Helping Entrepreneurs of Color Grow their Business

Early Insights from the Ascend 2020 Initiative

DECEMBER 2018

JPMorgan Chase & Co.

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ACKNOWLEDGEMENTS

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About the University of Washington Foster School of Business Consulting and Business Development Center

The Consulting and Business Development Center accelerates student careers and grows businesses and jobs in communities where they are needed the most. Through the center's programs, students build skills and gain experience in consulting and solving business challenges while business owners gain access to business education that creates jobs and changes lives. Combining academic rigor with business relevance our student consulting and business education programs produce bottom-line results for minority-, women-, LGBTQ- and other "diverse"-owned businesses and businesses in lower income communities. Founded in 1995, the Center has generated more than $200 million in new revenue and created and retained 200,000 jobs. For more information about the University of Washington Foster School of Business Consulting and Business Development Center, please visit www.foster.uw.edu/consult.

About the Initiative for a Competitive Inner City (ICIC)

ICIC is a national, nonprofit research and advisory organization founded in 1994. Its mission is to drive economic prosperity in America's inner cities through private sector investment. For more information about ICIC, please visit www.icic.org.

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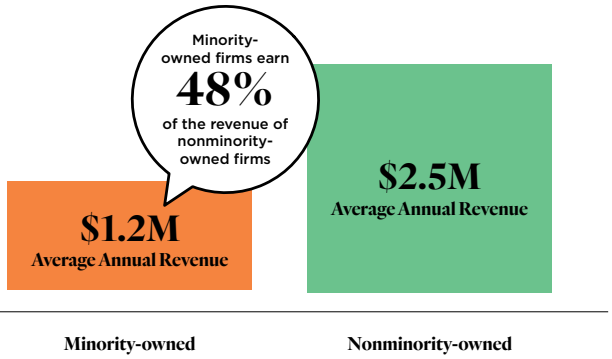
Supporting the Growth of Diverse Businesses Matters

Minority-owned businesses play an increasingly important role in the U.S. economy. The nearly one million (996,248) minority-owned businesses with paid employees contribute $1.2 trillion in revenue and eight million jobs to the economy.[1] Minority-owned businesses are especially important to inner cities—economically distressed urban neighborhoods characterized by high poverty and high unemployment rates—and minority wealth building. Building wealth for people of color in inner cities requires not only maximizing employment, but also supporting the development of more entrepreneurs in these neighborhoods and helping them grow their businesses. Entrepreneurship is a wealth building strategy and pathway out of poverty (Bradford, 2003; Gentry and Hubbard, 2004; Quadrini, 2000; Sutter, Bruton, and Chen, 2018). Supporting entrepreneurs of color in inner cities will build wealth and decrease unemployment and poverty in urban areas that need it most.

Yet, 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). Minority-owned firms earn just 48 percent of the revenue of nonminority-owned firms.[2] Even among the high-growth inner city businesses that ICIC tracks, minority-owned businesses have not kept pace with their non-minority counterparts. Minority-owned businesses earn 72 percent of the revenue of nonminority-owned firms and just 44 percent of profits (Figure 3).

Although 38 percent of the population in the U.S. is minority, only 19 percent of businesses are minority-owned.[3] In inner cities, where 76 percent of the population is minority, less than one-quarter (23 percent) of all inner city businesses are minority-owned.[4] Some entrepreneurs of color, especially African Americans, may not be getting the support they need to start and grow their businesses. While the number of African American-owned businesses grew at a higher rate than any other segment of businesses between 2002-2012, start-up rates among African Americans is not keeping pace with the growth rate of their demographic. As such, African Americans are still less likely to start a business than non-minorities and some other minority groups (Fairlie, Morelix, & Tareque, 2017).

Figure 1. Minority-Owned Firms are Underperforming



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

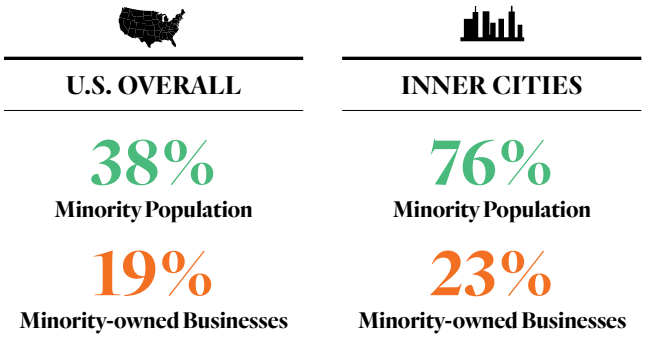
1 2015 U.S. Census Bureau Annual Survey of Entrepreneurs data for privately held firms with paid employees. The U.S. Census defines minorities as any race and ethnicity group other than non-Hispanic White. Minority includes the following groups: Hispanic or Latino, American Indian or Alaska Native, Asian, Black or African American, Native Hawaiian or Other Pacific Islander, and Some Other Race, including Two or More Races.

2 2015 U.S. Census Bureau Annual Survey of Entrepreneurs data for privately held firms with paid employees.

3 2015 U.S. Census Bureau Annual Survey of Entrepreneurs data for privately held firms with paid employees and 2015 U.S. Census Bureau American Community Survey 5-Year Estimates data.

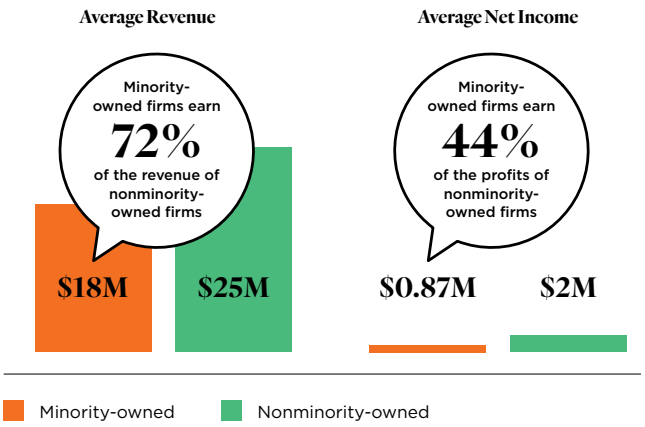
4 Inner city data is ICIC analysis of 2012 U.S. Census Bureau Survey of Business Owners data for privately held businesses with paid employees and 2015 U.S. Census Bureau ZIP Business Patterns data. Both data sets are the most recently available. The total number of minority-owned businesses in the inner city is estimated by multiplying the share of minority-owned businesses in the city by the total number of businesses in the inner city. For the U.S., the total number of minority-owned businesses is estimated by multiplying the share of minority-owned businesses in the U.S. by the total number of businesses in the U.S. We assume that the share of minority-owned businesses for the inner city is the same as the share for the rest of the city, which may lead to underestimation. We estimate that 161,530 minority-owned businesses are located in inner cities.

Figure 2. Disparities in Business Ownership by Race



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 the 2012 U.S. Census Bureau Survey of Business Owners data for privately held businesses with paid employees, 2015 U.S. Census Bureau ZIP Business Patterns and the 2015 U.S. Census Bureau American Community Survey 5-Year Estimates.

