



**2019**

RESEARCH  
REPORT

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# STATE OF LATINO ENTREPRENEURSHIP

**STANFORD**  
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Latino Entrepreneurship  
Initiative

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## CONTRIBUTORS

### Lead Researchers

- Marlene Orozco, Lead Research Analyst, Stanford Latino Entrepreneurship Initiative
- Inara Sunan Tareque, Research Analyst, Stanford Latino Entrepreneurship Initiative

### Faculty

- Paul Oyer, The Mary and Rankine Van Ande Entrepreneurial Professor, Professor of Economics, and Senior Associate Dean for Academic Affairs, Stanford Graduate School of Business; Senior Fellow, Stanford Institute for Economic Policy Research; and SLEI Faculty Advisor
- Jerry I. Porras, Lane Professor of Organizational Behavior and Change, Emeritus, Stanford Graduate School of Business; SLEI Faculty Advisor; and Cofounder, Latino Business Action Network (LBAN)

**PHOTOGRAPHY:** Erika Rodriguez (cover, p. 4), 3 Lopez (p. 3, p. 24, p. 32), Cayce Clifford (p. 7), Preston Gannaway (p. 10), Annabel Clark (p. 19)

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# ABOUT THIS REPORT

**CRISTINA VALLE-PARKE**  
Vice President, California Recyclers Inc.

For the past five years, the Stanford Latino Entrepreneurship Initiative has collected survey data from Latino-owned businesses across the country to provide an updated account of the latest trends in Latino entrepreneurship in the United States. For the past two years, we have also simultaneously created a research panel of over 1,000 Latino business owners that will provide insights on the growth and experiences of individual businesses over time. This year, we report results on a cumulative sample of approximately 5,000<sup>1</sup> Latino business owners. Additionally, we explore a longitudinal aspect of the data from businesses that report their revenue from the past 12 months in addition to their revenues from two and five years ago. This allows us to track historical growth for the businesses in our sample. Additional methodological information related to sampling and measures can be found in **APPENDIX A**.

The State of Latino Entrepreneurship report provides academic researchers, lending institutions, business leaders, and policymakers with insights into the business outcomes of Latino-owned businesses and the personal financial well-being of their owners. Given our large sample and specialized focus on Latino-owned businesses, we consider outcomes by different business dimensions, including size (e.g., by revenue and employees), growth, industry, region, and other demographic characteristics of the business owner (e.g., gender, immigrant status, etc.). We also focus extensively on business outcomes related to different funding types and apply a financing matrix that advances a typology of amounts requested and received. Where available, we draw comparisons from the SLEI Survey of U.S. Latino Business Owners to the outcomes of non-Latinos through a variety of census surveys. These include the American Community Surveys and Current Population Surveys, which consider self-employed individuals, and the Annual Survey of Entrepreneurs, which considers employer firms. We include a glossary of terms in **APPENDIX B** to support readers with the distinct samples and measures used in this report.

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<sup>1</sup> We obtained 5,043 complete survey responses. After data cleaning, our sample included 4,953 unique responses.



**DOLMARIE MÉNDEZ VIDOT**  
CEO, Abartys Health, LLC

# SECTION I EXECUTIVE SUMMARY

Over the past 10 years, the number of Latino business owners grew 34%, compared to 1% for all business owners in the United States.

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.<sup>i</sup> 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.<sup>ii</sup>

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.<sup>iii</sup>

### **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 5 or more months. Since liquidity predicts future business survival and health,<sup>iv</sup> 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.

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.

Surprisingly, when considering all funding sources combined (sought by the average Latino business owner in the previous year), we find no correlation between the ability to secure financing and either revenue growth or profitability.

### **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.<sup>v</sup> 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.



**RYAN BETHENCOURT**  
CEO and Founder, Wild Earth

# SECTION II INTRODUCTION

The percent of the self-employed population increased faster for Latinos than for all other demographic groups between 2009 and 2018.

From tech companies<sup>2</sup> to staffing agencies,<sup>3</sup> waste management,<sup>4</sup> and sushi restaurant owners,<sup>5</sup> Latino-owned businesses employ more than 3 million people and contribute nearly \$500 billion in annual sales to the U.S. economy.<sup>6</sup> Previous SLEI research has shown that were it not for the constant growth in number of Latino-owned businesses during the Great Recession, there would have been fewer businesses in the United States in 2012 than there were in 2007, and the unemployment rate would have risen well over 10%. Since the economic recession, the number of Latino business owners continues to grow on its historical, upward trajectory. Even with unemployment rates at a 50-year low of 3.7% (4.2% for Latinos),<sup>vi</sup> business ownership continues to be an important part of the labor market experience for Latinos.

## NUMBER OF LATINO BUSINESS OWNERS HAS CONTINUED TO GROW FOR THE PAST 10 YEARS

We estimate that the total number of Latino business owners in the United States<sup>7</sup> grew by 34% between June 2009 and June 2019.<sup>viii</sup> This is in stark contrast to all business owners,<sup>8</sup> whose numbers grew by only 1%, and white business owners, who decreased in number by 6% over the same period.<sup>viii</sup> As shown in **FIGURE 1**, even when accounting for the growth in the U.S. Latino population, the percent of the self-employed population increased faster for Latinos than for all other demographic groups between 2009 and 2018.

<sup>2</sup> **SEE TONY AGUILAR:** <https://www.gsb.stanford.edu/insights/vcs-have-preconceived-notions-regarding-how-you-look-or-dress>

<sup>3</sup> **SEE JOEL SANCHEZ:** <https://www.gsb.stanford.edu/faculty-research/publications/latino-owned-businesses-shining-light-national-trends>

<sup>4</sup> **SEE MARIA RIOS:** <https://www.ibm.com/blogs/industries/big-thinker-maria-rios/>

<sup>5</sup> **SEE GUSTAVO MARTINEZ:** <https://www.pressdemocrat.com/news/3842114-181/latino-entrepreneurs-find-success-in>

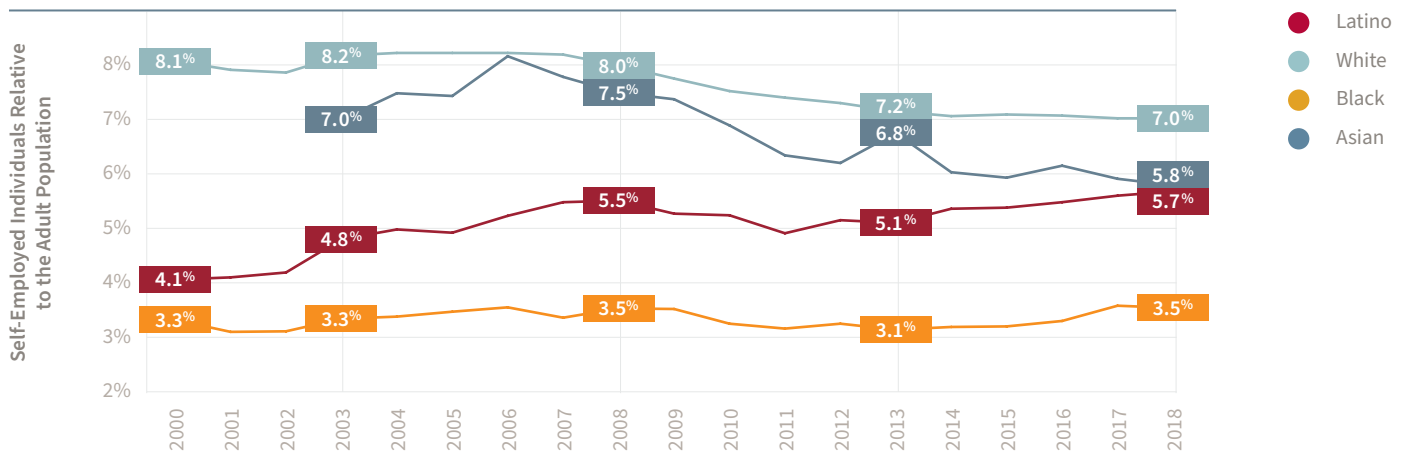
<sup>6</sup> Authors' calculations using the 2016 Annual Survey of Entrepreneurs and the 2012 Survey of Business Owners for non-employer figures.

<sup>7</sup> Different large-scale surveys report on business owners using different definitions. The U.S. Census Bureau's Current Population Survey and American Community Survey on "self-employed" individuals define them as individuals who categorize themselves as being self-employed in their own incorporated or unincorporated business, professional practice, or farm. This figure is different from the number of businesses since one business

owner may have multiple firms. Moreover, when using census data, although we use self-employed individuals to report on business owners in the United States, it most likely underreports the number of business owners, since all business owners may not identify themselves to be "self-employed" in their own incorporated or unincorporated business when completing the census survey.

<sup>8</sup> White business owners form the largest share of business owners compared to all other demographic groups.

**FIGURE 1.** Percentage of Self-Employed Individuals (2000–2018)

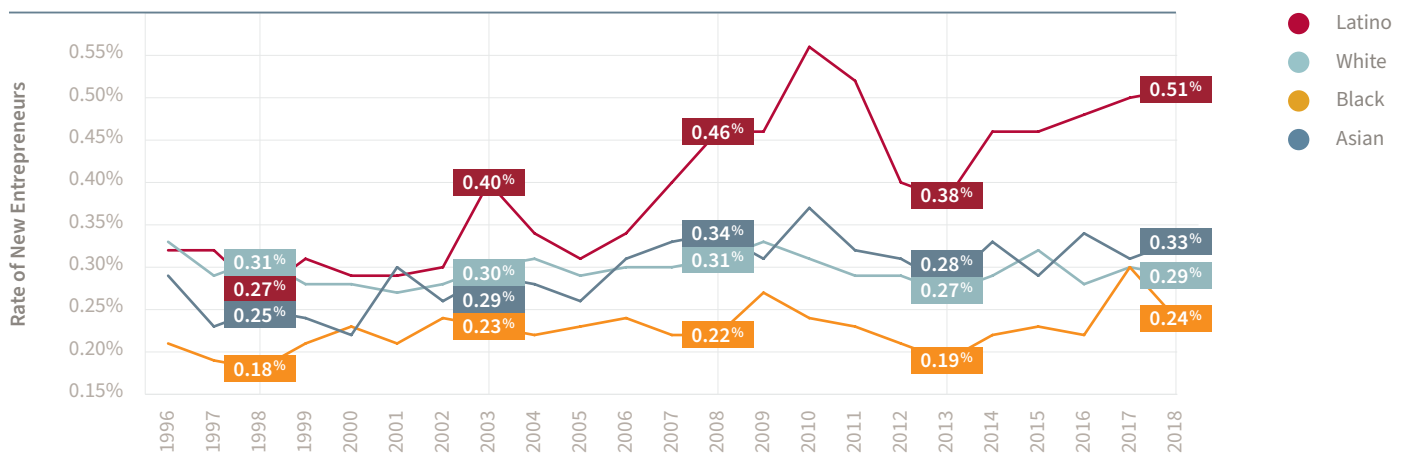


SOURCE: Current Population Survey, 2019

**LATINOS HAVE THE HIGHEST RATE OF NEW ENTREPRENEURS**

We find a similar trend when looking at the rate of new business generation, where the ratio of new Latino entrepreneurs outpaces that of other groups. As shown in **FIGURE 2**, the growth rate for Latino entrepreneurs has been higher than for other demographic groups. In 2018, 0.51% of U.S. Latinos became entrepreneurs by starting a new business, a rate almost double that of the next highest group.<sup>ix</sup> This means that for every 100,000 Latino adults in the United States, 510 became entrepreneurs, on average, each month in 2018.

**FIGURE 2.** Rate of New Entrepreneurs (1996–2018)



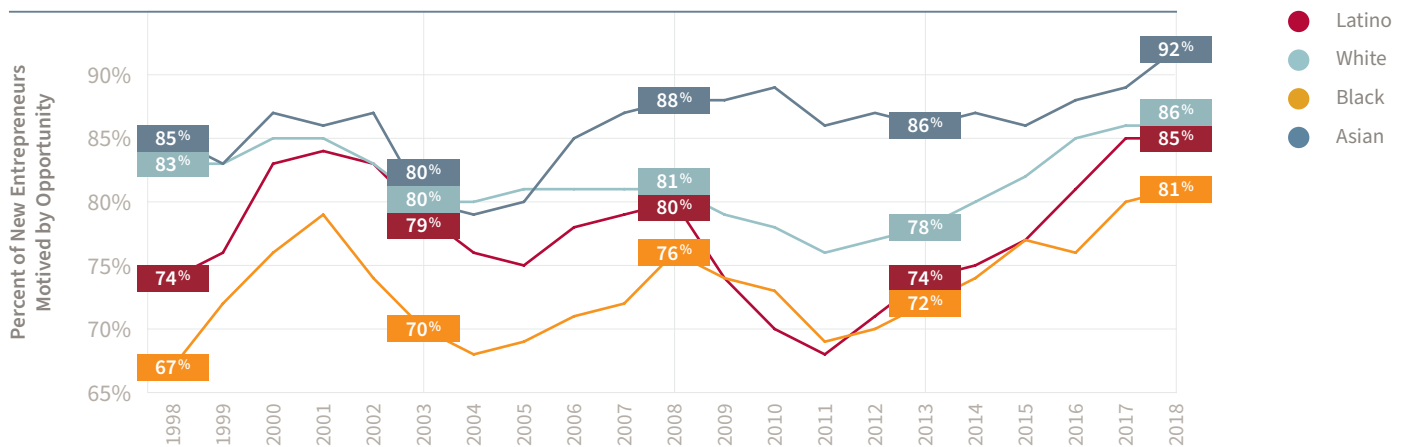
SOURCE: Kauffman Indicators of Entrepreneurship, 2019



### LATINOS START BUSINESSES OUT OF OPPORTUNITY

A popular misconception about Latino entrepreneurs is that they start businesses out of “necessity,” supposedly finding it more challenging to compete in the labor market due to lack of skills, lower levels of education, or other characteristics negatively associated with labor outcomes (e.g., limited English proficiency). However, 85% of new Latino entrepreneurs are what the Kauffman Foundation characterizes as “opportunity entrepreneurs.”\* The number is nearly the same for new white entrepreneurs, 86% of whom are driven by opportunity rather than need. While the Kauffman metric may not be perfect (it assumes that those who start a business immediately coming out of wage and salary work, school, or other labor market statuses are starting the company based on identifying promising “opportunities,” while those who start a business after a period of unemployment are presumed to be choosing entrepreneurship out of “need”), it provides a simple assessment of opportunity- versus need-driven entrepreneurship. And using this assessment, we find that four out of every five Latino entrepreneurs started a business out of opportunity as opposed to necessity.

