

The Ongoing Impact of COVID-19 on Latino-Owned Businesses

RESEARCH BRIEF

2020 AUGUST



INTRODUCTION

On March 25, 2020, two weeks after the World Health Organization declared the COVID-19 viral disease a pandemic, the Stanford Latino Entrepreneurship Initiative (SLEI) administered its *first business pulse survey*¹ to understand the immediate impacts on Latino-owned businesses—a demographic group starting businesses at a faster rate than all others in the United States. Three months later, SLEI Research collected a second wave of data to follow up on the same businesses. Also in June, we collected a much larger sample of Latino-owned businesses for our annual survey of Latino businesses and a comparison group of white-owned businesses. This research brief presents results first from the follow-up survey administered to our proprietary research panel of Latino business owners¹ and then to the larger sample, the 2020 SLEI Survey of U.S. Business Owners.² Taken together, we highlight insights on the ongoing impact of COVID-19 on Latino-owned businesses, their access to resources and relief aid, and what new and unforeseen challenges and opportunities exist as a result of the pandemic.

With unemployment rates soaring to nearly 15% in April 2020,ⁱⁱⁱ we focus on employer firms in this research brief. Employer firms are those with at least one paid employee other than the owner. Using the latest census data available, there were nearly 400,000 U.S. Latino-owned employer firms in 2017, employing 3.4 million people and generating nearly \$500 billion in annual revenue.ⁱⁱⁱ Since the number of Latino business owners has been exploding over the last 10 years, growing in number by 34% compared to 1% for all other business owners,^{iv} the current experiences and subsequent recovery of this business segment will be an important benchmark to track against pre-COVID trends.

OVERVIEW OF TIME-SERIES FINDINGS

Few surveys follow the same people or businesses over time. Given the unpredictability of the business landscape, time-series data help us understand the ongoing impact on individual businesses. In our most recent State of the Latino Entrepreneurship report, we highlighted the fact that only 63% of Latino business owners have health insurance, the lowest rate of coverage of any demographic group.^v Thus, a looming health crisis is also a likely economic crisis for Latino business owners. Nonetheless, while we found the impacts of the pandemic in March to be immediate and negative among a group of mostly scaled (i.e., \$1M+ revenue) Latino business owners, the overall circumstances had not changed significantly in the following three months. However, the window for long-term viability for many of these businesses is narrowing.



PHOTO: Javier Lucatero, President of Accurate Firestop & Insulation

¹ First survey administered to SLEI research panel in March 2020 with sample of 224 Latino business owners. The second survey was administered to the same group of business owners in June 2020 with a resulting sample of 146 business owners, or an overall response rate of nearly 70%.

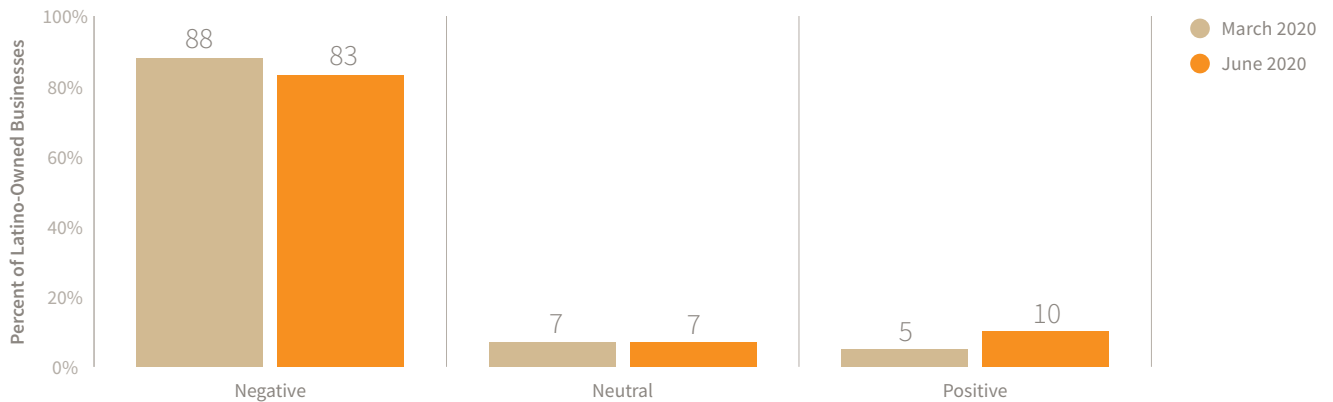
² Survey administered between May and June 2020 with an overall sample of 7,000 employer businesses, or businesses with at least one paid employee other than the owner, and businesses generating at least \$10,000 in annual revenue. Sample administered through Qualtrics yielding 3,500 Latino business owners and 3,500 non-minority business owners (hereafter, white business owners). Note that Latino business owners are of any race and white business owners are non-Latino.

CHANGES IN THE PANDEMIC’S IMPACT ON LATINO-OWNED BUSINESSES (MARCH TO JUNE)

As seen in **FIGURE 1**, the vast majority of Latino-owned businesses report no change in the impact of the pandemic on their businesses over a three-month span. Similarly, data from the U.S. Census Small Business Pulse Survey show attenuation in “large negative effects”

between April and June with a converging and growing number of businesses reporting “moderate negative effects” over the same time period.^{vi} These slight movements are likely a result of the ease in shelter-in-place ordinances and changes in other local business directives.