Figure 3. Disparities in Business Performance by Race Among High-Growth Inner City Businesses

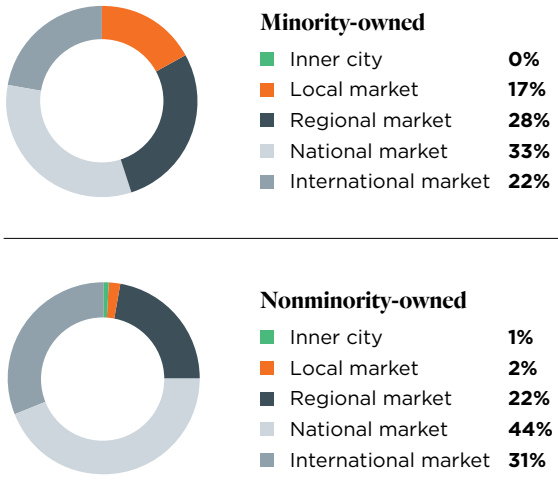


Inner cities can be fertile ground for entrepreneurs of color. Since 1999, ICIC has tracked the performance of high-growth inner city businesses spanning a wide range of industries.

High-growth industries are typically part of "traded" clusters—groups of industries that export goods and services out of a region. Only 19 percent of minority-owned businesses in inner cities operate in traded clusters and just two percent are high-tech businesses.[5] Further, while only a small share of the high-growth inner city businesses tracked by ICIC exclusively serve inner city customers or local markets, the share is higher for minority-owned businesses than nonminority-owned businesses (Figure 4). Minority-owned high-growth inner city businesses are just slightly skewed towards serving national and international markets, whereas minority-owned businesses in general are more likely to serve international markets (Minority Business Development Agency, 2012).

However, most organizations that support inner city entrepreneurs focus on small businesses with limited growth potential (i.e., "Mom and Pop shops"). The orientation towards local markets has a negative effect on wealth building. Businesses in strong, traded clusters are associated with higher employment and wage growth (Delgado, Porter, & Stern, 2012). In contrast, businesses that serve local, minority neighborhoods have lower profits and higher firm closure rates (Bates & Robb, 2008, 2014; Shinnar, Aguilera, & Lyons, 2011).

Figure 4. Market Comparison by Race for High-Growth Inner City Businesses



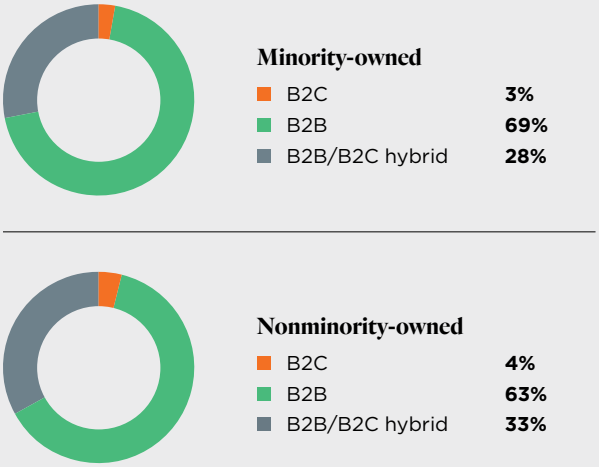
Notes: Local market includes inner city, rest of city and county. Regional market includes local market and regional market. National market includes regional and nationwide markets.

5 U.S. Census Bureau 2012 Survey of Business Owners for privately held firms with paid employees and 2015 U.S. Census Bureau ZIP Business Patterns. Traded and local clusters are defined by Delgado, Porter and Stern (2014). High-tech sector defined by Haltiwanger, Hathaway and Miranda (2014).

UNIQUE DATA, UNIQUE INSIGHTS ON INNER CITY BUSINESSES

New data collected by ICIC in 2017 from 194 high-growth inner city businesses allows us to compare minority and nonminority-owned business performance.[6] All of the businesses had been ranked as one of the fastest growing inner city businesses by ICIC's Inner City 100 program between 1999 and 2016. Both minority-owned (78 businesses) and nonminority-owned businesses (116) in the sample comprised mostly mature, smaller businesses with healthy revenue. The average age was 21 years for minority-owned businesses and 26 years for nonminority-owned businesses. Regardless of ownership, most of the businesses serve other businesses (B2B), with a smaller share serving businesses and consumers (B2B/B2C hybrid) and a very small share serving only consumers (B2C) (Figure 5). The most significant difference between the businesses was leadership: minority CEOs run almost all of the minority-owned firms (91 percent), compared to just three percent of the non-minority owned firms.

Figure 5. Organizational Comparison by Race for High-Growth Inner City Businesses



Entrepreneurs of color face a different degree of challenges than their white counterparts because of structural biases (Bradford, 2014). This report 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 exclude an important segment of entrepreneurs who can maximize job creation in the urban areas that need them most. This report also includes a review of a promising new model to supporting entrepreneurs of color that was launched in 2017 in six markets, Ascend 2020.

The remainder of the report is divided into four sections:

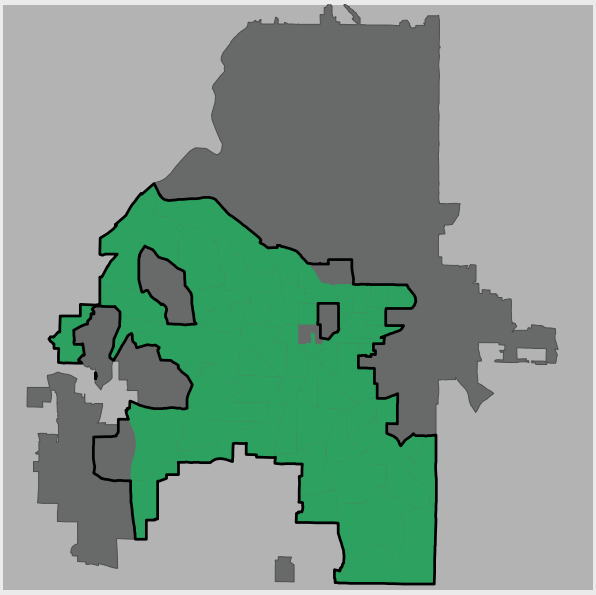
- Entrepreneurs of Color Need Support Across the "Three Ms," p. 7;
- A New Initiative to Support Entrepreneurs of Color: Ascend 2020, p. 11;
- Early Insights into the Impact of Ascend 2020, p. 18; and
- Policy Insights, p. 21.

6 To qualify as a high-growth inner city business, businesses need to be located in an inner city, show revenue growth over a five-year period, have a minimum of 10 full-time employees and at least $1 million in revenue. In 2017, ICIC surveyed all firms recognized by the Inner City 100 program from 1999 to 2016 (636 businesses) and received 228 total responses (a 36 percent response rate). Of these, 194 businesses self-reported their ownership status. Operations data was reported for the 2016 calendar year.

INNER CITY DEFINITION

ICIC defines an inner city as a set of contiguous census tracts in a city that have higher poverty and unemployment rates than the surrounding MSA and, in aggregate, represent at least five percent of a city's population. Each inner city census tract must meet either of two criteria: (1) an absolute poverty rate of at least 20 percent, or (2) a relative poverty rate that is at least 150 percent or greater than that of the MSA, as long as the unemployment rate is at least 150 percent greater than that of the MSA or the median household income is 50 percent or less than that of the MSA. ICIC excludes student populations in its calculations. Applying ICIC's inner city definition to 2011 American Community Survey data for all U.S. cities with populations greater than 75,000, ICIC identifies 328 inner cities.

