wealth and plays a vital role in shaping healthy and thriving communities.¹ Yet, the report also found that the full potential of Black business ownership was untapped due to structural barriers. Black-owned businesses lagged behind other firms along key dimensions; there were fewer Black entrepreneurs than we should expect given the Black population size, and existing Black-owned businesses had fewer employees and generated lower revenues than their white counterparts. The report concluded that by addressing persistent barriers to Black business success—the Wealth Gap, Credit Gap, and Trust Gap²—we could unleash the power of Black-owned businesses in the U.S. economy.

Today, Black entrepreneurs are driving new business formation and closing a longstanding gap in business ownership. Growth rates in the number of firms, employees, and revenue have been much higher for Black-owned businesses than for all businesses combined since the publication of our seminal report.³ The latest available data show that there are more than 5 million Black entrepreneurs in the United States,⁴ providing more than 1.3 million direct jobs and contributing more than \$207 billion to the national economy.⁵ Still, while Black individuals now account for 13.9% of all business owners—a number roughly proportional to their share of the population—Black business owners account for only 3.1% of total annual business revenues, highlighting a persistent opportunity gap.⁶

Sizing the Black-Owned Business Landscape



Black entrepreneurs have experienced significant gains, yet systemic challenges prevent many from reaching their full potential. This report leverages data from the U.S. Census Bureau and microdata from the 2023 Entrepreneurship in the Population (EPOP) Survey—a nationally representative survey of entrepreneurs—to arm ecosystem stakeholders—community lenders, business support organizations, and policymakers—with new insights to support the success of Black entrepreneurs.⁷ Building on our previous findings, we review evolving trends, challenges, and opportunities that Black business owners face.

Black entrepreneurs have experienced significant gains, yet systemic barriers must be addressed to unleash their full potential.

The Black business ownership gap is narrowing

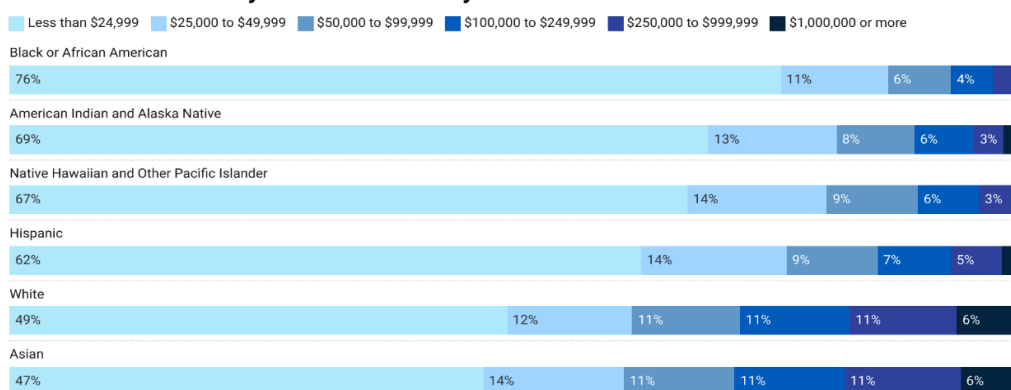
Black entrepreneurs are driving new business formation and closing a longstanding gap in business ownership. While Black entrepreneurs have long been underrepresented in business ownership statistics—there have traditionally been fewer Black entrepreneurs than one would expect given the size of the Black population as a whole—data from the nationally representative Entrepreneurship in the Population Survey show that the Black business ownership rate has reached parity with the U.S. Black population share. In 2023, Black individuals accounted for 13.9% of business owners and 13.6% of the population in the U.S.⁸

The growing share of Black business ownership is consistent with numerous studies documenting increasing entrepreneurial activity among entrepreneurs of color, particularly Black women, in recent years.⁹ This finding also reflects the more comprehensive nature of nationally representative survey data relative to Census data, which include business owners without tax records or documented business income.¹⁰ Given our goal is to identify opportunities to support the growth of Black-owned businesses, it is paramount that we develop insights that draw from the full population of entrepreneurs. Business startups may be becoming more accessible for Black entrepreneurs, for example, yet they may be less likely to scale up due to resource constraints.