Figure 1
Changes in the Impacts of COVID-19 on Latino-owned Businesses (MARCH – JUNE 2020)

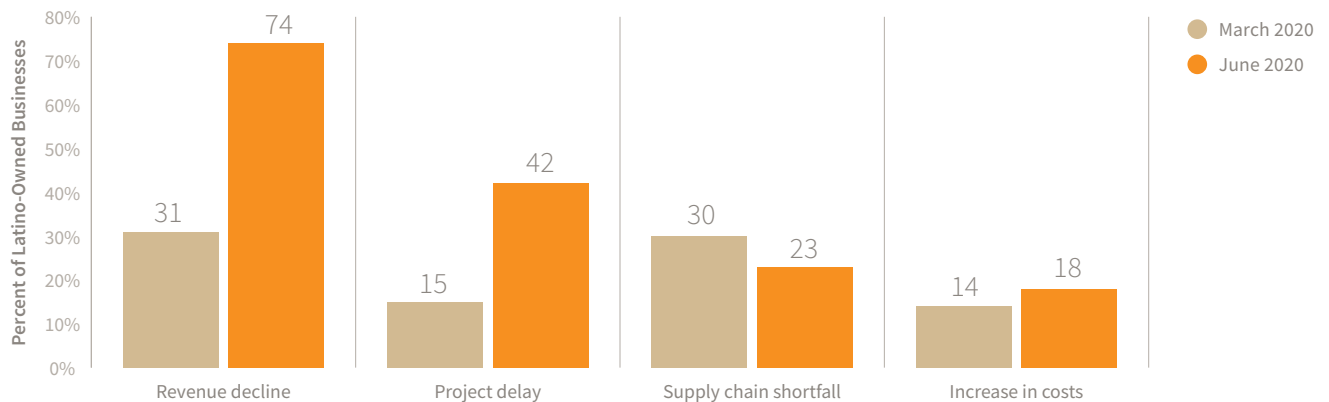


SOURCE: SLEI Latino Business Pulse Survey, March and June, 2020. N=146.

As we consider the same businesses over time, compared to March, nearly twice as many (31% vs 74%) Latino-owned businesses now report revenue decline (**FIGURE 2**). The proportion of businesses

now experiencing project delays has tripled since late March. Thus, while aggregate trends tell a story about the consistent effects, our time-series data uncover the nuance and movement of individual business.

Figure 2
Impact of Coronavirus on Business Operations Among the Same Group of Latino-Owned Businesses



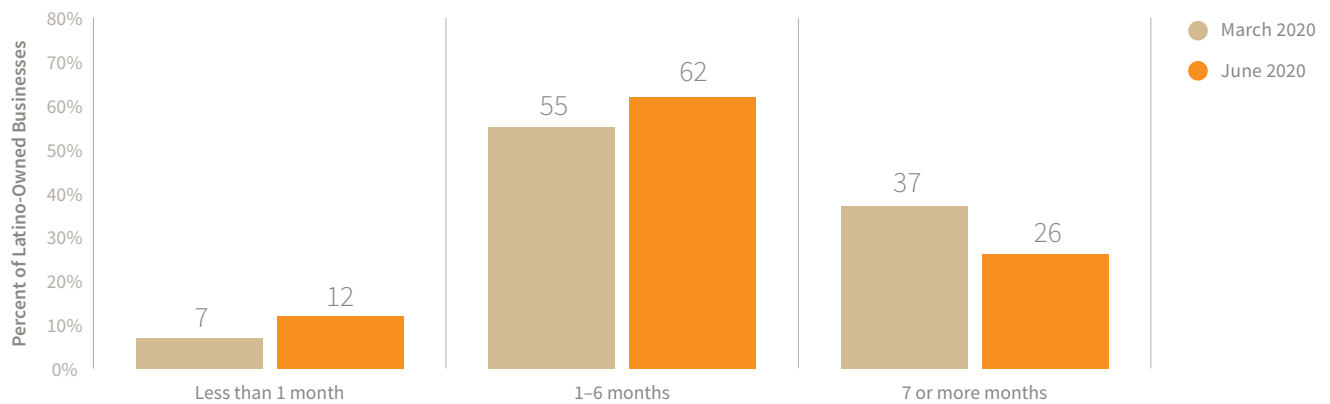
SOURCE: SLEI Latino Business Pulse Survey, March and June, 2020. N=146.

While PPP funding prolonged the runway by a few months, this funding is running out for individual businesses, and a future without additional aid looks bleak.

Furthermore, more individual businesses are now more strapped for cash in the long term as shown in **FIGURE 3**. Of those Latino-owned businesses that were resurveyed, a smaller number now indicate that they can operate beyond six months. While Paycheck Protection Program (PPP) funding prolonged the

runway by a few months, this funding is running out for individual businesses, and a future without additional aid looks bleak. Among the resurveyed group of mostly scaled Latino-owned businesses, one in four will run out of cash before the end of the year.

Figure 3
Changes in Liquidity Among the Same Group of Latino-Owned Businesses



SOURCE: SLEI Latino Business Pulse Survey, March and June, 2020. N=146.