**FIGURE 3.** Share of New Entrepreneurs Motivated by Opportunity to Start a Company



SOURCE: Kauffman Indicators of Entrepreneurship, 2019



MARTHA MONTOYA  
CEO and Founder, Agtools Inc.

# SECTION III GROWTH STRATEGIES

Overall, 54% of Latino-owned businesses had positive annual revenue growth and 63% had positive compound annual revenue growth over the past five years.

The 2019 SLEI Survey of U.S. Latino Business Owners is our most comprehensive survey to date and includes detailed questions about the current financing experiences of the business (**SEE SECTION IV**) and the personal financial well-being of the business owner (**SEE SECTION V**). Additionally, we measure revenue growth as self-reported from two and five years prior to the survey year.

This section tracks individual business growth by comparing current revenue figures (i.e., within the past 12 months) to reported revenue for previous years. We calculate an annual revenue growth rate and a 5-year compound annual growth rate in revenue (CAGR) to determine the average annual growth rate in revenue for each business over two- and five-year periods. (Read more about the annual revenue growth rate and CAGR calculations in the methodology section.)<sup>9</sup>

In addition to capturing the correlates to business growth by revenue, we also explore potential growth opportunities. In the 2018 State of Latino Entrepreneurship report we presented a growth framework that correlated business size with a set of business strategies and characteristics, including government certification, business registration, participation in business networks, and product exportation.<sup>xi</sup> This 2019 study identifies additional strategies correlated with business growth, including locating in an opportunity zone, focusing on satisfaction of existing customers, and bidding on government and corporate procurement contracts.

## THE MAJORITY OF LATINO-OWNED BUSINESSES EXPERIENCED REVENUE GROWTH OVER THE LAST 12 MONTHS AND OVER THE LAST FIVE YEARS

Latino-owned businesses had an average annual growth rate in revenue of 14% and a 5-year compound annual growth rate in revenue of 9%. Overall, 54% of Latino-owned businesses had positive annual revenue growth and 63% had positive compound annual revenue growth over the past five years (5-year CAGR).

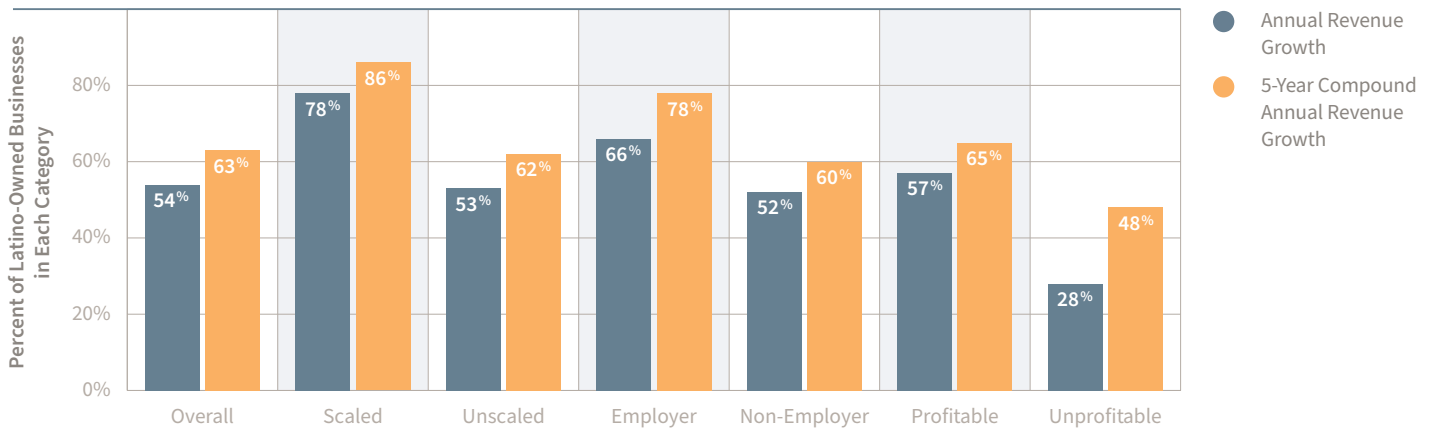
<sup>9</sup> Note that despite referring to a “5-year” CAGR in our analyses, we consider the number of years (i.e., periods) to be four since the revenue figures that we asked for in our survey (“Revenue in the past 12 months” and “Revenue five years ago”) were four years apart.

We still call it “5-year” CAGR since we are comparing revenue from five years ago to revenue over the past 12 months.

**LATINO EMPLOYER FIRMS, SCALED FIRMS, AND PROFITABLE BUSINESSES ARE SIGNIFICANTLY MORE LIKELY TO EXPERIENCE GROWTH**

As shown in **FIGURE 4**, Latino employer firms (66% compared to 52% for non-employer firms), scaled firms (78% compared to 53% for unscaled firms), and profitable businesses (57% compared to 28% for unprofitable businesses) are significantly more likely to experience positive annual revenue growth over the past year. Similarly, employer firms (78% compared to 60% for non-employer firms), scaled firms (86% compared to 62% for unscaled firms), and profitable businesses (65% compared to 48% for unprofitable businesses) are also more likely to experience positive 5-year compound annual growth in revenue. Additionally, owners who reported having a personal credit score of over 680 are also more likely (71% compared to 53% among those with lower credit scores) to experience positive 5-year CAGR. Except for unprofitable businesses, over 50% of Latino-owned businesses in all other categories identified below experienced positive revenue growth over the most recent one- and five-year periods.

**FIGURE 4.** Percent of Companies Experiencing Positive Revenue Growth Over Most Recent One- and Five-Year Periods



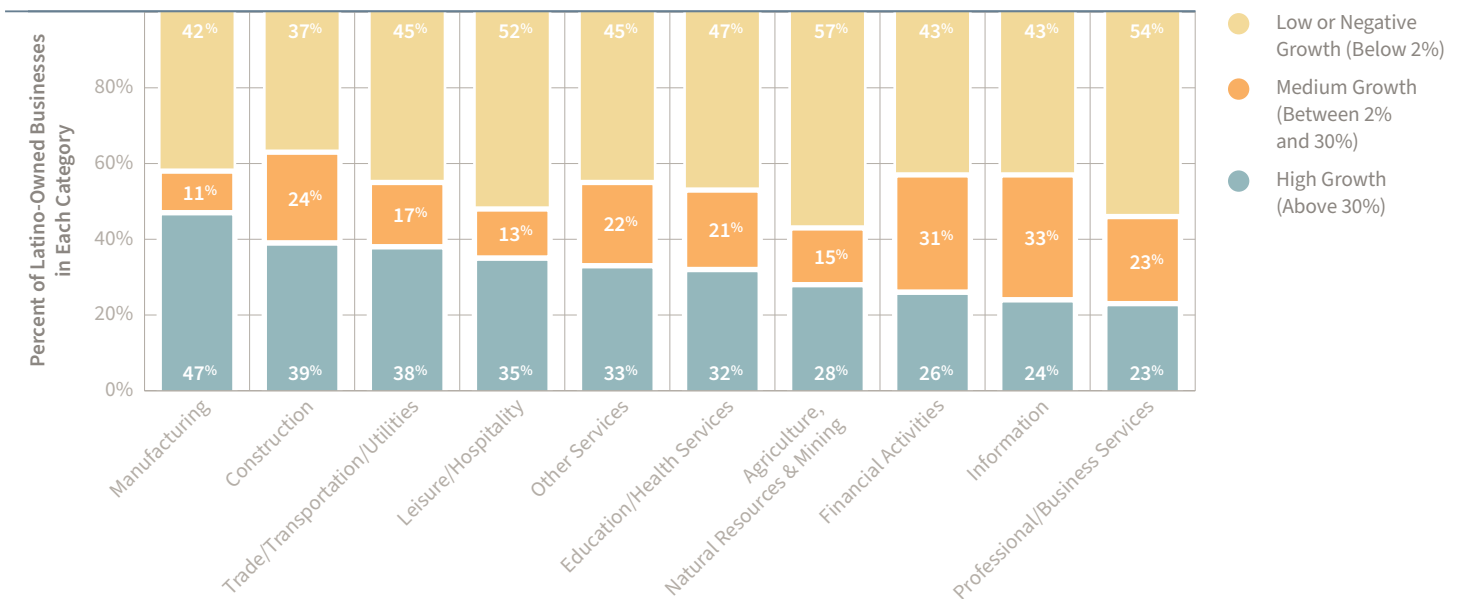
SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

**IN THE MAJORITY OF INDUSTRY SECTORS,<sup>10</sup> ONE IN THREE LATINO BUSINESSES GREW REVENUE MORE THAN 30% LAST YEAR**

As stated earlier, the average Latino-owned business had an average annual revenue growth over the last year of 14%. Annual revenue growth<sup>11</sup> of over 30% is considered to be extremely high, and as shown in **FIGURE 5** we find that one out of every three Latino-owned businesses in six out of all 10 non-government industry sectors are experiencing such high growth and, for the remaining four industries, the rate is one out of four. Although just about 2% of Latino-owned businesses are in the Manufacturing industry, this sector has the highest share of firms (47%) experiencing high annual revenue growth (30% or more), followed by the Construction industry (39%), the Trade, Transportation, and Utilities industry (38%), and the Leisure and Hospitality industry (35%).

As shown in **FIGURE 5** and **FIGURE 6**, while the three industry sectors with the largest number of Latino-owned businesses are Other Services (e.g., personal care, maintenance, and repair services); Professional and Business Services; and Trade, Transportation, and Utilities, a large share of these industries experienced low or negative annual revenue growth over the last year—54% of firms in Professional and Business Services and 45% of firms in Other Services are currently experiencing low or negative revenue growth. Moreover, these two industry sectors were also among the bottom five in terms of 5-year CAGR.

**FIGURE 5. Annual Revenue Growth by Industry Sectors Over the Last 12 Months (2019)<sup>12</sup>**



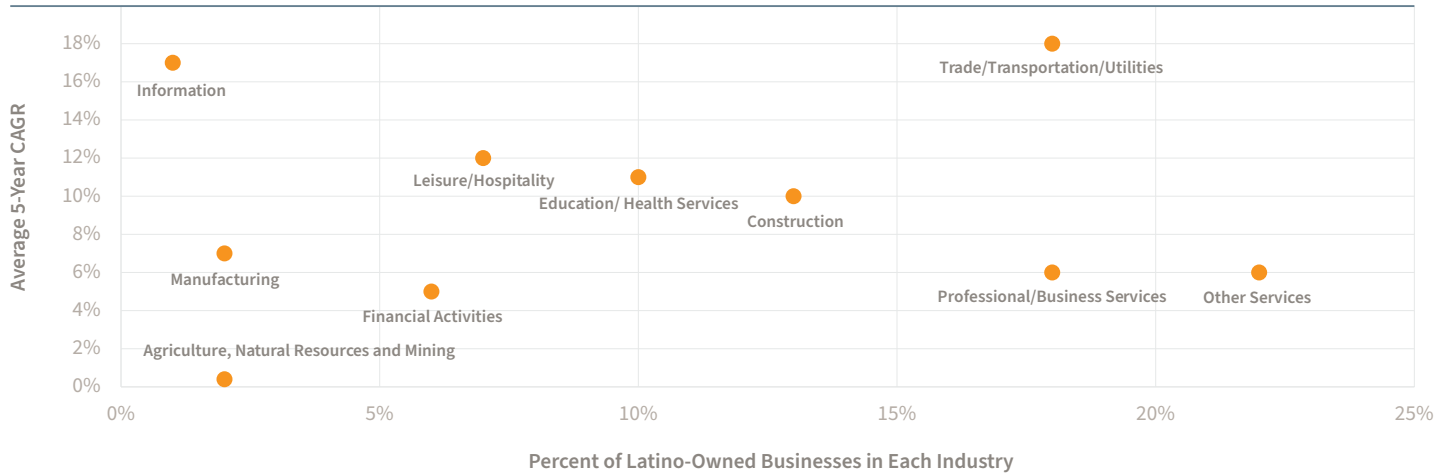
SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

<sup>10</sup> We map all industries to the 10 NAICS supersectors except “Government,” as identified by the U.S. Census Bureau of Labor Statistics. <https://www.bls.gov/sae/additional-resources/naics-supersectors-for-ces-program.htm>

<sup>11</sup> A “high” annual growth rate in revenue (AGR) is defined as an AGR of 30% or more; a “medium” AGR is defined as an AGR from 2% to 30%; and a “low or negative” AGR is defined as an AGR of below 2%.

<sup>12</sup> Due to sample size limitations, we use AGR instead of 5-year CAGR for this chart.

