2019 RESEARCH REPORT

STATE OF LATINO ENTREPRENEURSHIP

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EXECUTIVE SUMMARY

This research report marks the fifth annual State of Latino Entrepreneurship report from the Stanford Latino Entrepreneurship Initiative. With a survey sample of nearly 5,000 Latino-owned businesses across the United States and analysis of related U.S. census data, we present findings about this increasingly significant segment of the U.S. economy.

GROWTH IN THE NUMBER OF LATINO BUSINESS OWNERS CONTINUES TO RAPIDLY OUTPACE THE U.S. AVERAGE

The number of Latino business owners in the United States continues to grow significantly faster than the U.S. average. Over the past 10 years, the number of Latino business owners grew 34%, compared to 1% for all business owners in the United States.[i] However, as we have reported previously, Latino-owned companies tend to remain smaller than white-owned firms, with average revenues of $1.2 million per year for Latino-owned employer firms (those with paid employees), compared to $2.3 million for non-Latino-owned firms.[ii]

Collectively, Latino-owned companies that employ others generated about $470 billion in revenue and employed over 3.2 million people in 2016, accounting for about 4% of U.S. business revenues and 5.5% of U.S. employment. If Latino-owned employer firms generated the same average revenues and employed the same number of people as non-Latino-owned businesses, their economic contribution in annual revenues would be nearly $900 billion and the number of people employed would be 4.2 million. This represents an opportunity gap for the U.S. economy of over $410 billion and 1 million jobs.[iii]

LATINO-OWNED BUSINESSES REPORTED AVERAGE REVENUE GROWTH OF 14%, OUTPACING THE U.S. ECONOMY

Over the last year, Latino-owned businesses reported an average revenue growth of 14%, outpacing the growth of the U.S. economy. Of all 10 non-government industry sectors, Latino-owned businesses in six industry sectors had particularly strong annual growth in revenue of over 30%: **1)** Manufacturing, **2)** Construction, **3)** Trade, Transportation, and Utilities, **4)** Leisure and Hospitality, **5)** Other Services (e.g., personal care services, maintenance and repair services), and **6)** Education and Health Services.

SCALED FIRMS AND FIRMS WITH SUSTAINED REVENUE GROWTH TEND TO HAVE HIGHER LIQUIDITY

Nearly half of Latino-owned firms report they have sufficient liquidity (cash and savings) to operate their business for five or more months. Since liquidity predicts future business survival and health,[iv] it is an important metric. We find that Latino-owned firms that are scaled (more than $1 million in revenue) and firms that have grown revenue over the past five years have higher liquidity than smaller or no-growth firms. However, having employees on the payroll correlates with liquidity challenges. Latino-owned companies with no employees have higher liquidity, on average, than Latino-owned firms with employees, even though the latter tend to have higher revenues (54% with high liquidity scores compared to 49%). Since the majority (87%) of employer firms are still unscaled, this suggests that adding employees increases the challenge of having sufficient cash to ensure ongoing operations.

SCALE PLAYS AN IMPORTANT ROLE IN DETERMINING FINANCING OPTIONS FOR LATINO-OWNED FIRMS, REGARDLESS OF THE AMOUNT OF FUNDING REQUESTED

External funding is key to scaling most small businesses. Although we have reported extensively on financing in our previous research reports, this year we are able to add a new dimension to our analysis. For each type of financing sought, we have analyzed the relationship between the amount of funding requested and the success rate in acquiring it. We advance a financing matrix that considers the amount of funding requested and received by funding source, and we identify the sources that yield the greatest success.

We find that business size makes a significant difference in the type of funding that is sought out or successfully secured by Latino-owned companies. Small Latino-owned firms (those generating less than $1 million in revenue, hereafter "unscaled") are most likely to seek financing from personal credit cards, business credit cards, and lines of credit. However, regardless of the amount requested, they are most likely to be approved when they request funds via factoring, home equity loans, or private equity (all of which have high costs or involve personal risk). It is challenging for unscaled companies to be approved for larger financing amounts ($100,000 or above). They are most frequently approved for factoring financing of over $100,000, but even then approval rates run only 33%.