OVERVIEW OF NATIONAL SURVEY FINDINGS

Both Latino-owned employer businesses (LOBs) and white-owned employer businesses (WOBs) in the United States are experiencing significant impacts from COVID-19, with nearly 80% reporting moderate to large negative effects on their companies. The largest impacts are related to loss of revenue, with lower productivity also playing a role as some businesses transition to the new work-from-home economy. Yet, in the face of this, nearly 80% of both LOBs and WOBs say it is likely that they will recover from the effects of the pandemic. However, the long-term

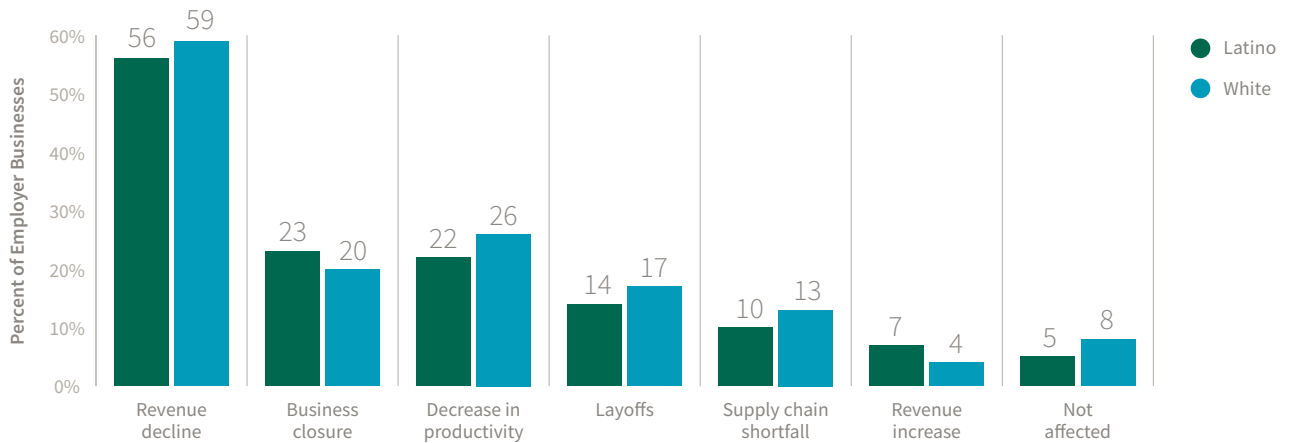
reality facing LOBs is much different. They have less of a cash buffer and are less likely than WOBs to have received funding from the PPP to help them weather the storm. Despite the ongoing challenges, Latino business owners are pulling together and showing signs of resilience by sharing information and resources. As the Spanish idiom goes, “donde come uno, comen dos” (where one eats, two can eat) — a philosophy many Latino business owners are standing by as they lend a helping hand to others while navigating their own challenges.

IMPACT OF PANDEMIC ON EMPLOYER BUSINESSES

The categorical impact of COVID-19 is being felt by LOBs and WOBs alike, as shown in **FIGURE 4**. Indeed, the reported differences between the two groups are remarkably similar across all measures of the effects of the coronavirus (and not statistically significantly different from any measure). The impact of the pandemic

is widespread and largely negative among all types of employer businesses. We note in the figure below that among these negative effects, nearly one out of every four LOBs experienced business closure at the time of the survey — either temporary closure due to shelter-in-place ordinances or for some, possibly permanent closure.

Figure 4.
Impact of Coronavirus on Business Operations



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N=7,000. **NOTE:** Not all impacts are displayed here due to comparable numbers or low selection. Other negative impacts include increase in costs, project delays, decline in employee morale, and loss of networking opportunities. Other positive impacts include increase in client engagement and technology improvements.

Latino-owned businesses are largely operating in industries that have taken a hard hit from the pandemic, as shown in **FIGURE 5**. Industries that report “large negative impacts” as a result of COVID-19 include a large number of Latino-owned businesses. For example, the accommodation and food services industry has the highest share of all businesses that report

being negatively impacted by the pandemic in June 2020 (71%), and 13% of all Latino-owned employer businesses are located in this sector, second only to the construction industry. Conversely, only 15% of the businesses in the finance and insurance industry report a large negative impact, an industry that represents only 3% of all Latino-owned employer businesses.

Figure 5.
Share of Latino-owned Businesses in Industries Reporting a “Large Negative Impact”