**FIGURE 6.** Industry Distribution of Latino-Owned Businesses by 5-Year CAGR

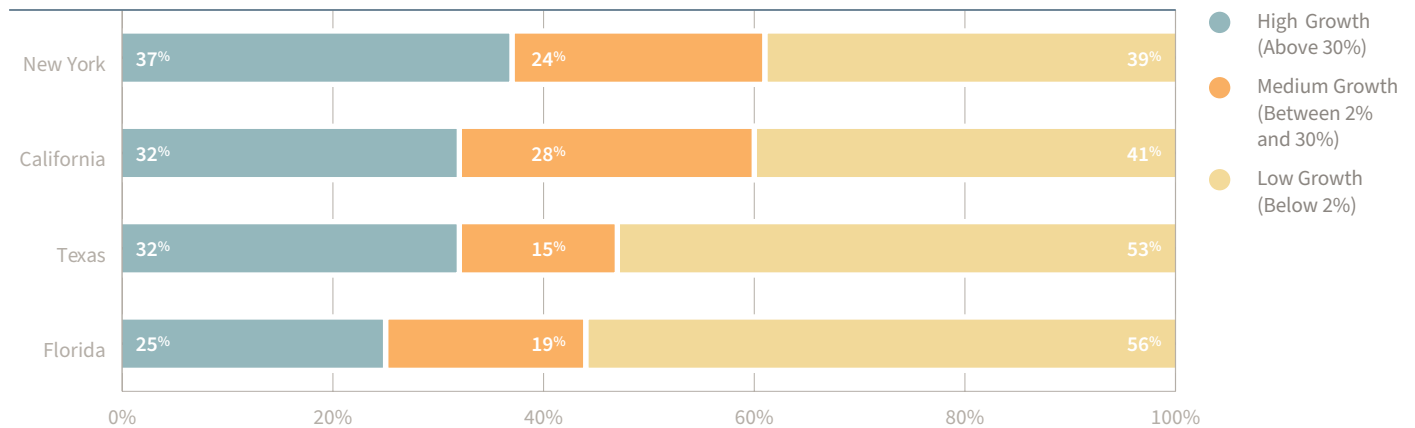


SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

**AMONG THE TOP FOUR STATES IN NUMBER OF LATINO-OWNED BUSINESSES, NEW YORK HAS THE LARGEST SHARE OF BUSINESSES EXPERIENCING HIGH ANNUAL REVENUE GROWTH**

New York has the highest share of Latino-owned businesses experiencing high annual revenue growth (37%), compared to California and Texas (32%), and Florida (25%), as shown in **FIGURE 7**. In both Texas and Florida, the majority of Latino-owned businesses experienced low revenue growth over the last 12 months or saw a decline in their revenue.

**FIGURE 7.** Annual Revenue Growth Over the Last 12 Months in Four U.S. States (2019)



SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

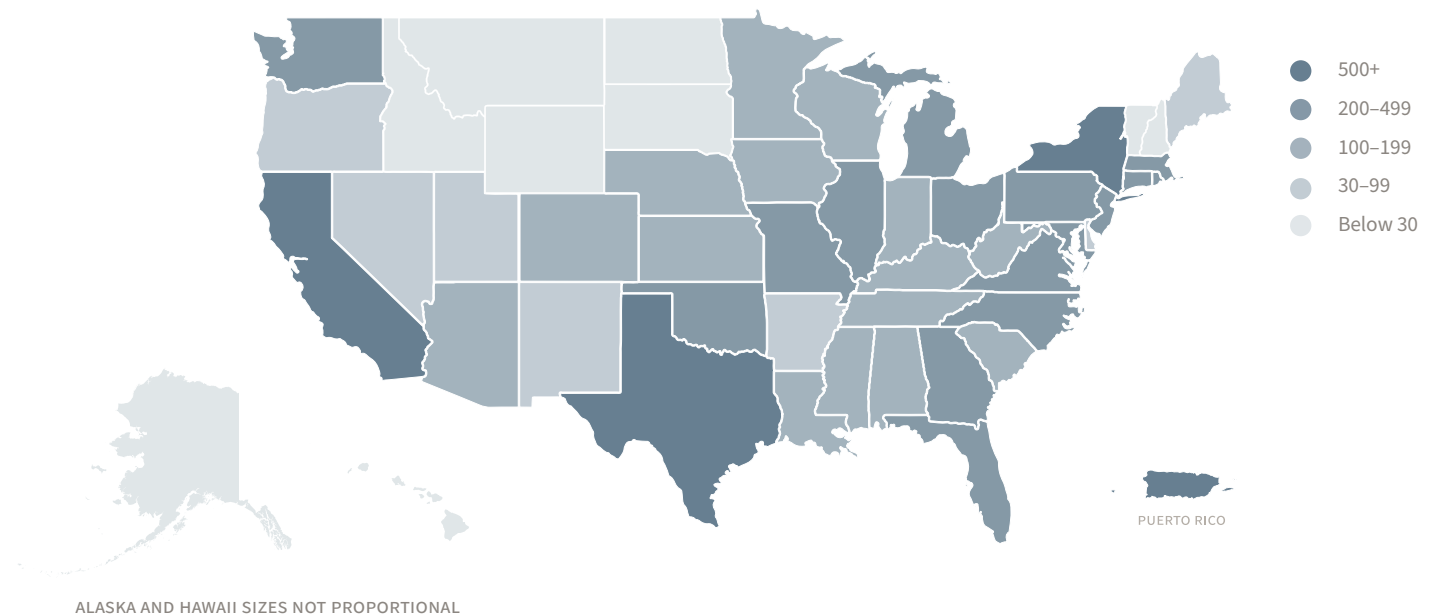
While we cannot exactly pinpoint why New York is leading in annual revenue growth over the past year, the share of employer businesses across these four states could be one of the contributors to this gap. The percent of employer businesses is twice as high in New York (19%) as the national average (9%), followed by Texas (11%), California (9%), and Florida (8%).

Another factor may be that Latino businesses in New York also experience greater funding success when compared to the other three states.<sup>13</sup> When considering multiple funding sources, one out of every three Latino businesses in New York is getting its funding needs met, while in California, Florida, and Texas, the corresponding number is one out of every four. Finally, Latino businesses in New York also have the highest average corporate contracts (~\$400,000) compared to Latino firms in the other three states. Thus, we hypothesize that the share of Latino-owned employer businesses, funding success, and large corporate contracts could be substantially related to high annual growth rates.

**SOME LATINO ENTREPRENEURS MAY HAVE AN OPPORTUNITY TO BETTER LEVERAGE OPPORTUNITY ZONES**

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. The opportunity zone incentive encourages business investments through deferred and reduced capital gains taxes, with all capital gains taxes waived if the investment is held for 10 years. The zones are designated in states across 25% of their low-income census tracts. As such, a low-income community is not automatically an opportunity zone and not all opportunity zones are in low- to moderate-income communities. **FIGURE 8** shows the distribution of nearly 9,000 opportunity zones across the states.

**FIGURE 8.** Location of Opportunity Zones



SOURCE: U.S. Department of the Treasury Community Development Financial Institutions Fund <sup>xii</sup>

<sup>13</sup> See methodology section for the derivation of the combination funding measure.

There is a strong correlation between states with large numbers of Latino-owned businesses and opportunity zones (also correlated with total population). In a previous report, we identified that California, Texas, Florida, and New York have the highest number of Latino-owned businesses.<sup>xiii</sup> California also has the highest number of opportunity zones, followed by Puerto Rico, Texas, New York, and Florida.

**FIGURE 9.** Average Annual Revenue Growth Rate (AGR) of Latino Businesses by Opportunity Zones



SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

Latino-owned businesses in opportunity zones have a higher average annual revenue growth compared to those not in opportunity zones, 24% and 13% respectively.

Overall, we find a general lack of knowledge about opportunity zones within the Latino business community. Using zip code level data, our survey shows that 14% of Latino-owned businesses are located in formally designated opportunity zones. However, among these, only 28% know they are located in an opportunity zone, 47% do not know, and 25% incorrectly believe they are not in an opportunity zone. As shown in **FIGURE 9**, Latino-owned businesses in opportunity zones have a higher average annual revenue growth rate compared to those not in opportunity zones, 24% and 13% respectively. While we are not implying that business revenue grows as a direct result of being located in an opportunity zone, we find that areas designated as opportunity zones are not currently experiencing stagnant business growth. It should be noted that others have found designated opportunity zones in places already experiencing growth, possibly as a result of gentrification.<sup>xiv</sup>

#### LATINO-OWNED BUSINESSES ENGAGE IN CUSTOMER-FOCUSED STRATEGIES FOR GROWTH

When considering a battery of growth strategies that the average Latino-owned business implemented in the past three years, the top three strategies are overwhelmingly customer-centric. As a top priority, 81% of Latino-owned businesses reported that they focused on satisfying key customers. Secondly, 76% reported reaching new customer groups. And lastly, 73% focused on understanding or meeting customer needs.<sup>14</sup> These strategies were implemented at nearly twice the rate of internal strategies such as improving internal processes and employee skills.

Latino-owned businesses thus internalize the importance of customer relationship management. These businesses are playing a long-term game, as customer-focused businesses experience business success.<sup>xv</sup> At its core, CRM includes all of the activities and strategies used to manage customer relations, which are increasingly commanded through technology.<sup>xvi</sup> Thus, given the focus of Latino-owned businesses on their customers, some Latino-owned businesses may find that technology can increase the impact of their focus on customer acquisition and satisfaction.

<sup>14</sup> These questions come from the U.S. Census Bureau's Annual Business Survey for eventual comparative leverage.

## SECURING PROCUREMENT CONTRACTS IS POSITIVELY RELATED TO LATINO-OWNED BUSINESS GROWTH, AND LATINO-OWNED BUSINESSES RECEIVE LARGER AMOUNTS FROM THE GOVERNMENT COMPARED TO CORPORATIONS BY A FACTOR OF TWO TO ONE

Having a business certification of any kind, including being a minority business enterprise or woman-owned company, is an important correlate to the scale of a business, as measured by profits, revenue, and number of employees. The 2018 SOLE report found that scaled Latino-owned firms are more likely to be certified (58%), which provides them access to contracts not available to non-certified firms.<sup>xvii</sup> In the aggregate, 8% of Latino-owned businesses have a government, corporate, and/or other type of contract. When asked about factors limiting their growth, 9% of all survey respondents report difficulty in participating in requests for proposal (RFPs) to compete for procurement contracts of any kind, and 10% report a lack of awareness about supplier diversity programs.

Firms that secure government contracts are more likely to have experienced compound annual revenue growth over the past 5 years compared to those that do not have such contracts (73% versus 62%). Similarly, firms that secure corporate contracts also tend to have positive compound annual revenue growth over the past 5 years (75% versus 62%).

Nonetheless, we find that among Latino-owned businesses that have contracts, the average contract amount for government contracts is twice that of corporate contracts, \$525,000 and \$262,000 respectively, although the number of Latino-owned firms contracting with the government is smaller than the number that contract with corporations (4% and 5%, respectively). Moreover, firms that secure government contracts are more likely to have experienced positive 5-year CAGR compared to those that do not have such contracts (73% versus 62%). Similarly, firms that secure corporate contracts also tend to have positive 5-year CAGR (75% versus 62%).

Among those who contract with corporations, on average, men obtain contracts that are twice the size of those contracted by Latinas (\$347,000 compared to \$154,000). More U.S. native-born Latinos than immigrant Latinos contract with the government and corporations. However, while immigrant Latino-owned businesses procure twice the contract amount at the corporate level compared to businesses owned by native-born Latinos (~\$400,000 versus \$200,000, respectively), native-born Latinos have larger government contracts (~\$560,000 versus \$430,000). Some government contracts may specify citizenship requirements; we speculate that immigrants may not see the government as a viable customer.

## ONE IN THREE LATINO-OWNED BUSINESSES REPORT EXTREMELY STRONG LIQUIDITY POSITIONS

Profitability alone does not signal the financial well-being of a business. Cash liquidity, a measure of a company's ability to operate with cash on hand, is a predictor of survival and growth.<sup>xviii</sup> It is frequently measured as the number of weeks or months that a company can operate on its current cash or liquid asset reserves. In our survey, we find that the majority of Latino-owned businesses report being profitable (59%). Similarly, a survey of small businesses with Chase Business Banking deposit accounts finds that the majority of these small businesses (not reported separately by race) are profitable but have limited cash liquidity.<sup>xix</sup>

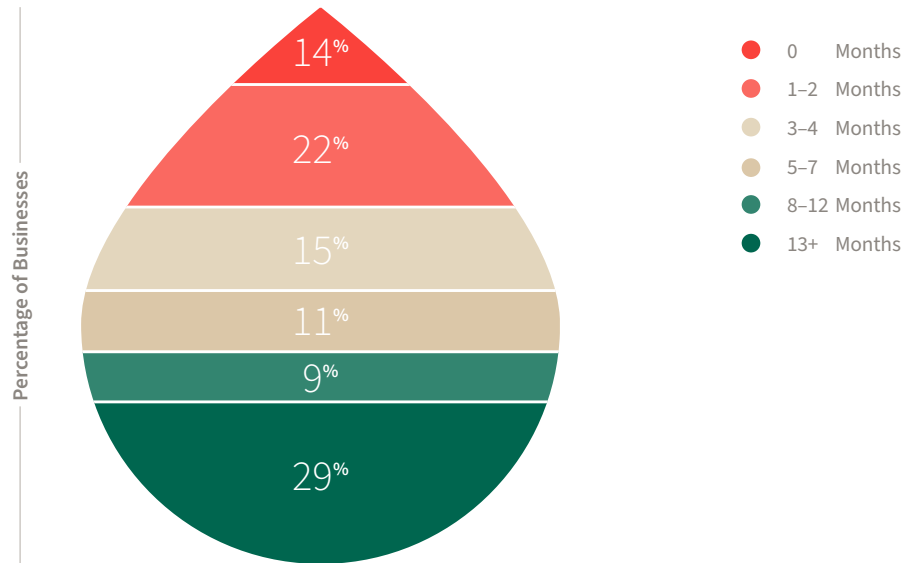
As shown in **FIGURE 10**, we find that while 14% of Latino-owned businesses could not operate for even one month without resorting to layoffs, outside borrowing, or the sale of assets and equipment, 29% say they could operate for more than 12 months under the same parameters. As such, compared to the survey of small businesses with Chase Business Banking deposit accounts, a surprisingly high number of Latino-owned businesses in our survey report very strong liquidity positions.<sup>15</sup>

<sup>15</sup> The Chase study considered small businesses that hold a specific type of business account at Chase Banks.