A revenue gap persists between Black and white-owned businesses

Notwithstanding high rates of revenue growth, Black entrepreneurs face a persistent revenue gap. Only 3% of Black-owned businesses generate \$250,000 or more in annual revenues, compared to 17% of white-owned businesses—a nearly six-fold difference.¹¹

Business Revenues by Race and Ethnicity



Click on the image to view the dashboard in detail. Data from the 2019 U.S. Census Bureau Annual Business Survey and Nonemployer Statistics by Demographics (the most recent year available). All racial categories (Black, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, White, and Asian) are exclusive of Hispanic business owners, given that Hispanic identity is reported separately in Census data.

Prior AEO research has shown that personal and family wealth, access to external financing, professional experience, and industry, among other factors, determine how enterprises scale up. These factors, in turn, are shaped by structural inequalities.¹² Even after controlling for standard demographic, socioeconomic, and firmographic indicators (including starting capital) and focusing only on businesses providing the primary source of household income,

Black entrepreneurs generate significantly lower revenues than their white counterparts.¹³ Beneath this gap lies a host of structural barriers linked to discrimination in lending, housing, and employment, including historical exclusion from opportunities for building intergenerational wealth, which have limited the accumulation of Black wealth and pose resource constraints on Black-owned businesses today. Put differently, the revenue gap reflects a missed opportunity. If Black business owners generated the same average annual revenue as their white counterparts, they would contribute an additional \$2 trillion to the U.S. economy.¹⁴

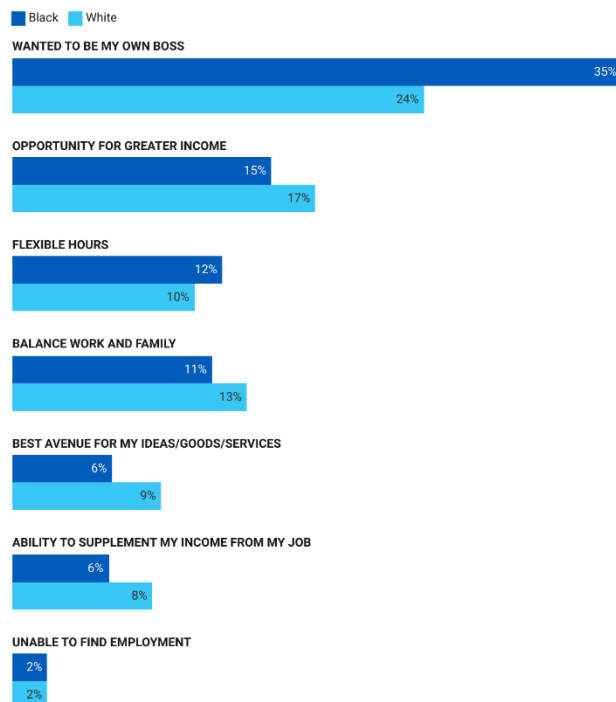
Most Black business owners want to grow their business

Black business owners are significantly more likely than any other group to report growth as their primary business goal for the next five years. Most Black entrepreneurs (64%) cite growth as their primary goal, compared with less than half (48%) of white entrepreneurs. Yet, Black entrepreneurs are significantly less likely to generate profits than their white counterparts (35% vs. 48%).¹⁵ Moreover, Black entrepreneurs are more likely to need to work a second job to supplement their business activity.¹⁶ Importantly, the revenue and profitability gap between Black and white entrepreneurs does not reflect a difference in aspirations or talent, but instead reflects differences in resource constraints.

Most entrepreneurs start their businesses for the same reasons

Primary motivation for entrepreneurship

Which of the following reasons was most important for pursuing your business?



N = 3,296. For visualization, only the top nine reasons are shown here. Source: Author's calculations using the EPOP 2023 PUF.

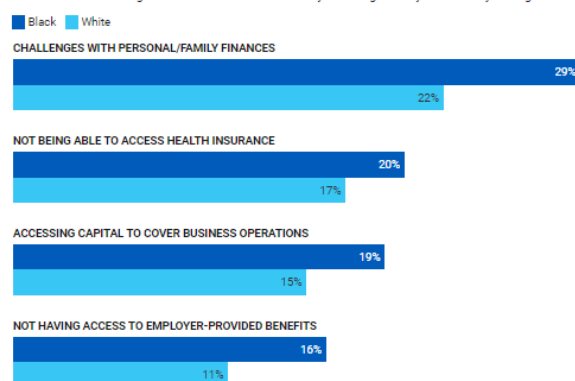
Black business owners' primary motivation for starting a business continues to be similar to that of all business owners, who "want to be their own boss," increase their income, and have more flexible hours. Importantly, factors rooted in economic hardship ranked lowest across racial groups. Only 2% of Black and white entrepreneurs reported unemployment as a primary motivating factor for starting their business, for example. Notwithstanding widespread attention to "necessity" entrepreneurship in public debate—a perspective that holds that economic need may drive individuals to start businesses and is often taken to explain disparities in business outcomes—this is not a primary motivation reported by entrepreneurs. To help identify and address barriers to growth, we explore key challenges related to economic security and access to capital.