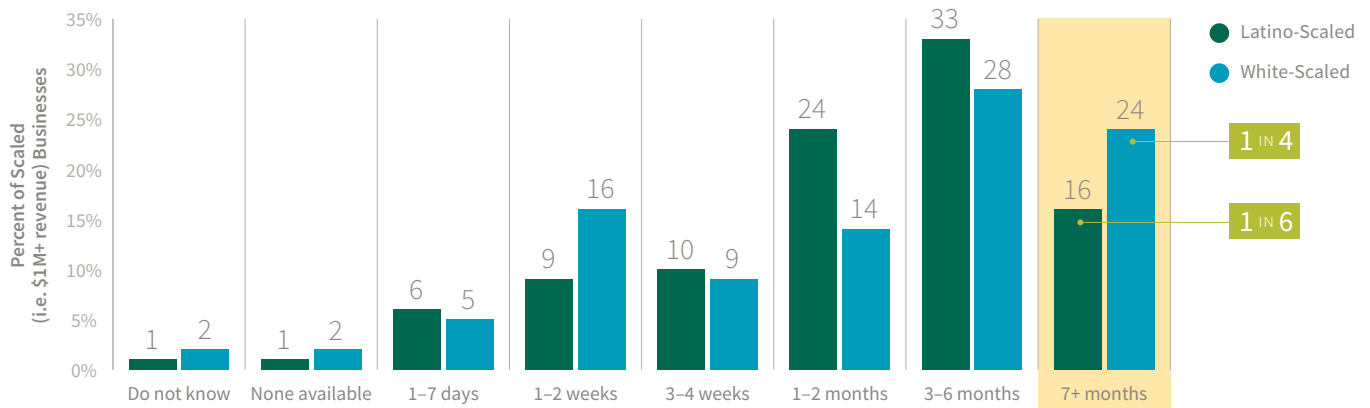


SOURCE: U.S. Census Pulse Survey, June 7–13th, 2020 and 2018 Annual Business Survey

Beyond industry impacts, liquidity will determine the long-term life span of businesses under the current conditions. As shown in **FIGURE 6**, one in six scaled LOBs can survive beyond six months with the current cash on hand, whereas nearly one in four scaled WOBs

can survive the longer term. The lack of cash on hand among Latino employer businesses can result in the loss of over two million jobs if Latino employer businesses have to permanently close before the end of the year.

Figure 6.
Months that Current Cash on Hand Will Cover Business Expenses Among Scaled Businesses (\$1M+)



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N=7,000

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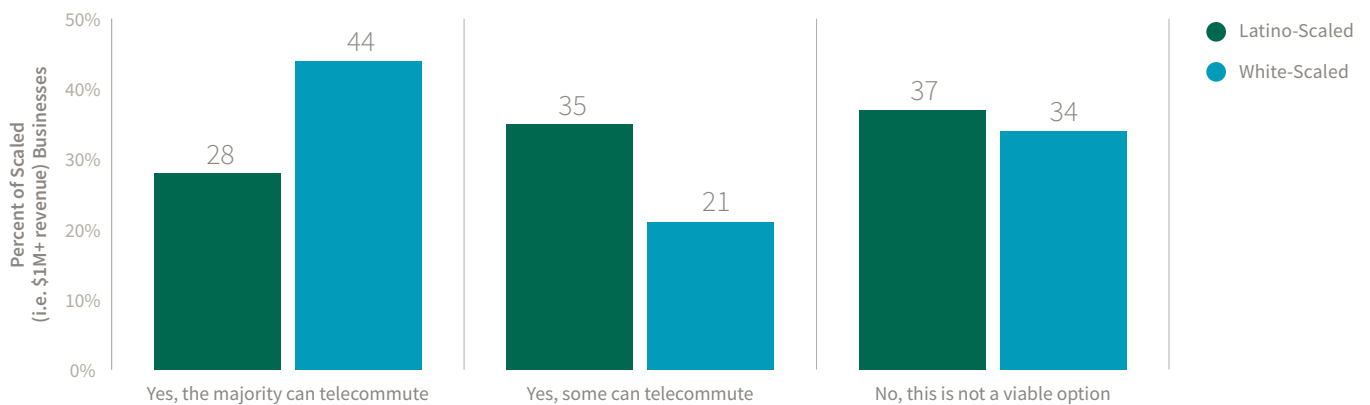
HOW LATINO-OWNED BUSINESSES ARE RESPONDING TO THE PANDEMIC

The pandemic has altered how business is conducted in significant ways. While some businesses have made wearing personal protective equipment a requirement for both employees and customers, others have transitioned to remote work. We are living in a new “working-from-home” economy where 42% of the U.S. labor force is now working from home full time.^{viii} However, this operational norm is not uniformly distributed among businesses.

Only 28% of scaled Latino-owned businesses have a majority of employees that can work from home, compared to 44% among white-owned businesses (**FIGURE 7**). This is in part due to the industries in which a substantial number of scaled LOBs are located, namely construction, accommodation and food services, and retail trade.

Only 28% of scaled Latino-owned businesses have a majority of employees that can work from home compared to 44% among white-owned businesses.

Figure 7.
Working-from-Home Business Operations Among Scaled Businesses



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N=7,000

Despite some of these challenges, some LOBs report on the silver lining of the pandemic. As one survey respondent notes, “One benefit is that it forced us to reevaluate our markets, clients, processes, and staff efficiency. Another benefit is that it tested our flexibility and mobility to quickly relocate and continue business.” Other businesses that relied on in-person interaction have shifted their strategies to digital spaces either by bolstering their e-commerce for products or providing programming and other services online. For an example of a creative pivot to online activities, read about Maria Empanada in **CASE STUDY 1**.



PHOTO: Dora Herrera, President of Yuca's Restaurants

Case Study 1: Maria Empanada

Lorena Cantarovici, an immigrant from Argentina, is chief executive officer and chef owner of Maria Empanada, a casa de empanadas dedicated to the craft of making artisan empanadas and other specialties. Established in 2011, Lorena experienced wild success scaling to five locations and was named Colorado's 2017 Small Business Person of the Year. Like most restaurants in the pandemic, Maria Empanada had to lay off nearly 60% of their staff and temporarily close a few locations. Lorena recounts, "This is a family. It was a really hard thing to do."