They may not be representative of most U.S. small businesses.



**FIGURE 10.** Months Business Can Operate On Available Cash and Savings

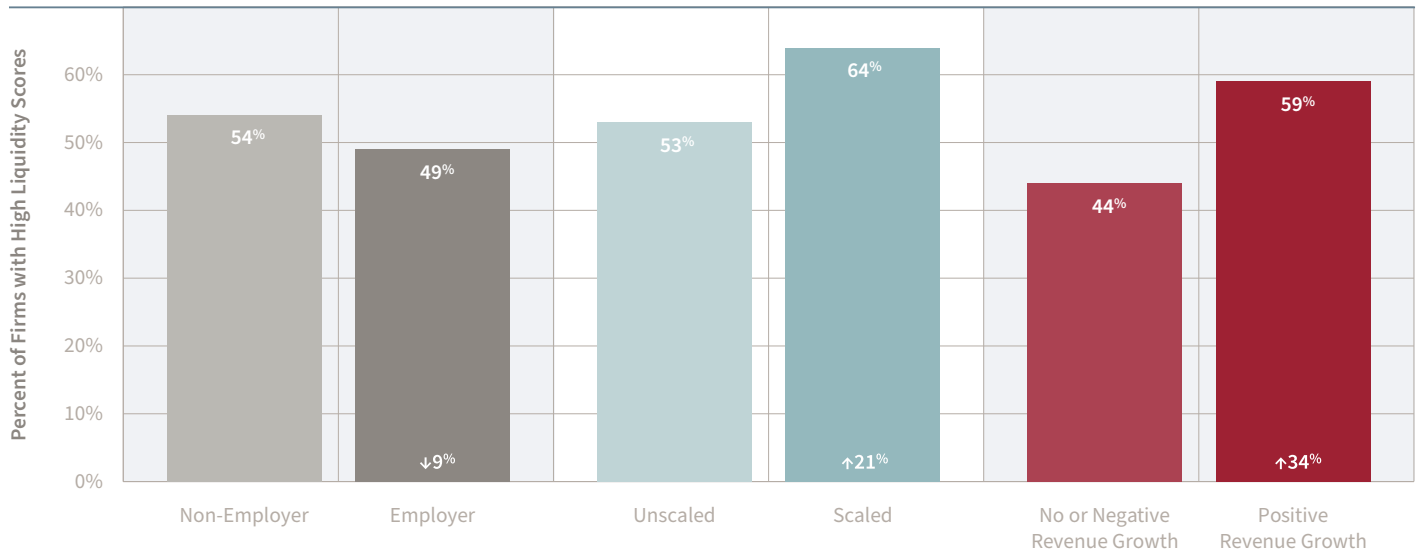


SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

As a more robust measure of liquidity, we create a composite liquidity measure (see the methodology section for more information on the construct) with additional liquidity measures beyond the operable months with cash on hand, including the length of terms of payment and having to use personal credit to cover business expenses.

Latino-owned employer firms have greater struggles with liquidity than firms with no employees. As shown in **FIGURE 11**, 49% of employer firms have high liquidity scores, compared to 54% of companies with no employees. In a previous report, we identified that the main hurdle to Latino-owned businesses is crossing the “employment threshold,” going from solopreneur (an entrepreneur without employees) to becoming an employer business (a business with paid employees).<sup>xx</sup> Thus, given that employer firms are more strapped for cash compared to non-employer firms, the availability of cash and other financing issues may be holding back the growth potential of Latino-owned firms, making it difficult for them to cross the “employment threshold.”

**FIGURE 11.** Percent of Firms with High Liquidity Scores



SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

On the whole, we find that scaled firms and those that experience revenue growth have an above average liquidity score. Scaled firms are 21% more likely to have a high liquidity score compared to unscaled firms (64% compared to 53%). Similarly, firms with compound growth in revenue over the past five years are 34% more likely to have a high liquidity score. This means that positive cash liquidity appears to be directly related to both revenue size and growth.



# SECTION IV FUNDING FRAMEWORK

ALEXANDER MITICH  
VP, Commercialization, Vasotorg, Inc.

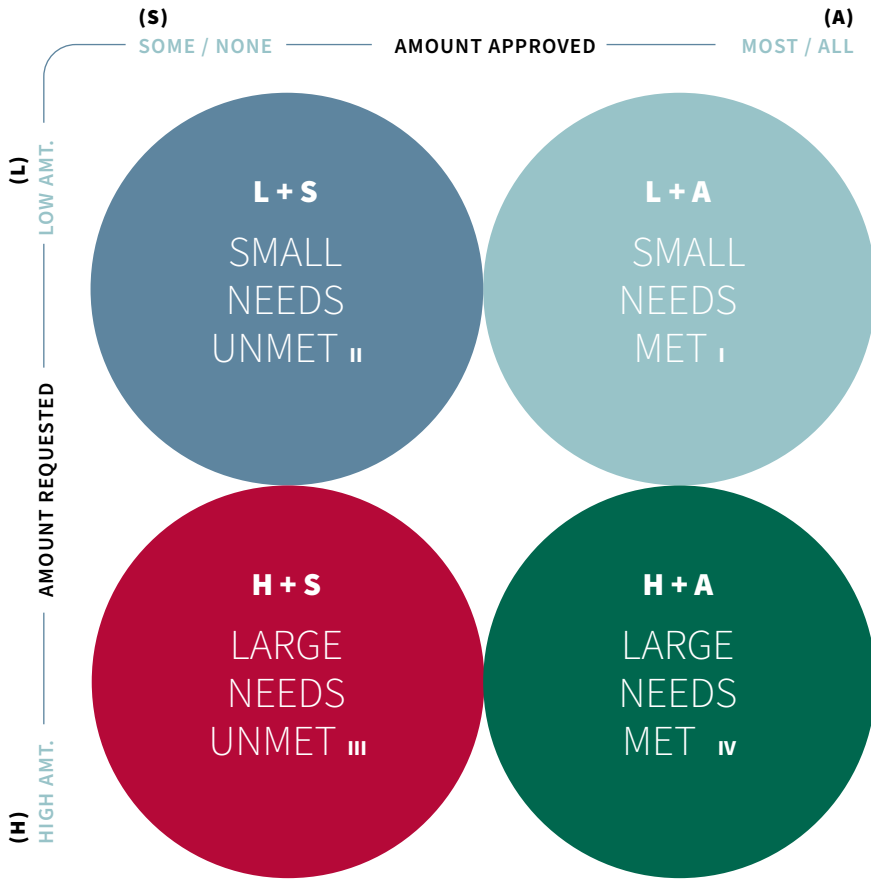
Financing can be critical to a firm’s ability to scale. In the 2019 SLEI Survey of U.S. Latino Business Owners we asked entrepreneurs to share information about their attempts to raise financing. In the past year, 42% of Latino business owners applied for some form of financing. Their experiences range broadly with respect to the number of financing sources sought in a given year (on average, two sources), amounts requested, and the amount of financing received. Through a funding framework that maps out this funding pipeline, we begin to uncover trends that vary by type of funding and characteristics of the Latino-owned businesses.

## A LATINO-OWNED BUSINESS FINANCING MATRIX

Although we have reported extensively on funding in our previous research reports, this year, we add a new dimension to our analysis by connecting the amount of funding requested to success rates in funding acquired by Latino-owned businesses in 15 major funding categories.

Although we have reported extensively on funding in our previous research reports, this year, we were able to add a new dimension to our analysis by connecting the amount of funding requested to success rates in funding acquired by Latino-owned businesses in 15 major funding categories. **FIGURE 12** presents a financing matrix that categorizes the Latino-owned business experience with financing per each funding source sought. While the amounts requested can range from less than \$25,000 to over \$1 million, we combine categories into two groups—low and high amounts requested—for statistical leverage. A low amount requested includes any financing less than \$100,000, and a high amount includes all amounts above this threshold. Similarly, we combine categories of total amount approved to include none or some in the low category and most or all in the high category. Businesses requesting a low amount (<\$100,000) and receiving most/all of their funding have their “small needs met” by this conceptualization. Additionally, we consider businesses that have their “large needs met,” which include those obtaining most/all of their funding requested from a high amount (>\$100,000).

**FIGURE 12.** Financing Matrix



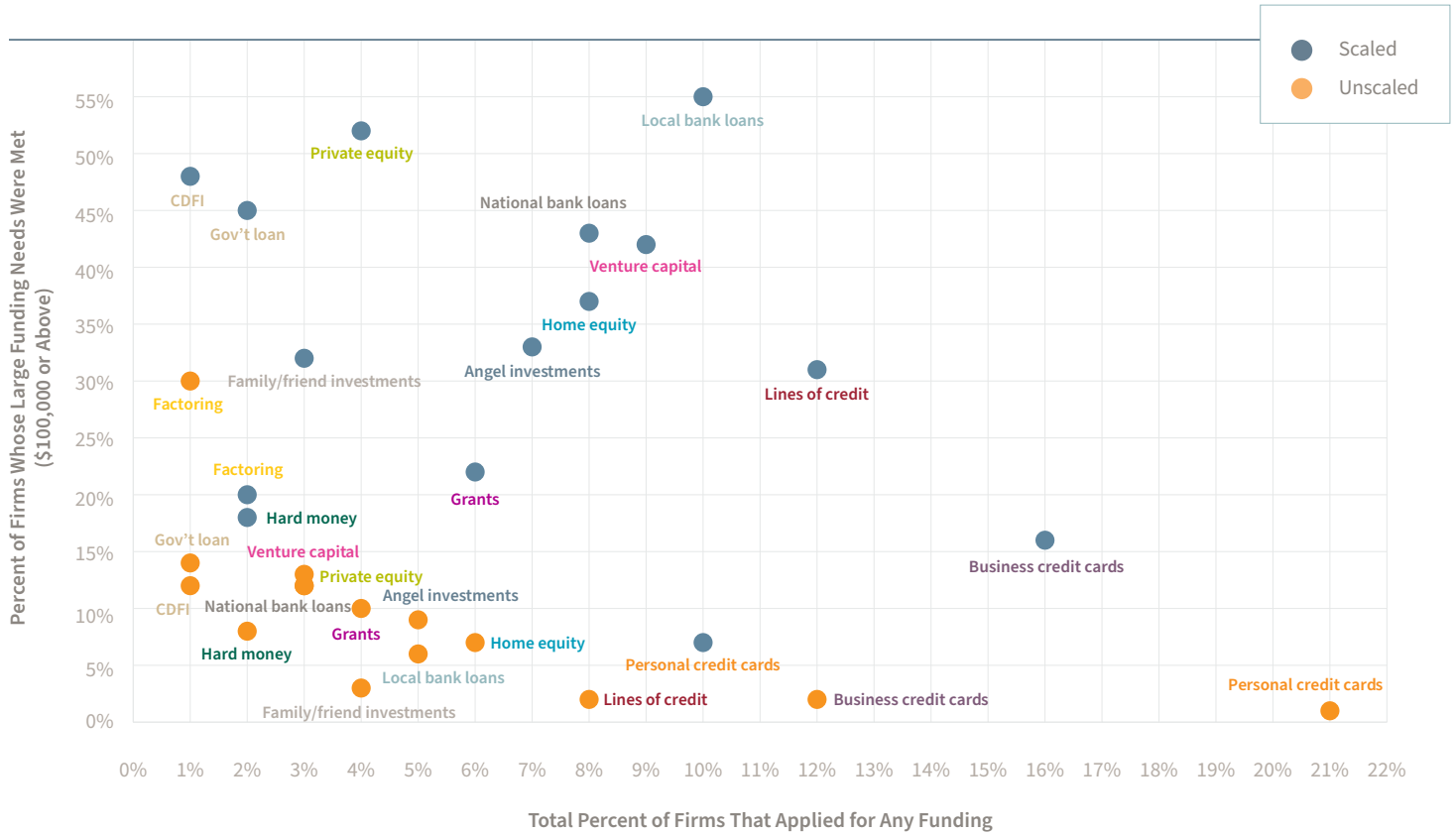
AMOUNT REQUESTED		AMOUNT APPROVED	
<\$100K	(L)	None or Some	(S)
>\$100K	(H)	Most or All	(A)

SOURCE: Authors' framework; SLEI Survey of U.S. Latino Business Owners, 2019

**“LARGE NEEDS MET” FROM LOCAL BANKS AMONG SCALED FIRMS AND FACTORING FOR UNSCALED FIRMS**

When considering quadrant IV of the financing matrix, or those in the “large needs met” category, requesting large amounts (>\$100,000) and obtaining most or all of this funding request, we find differences between scaled firms and unscaled firms. As shown in **FIGURE 13**, scaled firms have a 31–55% success rate when applying for large amounts of funding (>\$100,000) in 10 of the funding source categories. In contrast, unscaled businesses rarely succeed in securing that level of funding. The best they do is in the area of factoring, where they are successful almost one-third of the time.

