EXECUTIVE SUMMARY

Helping Entrepreneurs of Color Grow their Business

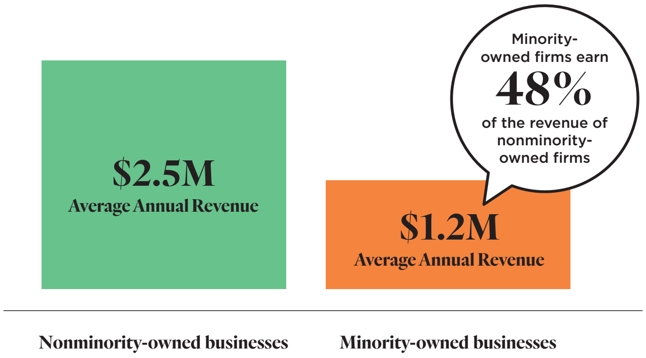
Early Insights from the Ascend 2020 Initiative

Supporting the Growth of Diverse Businesses Matters

The businesses created by entrepreneurs of color are important to the U.S. economy in general and specifically to the growth of inner cities and to minority wealth building. The nearly one million minority-owned businesses (996,248) with paid employees contribute $1.2 trillion in revenue and eight million jobs to the economy.[1] Building wealth for people of color in inner cities—economically distressed urban neighborhoods characterized by high poverty and high unemployment rates—requires not only maximizing employment, but also supporting the development of more entrepreneurs in these neighborhoods and helping them grow their businesses. Supporting entrepreneurs of color in inner cities will build wealth and decrease unemployment in urban areas that need it most.

But, there is a disparity in U.S. firm performance based on race (Figure 1) and the share of minority-owned businesses is not keeping pace with the growth of the minority population (Figure 2). Some entrepreneurs of color, especially African Americans, may not be getting the support they need to start and grow their businesses.

Figure 1: Minority-Owned Firms are Underperforming



Source: 2015 U.S. Census Bureau Annual Survey of Entrepreneurs.

Inner cities can be fertile ground for entrepreneurs of color. Since 1999, the Initiative for a Competitive Inner City (ICIC) has tracked nearly 1,000 high-growth inner city businesses spanning a wide range of industries. Approximately 40 percent of these high-growth inner city businesses are minority-owned. In 2017, the 100 fastest growing inner city businesses reported an average revenue of $13.1 million, an average growth rate over a five-year period of 320 percent, and an average of 94 employees (with 42 percent hired from inner city neighborhoods).[2] What strategies are needed to support more high-growth, minority-owned companies?

Key Findings from New Research

Entrepreneurs of color face a different degree of challenges than their white counterparts because of structural biases. New research by ICIC and the University of Washington Foster School of Business' Consulting and Business Development Center identifies the strategies needed to help entrepreneurs of color, including those in high-growth sectors and in inner cities, overcome these challenges. Most programs focused on supporting entrepreneurs of color target small business creation, which is important, but excludes an important segment of entrepreneurs who can maximize job creation in the urban areas that need them most. The full research report is forthcoming, but we summarize key findings here.

The Three Ms: Management Education, Money and Markets

Entrepreneurs—independent of race or ethnicity—need three fundamentals in order to successfully start and grow their business: education (general and business management), access to money (sufficient financial capital), and access to markets to sell their products and services. Over the past several decades, researchers have established that the challenges of the so-called "three Ms" are more acute for entrepreneurs of color.

[1] There are 7.95M total minority-owned businesses (with and without paid employees) in the U.S., U.S. Census Bureau 2015 Annual Survey of Entrepreneurs and 2012 Survey of Business Owners.

[2] Data collected from 100 inner city businesses as part of ICIC's 2017 Inner City 100 program.

JPMorgan Chase & Co.