Black entrepreneurs face greater economic security challenges

Most entrepreneurs face financial and economic security challenges. Yet, Black business owners are significantly more likely to report challenges with finances, access to healthcare and benefits, and access to capital to cover the cost of operations than their white counterparts. This pattern is concerning, given that a lack of access to healthcare and benefits are linked to higher exit rates from entrepreneurship.¹⁷ Additionally, while personal credit cards and low startup costs may help entrepreneurs circumvent liquidity constraints for new ventures with no employees, entrepreneurs need access to affordable working capital to survive and thrive. Other things being equal, firms with lower cash reserves face higher exit probabilities,¹⁸ and white entrepreneurs are twice as likely as Black entrepreneurs to have three or more months of cash reserves.¹⁹ **With increased access to affordable credit products and a stronger social safety net, we can create pathways for Black entrepreneurs to grow their revenues and create new jobs and opportunities in their local communities.**

Financial and Economic Security Challenges

Which of the following financial or economic security challenges are you currently facing?



N = 5,943. Source: Author's calculations using the EPOP 2023 PUF.

Black entrepreneurs face external financing challenges

Black entrepreneurs face hurdles in accessing the capital and resources they need to start and strengthen their businesses. When it comes to startup costs, Black business owners receive significantly less startup capital than their white counterparts. Most Black entrepreneurs (54%) began with less than \$6,000 for their ventures (versus only 43% of white entrepreneurs).²⁰ While Black entrepreneurs receive startup financing from retail banks at similar rates as white entrepreneurs, they are more likely to be approved for less capital than requested. Black entrepreneurs are also more likely to use expensive alternatives, such as personal credit cards, to fill the gap.²¹ When entrepreneurs need additional financing to cover operating costs, Black entrepreneurs are more likely to report discouragement and high capital costs at retail banks.²²

Impacts in the political environment

In 2020, the COVID-19 pandemic and the murder of George Floyd led to increasing corporate commitments to racial justice and drew attention to underinvestment in Black businesses.²³ Early COVID-19 business relief programs reinforced longstanding racial disparities in small business lending and motivated efforts to increase capital access for underserved entrepreneurs through private business grant programs and in the final round of the Paycheck Protection Program (PPP) through Community Development Financial Institution (CDFI) partnerships.²⁴ Broader federal relief programs—particularly stimulus checks—further spurred the creation of new businesses in Black neighborhoods.²⁵ It is too soon to fully evaluate the impact of these programs on Black businesses (the latest available U.S. Census Bureau data on

firms without W-2 employees are from 2020). So far, research suggests both that increased investments contributed to Black business success and that much more is needed to address resource constraints for Black entrepreneurs. **Despite these successes, recent lawsuits targeting grant and capital programs have cast doubt on the future of intentional programs to support Black entrepreneurs.** However, commitments to serve underserved communities remain strong among CDFIs.²⁶

Community lenders and business support programs are critical for Black business development

Both capital and support are critical for businesses seeking to scale up. Yet, many entrepreneurs lack the equity, cash flow, or credit history needed for a traditional bank loan, and the cost of credit from alternative financing sources is prohibitively expensive. For Black entrepreneurs, these common hurdles are reinforced by the discrimination and structural inequalities that drive racial disparities in small business lending and support services, further exacerbating the wealth gap between Black and white entrepreneurs and their communities as a whole. Additionally, most Black entrepreneurs report not having sufficient access to resources and support in their communities to meet their business goals.²⁷ We must channel more resources to small business lending and support.