**FIGURE 13.** Large Sources of Funding for Latino-Owned Businesses



SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

Local banks are an important source of relationship banking for Latino-owned businesses where owners can obtain advice and develop relationships directly with the decision-makers deploying capital.<sup>xxi</sup> Still, only one of every two scaled businesses that request large funding amounts from local banks obtains all of the funding requested. Latino business owners overall are more likely to experience a funding shortfall relative to white business owners, with only one quarter receiving full funding compared to half of white business owners.<sup>xxii</sup> Even when considering only scaled Latino-owned firms, we find that they also have difficulty in obtaining full funding across all funding sources.

Unscaled firms are having “large needs met” (>\$100,000) through factoring. That is, when needing large cash amounts, unscaled firms have a 30% success rate with factoring, their highest success rate in the “large needs met” category relative to all other funding types. At a basic level, when factoring, a business sells its accounts receivable at a discount. This type of financing, while convenient, comes at a relatively high cost. Even though unscaled Latino-owned companies are willing to pay a high cost to secure funding, when considering loans of any size, only about one in three of those who seek funding through factoring has “large needs met” as well as “small needs met.”

## REVENUE GROWTH AND PROFITS NOT CORRELATED WITH FINANCING SUCCESS

When looking at all funding requests, we find that the scale of the company correlates with funding success. As shown in **FIGURE 14**, scaled firms are more likely to be approved for most types of financing than unscaled firms. Surprisingly, when considering all funding sought and successfully received *combined*,<sup>16</sup> neither company revenue growth nor profitability shows strong correlations with whether or not a business was successful in securing financing. Thus, while current size or scale matters, funders may be considering other characteristics beyond business growth or profitability when lending or investing. The data gathered from our ongoing research panel will inform direct growth drivers, including capital sources, in the years to come.

When considering all funding sought and successfully received combined, neither company revenue growth nor profitability shows strong correlations with whether or not a business was successful in securing financing.

However, revenue growth is important when considering differences in financing outcomes among specific funding sources. Business with high annual growth rates in revenue were more likely to be approved for large government loans (those in excess of \$100,000), with 53% having their funding needs met versus 24% for those with medium/low annual growth. Common criticism among business owners includes the lengthy requirements and documentation needed to obtain government-guaranteed loans. Firms in a position to demonstrate performance history such as revenue growth may be more likely to have success with this type of funding.

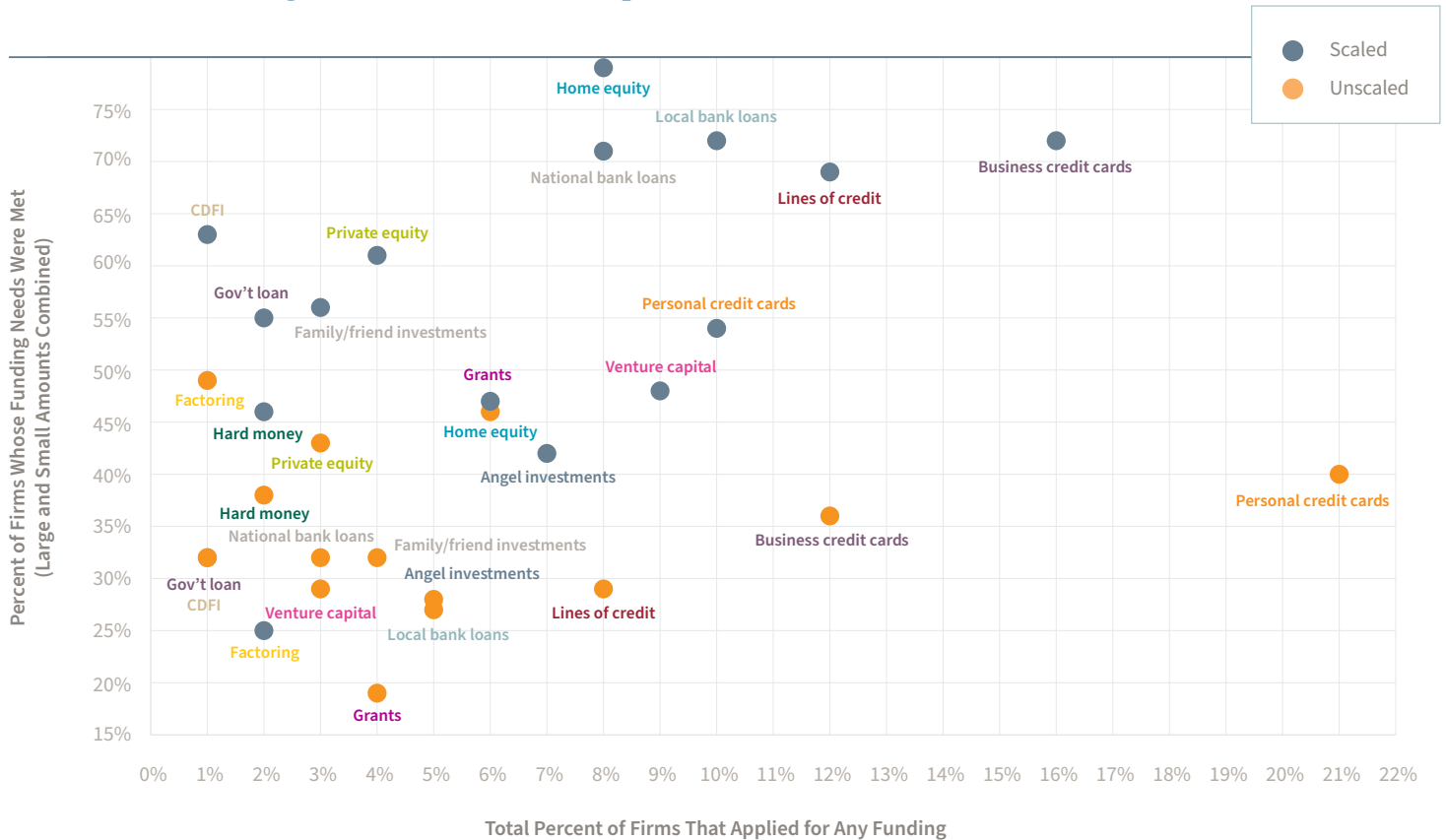
Conversely, firms with low revenue growth are having some success with angel and venture capital financing. These investors typically evaluate companies based on future growth potential and may not view one year of historical growth as an important indicator of future growth.

## SCALED FIRMS HAVE THEIR FUNDING NEEDS MET THROUGH HOME EQUITY

**FIGURE 14** plots the total percent of scaled and unscaled firms applying for each funding source (X-axis) and the percent of funding met regardless of amount requested (Y-axis). Latino-owned scaled firms have a 79% success rate in applying for loans of any size and receiving most or all of the funding requested through home equity loans. Latino business owners are slightly more likely to be homeowners relative to the general Latino population, 49% compared to 47%, respectively.<sup>xxiii</sup> According to the Hispanic Wealth Project,<sup>xxiv</sup> last year Latinos saw the largest increase in number of homeowners since 2005. Thus, while half of Latino business owners may be in a position to seek home equity loans, this type of capital poses personal financial risk. Alternatives with comparable success rates among scaled firms include traditional banking, at both the national and local level, and lines of credit.

<sup>16</sup> See methodology section for the derivation of the combination funding measure.

**FIGURE 14.** Sources of Funding for Latino-Owned Businesses Regardless of Amounts Requested

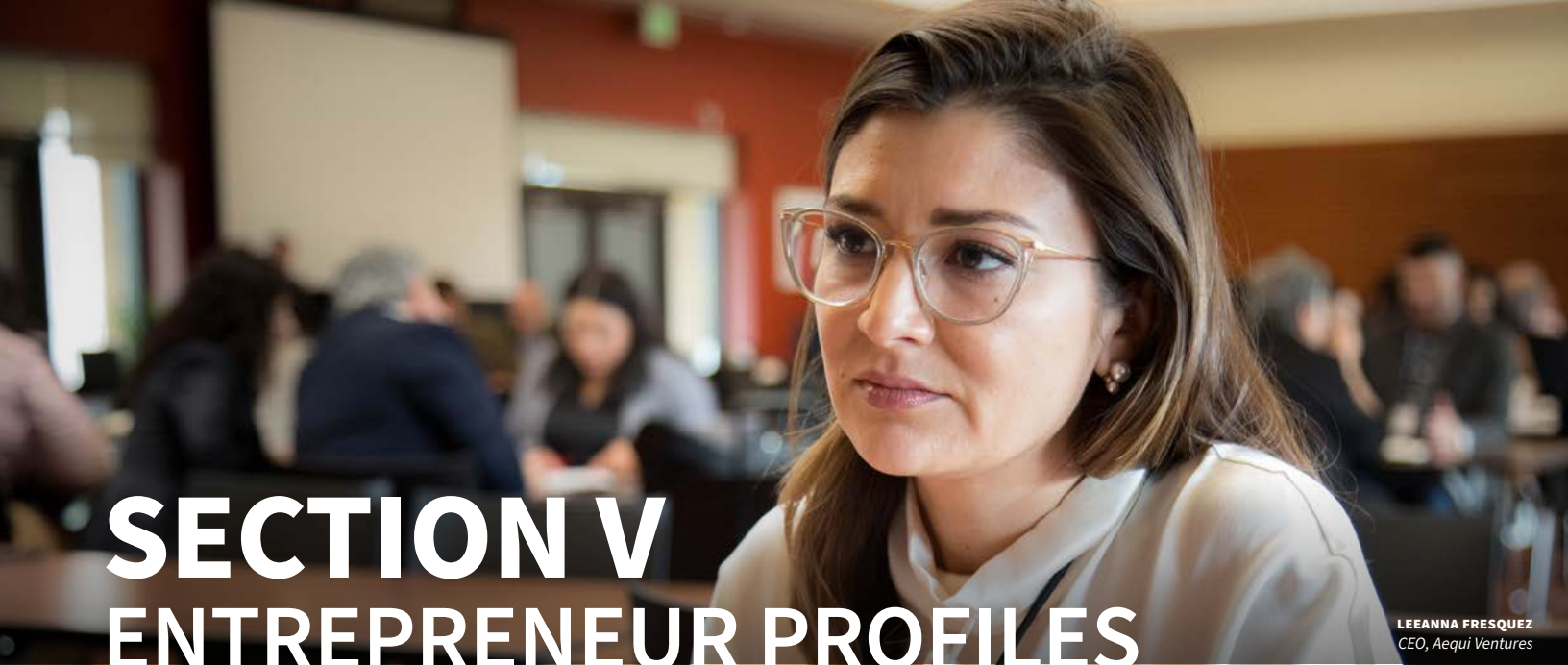


SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019

**CDFIS SERVICING LATINO-OWNED BUSINESSES ARE AN IMPORTANT VEHICLE FOR THE COMMUNITY REINVESTMENT ACT, BUT UNSCALED FIRMS REMAIN UNSUCCESSFUL**

With a focus on low- and moderate-income communities, the Community Reinvestment Act has the potential to support Latino-owned businesses. As noted in previous SOLE reports, Latino-owned businesses are located everywhere, including new immigrant gateways in middle America and places beyond traditional immigrant and low-income enclaves. Nonetheless, Latino-owned businesses are also located in low- and moderate-income communities. Community Development Financial Institutions are often set up to fill the gaps of national banks seeking to meet their Community Reinvestment Act metrics among small businesses that may be deemed higher lending risks. As a result, interest rates may range between 8% and 15%.

While very few Latino-owned firms (1%) of any size applied for CDFI financing, it remains one of the top three funding types in terms of approval rates for large amounts requested (over \$100,000); 33% of employer firms and 48% of scaled firms have “large needs met” through CDFI loans. CDFI loans are typically considered sources for small loan requests, but we find greater success rates among scaled businesses requesting funding (of any loan size) from CDFIs compared to unscaled businesses. Unscaled businesses are largely unsuccessful in obtaining this funding relative to scaled firms. Thus, business size remains an important signal for financing even among capital sources meant to focus on target populations.



LEEANNA FRESQUEZ  
CEO, Aequi Ventures

# SECTION V ENTREPRENEUR PROFILES

Given the growing number of Latino business owners, in this section, we focus on the entrepreneurs themselves—the drivers of Latino-owned business. We examine the personal financial well-being of these entrepreneurs. We use ACS data to advance a Personal Financial Well-Being Index<sup>17</sup> that allows for the comparison of financial well-being between Latino and white business owners,<sup>18</sup> and between Latino business owners and Latino wage workers.<sup>xxv</sup>

## THE PERSONAL FINANCIAL WELL-BEING INDEX IS A COMPOSITE OF THE FOLLOWING THREE COMPONENTS:

- Average total income
- Percent covered by health insurance
- Percent who are homeowners or in the process of acquiring their homes (i.e., through a mortgage or loan)<sup>19</sup>

<sup>17</sup> Read more about the Personal Financial Well-Being Index calculation in the methodology section.

<sup>18</sup> Although we provide analysis for other demographic groups, we primarily compare Latino business owners to white business owners since the latter forms the largest share of business owners compared to all other demographic groups and also is the most predominant non-minority comparison group.

<sup>19</sup> Note that compared to the SLEI Survey of U.S. Latino Business Owners where we ask respondents if they are homeowners, the Census Bureau's American Community Survey (ACS) reports a more expansive definition of homeownership, which not only includes homeowners but also those who are in the process of acquiring their homes through mortgages or loans. Since we calculate our index scores using the census data, we use the latter more expansive definition of homeownership in this section.



**THE PERSONAL FINANCIAL WELL-BEING OF LATINO ENTREPRENEURS HAS IMPROVED OVER TIME**

A Personal Financial Well-Being Index score of 100 is equal to the national index score (i.e., the national average for business owners and wage workers for all demographic groups) for the year. **FIGURE 15** shows that although Latino entrepreneurs' index score was below the national index score (76 versus 100) in 2017, they saw improvement in their financial situation between 2008 and 2017. However, the index score for white entrepreneurs dropped from 121 to 117. It should be noted that changes over the same time period for the remaining demographic groups have been positive, although smaller than those of Latino entrepreneurs. The gap between Latinos and other demographic groups is largely driven by differences in average total income, although homeownership and health insurance coverage contribute as well.