Map 1. Atlanta, GA and its Inner City



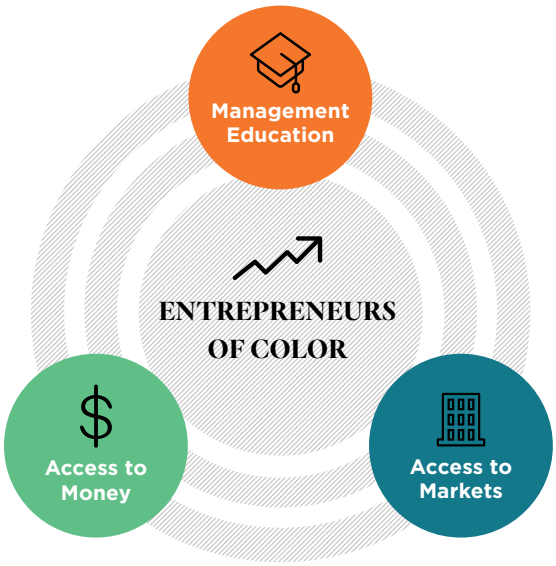
Inner City City Rest of Metro

Notes: Inner city boundary was defined using 2011 American Community Survey 5-Year Estimates and ICIC's inner city definition. Green shows census tracts within the 2011 inner city that qualify as inner city in 2015.
Source: U.S. Census Bureau 2015 American Community Survey 5-Year Estimates.

Entrepreneurs of Color Need Support Across the "Three Ms"

Entrepreneurs—independent of race or ethnicity—require 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 (Figure 6). Over the past several decades, researchers have established that the challenges of acquiring the so-called "three Ms" are more acute for entrepreneurs of color (Bradford, 2014; Fairlee & Robb, 2008).

Figure 6. The Ascend 2020 Three M Model

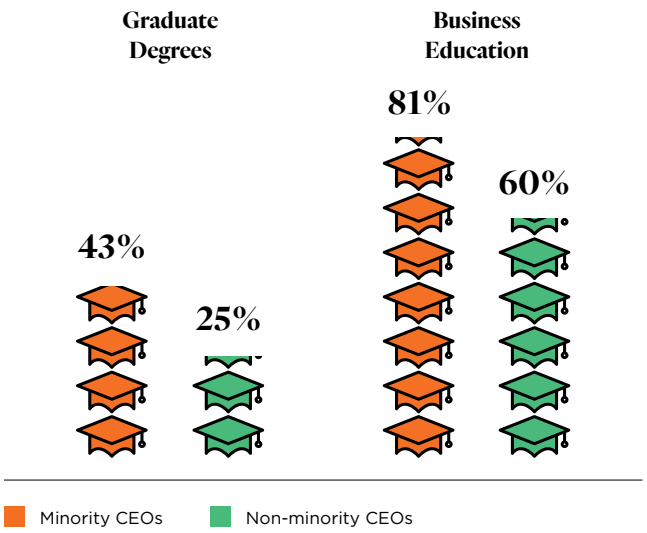


Management Education

Minorities lag behind non-minorities in terms of business management education and experience. For example, African Americans and Hispanic Americans are underrepresented in the business school admissions pipeline compared to both the overall U.S. population and the population with a bachelor's degree (Graduate Management Admission Council, 2018). African Americans account for eight percent of GMAT examinees and Hispanic Americans represent seven percent, while White, non-Hispanics represent 66 percent.

African-American business owners are also less likely to have self-employed family members and, therefore, are less likely to have acquired business management experience compared to non-minority business owners (Fairlie & Robb, 2007, 2008). Lower business education and experience may partially explain the gap between African-American and nonminority-owned business performance (Fairlie & Robb, 2007, 2008). Indeed, among high-growth inner city businesses, CEOs of color need to have more education than their white peers to make just 44 percent of their profits (Figure 7). Educational differences (including a lack of experience and role models) may also be a contributing factor in the lower start-up rates among African Americans, especially in high-growth sectors. Research finds that high-growth ventures typically require founding teams with greater levels of education than non-high-growth firms (Aulet & Murray, 2013; Barringer, Jones, & Neubaum, 2005).

Figure 7. CEO Education Comparison by Race Among High-Growth Inner City Businesses



EARLY INITIATIVES TO STRENGTHEN MANAGEMENT SKILLS FOR ESTABLISHED MINORITY BUSINESS OWNERS

In 1980, the Tuck School of Business at Dartmouth College launched the first one-week management education program for executives of minority-owned firms. In 2000, the National Minority Supplier Development Council (NMSDC) partnered with the Kellogg School of Management at Northwestern University to establish the Advanced Management Education Program to provide NMSDC-certified Minority Business Enterprises (MBEs) with the tools and skills to accelerate growth. MBEs must be recommended by a corporate member of NMSDC. Eight years later, the Foster School of Business at the University of Washington launched the second minority business executive program to officially partner with the NMSDC. All of these programs focus exclusively on building the management skills of minority entrepreneurs who have already achieved an initial level of success with their business.

Access to Money

Access to capital, especially growth capital, is a significant challenge for entrepreneurs of color. 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 less likely to apply for loans because they believe their applications will be denied (Bates & Robb, 2013; Fairlie & Robb, 2007, 2010). Venture capital funding is also skewed—from 1990 to 2016, minority entrepreneurs only represented approximately 20 percent of entrepreneurs funded by venture capital (Gompers & Wang, 2017). In terms of angel investments, minority-owned businesses represented only 11 percent of pitches to angel investors in 2017 (Sohl, 2018).

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, in part because of biases in bank lending patterns against inner city neighborhoods (Bates, 2010; Bates & Robb, 2013). In addition, both entrepreneurs of color and businesses located in inner cities tend to be underserved by private equity investments (Rubin, 2010). Venture capital networks tend to be geographically concentrated and businesses located in inner cities may be geographically isolated from these networks (Barr, 2015).

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, which constrains growth (Fairlie & Robb, 2008, 2010; Lofstrom & Bates, 2013). Entrepreneurs of color are also more likely to enter industries with low capital requirements and high failure rates instead of high-growth sectors (Lofstrom & Bates, 2013).

ICIC's data on high-growth inner city businesses finds that while a similar share of minority- and nonminority-owned businesses tried to raise capital, only half of the minority-owned businesses that tried to raise equity were successful, compared to 84 percent of nonminority-owned businesses. In terms of securing loans, these high-performing minority-owned businesses were very successful and secured loans at nearly the same rate as their non-minority counterparts (91 percent and 95 percent, respectively), but received smaller loans than they needed. 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.

Further, despite running businesses in similar industries and locations (presumably with similar risk profiles), lenders were more likely to require a U.S. Small Business Administration (SBA) loan guarantee for the minority business owners than they were for their nonminority counterparts: 40 percent of minority-owned businesses received SBA loans, compared to 26 percent for nonminority-owned businesses. When asked about factors that were important to their company's growth, a higher share of minority firms reported strong relationships with equity investors (50 percent versus 20 percent) and strong relationships with lenders (70 percent versus 49 percent) than nonminority-owned firms.

Access to Markets

Contracts with government agencies as well as corporations, universities and hospitals (i.e., 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 (Fairlie & Marion, 2012; Paglia & Harjoto, 2014). A recent study in Newark, New Jersey found that just a ten percent increase in anchor organization contracts with local, small businesses would result in an additional $33 million flowing to these businesses annually (Zeuli, Ferguson, & Nijhuis, 2014).