While restaurants adjust to new takeout and delivery-only modes of operation, Maria Empanada creatively pivoted their products to a digital space. Maria Empanada usually hosts in-person classes once a quarter, which have been well attended. While they originally thought this revenue stream would be closed as a result of the pandemic, they soon realized they could host the classes online.

According to the team, here is how it works: The participant comes by Maria Empanada the day before the class to pick up an empanada-making kit. It has all the dough, fillings, waxed paper, and egg wash they will need. The following day, everyone dials in using Zoom and the class begins. As Lorena instructs on how to make the empanadas, Victor, the marketing director, uses a roving camera that allows for close-ups of her

hands, over-the-shoulder shots, and reaction shots to capture her in a more intimate way than the stationary computer camera would provide. Victor notes,

“Think of it as a live studio production!”

The team then holds a contest to gauge the best-looking empanada. Each participant shows their empanada up close to their camera and is instructed to “Vanna White the heck out of their empanada”—in other words, they have to “sell” their empanada to convince everyone else to vote for it. The Maria Empanada team notes this is the best part as participants get really creative in their pitches and it brings everyone together. To close out, there is a question and answer session while everyone eats their handmade creation.

Creativity is crucial during the pandemic. In addition to the online classes, Lorena is working on a way to pre-freeze baked goods for sale. Customers can also freeze their handcrafted empanadas for up to two months. As the tough times continue, Lorena notes, “It is important to keep going.”

SOURCE: Communication with Maria Empanada Team, July 7, 2020.



PHOTO: Lorena Cantarovici, CEO and Chef Owner of Maria Empanada

Our survey data show that LOBs had their PPP loans approved at nearly half the rate of WOBs, 10% compared to 17%, and an even smaller proportion of LOBs obtained full funding relative to WOBs, 3% compared to 7%.

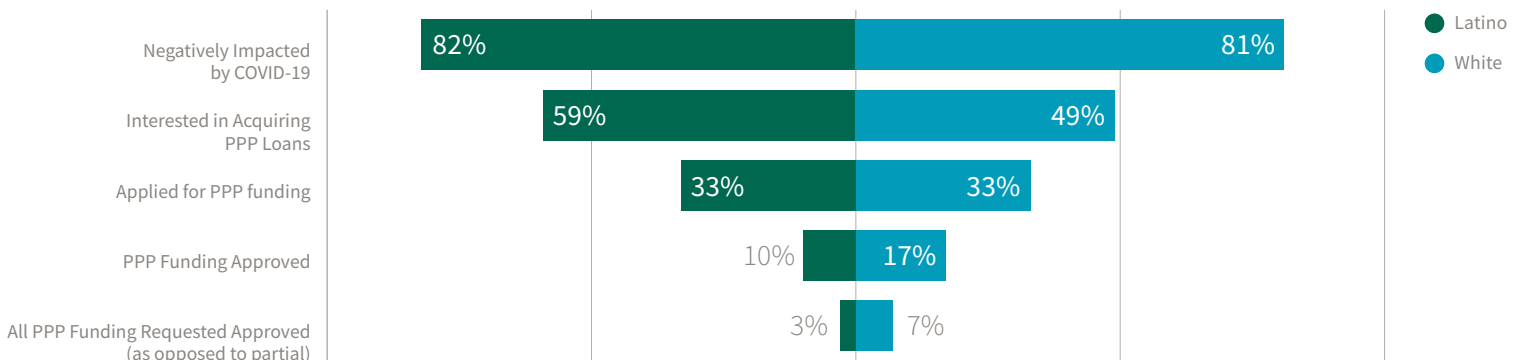
ACCESS TO RELIEF AID

The U.S. Small Business Administration launched the PPP to help businesses keep their workforce employed during the coronavirus crisis. The loan aims to provide a direct incentive for small businesses to keep their workers on the payroll. If specific employee retention criteria are met and the funds are used for eligible expenses, the SBA will forgive the PPP loans. The PPP program was rolled out in two phases, totaling a budget of approximately

\$660 billion in loans. The SBA quickly ran out of the majority of the funding early on, with a large number of applicants not able to secure the funding they needed.

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Figure 8.
Paycheck Protection Program Funding Gap For Employer Businesses