**FIGURE 15.** Changes in Personal Financial Well-Being Index Scores for Entrepreneurs (2008–2017)

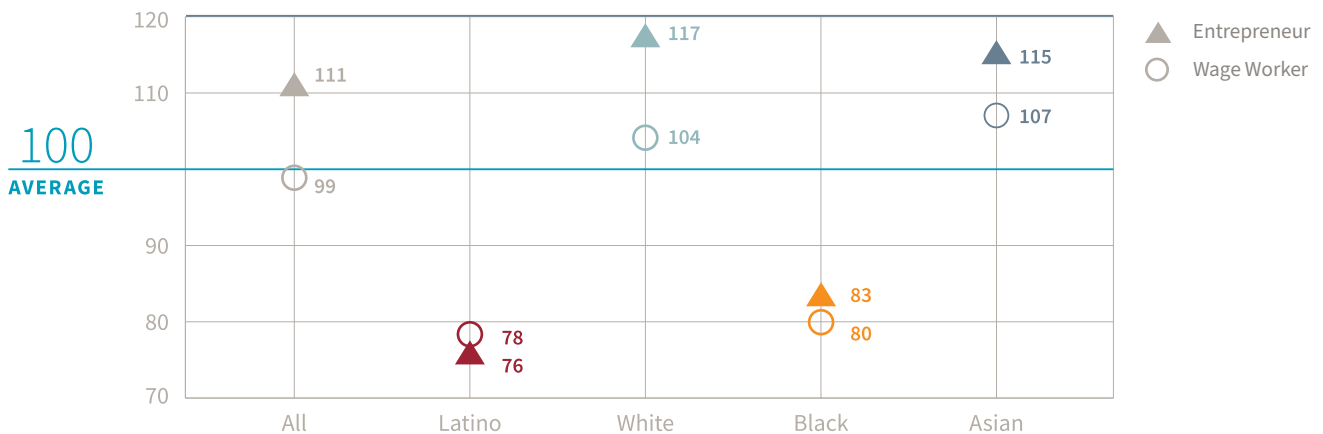


SOURCE: U.S. Census Bureau's American Community Survey, 2008, 2017

**ALTHOUGH ALL U.S. ENTREPRENEURS, ON AVERAGE, EXPERIENCE GREATER FINANCIAL WELL-BEING COMPARED TO WAGE WORKERS, LATINO ENTREPRENEURS AND WAGE WORKERS HAVE COMPARABLE PERSONAL FINANCIAL WELL-BEING**

As shown in **FIGURE 16**, unlike all other entrepreneurs, Latino entrepreneurs do not experience higher financial well-being than Latino wage workers.<sup>20</sup> The gap between Latino entrepreneurs and Latino employees is almost non-existent, with the latter's index score two points higher. In contrast, white business owners have a significantly higher personal financial well-being score when compared to white wage workers (117 compared to 104).

**FIGURE 16.** Personal Financial Well-Being Index Scores for Entrepreneurs Relative to Wage-Working Employees

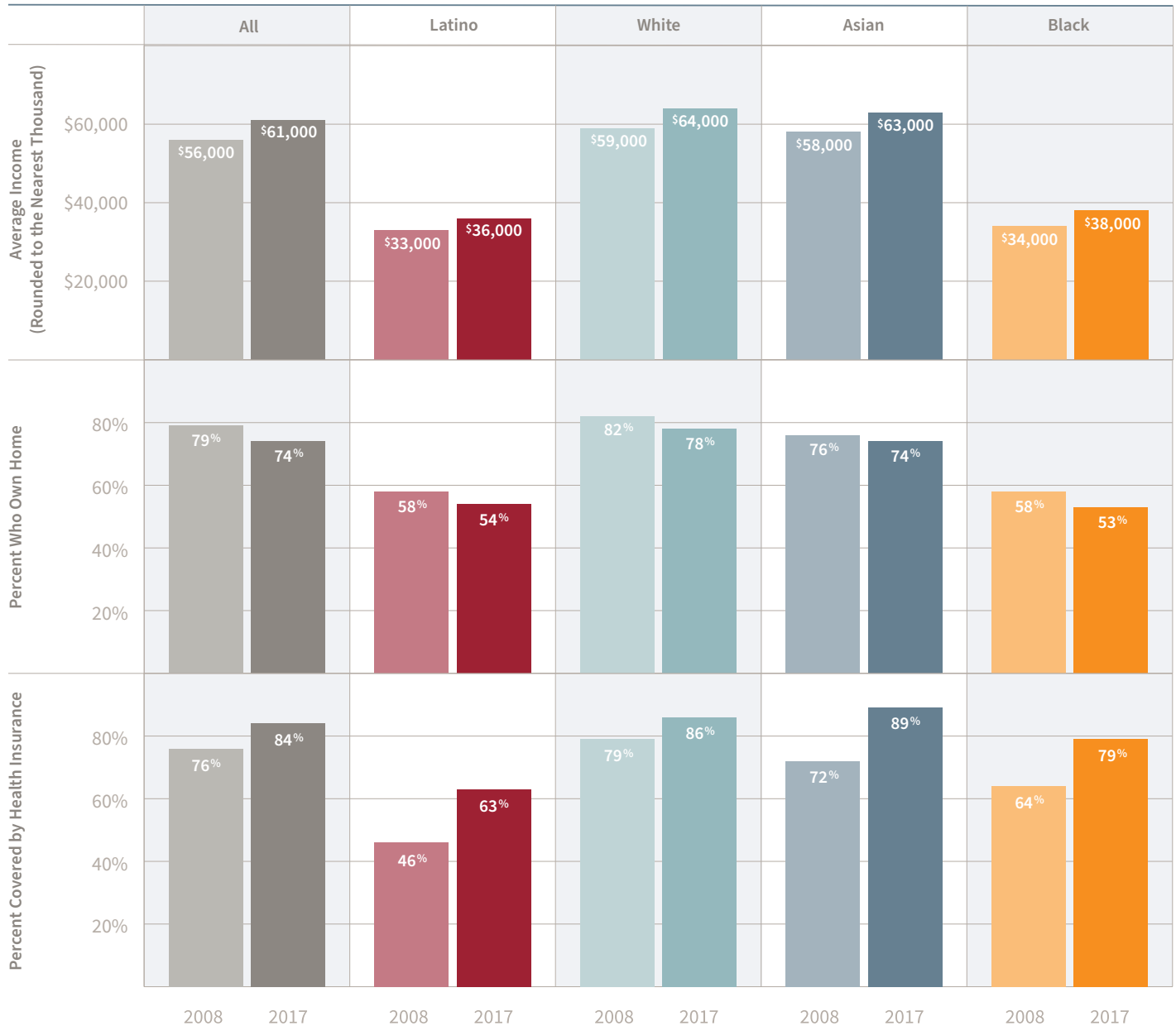


<sup>20</sup> We define wage workers as individuals who are not self-employed.

SOURCE: U.S. Census Bureau's American Community Survey, 2017

As noted above, the Personal Financial Well-Being Index consists of three different components. **FIGURE 17** shows the results for each component across all the major demographic groups in two different time frames, 2008 and 2017.<sup>21</sup> Income differentials over the two time periods for Latino entrepreneurs versus white entrepreneurs remained constant, as did differentials in percentages of home ownership. In the area of health insurance, the gap in percentages between the two groups was narrowed considerably because of much larger numbers of Latino entrepreneurs gaining coverage in 2017 as compared to 10 years earlier.

**FIGURE 17.** Latino Entrepreneur Personal Financial Well-Being Components Compared to Other Demographic Groups Over Time (2008–2017)

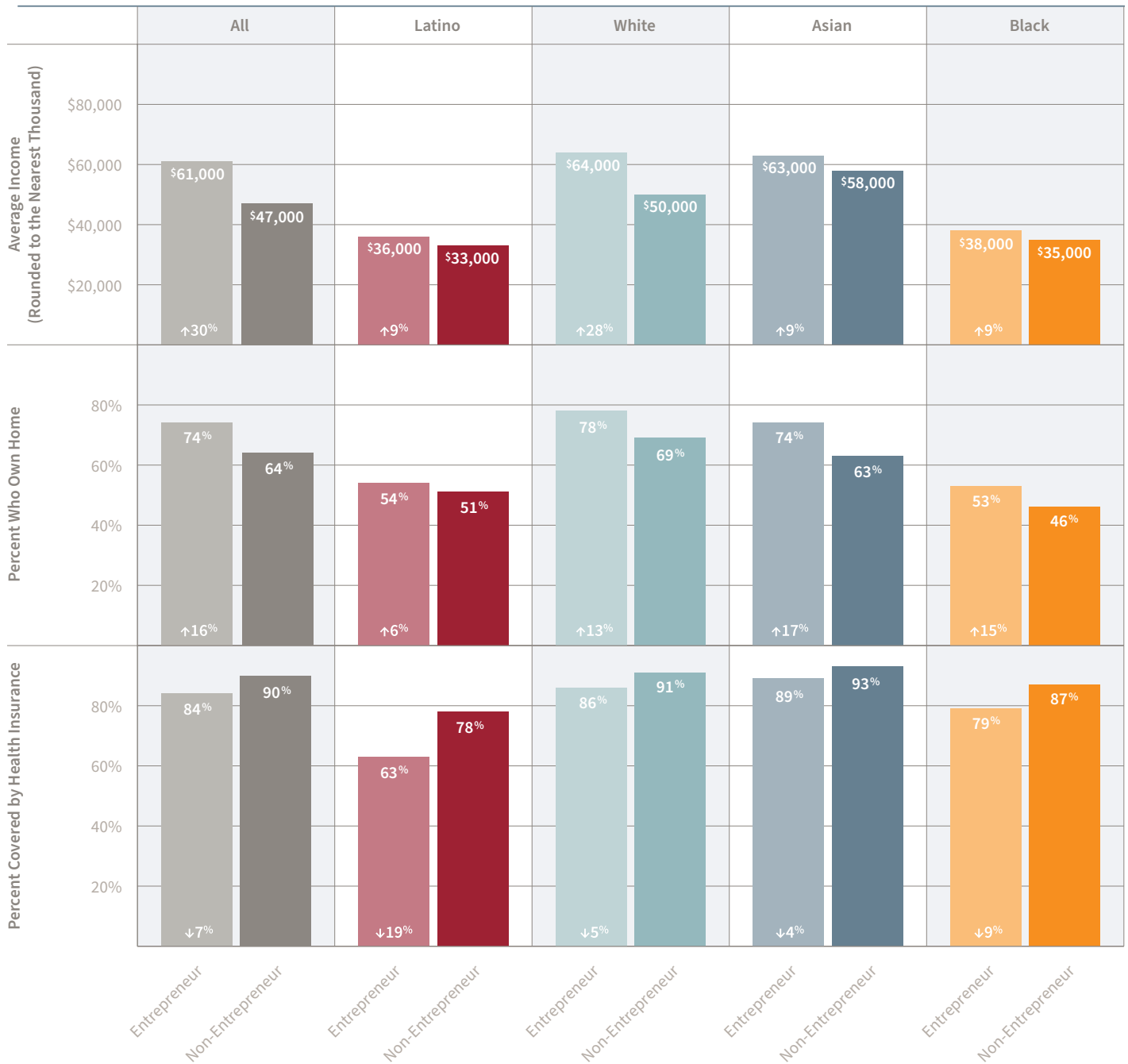


<sup>21</sup> The differences between each comparison group across Figure 17 through Figure 20 are statistically significant at  $p=0.001$ .

SOURCE: U.S. Census Bureau's American Community Survey, 2008, 2017

In **FIGURE 18** we present results for entrepreneurs and non-entrepreneurs for each component of the Personal Financial Well-Being Index, by demographic group. The figure provides data that can be directly contrasted to yield a better picture of how Latinos fare along the three dimensions of the index.

**FIGURE 18.** Entrepreneurs Versus Wage Earners Personal Financial Well-Being Index Components



SOURCE: U.S. Census Bureau's American Community Survey, 2017

NOTE: The arrows show the percent difference between entrepreneurs and non-entrepreneurs.

### LATINO ENTREPRENEURS EARN NEARLY 10 PERCENT MORE THAN LATINO WAGE WORKERS

A key component of the Personal Financial Well-Being Index is personal income. Entrepreneurs of all ethnic backgrounds out-earn their wage working peers, and this holds true for Latinos as well. As shown in **FIGURE 18**, all U.S. business owners on average earned 30% more than all U.S. wage workers (\$61,000 compared to \$47,000) while white business owners earned 28% more than white wage workers (\$64,000 versus \$50,000). Latino business owners also out-earn Latino wage workers, but the entrepreneurship premium is smaller, with Latino business owners earning nearly 10% more (\$36,000 compared to \$33,000).

### ALTHOUGH LATINO ENTREPRENEURS ARE FAR LESS LIKELY TO BE HOMEOWNERS COMPARED TO U.S. ENTREPRENEURS OVERALL, THEY ARE MORE LIKELY THAN WAGE WORKERS TO OWN THEIR OWN HOMES

Although about three out of four of all U.S. business owners were homeowners or were in the process of buying a home in 2017, Latino business owners were behind; only 54% were homeowners (**FIGURE 17**). Home ownership rates fell among entrepreneurs of all backgrounds in the 10 years between 2007 and 2017, as might be expected after the U.S. mortgage crisis in 2007–2010. However, as seen in **FIGURE 18**, all business owners are more likely to own their own home, compared to wage-earning employees (74% compared to 64%). This trend holds true in the Latino community as well, where 54% of Latino business owners own their homes compared to 51% of wage workers.