ICIC

FOSTER
Consulting and Business Development Center

Figure 2: Disparities in Business Ownership by Race

U.S. OVERALL	INNER CITIES
38% Minority Population	**76%** Minority Population
19% Minority-owned Businesses	**23%** Minority-owned Businesses

Source: U.S. estimates use 2015 U.S. Census Bureau Annual Survey of Entrepreneurs and 2015 U.S. Census Bureau American Community Survey 5-Year Estimates. Inner city estimates use 2012 U.S. Census Bureau Survey of Business Owners and 2015 U.S. Census Bureau ZIP Business Patterns.

Management Education: Minorities lag behind nonminorities in terms of business management education and experience. African-American business owners, for example, are less likely to have self-employed family members and, therefore, are less likely to have acquired business management experience compared to nonminority business owners.

ICIC's new data on high-growth firms in the inner city finds that entrepreneurs of color need to have more education than their white peers to make just 44 percent of the profits of nonminority-owned firms. This reinforces the fact that structural biases have a real dollar effect on wealth-building efforts, even for the highest-performing businesses.

Access to Money: Minority-owned businesses tend to pay higher interest rates and receive smaller loans than nonminority-owned businesses. They are also more likely to be denied credit and are less likely to apply for loans. Venture capital funding is also skewed—minority entrepreneurs represent only about 20 percent of entrepreneurs funded by venture capitalists from 1990 to 2016.[3] These challenges are exacerbated for entrepreneurs of color operating in inner cities, where business financing to fund the creation and expansion of inner city businesses is insufficient.

As a result of these capital access challenges, minority-owned businesses typically operate with substantially less capital overall than their nonminority-owned counterparts, both during start-up and growth stages. Entrepreneurs of color are also more likely to enter industries with low capital requirements and high failure rates—not high-growth sectors.

ICIC's data on high-growth firms in the inner city finds only half of the minority-owned businesses that tried to raise equity were successful, compared to 84 percent of nonminority-owned businesses. Just over half (58 percent) of minority-owned businesses felt that they had access to sufficient lines of credit, compared to 70 percent for nonminority-owned businesses.

Access to Markets: Contracts with larger corporations, government agencies, universities and hospitals (so-called anchor organizations) are critical for the survival and growth of small businesses. This is especially true for high-growth companies, because such contracts provide a guaranteed revenue stream and mitigate some business risk, making the companies more attractive to investors.

Yet, entrepreneurs of color still struggle with establishing the customer and supplier networks needed for gaining such market access, in spite of a range of government and private-sector supplier diversity initiatives, some of which have been in place for several decades. The challenge is that initiatives focused on eliminating contracting discrimination (the demand problem) do not address matchmaking challenges, business capacity issues, and other contracting barriers (the supply and supply-demand problems).

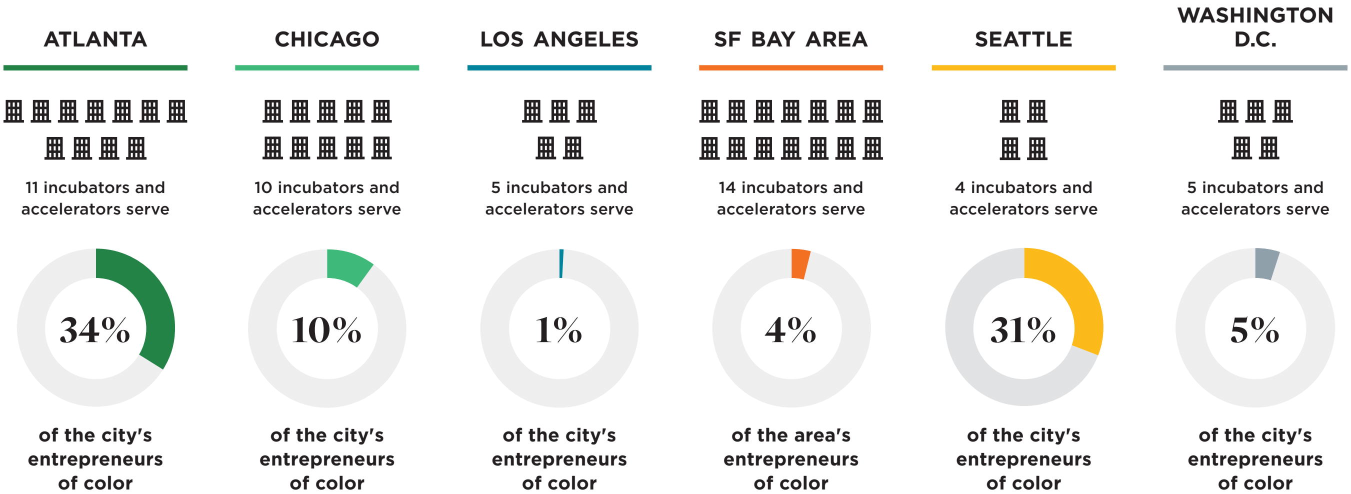
As a rule of thumb, businesses need to have at least $1 million in revenue to fulfill even the smallest contracts at anchor organizations. More needs to be done to spur the growth of minority-owned businesses over $1 million in revenue.