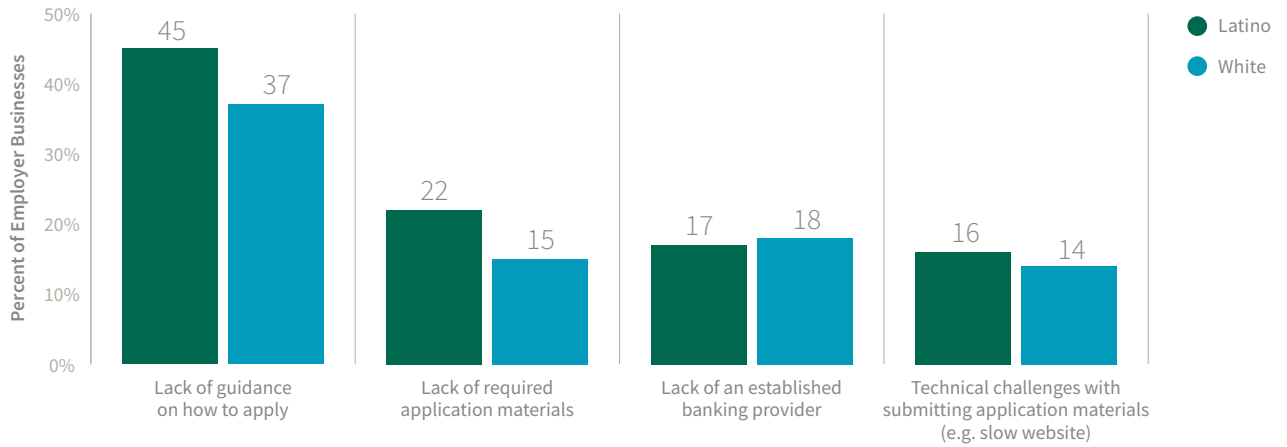
SOURCE: SLEI Survey of U.S. Business Owners, 2020. N=7,000

NOTE: There are roughly 400,000 Latino-owned employer firms and 4.4 million white-owned employer firms as of 2017 (2018 ABS).

In the early stages of the pandemic, as the PPP was rolled out, businesses were unsure about the terms of the loan and its eligibility requirements.^{viii} This lack of clarity disproportionately impacted LOBs. We found that 59% of LOBs were interested in acquiring PPP loans but only 33% ended up applying (compared to 49% of WOBs interested with 33% actually applying). When we analyzed why LOBs actually applied at a lower rate, we

found that 45% of those interested in applying for a PPP loan reported that they lacked adequate guidance on how to apply (compared to 37% among WOBs), while one in five did not have the required application materials (**FIGURE 9**). Other top challenges included not having an established banking provider (17%) and technical difficulties with submitting application materials (16%).

Figure 9.
Barriers to Accessing PPP Funding

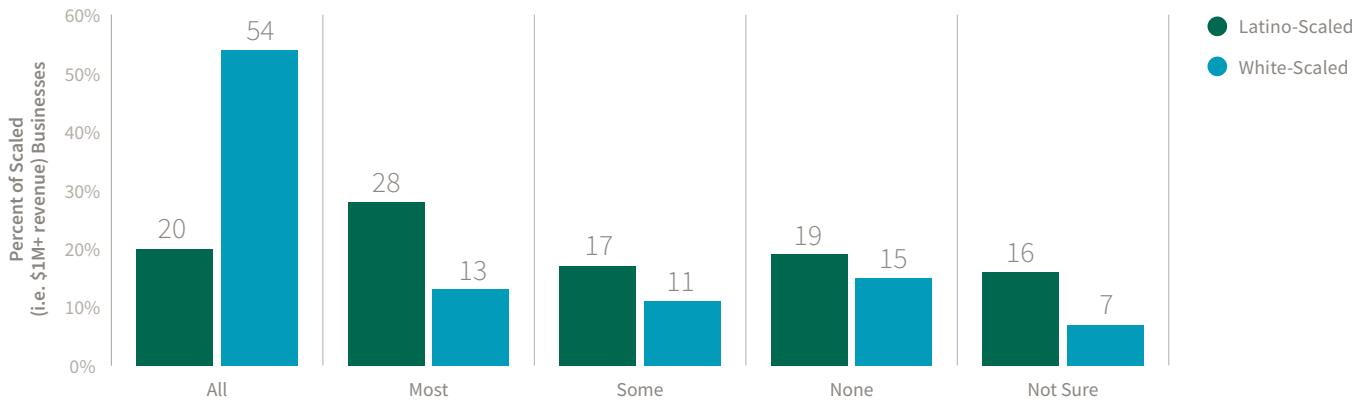


SOURCE: SLEI Survey of U.S. Business Owners, 2020. N=7,000

The gap in obtaining all of the funds requested is even more pronounced for scaled businesses, as shown in **FIGURE 10**. Only 20% of scaled LOBs had all of their PPP funding approved compared to 54% for WOBS. Compared

to scaled WOBS, a larger share of scaled LOBs requested over \$100,000 in PPP funding (63% vs 42%), suggesting LOBs had a larger need for PPP support.

