



# STATE OF LATINO ENTREPRENEURSHIP

RESEARCH REPORT

2015

Stanford Latino Entrepreneurship Initiative

# About This Report

The Stanford Latino Entrepreneurship Initiative (SLEI), a collaboration between the Latino Business Action Network (LBAN) and Stanford University, housed within the Stanford Graduate School of Business, created this report on the State of Latino Entrepreneurship in the United States. The information contained in this report was prepared from sources and data that we believe to be reliable, but we make no representation as to its accuracy or completeness and we assume neither responsibility nor liability for any damages of any type resulting from any errors or omissions. Projected to be published annually, this first report is published in November, 2015.

## Principal Investigators

**Dr. Douglas Rivers**, a senior fellow at the Hoover Institution and a professor of political science at Stanford University, designed the research study,

and implemented the data collection.

**Dr. Jerry Porras** is the cofounder and chairman of the board of LBAN, co-author of the business bestseller, *Built to Last: Successful Habits of Visionary Companies*, and the Lane Professor of Organizational Behavior, Emeritus at the Stanford Graduate School of Business.

## Other Contributors

**Remy Arteaga** is the Executive Director of the LBAN, co-author of the Wiley published book, *Pivot: How Top Entrepreneurs Adapt and Change Course to Find Ultimate Success*.

**Tiq Chapa** is the Program Manager of SLEI.

**Jessica Salinas** is the Community & Marketing Manager of LBAN.



# Acknowledgments

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Victor Arias, Korn Ferry International

Phil Pompa, International Accelerator, Inc.

Jerry I. Porras, Stanford Graduate School of Business (Chairman - LBAN)

Frank Ramirez, Entrepreneur

David Segura, VisionIT

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Finally, we would also like to thank Barbi Bistrowitz (bb@barbibistrowitz.com), who donated her time as art director to design this report.



**State Farm**



# LBAN

The Stanford Latino Entrepreneurship Initiative (SLEI) is a research collaboration between Stanford University housed at the Graduate School of Business and the Latino Business Action Network (LBAN), a 501(c)3 not for profit organization located in Palo Alto, CA.

For more on information, please visit [www.LatinoEI.org](http://www.LatinoEI.org).

## Vision

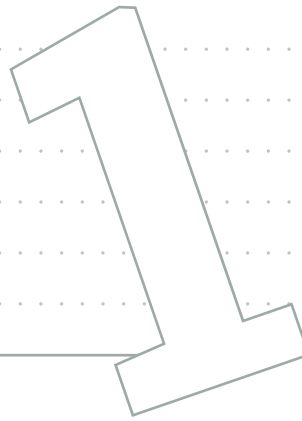
The vision to make America stronger by empowering Latino entrepreneurs to grow large businesses through entrepreneurship research, education and networks.

## Goal

The Goal is to grow the American economy by doubling the number of \$10+ million, \$100+ million, and \$1+ Billion Latino-owned businesses by 2020.



# Executive Summary



With this report, Stanford Latino Entrepreneurship Initiative (SLEI) provides the first annual State of Latino Entrepreneurship report. It provides academic researchers, policy makers and business leaders with a timely update of SLEI's research results.

The report finds that even as the Latino population (currently at 17%) is growing at an undeniably fast rate (estimated to be 30% by 2060), and with it, an explosion in the number of Latino Owned Businesses (LOBs), there is a multi trillion dollar opportunity gap between Latino Owned Businesses and Non-Latino Owned Businesses (NLOBs), driven by the dramatic difference in size between the two.

What can explain this difference? To answer that question, SLEI has created a carefully cleaned database of 1,432,746 Latino businesses, from which two panels of Latino businesses owners - 1,831 and 368 - who agreed to participate in ongoing surveys and research was created. This report expands on the U.S. Census based reports, including the Kauffman Foundation report, by examining the economic impact of LOBs on the American economy and issues related to growing large LOBs. For the first time, a deeper examination into the drivers that lead to smaller LOBs is analyzed.

## Key Insights

### Multi Trillion Dollar Opportunity Gap

The current gap between the average yearly sales generated by LOBs and NLOBs points to an exciting opportunity for significant growth in the

U.S. economy. The potential impact on the U.S. economy if LOBs generated the same level of sales as NLOBs was calculated over the period of 2002-2012. A pattern was found to exist over these years. For example, in 2012 alone, if all LOBs averaged the same yearly sales per firm as all NLOBs, \$1.38 trillion would have been added to the economy. This difference is named the Opportunity Gap and represents the potential economic impact of scaling LOBs to the same average level of NLOBs.

### Diverse Customers & Industries

Our research also found that reasons often cited for lack of large size for LOBs- industry selection and customer base- are without merit. When comparing the mixture of industries of LOBs to NLOBs in industries with either high average sales per firm or high growth rates, SLEI found no discernible differences between the two groups in the percentage of firms within industries. On the second point, SLEI found that 80% of LOBs sell to a mixture of both Latino and non-Latino customers. The results counter the perception that LOBs are small because Latino entrepreneurs choose to open businesses in small industries or because of a lack of diverse customer base.

### An Entrepreneurial Mindset

The data speak to an interesting misalignment between the mindset of the Latino business owner and the reality of the state of their business. Although the growth mentality is present, the reality is that more than half (54%) of the surveyed LBOs have businesses that are either growing slowly, staying stagnant or shrinking, revealing a clear disconnect between goals and reality.

# Executive Summary



## Internal Motivations Affect Ownership and Capital

Further, our results indicate that Latino business owners are motivated primarily by internal, non-economic factors. When asked, only 37% of Latino entrepreneurs responded that external market opportunity was a key inspiration for becoming business owners. Instead, Latino business owners point to reasons based on internal impact-- building something to pass down to children, parents or family members, working with family or friends, or having control of their financial future.

Personal motivations contribute to more than business creation, also influencing ownership and capital decisions. When it comes to ownership, the results show that LOBs are predominantly family owned with only 8% non-family ownership, compared to 15% of NLOBs. Additionally, although over half of respondents believe that they could grow faster if they had additional capital, 67% are concerned about losing control of their business if during fundraising, they sold a share to someone else or brought in a partner.

## Capital Awareness & Engagement

Compared to NLOBs, LOBs were less likely to look to conventional institutional capital sources, like banks, for funding and were more likely to use credit cards. However, while taking a closer look at capital and LOBs, our survey found that 1/3 of respondents have been turned down for funding, with the majority of those being declined by banks.

Further, while the SBA, SBIC and SBIR grants are three of the largest and most well-known

government funding programs for small businesses, according to our survey respondents, many Latino business owners are totally unaware of these government funds and programs. In fact, 22% have never heard of the SBA, 51% have never heard of the SBIC, and 56% have never heard of SBIR.

## Next Steps

Latino business owners are having a significant impact on the economy, and there is an opportunity to have an even greater impact by understanding the factors that inhibit growth. This report is a first step in improving the lives of Latinos through entrepreneurship, as it gives us a better understanding of the potential economic impact LOBs can have in the U.S. economy and the challenges that need to be addressed to get there.

In addition to the research, the Latino business database and research panel can help policymakers and business leaders understand and then accelerate the engines of job creation and wealth formation latent in the surging rates of Latino entrepreneurship. This report can also provide government agencies - such as the SBA, SBIC, SBIR - venture capitalists, banks and other commercial institutions, and nonprofits the opportunity to engage deeper with the Latino population, and specifically, the Latino entrepreneur.

In turn, further surveys and work with this research panel of LOBs can track the successes created by changes in public policy and public investments.



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