Yet, entrepreneurs of color struggle with gaining such market access, in spite of a range of government and private-sector supplier diversity and local procurement initiatives, some of which have been in place for several decades (Fairlie & Robb, 2008; Premier Quantitative Consulting, Inc., 2016). Some studies find that government programs designed to increase the number of contracts with minority-owned businesses have in fact increased rates of African American entrepreneurship in industries heavily impacted by these government programs and the share of government contract dollars awarded to minority-owned businesses (Chatterji, Chay, & Fairlie, 2014; Marion, 2011). However, others have found that government programs have not effectively eliminated government contracting discrimination (Bates, 2009; Sweet, 2006).

The challenge is that initiatives focused on eliminating government contracting discrimination (the demand problem) are transaction-based and 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.

THE BEGINNING OF SUPPLIER DIVERSITY INITIATIVES

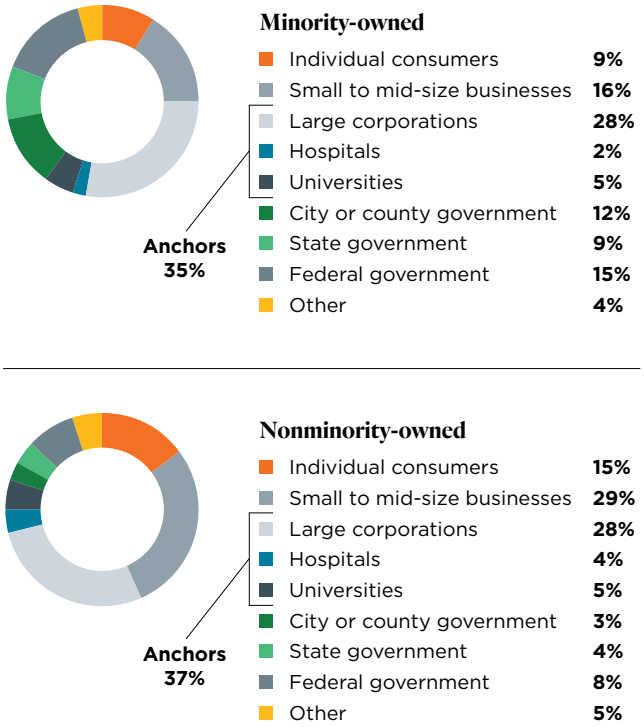
In 1969, President Nixon's Executive Order 11458 established the Office of Minority Business Enterprise (OMBE) (later renamed the Minority Business Development Agency) to preserve and strengthen minority businesses. Executive Order 11625, issued in 1971, expanded the scope of OMBE and gave it authority to work with Federal departments and agencies on establishing regular monitoring and reporting systems. This legislation is largely credited for starting supplier diversity efforts in the public and private sector. In 1972, the National Minority Supplier Development Council (NMSDC) was established to certify businesses as Minority Business Enterprises (MBEs) and assist corporations in finding minority contractors. In 1977, the federal Public Works Employment Act required ten percent of money received from federal grants for local public work projects to be awarded to minority-owned businesses. A 1980 Supreme Court decision upholding such federal set-asides for minorities led to rapid growth of these programs among states and localities (Rice, 1991). Today, some state and local governments also have adopted minority- and women-owned business contracting goals. While some cities such as D.C. and Chicago have made significant progress, others still struggle. Further, some states have passed legislation that prohibits or severely restricts "supplier diversity" opportunities (e.g., Initiative 200 in Washington State).

The movement to shift purchasing to local businesses, especially minority-owned, women-owned and inner city businesses, has been gaining traction with anchor organizations since the 1980s. This concept resonates strongly within inner cities, where many universities and hospitals are located. For example, 19 percent of the nation's 1,240 large, nonprofit hospitals are located in an inner city.[7] Among high-growth, inner city companies, anchor organizations represent the largest segment of customers (Figure 8). However, large corporations alone represent nearly one-third of customers, on average, for both minority and nonminority-owned companies. Other anchors (hospitals and universities) represent a very small share of customers, on average.

Minority-owned firms report a higher share of government contracts than their nonminority counterparts (36 percent versus 15 percent). When asked about factors that contributed to their company's growth, 90 percent of minority-owned businesses reported contracting opportunities with large organizations (compared to just 68 percent of nonminority-owned businesses) and 82 percent reported government contracting opportunities (compared to only 48 percent of nonminority-owned businesses). These differences further support the premise that anchor and government contracts are more important for minority-owned firm growth than for nonminority-owned businesses.

Yet, overall, actual anchor contracting volume with small businesses in the inner city remains frustratingly limited. There are significant barriers on both sides. Anchor procurement staff may not be willing to take on the risks associated with finding new, untested vendors and may be required to meet low cost targets. At the same time, few local businesses may have the capacity to fill the large contracts at these organizations or meet insurance and payment requirements. New models, such as Chicago Anchors for a Strong Economy (CASE) in Chicago, are being developed to help solve these challenges.

Figure 8. Customer Comparison by Race for High-Growth Inner City Businesses



A MODEL FOR DRIVING GREATER LOCAL PROCUREMENT IN ANCHOR ORGANIZATIONS

Chicago Anchors for a Strong Economy (CASE) was established in 2014 as part of the city's public-private economic development organization, World Business Chicago. An intermediary organization that facilitates contracts between Chicago's anchor institutions and local, small businesses, CASE currently has 17 member anchor institutions and to date, CASE has impacted over 400 businesses by providing technical assistance training or connecting them to contracts with anchor institutions ("CASE," n.d.).

CASE
An Initiative of World Business Chicago

7 American Hospital Association Annual Survey data, 2015; U.S. Census Bureau 2011 American Community Survey 5-Year Estimates and ICIC's inner city definition.

A New Initiative to Support Entrepreneurs of Color: Ascend 2020

Simultaneously addressing the multiple structural challenges facing entrepreneurs of color—management education, access to money, and access to markets—should be more productive than addressing each in isolation. Ascend 2020, a new initiative supported by JPMorgan Chase, adopts the "three M" framework to help entrepreneurs of color, including those in the inner city, scale their business. 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.

Developed by the University of Washington Foster School of Business Consulting and Business Development Center and launched in 2017, Ascend 2020 addresses critical ecosystem gaps in six metro areas (Atlanta, Chicago, Los Angeles, the San Francisco Bay Area, Seattle, and Washington, D.C.) 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.

The Ascend 2020 Model

The program for each metro area is designed as a collaboration between organizations specializing in each of the "three Ms." Ascend 2020 is a unique program because it is intentionally trying to fill critical ecosystem gaps for entrepreneurs of color in major metropolitan areas by supporting existing organizations and new collaborations at the local level. Chicago and Atlanta each have two different collaborations designated as Ascend 2020 programs. In the first year, three of the Ascend 2020 programs (Atlanta—Morehouse College/TechSquare Labs, Seattle, and D.C.) focused specifically on high-growth sectors, while the remainder serve businesses in all industries. All serve entrepreneurs in the growth stage of their business, except for Atlanta—Village Fund, which serves entrepreneurs at the idea stage.