Figure 10.
PPP Funding Received Among Scaled Businesses



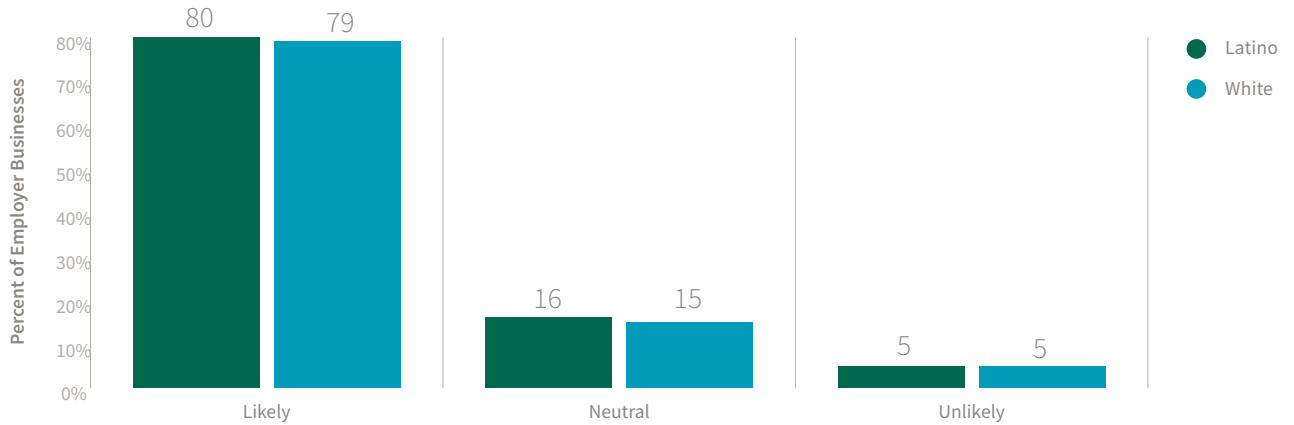
SOURCE: SLEI Survey of U.S. Business Owners, 2020. N=7,000

THE POWER OF NETWORKS IN THE FACE OF CHALLENGES

While the impact of the pandemic has been uniformly spread among employer businesses, the access to relief aid has not been evenly distributed. Nonetheless, both

LOBs and WOBs report a similar level of overall optimism in being able to recover from the negative impacts of the pandemic (**FIGURE 11**).

Figure 11.
Likelihood of Business Recovery



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N=7,000

As an important differentiator in long-term survival, businesses that are networked, or connected to formal business organizations, are obtaining information and helping each other navigate the current business landscape. We have previously reported on the importance of networks as part of the Latino-business growth framework,^{ix} a prominent corollary to being scaled. One such network is the work being advanced by the Latino Business Action Network (LBAN) in supporting alumni of the SLEI-Education Scaling program. With an active network of Latino business owners on Mobilize (a tailor-made engagement platform), LBAN has been providing alumni with all the latest quickly evolving information. See **CASE STUDY 2** for how the SLEI-Ed network and other community resources have kept Progeny Coffee afloat in spite of overall loss.



PHOTO: Alfonso Lopez, Cofounder and Chief Creative Officer of 3 Lopez Media Inc

Case Study 2: Progeny Coffee

At the start of the pandemic, Maria Palacio lost 97% of her sales in just one day. Maria is the owner and cofounder of Progeny Coffee. Prior to the California shelter-in-place ordinances, Progeny Coffee was providing hand roasted Colombian coffee to many tech giants in the Silicon Valley. We followed up with Maria after our initial pulse survey on the *impact of COVID-19 on Latino-owned businesses*.

So, what has Maria been up to these last three months which to her, have felt like a year? She has pivoted into e-commerce and is taking her business B2C. As a shining light in Maria's story of resilience, she has greatly leveraged the network of business peers and mentors, especially those she made while participating in the SLEI-Ed Scaling program in collaboration with the Latino Business Action Network. After sharing her devastating sales impact to her WhatsApp group of SLEI-Ed cohort members, Monica Hernandez of Mas Global Consulting asked her, "what can I do for you?" At that moment, Progeny Coffee needed a subscription page and Monica assigned her engineering team to build the page for free. Another cohort member has supported her marketing efforts at a heavily discounted rate. With the help of these two classmates, Progeny Coffee is doubling its growth twice per month but still working on loss. Without this community, Maria reflects,

“I wouldn't have had so many resources. Pivoting would have been much slower and there would have been more fear. All the information that LBAN sends us about PPP loans, what Congress is doing, and all the webinars have kept up so up to date because the laws keep changing.”

After being denied by her two primary banks for the PPP loan, she reached out to her network again. She asked for help through another program she participated in, ICA Fund Good Jobs, and was referred to a CDFI that ultimately providing her a PPP loan and allowed her to maintain all 10 of her employees on payroll. She recently ran out of funding and is turning to her network once more. Maria is applying to grants for additional relief aid through the Hello Alice community. On reflecting on her network, Maria recounts,

“It has definitely been the key. A support, from financial to guidance, also mentally. There is so much stress that goes on and fear. And then, you need to face your team. In the face of fear, you need to encourage them. We are all sharing the same and that you are not alone.”

SOURCE: Interview with Maria Palacio, July 2, 2020.