### BUSINESS OWNERS ACROSS THE U.S. ARE LESS LIKELY TO BE COVERED BY HEALTH INSURANCE THAN WAGE WORKERS, A FINDING THAT HOLDS TRUE FOR LATINOS AS WELL

From our survey, we know that almost 20% more Latino business owners were covered by health insurance in 2019 compared to 2008. Although health insurance coverage rates increased significantly for all entrepreneurs between 2007 and 2017, likely reflecting the impacts and mandates of the Affordable Care Act, health insurance is the one aspect of financial well-being where business owners fare more poorly than wage workers.

Business owners across the United States are less likely to be covered by health insurance than wage workers (84% compared to 90%). And Latino business owners, only 63% of whom have health insurance, have the lowest rate of coverage of any demographic group, whether business owners or wage workers. Even Latino wage workers are less likely to be covered by health insurance than their wage-earning peers from other demographic groups. This highlights the fact that, although an increasing number of Latinos are getting access to health insurance coverage over time, Latinos in general still struggle with health insurance coverage. We speculate that the affordability of health care could be an important issue for Latino business owners.

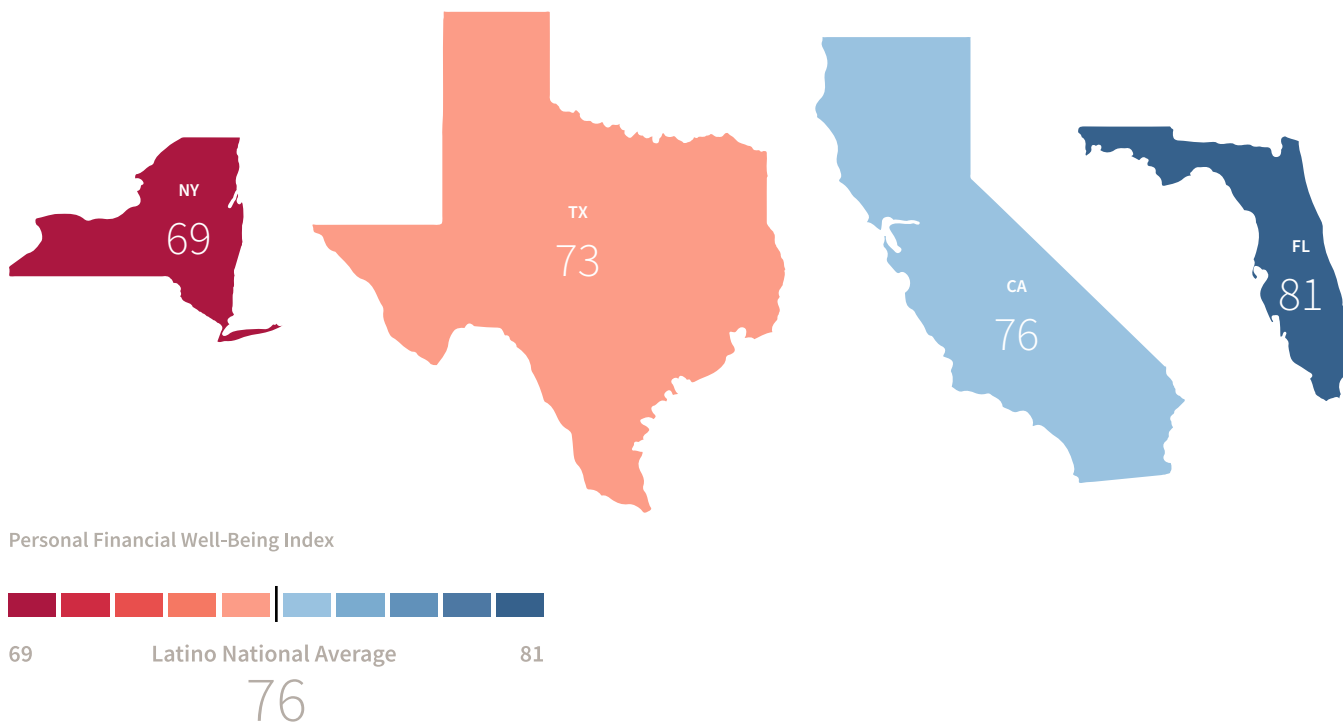
### REGIONAL DIFFERENCES

We find important differences in the financial well-being of Latino entrepreneurs in different regions of the country. **FIGURE 19** provides the Personal Financial Well-Being Index scores for entrepreneurs in the four states with the largest populations of Latino entrepreneurs: California, Texas, Florida, and New York.<sup>22</sup>

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.

<sup>22</sup> Our U.S. Latino Entrepreneurship Gap reports highlight regional trends in detail through state-level and metro-level analysis. Next Gap report forthcoming in 2020.

**FIGURE 19.** Personal Financial Well-Being Index Scores for Latino Entrepreneurs in the Four States with the Largest Number of Latino Entrepreneurs<sup>23</sup>



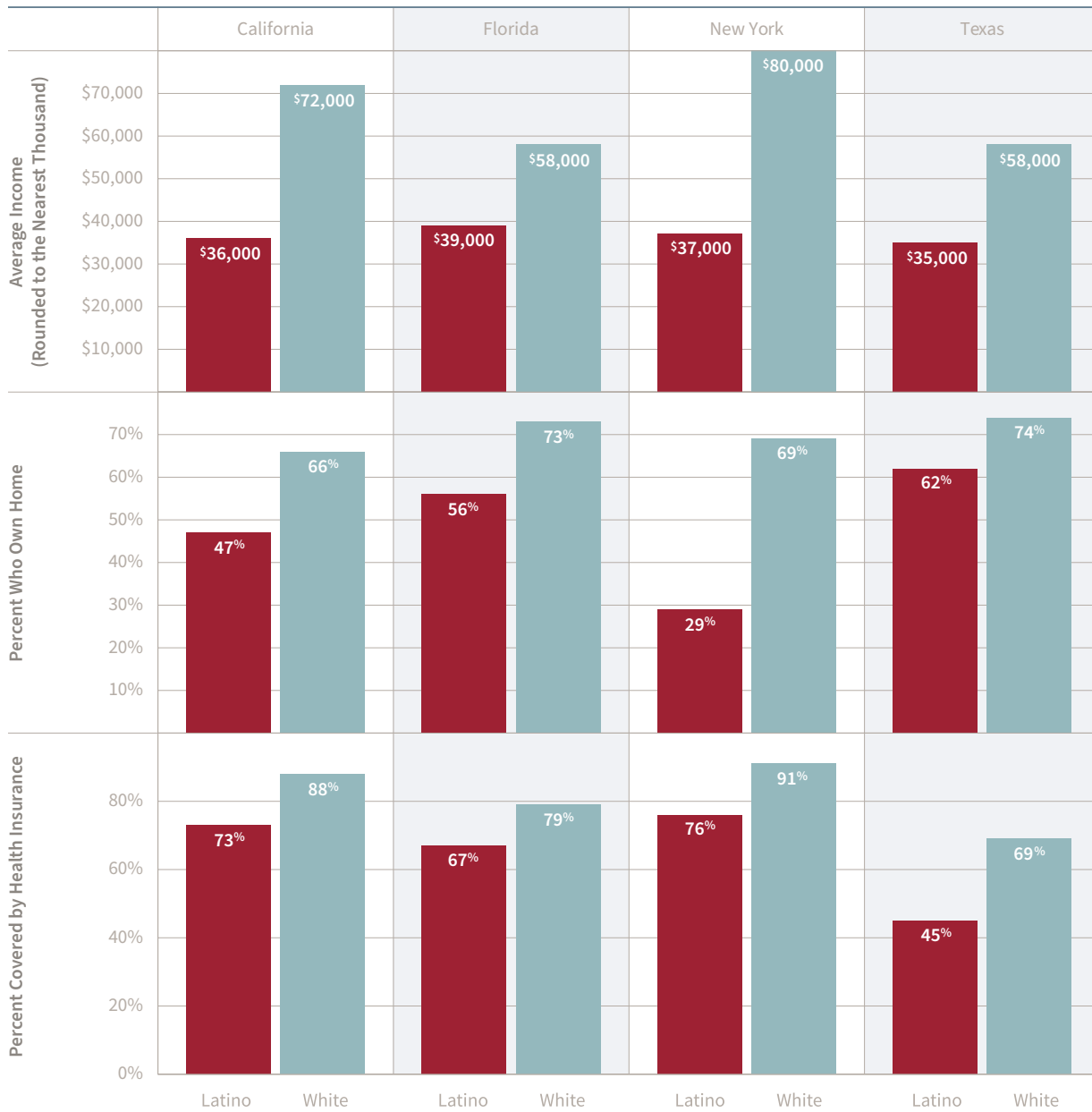
SOURCE: U.S. Census Bureau's American Community Survey, 2017

**AMONG THE TOP FOUR STATES WHERE LATINO-OWNED BUSINESSES ARE LOCATED, LATINO BUSINESS OWNERS EXPERIENCE THE GREATEST PERSONAL FINANCIAL WELL-BEING IN FLORIDA**

Latino entrepreneurs in the four states shown above experience lower personal financial well-being when compared to the financial well-being of an average U.S. business owner (regardless of race or ethnicity). Latino business owners experience the highest relative personal financial well-being in Florida, followed by California, Texas, and New York. Florida is the only state where the index score for Latino entrepreneurs is higher than the national index score for Latino entrepreneurs (81 compared to 76), meaning Latino entrepreneurs in Florida experience greater personal financial well-being than an average U.S. Latino business owner. The index score for California equals the average national index score for Latino entrepreneurs. Following is an examination of the three components of the index score (**FIGURE 20**) as an initial step to better understand the drivers of the overall results.

<sup>23</sup> The index is normalized by the overall national average for all business owners, such that an index score of 100 equals the national average.

**FIGURE 20.** Entrepreneur Personal Financial Well-Being Index Components for Entrepreneurs in the Four States with the Largest Number of Latino Entrepreneurs



SOURCE: U.S. Census Bureau's American Community Survey, 2017

**AMONG THE TOP FOUR STATES, DIFFERENCES IN PERSONAL FINANCIAL WELL-BEING OF LATINO ENTREPRENEURS ARE PRIMARILY DRIVEN BY LARGE GAPS IN PERCENTAGES OF HOME OWNERSHIP AND HEALTH COVERAGE**

Surprisingly, **FIGURE 20** shows that average income for Latino entrepreneurs across the four states is almost the same, ranging from \$35,000 in Texas to \$39,000 in Florida. In contrast, at 62% home ownership, Texas Latino entrepreneurs far outstrip New York, whose home ownership level is 29%. In the insurance coverage area, the reverse occurs, with New York outstripping Texas 76% versus 45%. In each case, the gap in percentage points is almost the same: 33 versus 31. Understanding why income is so flat across the states is an important topic for future research.

Although Latinos are starting businesses at a greater rate compared to all other demographic groups, our Personal Financial Well-Being Index demonstrates that there remains a large, albeit gradually decreasing, gap in the financial well-being of a Latino entrepreneur when compared to all other demographic groups.

As shown in **FIGURE 20**, in terms of average income and homeownership, the gap when compared to white business owners is the largest in New York. Latino entrepreneurs in New York earn less than half as much as white business owners (\$37,000 compared to \$80,000), and the share of Latino entrepreneurs who are homeowners or are in the process of buying their home was also less than half that of white business owners (29% compared to 69%). These gaps in income and homeownership largely drive down the personal well-being index score in New York. Latino business owners struggle the most with health insurance coverage in Texas, which, along with the gaps across the other components, brings the personal financial well-being of Latino entrepreneurs in Texas below the national average for Latino entrepreneurs.

Although Latinos are starting businesses at a greater rate compared to all other demographic groups, our Personal Financial Well-Being Index demonstrates that there remains a large, albeit gradually decreasing, gap in the financial well-being of a Latino entrepreneur when compared to all other demographic groups.

# SECTION VI CONCLUSION



**XAVIER SEGURA**  
Managing Partner, Tessera Venture Partners

We find that Latino business owners are faring better than the general Latino population on a number of personal financial well-being components.

## IMPLICATIONS FOR LATINO ENTREPRENEURS, POLICYMAKERS, AND LENDERS

The 2019 SLEI Survey of U.S. Latino Business Owners, in conjunction with census data on other groups, reveals new insights into Latino business owners and their businesses. We find that Latino business owners are faring better than the general Latino population on a number of personal financial well-being measures. Still, there are important gaps in the rates of homeownership, health insurance coverage, and income when compared to white business owners.

The funding framework and additional growth strategies outlined in this report may provide insights that Latino-owned businesses can consider when planning for revenue growth:

- Consider diversifying funding sources and know the characteristics related to funding outcomes in the financing matrix (i.e., success rates of a particular funding source); establish relationships with capital providers before funding is needed
- Since liquidity is strongly correlated with growth, consider creating and implementing structured liquidity plans
- Learn about government incentives for investment in low- to moderate-income and/or minority communities like opportunity zones
- Assess whether certifications can help secure attractive contracts with government and/or corporations

The study also provides a detailed look at the capital experiences among Latino entrepreneurs given the current capital landscape, surfacing important findings in the shortfall of traditional lenders which may result in suboptimal financing. Our ongoing work in resurveying the same Latino-owned businesses over time will provide important insights into the specific capital drivers of growth in future reports.

The findings from this year's SLEI Survey of U.S. Latino Business Owners may be useful for Latino entrepreneurs evaluating growth opportunities, public policymakers looking to support the continued growth of all businesses, particularly minority-owned firms, and others interested in understanding the drivers and challenges of business growth in the current U.S. economy.