Our new research compares entrepreneurial ecosystems supporting entrepreneurs of color in six urban areas: Atlanta, Chicago, Los Angeles, the San Francisco Bay Area, Seattle, and Washington, D.C. The share of minority-owned businesses is less than the share of minority population in all six areas, meaning minorities are underrepresented as entrepreneurs in each place.

Within each market, there is a myriad of organizations that support entrepreneurs, but entrepreneurs of color are not participating in some of these organizations at the same rates as their white counterparts. (see *Creating Inclusive High-Tech Incubators and Accelerators*). Overall, support for entrepreneurs of color—particularly those in inner cities—is fragmented and inadequate (Figure 3).

[3] Gompers, P., & Wang, S. (2017). Diversity in Innovation (Working Paper No. 23082). Cambridge, MA: National Bureau of Economic Research.

Figure 3: Ecosystem Capacity Specifically Focused on Entrepreneurs of Color



Note: These estimates do not include other incubators and accelerators that are inclusive and serve entrepreneurs of color and, therefore, may overstate capacity gap.

POLICY INSIGHTS

1. Less than half (39 percent) of the incubators and accelerators we identified that focus on entrepreneurs of color are industry-specific. While organizations targeting entrepreneurs of color are a critical part of the entrepreneurial ecosystem, industry-specific incubators and accelerators (e.g., those focused on cleantech or food processing) may be most effective at supporting businesses in their growth stage. Industry-specific support for small businesses contributes to shared innovation, provides businesses access to powerful networks and helps them access targeted capital. Industry-specific incubators and accelerators need to make intentional efforts to be more inclusive of entrepreneurs of color and more of those focused on entrepreneurs of color should consider targeting a single industry.

2. Few of the incubators and accelerators targeting entrepreneurs of color are aimed at supporting entrepreneurs in high-growth sectors, thereby creating a self-perpetuating cycle that limits wealth-building opportunities in these areas. In cities such as Seattle, which supports many high-growth tech companies in the city overall, this trend may be creating greater wealth inequities.

3. Capital access, especially to growth capital, may be the most critical gap in the ecosystem. Most incubators and accelerators focused on serving entrepreneurs of color do not provide capital, although many offer connections to capital providers (particularly CDFIs). Those that do provide capital generally provide smaller grants and few offer the type of growth capital that is associated with high-tech incubators and accelerators (over $100,000 per company). This is a critical issue since, as a result, entrepreneurs of color are more likely to enter industries with low capital requirements and high failure rates—not high-growth sectors.

4. Creating stronger networks for minority-owned businesses at anchor organizations and state and federal governments is vital for their growth. Increasing contracts for them at anchor organizations is extremely challenging and can take years to achieve. Cities also should consider how they can more effectively connect entrepreneurs of color to contracting opportunities in the public sector and among smaller, "second-tier" anchors that may have more flexible procurement processes.