The structure of Ascend 2020 partnerships varies across the different metro areas, reflecting differences in local ecosystems. In most cities, business schools or academic entrepreneurship centers manage cohort-based entrepreneur education programs that include access to one-on-one consulting services from MBA students or other partners (Figure 9). For example, the Northwestern University Kellogg School of Management and the University of Chicago Polsky Center for Entrepreneurship and Innovation run the cohort education programs in Chicago and the University of Washington Foster School of Business Consulting and Business Development Center operates the program in Seattle.

In most cities, a Community Development Financial Institution (CDFI) or other nonprofit lending institution serves as the capital access partner. The "money" partners may directly provide financing to the Ascend 2020 businesses or provide consulting services to make them more capital-ready.

In the Bay Area, ICA Fund Good Jobs, a nonprofit small business support organization, hosts Path 2 Cash, a one-on-one financial advising clinic for capital seekers. As follow-up to this workshop, ICA Fund Good Jobs connects participating businesses to capital providers in the ecosystem. It also hosts an advisory accelerator that provides tailored support to cohorts of eight to ten businesses focusing on growth, people and capital strategy. ICA Fund Good Jobs also provides investments of $250,000 up to $1 million to qualifying growth-stage businesses each year. Working Solutions, a CDFI microlender, partners with the Ascend 2020 program to provide microloans from $5,000 up to $50,000 with a focus on start-up and early-stage businesses, pre- and post-loan technical assistance, and connections to help businesses leverage additional growth capital from traditional financing sources.

Figure 9. Entrepreneur Cohort Programs in Ascend 2020 Markets

ATLANTA Morehouse College/TechSquare Labs

Morehouse College Entrepreneurship Center

INDUSTRY FOCUS: High-tech

BUSINESS GROWTH STAGE: Idea through growth

Ascend 2020 Program Partners: Access to Capital for Entrepreneurs, Inc., Georgia Institute of Technology Advanced Technology Development Center, Morehouse College Entrepreneurship Center and TechSquare Labs

ATLANTA Morehouse College/Village Micro Fund

Village Micro Fund

INDUSTRY FOCUS: Social impact

BUSINESS GROWTH STAGE: Idea

Ascend 2020 Program Partners: Access to Capital for Entrepreneurs, Inc. and Morehouse College Entrepreneurship Center

CHICAGO Northwestern University Kellogg

Northwestern University Kellogg School of Management

INDUSTRY FOCUS: None

BUSINESS GROWTH STAGE: Growth

Ascend 2020 Program Partners: Chicago Anchors for a Strong Economy (CASE), LISC and VEDC

CHICAGO University of Chicago Polsky Center

University of Chicago Polsky Center for Entrepreneurship and Innovation

INDUSTRY FOCUS: None

BUSINESS GROWTH STAGE: Growth

Ascend 2020 Program Partners: Chicago Anchors for a Strong Economy (CASE) and LISC

LOS ANGELES

Harold and Pauline Price Center for Entrepreneurship & Innovation, University of California Los Angeles Anderson School of Management

INDUSTRY FOCUS: None

BUSINESS GROWTH STAGE: Growth

Ascend 2020 Program Partners: CDC Small Business Finance and Pacific Coast Regional Small Business Development Corp.

SAN FRANCISCO BAY AREA

ICA Fund Good Jobs

INDUSTRY FOCUS: None

BUSINESS GROWTH STAGE: Growth

Ascend 2020 Program Partners: Mills College Lokey School of Business and Working Solutions

SEATTLE

University of Washington Foster School of Business Consulting and Business Development Center

INDUSTRY FOCUS: Energy, cleantech, construction, food and beverage manufacturing, and global exports

BUSINESS GROWTH STAGE: Growth

Ascend 2020 Program Partners: Craft3, Northwest Mountain Minority Supplier Development Council and Seattle City Light

WASHINGTON, D.C.

Washington Area Community Investment Fund (Wacif)

INDUSTRY FOCUS: Government contractors

BUSINESS GROWTH STAGE: Growth

Ascend 2020 Program Partners: Coalition for Non-Profit Housing and Economic Development and the Latino Economic Development Center

In Seattle, Craft3, a regional nonprofit community development lender, provides flexible capital to the cohort businesses. Businesses meet with Craft3 loan officers, who provide business mentoring and leverage a non-traditional risk analysis to make quality loans to the businesses ranging from $25,000 up to $3 million.

To address the lack of access entrepreneurs of color have to contracting opportunities with anchors and government, some Ascend 2020 cities have partnered with a distinct "market access" partner that serves as an intermediary to connect businesses with contracting opportunities. CASE is the intermediary in Chicago. In D.C., the Washington Area Community Investment Fund (Wacif), a community development organization and small business lender operating in the Washington, D.C. area, operates the Ascend Capital Accelerator program. In August 2018, Wacif launched its second cohort, which is focused on entrepreneurs of color pursing government contracting opportunities. The Ascend Capital Accelerator develops, enhances and expands the cadre of work-ready local, small- to mid-sized small businesses by providing management training and capacity-building resources to leverage the benefits imbued within the District's Certified Business Enterprise (CBE) and federal government's Minority/Women/Disadvantaged Business Enterprise (MW/D/CBE) designation and successfully perform on government, private, and public-private partnership projects.

Depending on the needs of the small business, Wacif will connect the entrepreneur to one of Wacif's contract financing products, or refer the entrepreneur to other capital providers in the city. Also in D.C., the Coalition for Non-Profit Housing and Economic Development (CNHED) established the DC Community Anchor Partnership (DCAP) in 2018 as an anchor intermediary like CASE. Currently, five anchors are participating. Strengthening the market access function in each metro's ecosystem is a priority of Ascend 2020 in 2019.

The Scope of the Problem across the Ascend 2020 Markets

Entrepreneurs of color are underrepresented in all six markets, where the share of minority-owned businesses is less than the share of minority population (Table 1). From 2005 to 2015, business growth in the inner city did not keep pace with the area overall. The starkest contrast was in

Table 1. Business Performance in Ascend 2020 Markets

	All Businesses	Minority-Owned Businesses	Minority-Owned Businesses in Inner City	Business Growth (2005-2015)	Inner City Business Growth (2005-2015)
Atlanta	16,365	22%	28%	12%	<1%
Chicago	61,545	27%	22%	4%	3%
Los Angeles	106,920	33%	26%	6%	*-1%*
SF Bay Area	198,550	35%	34%	5%	*-<1%*
Seattle	26,088	19%	23%	9%	1%
Washington, D.C.	21,338	34%	18%	8%	2%
U.S.	**7,643,755**	**19%**	**36%**	**2%**	***-2%***

Notes: For the "minority-owned businesses" data, businesses are defined as a single company or firm, which may consist of one or more locations. For all others, the business data is for establishments (defined as a single physical location where business is conducted) and not companies. U.S. total for minority-owned business is calculated with 2015 data. All other minority-owned business shares by city is calculated with 2012 data. Due to data limitations, we are not able to calculate the percent change in minority-owned business establishments from 2005 to 2015. Inner city data for the U.S. is reported as the average for the 328 cities with inner cities.

Sources: U.S. Census Bureau Survey of Business Owners for privately-held businesses with paid employees (2012); U.S. Census Bureau Annual Survey of Entrepreneurs (2015); U.S. Census Bureau County Business Patterns (2015); and U.S. Census Bureau ZIP Business Patterns (2015).