CDFIs are uniquely suited to fill small business financing gaps and support Black business development. Black entrepreneurs receive financing from Community Development Financial Institutions (CDFIs) at twice the rate of white entrepreneurs, yet CDFIs are not where entrepreneurs turn most often for financing. Overall, the proportion of entrepreneurs receiving financing from CDFIs is lower than for other financial institutions.²⁸ Black entrepreneurs are also more likely to rely on business support programs to address business challenges than white entrepreneurs, but overall program participation remains low. Only 7% and 3% of Black and white business owners, respectively, reported applying to business support programs.²⁹ Among current business owners, Black entrepreneurs report challenges finding support and advice at twice the rate of white entrepreneurs.³⁰

AEO advocates for intentional and innovative approaches to Black business development that address the effects of the wealth, credit, and trust gaps. In 2022, AEO released a report entitled “Mending the Tapestry” that highlighted a need to cultivate an inclusive business ecosystem and motivated the development of our [Tapestry Registry](#).³¹ The Tapestry Registry is a unique platform that connects organizations offering innovations for Black business development with small business owners and potential collaborators. For service providers and lenders, the Tapestry Registry showcases their work in the ecosystem, offers opportunities to convene with other members focused on the same work, and connects their services to entrepreneurs who need them.



THE TAPESTRY REGISTRY

The Tapestry Registry is designed to broaden the reach and visibility of organizations that support the launch and growth of Black businesses, in order to advance and accelerate their efforts.

[SEARCH THE REGISTRY](#)



Summary

Black entrepreneurs are driving business growth in the U.S. and closing a longstanding gap in business ownership. Despite the growth and dynamism of Black-owned businesses, an immense opportunity remains to support the growth of these businesses and narrow gaps in business revenue and wealth across demographic groups. We emphasize the importance of strengthening business support ecosystems to ensure equity and increased support for Black business owners. In particular, we call for efforts to evaluate the coverage and reach of CDFIs and business support organizations and to identify opportunities to strengthen their capacity to support Black entrepreneurs. We hope our preliminary findings will be useful for service providers and policymakers looking to support the continued growth of all businesses, including Black-owned businesses, and others interested in understanding the drivers and challenges of Black business growth and well-being in the current U.S. economy.

¹ The Association for Enterprise Opportunity. "The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success," 2017.

² Maxwell, Chelsea et al. "Mending the Tapestry: Building Trust and Strengthening Black Business Ownership in America," The Association for Enterprise Opportunity, November 2022.

³ Estimates of growth in the number of firms, revenues, and employees represent their percentage growth from the U.S. Census Bureau 2012 Survey of Business Owners (SBO) to the 2020 U.S. Census Bureau Annual Business Survey and Nonemployer Statistics by Demographics (ABS/NES-D). The 2012 SBO was the source of statistics for the 2017 Tapestry Report (the most recent year of data available at that time), and so we measured growth from that timepoint to the most recent year for which data were available (the 2020 ABS/NES-D). Consistent with previous reporting and with the EPOP Survey, ABS/NES-D racial categories are exclusive of Hispanic identification; i.e., "Black" or "white" refers to "Black non-Hispanic" and "white non-Hispanic" business owners, respectively, and the "Hispanic business owner" category is inclusive of all racial categories.

⁴ Author's estimation using the NORC at the University of Chicago "Entrepreneurship in the Population (EPOP) Survey Project Public Use Data File: 2023."

⁵ Author's calculations using the 2020 ABS/NES-D.

⁶ Johnson, Katie and Eric Newsom. "A Profile on U.S. Business Owners: Examining Trends by Gender and Racial Identities," EPOP at NORC at the University of Chicago, August 15, 2023. Given disclosure avoidance measures that affect revenue coding in the EPOP PUF, we rely on the revenue estimates reported in this publication. The more comprehensive nature of EPOP Survey data relative to the U.S. Census Bureau Economic Survey data allows for a revenue estimate that is more inclusive of Black entrepreneurs, however, and is thus reported here.

⁷ "Entrepreneurship in the Population (EPOP) Survey Project Public Use Data File: 2023." NORC at the University of Chicago. October 16, 2023. EPOP.norc.org.