Scaled Latino-owned firms (those with more than $1 million in revenue), on the other hand, have a tighter alignment between the kinds of financing sought and the types of financing for which they are most likely to be approved. They most frequently apply for business credit cards, lines of credit, and bank loans, and they see the highest approval rates, regardless of the amount requested, for home equity loans, bank loans, business credit cards, and lines of credit. Unlike unscaled firms, scaled firms have a 31–55% success rate when applying for large amounts ($100,000 or above) in 10 of the 15 funding categories.

Surprisingly, when considering all funding sources combined, we find no correlation between the ability to secure financing and either revenue growth or profitability. Thus, while scale matters, funders consider other characteristics beyond business growth or profitability when lending to or investing in Latino-owned businesses.

LATINO BUSINESS OWNERS MAY OVERLOOK THE BENEFITS OF OPERATING IN AN OPPORTUNITY ZONE

Opportunity zones can benefit both business owners and local communities. The Tax Cuts and Jobs Act of 2017 created opportunity zones as a way to incentivize economic development and job creation in low-income communities throughout the United States and its territories. Fourteen percent of Latino businesses surveyed are located in an opportunity zone. However, only 28% of those operating in an opportunity zone recognize it; the remainder either did not know (47%) or incorrectly believed they were not in an opportunity zone (25%). Interestingly, Latino-owned businesses in opportunity zones have significantly higher average revenue growth (24%) than those not in opportunity zones (13%), suggesting that these locales may indeed represent opportunities for entrepreneurs.

LATINO ENTREPRENEURS EARN NEARLY 10% MORE AND ARE 6% MORE LIKELY TO BE HOMEOWNERS THAN LATINO WAGE WORKERS BUT LAG IN HEALTH INSURANCE COVERAGE

In addition to assessing the growth and profitability of Latino-owned businesses, this year's survey took a look at the financial well-being of Latino business owners. We developed a Personal Financial Well-Being Index, based on average income, home ownership, and health insurance coverage.[v] We found that Latino business owners experience lower personal financial well-being than other U.S. entrepreneurs. However, Latino entrepreneurs are catching up. Their financial well-being has grown faster than that of other entrepreneurs over the past nine years.

U.S. business owners taken as a whole enjoy, on average, better financial well-being than those who are employed and paid wages. However, this gap does not exist in the Latino population, where wage earners have slightly higher financial well-being than entrepreneurs. The higher income ($36,000 versus $33,000) and home ownership rates (54% versus 51%) experienced by Latino entrepreneurs, relative to Latino wage workers, are offset by lack of health insurance coverage. Only 63% of Latino business owners have health insurance, the lowest rate of coverage of any demographic group, business owners, or wage workers. This leaves a significant portion of Latino entrepreneurs, and their families, at risk of a potentially debilitating financial outcome in the event of a health care crisis.

SUMMARY

Latinos continue to outpace all others in terms of new U.S. business formation. Given the large and historically growing number of Latino-owned businesses, there is an immense opportunity gap in the scaling and growth of these companies. We hope that the findings from this year's survey of Latino entrepreneurs will be useful for Latino entrepreneurs evaluating growth opportunities, public policymakers looking to support the continued growth of all small businesses, particularly minority-owned firms, and others interested in understanding the drivers and challenges of business growth in the current U.S. economy.

TO DOWNLOAD THE COMPLETE REPORT, scan the QR code with your phone or visit *www.gsb.stanford.edu/slei*

[i] Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles and J. Robert Warren. Integrated Public Use Microdata Series, Current Population Survey: Version 6.0 [dataset]. Minneapolis, MN: IPUMS, 2018. *https://doi.org/10.18128/D030.V6.0*

[ii] U.S. Census Bureau (2016). Annual Survey of Entrepreneurs.

[iii] Ibid (ii).

[iv] Farrell, D., Wheat, C., and Grandet, C., (2019). "Place Matters: Small Business Financial Health in Urban Communities" JPMorgan Chase Institute. *https://institute.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-place-matters.pdf*

[v] Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas and Matthew Sobek.IPUMS USA: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2019. *https://doi.org/10.18128/D010.V9.0*

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