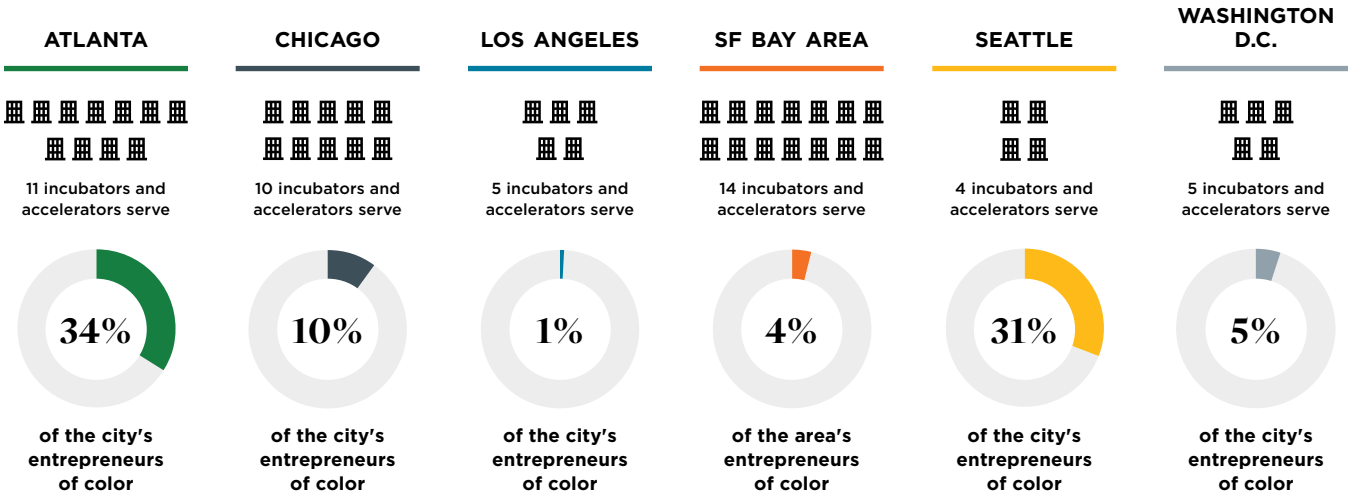
Atlanta, which experienced a 12 percent business growth rate for the city, but less than one percent in the inner city. This is significant because over a quarter of all minority-owned businesses in Atlanta (28 percent) are located in the inner city. In other areas where the growth rates are closer, such as in Chicago, this may reflect gentrification effects, where commercial rental rates are rising along with housing costs. This could hurt inner-city business growth that may have traditionally relied on lower rental rates compared to downtown and suburban areas.

Critical Ecosystem Gaps in Supporting Entrepreneurs of Color in Ascend 2020 Markets

Within most cities, 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 white entrepreneurs (Initiative for a Competitive Inner City, 2016). A recent report from Black Tech Mecca recognizes that while most cities now have at least one incubator, accelerator, or other tech hub that is located in a minority community or that targets entrepreneurs of color, it is unknown how successful they are or if there are enough of them (Black Tech Mecca, 2017). Overall, support for entrepreneurs of color—particularly those in inner cities—is fragmented and insufficient.

We explored the entrepreneurial ecosystems in each of the Ascend 2020 markets to better understand the critical gaps in their ability to support entrepreneurs of color (Figure 10). A comprehensive list of all organizations that support entrepreneurs of color does not exist in any of the six markets and is beyond the scope of our research. Instead, we identify those entrepreneurial support organizations (ESOs) that *intentionally* target entrepreneurs of color. Our focus was on incubators and accelerators because they provide the most comprehensive set of services, prolonged, intensive engagement with entrepreneurs, and are the ESOs most likely to focus on high-growth companies. We recognize that national programs (e.g., NewME, Capital Pathways, ICIC's Inner City Capital Connections program and the U.S. Minority Business Development Agency's network of Business Centers) also provide important support to entrepreneurs of color in some of these markets. Overall, we find relatively few incubators and accelerators focused on serving entrepreneurs of color, and even fewer that serve entrepreneurs of color in inner city neighborhoods.

Figure 10. Ecosystem Gaps for Supporting Entrepreneurs of Color



Note: These estimates do not include other incubators and accelerators that are inclusive and serve entrepreneurs of color and, therefore, understate the support that exists in each market for entrepreneurs of color.

ATLANTA

In Atlanta, there are nearly 50 incubators, accelerators, and co-working spaces in the city ("Places," n.d.). We found eleven incubators and accelerators focused on entrepreneurs of color. We estimate that these organizations have the total capacity to serve about 1,200 entrepreneurs of color annually.[8] Of these eleven organizations, seven have an industry focus (all on high-growth) and only two focus on entrepreneurs of color in inner city neighborhoods: Start:ME and the Village Micro Fund Small Business Cohort (an Ascend 2020 partner). While eleven ESOs focused on entrepreneurs of color certainly make an important contribution in the city, they still fall far short of meeting the potential need, serving only 34 percent of minority-owned businesses in the city. There is promising momentum in the city around addressing this gap. Next year, the Russell Center for Innovation & Entrepreneurship will open as a 40,000 square foot entrepreneurial hub targeting underrepresented entrepreneurs in Atlanta.

ATLANTA ESOs FOCUSED ON ENTREPRENEURS OF COLOR

- Ascend 2020 ATL
- Atlanta Tech Village (It Takes a Village program)
- City of Atlanta's Women's Entrepreneurship Initiative
- digitalundivided
- The Farm
- Goodie Nation
- Opportunity Hub
- Start:ME
- TechSquare Labs
- Urban League of Greater Atlanta's The Entrepreneurship Center
- Village Micro Fund Small Business Cohort

CHICAGO

In Chicago, a recent estimate identifies nearly 130 incubators, accelerators, and co-working spaces serving entrepreneurs in the Chicagoland area ("Chicagoland's Co-Working Spaces," 2017). We found ten in the city focused on entrepreneurs of color. We estimate that these organizations have the capacity to serve up to 1,600 entrepreneurs of color annually (only ten percent of the city's minority-owned businesses). Of these ten organizations, three have an industry focus (all on high-growth) and nine focus on entrepreneurs of color in inner city neighborhoods: Bethel New Life, BLUE1647, the Chicago Urban League Center for Entrepreneurship & Innovation, Colony 5, Englewood Accelerator, i.c.stars Enterprise Next, Kellogg ASCEND Business Growth Program (an Ascend 2020 partner), Sunshine Enterprises, and the Polsky Small Business Growth Program (an Ascend 2020 partner).

Recent initiatives like the Blackstone Inclusive Entrepreneurship Challenge in Chicago have catalyzed new momentum around supporting underrepresented entrepreneurs, particularly entrepreneurs of color, in Chicago. Launched in 2017, the Blackstone Challenge is a three-year, $3 million program supported by the Blackstone Charitable Foundation to fund organizations that recruit and support underserved entrepreneurs throughout Chicago. In the first year, eight organizations were selected to receive a total of $1 million in grant funding to develop innovative pilot programs to meet this goal.

CHICAGO ESOs FOCUSED ON ENTREPRENEURS OF COLOR

- Bethel New Life
- BLUE1647
- Chicago Urban League Center for Entrepreneurship & Innovation
- Colony 5
- Englewood Accelerator
- i.c.stars Enterprise Next
- Ill. Hispanic Chamber of Commerce Latinx Incubator
- Kellogg ASCEND Business Growth Program
- Sunshine Enterprises
- Polsky Small Business Growth Program

8 Our analysis relies on data that is either publicly available or self-reported by each organization and is not validated.