While incubators and accelerators are providing some support to help entrepreneurs of color gain access to new customers, this is another significant ecosystem gap in cities. Other organizations like supplier development councils or procurement technical assistance centers also address this issue, but the work is fragmented and there is no single point of contact for entrepreneurs looking to access new customers and contracts. Few cities across the U.S. have a dedicated intermediary organization focused on matching qualified local suppliers to contracting opportunities at anchor organizations.

Finding a Solution in Ascend 2020

Ascend 2020 adopts the "three M" framework for scaling entrepreneurs of color, including those in the inner city. This comprehensive approach, tied to a collaborative structure of existing organizations at the local level, differentiates it from other programs focused on entrepreneurs of color. Launched in 2017, it addresses the critical ecosystem gaps in the six urban areas identified above and will be expanding to other areas in the future. JPMorgan Chase is supporting this initiative as part of its investment in connecting underserved small businesses to experts and critical resources that help them grow faster, create jobs and strengthen local economies.

Figure 4: Year 1 of Ascend 2020

Entrepreneurs Supported
167

38%
gained financial management skills

Equity Raised
$2.5M

49%
gained connections to lenders

Loans Secured
$3.6M

23%
expanded their customer networks

The Ascend 2020 Model

The program for each urban area is designed as a collaboration between partners each specializing in one of the "three Ms." While the structure of Ascend 2020 partnerships varies across urban areas, reflecting differences in local ecosystems, the lead partners in each area (primarily top-tier business schools) are tasked with delivering the management education component of the program and managing all partners. The majority of programs are cohort-based entrepreneur education programs that also provide access to one-on-one consulting services from MBA students or other partners.

Management Outcomes: The Ascend 2020 program is attracting, and curating, a group of experienced entrepreneurs who may already be plugged into the entrepreneurial ecosystem in their city and are poised for growth. After participating in the program, 38 percent gained knowledge and skills on financial management, 33 percent strengthened their business plan, 31 percent gained more confidence in their ability to deliver a strong business pitch, and 30 percent felt more confident setting their business strategy.

Access to Money: By the end of 2017, the Ascend 2020 participants had secured a total of $3.6 million in loans (with an average loan of $116,647) and raised a total of $2.5 million in equity (with an average investment of $413,333). However, most of the respondents (69 percent) did not feel that they had sufficient start-up capital and most (63 percent) reported that insufficient capital was a potential barrier to the growth of their business. Capital connections may be the greatest area of potential impact for Ascend 2020. While most of the businesses that tried to secure loans were successful (91 percent), only 53 percent of those that had tried to raise equity were successful. After participating in the program, 49 percent gained connections to lenders, 43 percent of the participants increased their understanding of different types of capital and how to access it, and 37 percent gained connections to investors.

Access to Markets: On average, large corporations represent slightly more than one quarter of customers for Ascend 2020 businesses and contracts with city or county governments represent only seven percent, meaning there is a lot of opportunity to diversify and expand contracts with other types of anchors. While 26 of the Ascend 2020 businesses already report revenues of $1 million or more, only six of these are African-American-owned. This disparity in business revenues for African-American-owned firms is consistent with national data and demonstrates that the need to connect African-American businesses to new markets is particularly acute. More programs like Ascend 2020 are needed to fill this gap and move more African-American businesses over the $1 million revenue mark.

This research was made possible by JPMorgan Chase & Co. through its *Small Business Forward* initiative, a $150 million, multi-year global effort to connect underserved small businesses to experts and critical resources that help them grow faster, create jobs and strengthen local economies. *Small Business Forward* supports women, minority and veteran-owned small businesses through a series of approaches to help build their long-term success, creating local, inclusive economic growth.

For more information about ICIC, please visit www.icic.org. For more information about the University of Washington Foster School of Business' Consulting and Business Development Center, please visit www.foster.edu/consult. For inquiries about the full report, please contact Kim Zeuli at kzeuli@icic.org. Published September 2018. ©ICIC