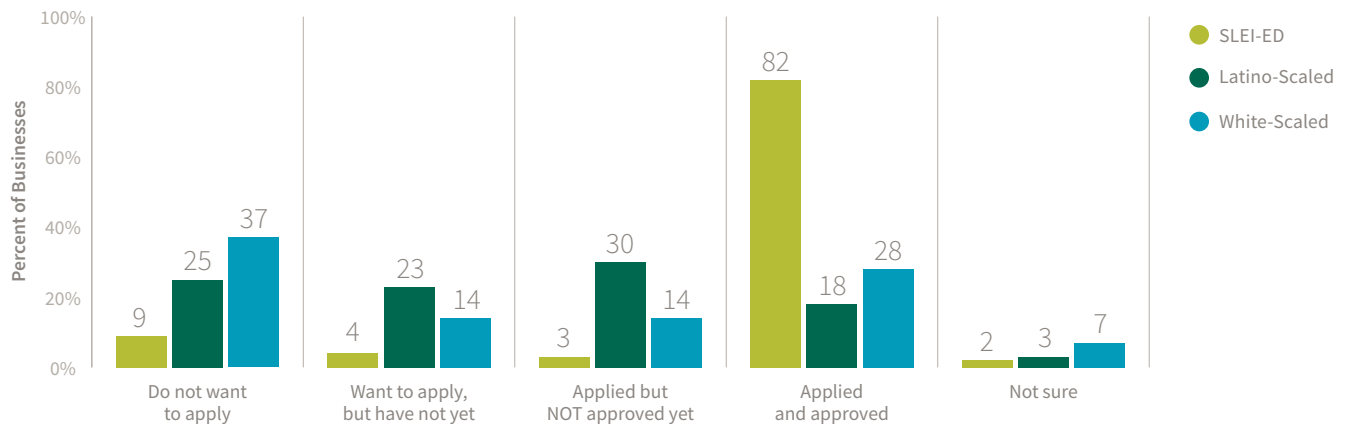


PHOTO: Maria Palacio, CEO and Cofounder of Progeny Coffee

As part of our national survey, we sample this unique group of business owners — graduates of the SLEI-Ed Scaling program. These entrepreneurs completed a structured online executive education program and are highly networked. We find that an extraordinary 82% of SLEI-Ed alumni received PPP funds, compared to 18% of

scaled LOBs and 28% of scaled WOBS (**FIGURE 12**). While we cannot attribute any outcomes to their participation in the program alone, we hypothesize that the structure of this network played an important role in access to PPP funding. We will continue to explore networks in relation to accessing resources in forthcoming research.

Figure 12.
SLEI-Ed PPP Approval



SOURCE: SLEI Survey of U.S. Business Owners, 2020 (N=7,000) and SLEI-Ed Alumni Survey, 2020 (N=367).

We find that an extraordinary 82% of SLEI-Ed alumni received PPP funds, compared to 18% of scaled Latino-owned businesses and 28% of scaled white-owned businesses.

CONCLUSION

As coronavirus cases continue to surge and disproportionately impact Latino communities above all others in United States,^x the impact on Latino-owned employer businesses has been largely negative but not much different relative to white-owned employer businesses. However, there are important gaps in accessing PPP funding, with white business owners approved for PPP funding at nearly twice

the rate of Latino business owners, even though a greater proportion of Latino business owners have applied or are interested in accessing PPP funding.

Many recent news stories indicate that the funds went to major chains, members of Congress, and other wealthy and well-connected individuals^{xi} and not to the small businesses in dire need of relief. These survey

results indicate that even among Latinos, the most connected and in-the-know were able to successfully navigate and access PPP funding. Even then, for many employer businesses, including Progeny Coffee, the money has already run out or will very soon. Certainly, missing from this story is the impact on Latino-owned businesses in the informal economy and among self-employed Latinos. We expect even larger and more disproportionate effects among these more vulnerable business owners in their ability to connect to resources.

Despite the ongoing challenges of the coronavirus on the Latino community, Latinos emphasize community ties and giving to others even when they are also experiencing other challenges.^{xiii} Moreover, despite not being able to access PPP funding at a similar rate to their white counterparts, Latino business owners remain equally optimistic about being able to recover from the negative effects. While the future for many remains uncertain, SLEI Research will continue to gather data on the ongoing and long-term impacts of the pandemic for the Latino business community, an essential and rapidly growing part of the U.S. economy.

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About Us

STANFORD LATINO ENTREPRENEURSHIP INITIATIVE (SLEI) RESEARCH PROGRAM

SLEI operates a research program (SLEI-Research) that explores and expands our knowledge of the Latino entrepreneurial segment of the U.S. economy through research, knowledge dissemination, and facilitated collaboration. The program, jointly supported by LBAN and Stanford GSB Center for Entrepreneurial Studies, conducts an annual national survey to assess the current state of U.S. Latino entrepreneurship and is curating a significant panel of Latino entrepreneurs to enable longitudinal research to understand trends over time.

SLEI EDUCATION SCALING PROGRAM

SLEI also operates an education program (SLEI-Ed) as a collaboration between Stanford GSB Executive Education and LBAN. It is an opportunity designed for U.S. Latino business owners who generate more than \$1 million in annual gross revenues or have raised at least \$500,000 of external funding. This seven-week immersive program provides business owners with education, enhanced networks, personal mentorship, and a better understanding of how to access and manage capital to scale their businesses. The program has more than 650 alumni from 30 states and Puerto Rico who collectively generate over \$3.3 billion in annual revenue.

LATINO BUSINESS ACTION NETWORK (LBAN)

This survey was made possible in part through the investment and support for LBAN from principal partners Wells Fargo, Fox Corporation, John Arrillaga, Bank of America, Chavez Family Foundation, Surdna Foundation, Pitch Johnson, and the Latino Donor Collaborative. LBAN works to make America stronger by empowering Latino entrepreneurs to grow large businesses through entrepreneurship research, education, and networks. LBAN's goal is to double the number of \$10+ million, \$100 million, and \$1+ billion Latino-owned businesses by 2025.

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PHOTOGRAPHY

3 LOPEZ MEDIA INC (cover, p. 2, 12)

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MARIA PALACIO (p. 13)