LOS ANGELES

The Los Angeles County Economic Development Corporation has identified 140 incubators, accelerators, and co-working spaces in Los Angeles ("Incubators In LA," n.d.). We found five ESOs in the city focused on entrepreneurs of color. We estimate that these five organizations have the capacity to serve about 200 entrepreneurs of color annually, or just one percent of minority-owned businesses in the city. Of these five organizations, three have an industry focus (all on high-growth) and just one, ESTEC LA Incubator, is focused on entrepreneurs of color in inner city neighborhoods.

While not explicitly focused on entrepreneurs of color, the Los Angeles Cleantech Incubator (LACI), has made significant commitments to diversity and inclusion. In 2016, LACI launched its Diversity and Inclusion Initiative, which includes a Diversity in Entrepreneurship Advisory Council and dedicated staff, to address the underrepresentation of women and people of color in the cleantech sector and the tech industry overall.

LOS ANGELES ESOs FOCUSED ON ENTREPRENEURS OF COLOR

- Acelera.LA
- ESTEC LA Incubator
- Grid110
- LDR Ventures
- Management Development for Entrepreneurs

SAN FRANCISCO BAY AREA

In the San Francisco Bay Area, a recent report estimates that there are 42 incubators and accelerators in the area (co-working spaces were not included) (Matloob, 2014). We identified 14 organizations in the Bay Area focused on entrepreneurs of color. We estimate that these organizations have the capacity to serve approximately 2,700 entrepreneurs of color annually (only four percent of the area's minority-owned businesses). Of these 14 organizations, five have an industry focus (two on high-growth) and nine focus on entrepreneurs of color in inner city neighborhoods: Anew America, Centro Community Partners, The Hood Incubator, ICA Fund Good Jobs (an Ascend 2020 partner), La Cocina, Oakland Bloom, Pacific Community Ventures, Prospera, and the Renaissance Entrepreneurship Center.

SAN FRANCISCO BAY AREA ESOs FOCUSED ON ENTREPRENEURS OF COLOR

- Anew America
- Centro Community Partners
- The Hood Incubator
- ICA Fund Good Jobs
- iLab Oakland
- La Cocina
- Manos Accelerator
- Mission Economic Development Agency
- Oakland Bloom
- Pacific Community Ventures
- Prospera
- Renaissance Entrepreneurship Center
- Social Impact Ventures Propeller Accelerator
- Uptima Business Bootcamp

SEATTLE

In Seattle, a recent list identifies 55 incubators, accelerators, and co-working spaces in the Seattle area ("Mapping Seattle's incubators, accelerators and co-working spaces," 2015). We identified four organizations in Seattle focused on entrepreneurs of color. We estimate that these organizations have the capacity to serve about 1,500 entrepreneurs of color annually, or 31 percent of the city's minority-owned businesses. Of these four organizations, one has an industry focus (which is on high-growth) and two focus on entrepreneurs of color in inner city neighborhoods: Seattle University Resource Amplification & Management Program (RAMP-up) the UW Business Growth Collaborative (an Ascend 2020 partner).

SEATTLE ESOs FOCUSED ON ENTREPRENEURS OF COLOR

- BlackDot
- Seattle University Resource Amplification & Management Program (RAMP-up)
- UW Business Growth Collaborative
- Ventures

WASHINGTON, D.C.

In Washington, D.C. a current list identifies over 90 incubators, accelerators, and co-working spaces in the District ("Incubators, Accelerators and Co-Working Spaces," n.d.). We found five organizations in D.C. focused on entrepreneurs of color. We estimate that these organizations have the capacity to serve about 350 entrepreneurs of color annually (only five percent of D.C.'s minority-owned businesses). Of these five organizations, none have a specific industry focus and three focus on entrepreneurs of color in inner city neighborhoods: DC Community Carrot, Project 500, and the Wacif Ascend Capital Accelerator (an Ascend 2020 partner).

WASHINGTON, D.C. ESOs FOCUSED ON ENTREPRENEURS OF COLOR

- DC Community Carrot
- Halcyon
- Inclusive Innovation Incubator (in3)
- Project 500
- Wacif Ascend Capital Accelerator

Early Insights into the Impact of Ascend 2020

In 2018, ICIC independently surveyed and collected data from all entrepreneurs (117) who have participated as of March 2018 in Ascend 2020 programs to begin to quantify the impact a comprehensive program built around strengthening the "three Ms" can have on entrepreneurs of color.[9]

The businesses supported by Ascend 2020 represent 32 different industries and various stages of growth and performance. The average business was just over nine years old (Table 2). All of the businesses were small, with an average of 21.4 employees. The majority of the businesses were already established, with 66 percent earning revenue and 65 percent reporting a positive net income. Most of the companies are B2B or B2B/B2C hybrids. Only 11 percent sell exclusively to consumers.

Table 2. Ascend 2020 Minority-Owned Businesses

Minority CEO	94%
Avg. age of business	9 years (0-60)
Avg. FTE employees	21.4 (0-825)
Share earning revenue	66%
Avg. revenue	$3.4 million ($0-$40 million)
Share with positive net income	65%
Avg. net income	$72,816 (*-$36,000* - $420,000)
B2C	11%
B2B	58%
B2B/B2C hybrid	31%

Management Education and Experience

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. As a result, the program is positioned to create more high-growth minority-owned businesses. Almost all of the entrepreneurs supported to date (90 percent) had already received some formal business education before they entered the program and, on average, had experience starting two companies (Figure 11).[10] Eighty-one percent of the entrepreneurs hold an undergraduate or graduate degree or higher (39 percent hold Master degrees or higher). After participating in the program, 38 percent of the entrepreneurs of color gained financial management skills, 32 percent strengthened their business plan, 32 percent gained more confidence in their ability to deliver a strong business pitch, 31 percent felt more confident setting their business strategy and 30 percent felt more confident in their overall leadership skills.[11]

9 The entrepreneurs in our sample represent an appropriate distribution across the programs (i.e., the larger programs had more responses). Not all entrepreneurs were entrepreneurs of color and not all identified their race/ethnicity or the minority eligibility status of their business. The final sample includes 89 minority CEOs and 84 businesses that were certified or eligible minority-owned businesses.

10 Formal business education includes business education that is part of an undergraduate degree program, a graduate degree program, an executive education program, or individual classes.

11 Participants in Ascend 2020 were asked to assess their skills across 25 categories. Gains post-program represents the share of businesses that moved from a weak assessment of their skills ("Strongly disagreed", "Disagreed" or "Neither agree or disagree") pre-program to a strong assessment ("Strongly agreed" or "Agreed") post-program.

