2017 Research Report

STATE OF LATINO ENTREPRENEURSHIP EXECUTIVE SUMMARY

With this research, the Stanford Latino Entrepreneurship Initiative (SLEI) highlights findings from its third annual Survey of U.S. Latino Business Owners. We examine issues specifically related to Latino entrepreneurs and Latino-owned businesses in the United States, and expand upon previous studies. We explore the profile of the Latino entrepreneur, and examine opportunities and barriers that Latino business owners face as they launch and grow their enterprises.

Latino-owned firms compose a significant—and still growing—percentage of U.S. businesses. The growth rate of Latino businesses in the United States, both non-employer and employer firms (those that have paid employees), has outpaced the growth rate of all other groups, despite having the lowest rate of financial institution-based loans among all other groups of employer firms.

While the rising U.S. Latino population has an influence on the number of Latino firms created, as a demographic segment, Latinos have the highest rate of new entrepreneurs. That is, if we consider entrepreneurial outcomes as opposed to inputs, such as the rate of new entrepreneurs, the opportunity share of new entrepreneurs, and startup density, Latinos make up a substantial segment of the U.S. economy.

According to the Latino Donor Collective, the gross domestic product produced by all Latinos in the United States in 2015 was \$2.13 trillion. In 2012, we calculated an additional \$1.38 trillion added to the U.S. GDP if Latino businesses managed to close the opportunity gap (the difference between the average annual revenues of Latino vs. non-Latino-owned firms). Supplemental census data shows that the number of Latino firms has continued to rise since 2012, which indicates that the opportunity gap has also grown. In today's dollars, that is about \$70 billion more, or \$1.47 trillion.

The insights that follow highlight key issues and findings related to this opportunity gap.

National banks provide less loan funding to Latino-owned businesses, relative to other external funding sources and other demographic groups.

National banks provide less loan funding to surveyed Latino-owned businesses relative to other external funding sources such as venture capital, angel investment, and private equity, and relative to other demographic groups. In fact, the low rate of national bank funding is second only to that of the Small Business Administration (SBA), which is the lowest funding source for Latino firms.

Considering only Latino-employer firms, Latino-owned businesses have the lowest rate of business loans from financial institutions among all other firms. According to the Annual Survey of Entrepreneurs (ASE), only 12 percent of Latino businesses access bank loans, compared to 18 percent for white-, 15 percent for Asian-, and 14 percent for black-owned firms.National bank loans are used less often than all other funding except loans from the SBA. Latino firms have the lowest number of government-backed loans, although nine times that number say they would like to have them.

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Latina-owned companies are increasing in number at a rapid rate; however, Latina entrepreneurs face a funding ceiling.

Latinas play a prominent role in Latino-owned business growth trends, having increased by 87 percent between 2007 and 2012. Latina-owned businesses represent nearly half of all Latino firms. In contrast, non-minority women-owned firms represent a smaller share of all non-minority-owned firms (just over one-third). However, access to capital, a major facilitator of business growth, presents a challenge for Latina business owners, many of whom perceive themselves as "not qualified" to receive funding from financial institutions compared to men, even when holding firm size constant.

Successful Latino immigrant entrepreneurs are more likely to be millennials who came as children to the United States.

Millennial (ages 18-34) immigrants who came to the United States as children are overrepresented amongst immigrant owners of businesses earning $1 million or more annually. Specifically, 86 percent of scaled ($1M+) immigrant-owned firms are owned by millennials who immigrated as children. By spending their formative school years in the United States and with expanded access to higher education, they develop English language skills more quickly than older immigrants and have opportunities to acquire various forms of capital (i.e., social, cultural, and financial). At the same time, they are motivated by "immigrant optimism," and through psychological acculturation, this group excels as entrepreneurs.

Latino-owned businesses are international in reach.

According to the ASE, among all employer firms, Latino firms have the highest rate of business clients and customers outside the United States (4.5 percent vs. 4 percent for Asian-, 2 percent for white-, and 2 percent for black-owned firms). Among all Latino firms surveyed, 9 percent have international clients and 28 percent have clients throughout the United States, demonstrating a propensity to be global-minded.

For complete insights from the SLEI 2017 Survey of U.S. Latino Business Owners, download the *2017 State of Latino Entrepreneurship* report here, or visit www.gsb.stanford.edu.

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Stanford Latino Entrepreneurship Initiative (SLEI) is a research and education collaboration between Stanford University and the Latino Business Action Network (LBAN), a 501(c)(3) not-for-profit organization located in Palo Alto, CA. SLEI is part of the Stanford Graduate School of Business, 655 Knight Way, Stanford CA 94306. Learn more: www.gsb.stanford.edu

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