⁸ The estimate of Black business ownership is from the author's calculations using the EPOP Survey PUF: 2023; the estimate of the Black population share comes from the U.S. Census Bureau Quick Facts for 2023. In the 2022 EPOP Survey the Black business ownership rate was slightly higher at 14.4%, but the difference with the 2023 estimate is not statistically significant. Strict comparison with U.S. Census Bureau data is complicated by differences in data availability, as the most recent census data is from 2020 and excludes businesses with less than \$1,000 in annual receipts and without tax records. Thus, while the number of firms reported in the 2012 SBO and 2020 ABS/NES-D were used for estimating growth (to allow for comparison over time), we estimate Black business ownership using the more comprehensive 2023 EPOP Survey. Also see Johnson, "A Profile on U.S. Business Owners."

⁹ See, for example, Venture Forward, Black Women are Leaders in the Microbusiness Boom, November 3, 2022; and Gusto, "2023 New Business Survey: Inflation Driving New Business Creation in 2022 As Entrepreneurship Continues to Surge," March 2023; Perry, Andre et al., "Closing the Black employer gap: Insights from the latest data on Black-owned businesses," The Brookings Institution, February 15, 2024.

¹⁰ See Johnson, "A Profile on U.S. Business Owners." The U.S. Census Bureau ABS/NES-D data also exclude businesses with less than \$1,000 in annual receipts.

¹¹ See calculations from the Association for Enterprise Opportunity, "Business Revenue by Race and Ethnicity," dashboard accessed January 10, 2024.

¹² AEO, "The Tapestry of Black Business Ownership in America."

¹³ Author's analyses using the EPOP 2023 PUF. Consistent with AEO's 2017 "Tapestry of Black Business Ownership" report, we use white business owners as a reference group for analyzing racial disparities throughout the report. Focusing on one reference groups also allows for more parsimonious analysis given that detailed data are available for fewer racial groups in the EPOP Survey (which has a broad "non-Hispanic other" category) relative to the ABS/NES-D.

¹⁴ Estimates drawing from the 2020 U.S. Census Bureau ABS and NES-D.

¹⁵ Author's calculations using the EPOP 2023 PUF.

¹⁶ Ibid.

¹⁷ Boysen, Andrew. "Entrepreneurship Rates and Health Insurance Dependent Coverage Mandates," May 2019. Kenan Institute of Private Enterprise Research Paper No. 19-26.

¹⁸ Farrell, Diana et al. "Small Business Owner Race, Liquidity, and Survival," JP Morgan Chase & Co. Institute, July 2020; Author's calculations using the EPOP 2023 PUF.

¹⁹ Author's calculations using the EPOP 2023 PUF.

²⁰ Ibid.

²¹ Ibid.

²² Author's calculations using the EPOP 2023 PUF. These findings are consistent with findings from the U.S. Federal Reserve 2022 Small Business Credit Survey.

²³ Perry, Andre et al. "Who is driving Black business growth? Insights from the latest data on Black-owned businesses," The Brookings Institution, May 24, 2023.

²⁴ Lederer, Anneliese et al. "Lending Discrimination within the Paycheck Protection Program," National Community Reinvestment Coalition, July 2020; Howell, Sabrina T. et al., "Racial Disparities in Access to Small Business Credit: Evidence from the Paycheck Protection Program," NBER Working Paper 29364.

²⁵ Fazio, Catherine E. et al. "How is COVID Changing the Geography of Entrepreneurship? Evidence from the Startup Cartography Project," NBER Working Paper 28787, May 2021.

²⁶ Maxwell, Chelsea et al. "Pursuing Sustainability and Inclusion with Diverse-Owned Microbusinesses," The Association for Enterprise Opportunity, forthcoming in 2024.

²⁷ Author's calculations using the EPOP 2023 PUF; also see The Association for Enterprise Opportunity, "Bridging Gaps in Small Business Support Services for Black Entrepreneurs," February 2024.

²⁸ Author's calculations using the EPOP 2023 PUF.

²⁹ Ibid.

³⁰ AEO, "Bridging Gaps in Small Business Support Services for Black Entrepreneurs."

³¹ Maxwell, "Mending the Tapestry"; The Association for Enterprise Opportunity "The Tapestry Registry," <https://tapestry.aeoworks.org>, accessed February 23, 2024.

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About Research at AEO

As the leading voice of innovation in microbusiness, the Association for Enterprise Opportunity (AEO) has an extensive history of conducting research that aims to understand, support, and promote the interests of underserved nonemployer, small, and microbusinesses (SMBs). For more than 30 years, AEO and its member and partner organizations have helped millions of underserved entrepreneurs in starting, sustaining, and growing their businesses. Together, AEO is 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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