Figure 11. Ascend 2020 Management Experience and Outcomes

39%
hold Master's degree or higher

2
companies founded previously, on average

90%
had formal business education

38%
gained financial management skills

32%
strengthened their business plan

32%
gained confidence in business pitch

31%
gained confidence in setting business strategy

30%
gained confidence in leadership skills

Figure 12. Ascend 2020 Access to Money Outcomes

Loans secured
$2.9M

Average loan
$111,387

92%
successful securing loans

50%
gained connections to lenders

43%
increased knowledge of capital and how to access it

Equity raised
$2.2M

Average equity investment
$538,750

47%
successful raising equity

38%
gained connections to investors

Access to Money

By the end of 2017, the Ascend 2020 entrepreneurs of color had secured a total of $2.9 million in loans (with an average loan of $111,387) and raised a total of $2.2 million in equity (with an average investment of $538,750) (Figure 12). While most of the businesses that tried to secure loans were successful (92 percent), only 47 percent of those that had tried to raise equity were successful. Only 20 percent of the businesses had ever tried to raise equity. Most of the respondents (70 percent) did not feel that they had sufficient start-up capital and most (67 percent) reported that insufficient capital was a potential barrier to the growth of their business. This suggests that equity should be a particular area of focus for Ascend 2020 and capital connections in general may be the greatest area of impact for the program.

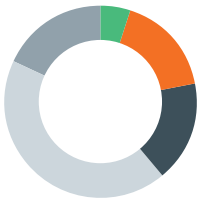
After participating in the program, 50 percent of the participants gained connections to lenders and 38 percent gained connections to investors. Forty-three percent increased their knowledge of capital and how to access it.

Access to Markets

Contracts with anchor organizations (large corporations, universities, and hospitals) already represent the largest segment of customers (33 percent) for the Ascend 2020 businesses (Figure 13). Large corporations alone represent just over one quarter of customers, meaning there is a lot of opportunity to expand contracts with universities and hospitals. Government contracts only represent 17 percent of contracts. Finally, only 16 Ascend 2020 minority-owned businesses report revenues of $1 million or more, which may be the biggest barrier preventing them from securing more large contracts.

Roughly one-quarter of the businesses serve inner city customers exclusively or local markets (city and county). Since expanded markets is a key driver of growth, this finding signals another area of significant impact for the Ascend program. Only 18 percent export. Before participating in the program, half of the entrepreneurs of color felt that they had weak market research skills and a limited understanding

Figure 13. Markets and Customers for Minority-Owned Ascend 2020 Businesses



Markets

Inner city	5%
Local market	17%
Regional market	17%
National market	43%
International market	18%

Customers

Individual consumers	22%
Nonprofits	5%
Small to mid-size businesses	18%
Large corporations	27%
Hospitals	1%
Universities	5%
City or county government	7%
State government	3%
Federal government	7%
Other	4%

Anchors 33%

of their target markets. Eighty-two percent reported weak connections with international customer networks and 80 percent reported weak connections with international supplier networks, providing additional indicators that expanding exporting networks for entrepreneurs of color could be an area of significant impact for the program. After participating in the program, 38 percent of the entrepreneurs gained a better understanding of their target markets and how to conduct market research (Figure 14). However, only 12 percent reported gains in international customer and supplier networks, suggesting this is a key are of improvement for the Ascend 2020 program.

Figure 14. Ascend 2020 Access to Markets Outcomes

38% gained understanding of target markets and how to conduct market research

12% gained international customer and supplier networks

Policy Insights

Entrepreneurship is a proven wealth building strategy and pathway out of poverty, especially in urban areas that need it most. Yet, the share of minority-owned businesses is not keeping pace with the growth of the minority population and minority-owned businesses are not performing at the same level as nonminority-owned businesses. The "three Ms"—management education, access to money and access to markets—are important for all entrepreneurs, but entrepreneurs of color face more significant challenges acquiring these fundamentals than their white counterparts because of structural biases. This report identifies the strategies needed to help entrepreneurs of color, including those in high-growth sectors and in inner cities, overcome these challenges.

1. ***The Ascend 2020 approach of building urban ecosystems to simultaneously address the systemic challenges that minority-owned businesses face in a "three M" framework offers a promising model for growing larger, minority-owned businesses that maximize job creation and wealth building in the urban areas that need it most.*** It offers an alternative to most programs focused on supporting entrepreneurs of color, which target small business creation and create a self-perpetuating cycle that limits wealth building and may be exacerbating greater wealth inequities.

2. ***Capital access, especially to growth capital, may be the most critical issue facing entrepreneurs of color, especially in inner cities, where capital is even more limited.*** Because of capital access challenges, entrepreneurs of color are more likely to enter industries with low capital requirements and high failure rates—not high-growth sectors. More start-up and growth capital needs to be available to entrepreneurs of color and they need support accessing a broad range of equity sources, including from corporations and impact investors.

Most incubators and accelerators focused on serving entrepreneurs of color do not provide capital, although many offer connections to capital providers. Those that do provide capital generally provider smaller grants and few offer the type of growth capital that is associated with high-tech incubators and accelerators (over $100,000 per company).

The SBA remains an important source of funding for entrepreneurs of color and its Community Advantage pilot loan program, which guarantees loans for lenders maintaining at least 60 percent of their loan portfolio in underserved markets, should be expanded and made a permanent part of the SBA's loan programs. In addition, the 8(a) Business Development program, which helps economically and socially disadvantaged businesses compete for federal government contracts, should also be expanded and the 8(a) Mentor-Protégé program should be tailored to focus on minority-owned businesses. Likewise, the Community Reinvestment Act needs to focus on closing the racial disparities in small business lending.

3. ***Expanding anchor and government contracting opportunities are critical for entrepreneurs of color, especially those in high-growth sectors.*** While progress has been made with government contracting, especially in some cities like D.C. and Chicago, expanding anchor contracts has proven more challenging.

NMSDC operates a network of 23 regional affiliates across the country, which have a core function of processing MBE certification for minority-owned businesses. The regional MSDCs offer some executive education and mentorship, facilitate introductions between member corporations and MBEs, and provide networking among MBEs. However, certification is usually required to participate in the services and resources offered by the MSDCs. Becoming certified as an MBE can be a time consuming process and some early-stage businesses may not feel the benefits outweigh the costs. Their members are typically large corporations and their contracts may be too large for smaller businesses. As an alternative, local Chambers of Commerce could be engaged to access smaller companies that may have more opportunities for smaller minority-owned businesses.

New models of dedicated intermediary organizations, such as CASE, that are focused on matching qualified local businesses to contracting opportunities at anchors are promising, but they are rare and focus on large anchors. More needs to be done to explore contracting opportunities with smaller organizations that may have more flexible procurement processes and may be a better fit for smaller minority-owned businesses.

While incubators and accelerators are providing some support helping entrepreneu rs of color gain access to new customers, this is another significant ecosystem gap in most 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.

The contracting issue also requires more programs like Ascend 2020 to help create more minority-owned businesses with sufficient capacity to fill government and anchor contracts. Many publicly-funded capacity building programs, such as the SBA's network of Small Business Development Centers, do not focus on serving minority-owned and inner city businesses. Some of the resources should be redirected to business schools and entrepreneur centers that provide these services.

4. ***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.*** Entrepreneurs of color need to have equitable access to all ESOs—particularly those connected to high-growth sectors. Less than half (39 percent) of the incubators and accelerators that we identified in the six Ascend 2020 metro areas that focus on entrepreneurs of color are industry-specific (e.g., focused on cleantech or food processing), which limits their effectiveness at supporting growth-stage businesses. Industry-specific organizations provide businesses access to tailored, powerful networks and help them access targeted capital. Therefore, while demographic-focused ESOs are important, they should focus on a specific industry to maximize the growth of the businesses they support.

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