# A: Methodology

## Appendix

### OVERVIEW OF THE SLEI SURVEY OF U.S. LATINO BUSINESS OWNERS

Since 2015, the Stanford Latino Entrepreneurship Initiative has collected national survey data on Latino-owned businesses across the country and Puerto Rico on a yearly basis. To be considered for the survey, respondents must answer two questions affirmatively: Are you a business owner, and are you of Latino or Hispanic origin. (If yes to the second, they simultaneously specify country/ancestry.) These two parameters present an expansive view of business ownership in that it considers self-employed individuals and those whose business ownership may not be the primary means of livelihood. The survey instrument is an online questionnaire administered through the Qualtrics platform that typically takes 10 to 15 minutes to complete. Respondents are sampled through proprietary business panels and internal outreach.

### DATA PREVIOUSLY COLLECTED

The SLEI Survey of U.S. Latino Business Owners uses proprietary business panels from Qualtrics and internal outreach efforts, such as Hispanic chambers of commerce social media, and previous survey respondents. Respondents are current business owners who self-identify as Latino. We obtained sample sizes of 1,664 in 2015; 4,910 in 2016; 5,026 in 2017; 4,781 in 2018; and 4,953 in 2019. In 2016–2019, the majority of responses were collected using the Qualtrics platform. In 2015, the majority of responses were obtained through a phone survey.

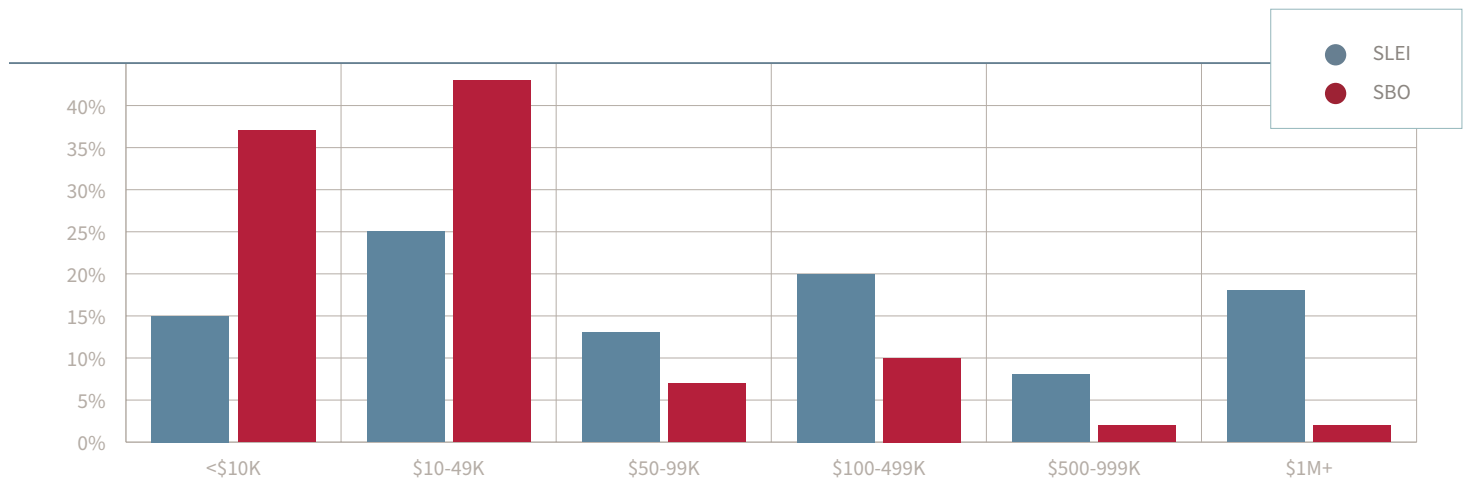
### 2019 SAMPLING

In 2019, 88% of responses were collected through Qualtrics and 12% of responses were collected through internal outreach efforts that included our research panel of U.S. Latino business owners, partnerships with HCCs from across the country, the USHCC, local community-based organizations in new entrepreneurial gateways and hard-to-reach places (e.g., business owners in Puerto Rico), and social media outreach. While the outreach methodology for Qualtrics is not shared with us, we know Qualtrics uses multiple proprietary panels, and they are able to reach Latino business owners across the country. We also know there is panel engagement through the use of financial incentives, but the monetary amounts are unknown. Nearly 5% of all responses were collected from a Spanish-language questionnaire primarily from Qualtrics (6%) and from internal outreach efforts (4%).

In addition to the 2019 survey, we supplement our data with the 2012 U.S. Census Bureau’s Survey of Business Owners, the 2016 Annual Survey of Entrepreneurs, and the 2017 American Community Survey. Overall, our survey respondents are generally representative of Latino business owners at large, in terms of industry, geography, and age of business. **FIGURE 21** below compares business revenue between the unweighted 2019 SLEI survey and the 2012 SBO, which shows that we oversampled the larger businesses, but undersampled the small businesses that generate less than \$50,000. We adjust for these sample differences by weighting to estimates from U.S. census data.

To more closely match the population of Latino-owned firms in the United States, we weight by revenues and number of employees, based on 2012 SBO, and industry and region, based on 2017 ACS. We use a statistical technique known as “raking,” which uses iterative post-stratification weights to match the marginal distributions of each survey sample to known population margins. We stratify based upon industry, region, and firm size (in terms of both employees and revenue). We then compare the group of businesses in each stratum to the comparable population of businesses in the nation. Many of the calculations in the report account for firm industry and age by using fixed effects—holding industry and age constant—to ensure that differences in firm-level characteristics cannot explain other differences we observe. Additionally, we report findings based on statistically significant differences in means when comparing two groups.

**FIGURE 21.** 2019 Unweighted SLEI Survey Compared to 2012 SBO (Business Revenue)



SOURCE: SLEI Survey of U.S. Latino Business Owners, 2019; SBO, 2012

### ANNUAL REVENUE GROWTH RATE

A simple annual revenue growth rate formula captures revenue growth from one year to the next year:

$$\text{ANNUAL REVENUE GROWTH RATE} = \frac{\text{Revenue in the past 12 months}}{\text{Revenue 2 years ago}} - 1$$

### 5-YEAR COMPOUND ANNUAL GROWTH RATE IN REVENUE

A simple growth rate formula captures revenue growth from one year to the next year. Because CAGR considers average growth rates over a specific time period, this more accurately captures the growth we seek to measure for a five-year period. We calculate the 5-year CAGR as follows:

$$\text{5-YEAR CAGR} = \left( \frac{\text{Revenue in the past 12 months}}{\text{Revenue 5 years ago}} \right)^{(1/4)} - 1$$

Note that despite referring to the figure above as “5-year” CAGR in our analyses, we consider the number of years (i.e., periods) to be four since the revenue figures that we asked for in our survey (“Revenue in the past 12 months” and “Revenue five years ago”) were four years apart. We still call it “5-year” CAGR since we are comparing revenue from five years ago to revenue over the past 12 months.

### LIQUIDITY SCORE

We leveraged four statements to calculate the liquidity score composite measure. On a scale of one to five, one equals low liquidity and five equals high liquidity. The statements include:

1. My business has ample liquidity (available cash) to operate without the need for credit (mean=3.36): Strongly Agree (5); Agree (4); Neither (3); Disagree (2); Strongly Disagree (1)
2. My business is impacted by length of terms of payment my customers use (mean=2.85): Strongly Agree (1); Agree (2); Neither (3); Disagree (4); Strongly Disagree (5)
3. I use personal credit or lines of credit to cover business expenses (mean=2.99): Strongly Agree (1); Agree (2); Neither (3); Disagree (4); Strongly Disagree (5)
4. Months business can operate on available cash and savings (mean=2.80): 0 months (1); 1–2 months (1); 3–4 months (2); 5–7 months (3); 8–12 months (4); More than a year (5)

### PERSONAL FINANCIAL WELL-BEING INDEX

We define self-identified self-employed individuals from the U.S. Census Bureau’s American Community Survey<sup>xxvi</sup> to be entrepreneurs and compute a composite Personal Financial Well-Being Index for Latino, white, Asian, and black entrepreneurs and wage workers using the following three components:

- Average total income
- Percent covered by health insurance
- Percent who are homeowners or in the process of acquiring their homes (i.e., through a mortgage or loan)

Each component above is normalized to a score of 100 using the overall national average across both self-employed individuals and wage workers for the component as follows:

$$\text{Component Score}_{i,j} = \frac{\text{Component}_{i,j}}{\text{National Average for the Component}},$$

where  $i$  = Demographic group and  $j$  = State

We then compute an equally weighted average of the three components to create a composite index.

Compared to our national survey where we ask respondents if they are homeowners, the U.S. Census Bureau’s American Community Survey reports a more expansive definition of homeownership, which not only includes homeowners but also those who are in the process of acquiring their homes through mortgages or loans. Since we calculate the index scores using the U.S. Census Bureau’s ACS data, we use the latter more expansive definition of homeownership for the above calculations.

### COMBINATION FUNDING SUCCESS MEASURE

We calculate a binary combined funding success measure, which considers the following firms to be successful in acquiring funding:

- Firms that fall in the “large needs met” group (applied for \$100,000+ and were approved for all or most of it) in our financing matrix for any funding source
- Firms that fall in the “small needs met” group (applied for less than \$100,000 and were approved all or most of it) for any source AND not in the “large needs unmet” group (applied for \$100,000+ and were not approved all or most of it) for any funding source

### RESEARCH PANEL SURVEY SAMPLING

In 2018, we created a panel of U.S. Latino business owners in order to commence longitudinal surveys of a national business owner population. In 2018, we registered 1,223 business owners for the panel, and an additional 96 survey respondents indicated in the 2019 national survey that they would be interested in participating in future surveys. Eighteen percent of our panelists who registered in 2018 responded to the 2019 survey. Of these respondents, 73 had also responded to the 2018 national survey.

# B: Glossary of Terms

## **BUSINESS CERTIFICATION (CERTIFIED)**

Business certification exists to address social and economic disadvantages among minority-owned firms. Business certifications that are considered include: Minority-Owned Business or Minority Business Enterprise; Woman-Owned Business Enterprise; Small Business Administration Program 8(a); and Veteran-Owned Business Enterprise.

## **EMPLOYER FIRM**

A firm that has employee(s) on payroll. These firms are poised to have the greatest impact on the economy and job creation compared to non-employer firms.

## **ENTREPRENEUR**

Someone who starts or owns a business, regardless of industry or business idea.

## **EXTERNAL FUNDING**

Funding used to start or grow a business that comes from sources outside of the business owner's personal network. This includes loans from financial institutions and government, venture capital, and angel investments.

## **INTERNAL FUNDING**

Funding used to start or grow a business that comes directly from the business owner's personal savings, family, and/or friends. This includes personal loans and credit cards.

## **LARGE NEEDS MET**

A categorization of Latino-owned businesses in the financing matrix who apply for high amounts (more than \$100,000) of funding and obtain most or all of the amount requested.

## **LARGE NEEDS UNMET**

A categorization of Latino-owned businesses in the financing matrix who apply for high amounts (more than \$100,000) of funding and obtain some or none of the amount requested.

## **MICROBUSINESS**

A business generating less than \$49,000 in annual gross revenue.

## **MID-SIZE BUSINESS**

A business generating \$50,000–\$1 million in annual gross revenue.

## **NON-EMPLOYER FIRM**

Firms with no paid employees, annual business receipts of \$1,000 or more (\$1 or more in construction industry), and subject to federal income taxes. These firms make up three-quarters of all U.S. businesses but account for only about 3% of business receipts, according to the SBA.

### **OPPORTUNITY SHARE OF NEW ENTREPRENEURS**

The percent of the total number of new entrepreneurs who were not unemployed and not looking for a job as they started a new business. “Opportunity entrepreneurs” include those coming out of wage and salary work, school, or other labor market status, and “necessity entrepreneurs” include those coming out of unemployment. Reported from the Kauffman Indicators of Entrepreneurship.

### **RATE OF NEW ENTREPRENEURS**

This indicator captures all new adult business owners, including those who own incorporated or unincorporated businesses, and those who are employers or non-employers. Reported from the Kauffman Indicators of Entrepreneurship.

### **SCALED FIRM**

A firm that is generating at least \$1 million in annual gross revenue.

### **SELF-EMPLOYED INDIVIDUALS**

Different large-scale surveys use different definitions to report on business owners. The U.S. Census Bureau’s Current Population Survey and American Community Survey on “self-employed” individuals defines them as individuals who categorize themselves as being self-employed in their own incorporated or unincorporated business, professional practice, or farm. Thus, the number of business owners is different from the number of businesses, since one business owner may have multiple firms. Moreover, although we use self-employed individuals to report on business owners in the United States, when using census data we most likely underreport the number of business owners, since all business owners may not identify themselves as self-employed when completing the census survey.

### **SMALL NEEDS MET**

A categorization of Latino-owned businesses in the financing matrix who apply for low amounts (less than \$100,000) of funding and obtain most or all of the amount requested.

### **SMALL NEEDS UNMET**

A categorization of Latino-owned businesses in the financing matrix who apply for low amounts (less than \$100,000) of funding and obtain some or none of the amount requested.

### **SOLOPRENEUR**

An entrepreneur without employees.

### **UNSCALED FIRM**

A firm that is not yet generating at least \$1 million in annual revenue.

# C: References

## Appendix

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# ABOUT US

## **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 430 alumni from 30 states and Puerto Rico who collectively generate over \$1.6 billion in annual revenue.

## **LATINO BUSINESS ACTION NETWORK**

This survey was made possible in part thanks to support for the Latino Business Action Network 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. To learn more, visit [www.lban.us](http://www.lban.us).

## **STANFORD GRADUATE SCHOOL OF BUSINESS**

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