An Inclusive Economy Starts Here

Insights from 1,274 established small businesses across place, race, and ethnicity

INTERise
2019 Impact Report

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AN INCLUSIVE ECONOMY STARTS HERE

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ABOUT INTERISE
Interise is a national nonprofit that works to create an inclusive economy by supporting the growth of established small businesses that are located in low- and moderate-income communities or minority-owned. We achieve mission through bold programs that close gaps in business knowledge, know-how and networks; purposeful research that turns insights into actions; and national partnerships that create impact at local, regional, and statewide levels.

OUR RESEARCH
Interise is a trusted source for insights and trends on established small businesses. By surveying our national network of Interise small business owners, we define powerful insights around entrepreneurship, and the complex systems that influence small business growth.
inclusive economy
1. noun
in which all people can shape the economy and its direction and all people can benefit from economic growth and prosperity — across place, race, and ethnicity
With rising income and wealth inequality in America, we know that the current economic system is broken for the vast majority, and benefits the few.

- The top 1% of the richest individuals holds more wealth than the entire middle class.¹
- The proportion of black families with no or negative wealth (their debts exceed assets) rose by over 8% between 1983 and 2016 to 37%.²
- The proportion of Latinx families with zero or negative net worth is declining but is still more than twice as high when compared to white families.³

The current economic system traps Americans in a cycle of intergenerational poverty, imperiling our future.

Closing the wealth gap is the right thing to do, and the business case backs that up. It is estimated that the current wealth gap will decrease the country’s economic productivity by more than one trillion dollars over the next ten years.⁴

Creating an inclusive economy is the way forward.

AN INCLUSIVE ECONOMY STARTS HERE

Business ownership is part of the solution.

Research shows that families who own a business have higher median net worth than families who do not.⁵

Black families who own a business have 8 times the net worth of black families who do not. Similarly, Latinx families who own a business have 4 times the net worth of Latinx families who do not.

Small business development is a proven strategy that closes the wealth gap, powering economic development and job creation across place, race, and ethnicity.
Interise is laser-focused on building capacity for established small businesses that are located in low- and moderate-income communities or minority-owned. Our StreetWise ‘MBA’™ executive education program has changed the trajectory for established, employer businesses across the country. Interise businesses achieved an average revenue growth of 36%, and a job creation rate that is 4 times that of the private sector in 2018.

According to Interise data, our network of small businesses more frequently created jobs with higher salaries and better benefits than the private sector. These employers are likely to hire locally, with minority business owners also more likely to hire minorities.⁶ These jobs positively impact employees and their families by building wealth and reinforcing broader economic development.

Scaling small minority-owned businesses addresses the racial wealth gap head on — creating wealth for business owners, employees, and their communities.

**America cannot close its wealth gap, without first closing its racial wealth gap.**

In a time when the gap between the richest and poorest Americans is at its widest in at least a century, we must do better to create an inclusive economy, addressing the systemic issues that prevent sustainable change and impact.

To this end, Interise has launched a number of new strategic programs over the last year:

- **Accelerate Latinx Powered by Interise**, announced at the annual meeting of the US Conference of Mayors, is hosted by partners in five cities across the country, and tailors the best practices of the StreetWise ‘MBA’™ for Latinx business owners.
- **Leadership in Equitable Anchor Procurement (LEAP)** aligns local small businesses and procurement systems to increase business-to-business (B2B) opportunities between anchor institutions and disadvantaged business enterprises.
- **Interise Research** has a widened focus to uncover new and important insights that push on system change, and lead to a more inclusive economy.

Interise’s 2019 Impact Report shows, undeniably, that small businesses play not only a crucial role in job creation, but also hold the keys to solving one of America’s most intractable problems: economic inequality. Because small businesses are central to closing the wealth gap, we need to rebuild systems that sustain their growth and success. Read on to learn how Interise partners, practitioners, and small business owners can further lead this movement to create a truly inclusive economy.
IMPACT FOR AN INCLUSIVE ECONOMY

Growing Revenue

Consistent with previous years of Interise Impact Reports, alumni companies experienced double-digit revenue growth rates. Interise companies grew by an average rate of 36%, with average annual revenue just shy of $2,040,000. Revenue growth was even stronger among businesses that reported positive revenue growth (63%).

THE INTERISE COMPANY

The Interise Company

Top 5 Industries

- Professional Services
- Construction
- Manufacturing
- Healthcare & Social Assistance
- Administrative & Support Services

Average Number of Full-Time Jobs

- Before Interise: 15
- After Interise: 17

Average Annual Revenue

- Before Interise: $1,497,000
- After Interise: $2,040,000

* Measured in full-time equivalents

Interise tracks the performance of Interise companies over three annual assessments. Examining revenue over annual assessments, revenue was slightly larger in the first and second annual assessments compared with the pre-program assessment. Revenue was markedly larger in the third annual assessment, likely correlated with fuller implementation of Strategic Growth Action Plans™, which are developed by business owners during the StreetWise “MBA”™.

Average Revenue Before & After Interise

![Graph showing revenue growth over three years](image-url)
When comparing revenue outcomes across place (census tract), race, and ethnicity segments of Interise companies, we revealed several insights. The average percent growth in revenue was highest for Latinx businesses at 64%, compared to minority-owned businesses at 43%, white-owned businesses at 24%, and an average of 36% for all businesses.

Average annual revenue was fairly similar across segments; however, minority-owned businesses reported the lowest revenue at $1,808,000, which was about $340,000 less than white-owned businesses, and about $146,000 less than Latinx-owned businesses.

Among those responding to their first annual assessment, the average revenue was markedly higher among white business owners than minority or Latinx business owners. The difference in revenue across demographic segments began to shrink among those responding to their second annual assessment, and was not present among those responding to their third annual assessment.

Minority and Latinx respondents who were three years removed from the StreetWise ‘MBA™ reported revenues similar to white respondents. The creation of an equitable small business ecosystem would allow for closing the income gap, and ultimately the racial wealth gap.

We find another notable insight at the intersection of race and place. Minority entrepreneurs operating businesses in low- and moderate-income communities saw the largest average percent growth in revenue at 77% across all businesses, and a remarkable 131% growth among businesses with positive revenue growth. This supports Interise’s belief that minority-owned businesses operating in low- and moderate-income communities have even greater need for knowledge, know-how, and networks.

Revealed through the intersection of ethnicity and place, the average growth rate for Latinx businesses was twice as high (66%) in middle- and upper-income communities as compared to those in low- and moderate-income communities (33%). The overall growth rate of Latinx-owned businesses was driven by those located in higher income areas.
CREATING GOOD JOBS WITH GOOD BENEFITS

Interise businesses created quality jobs at a much higher rate than other private sector businesses. Benchmarked against data from the Bureau of Labor Statistics, Interise companies network-wide created jobs at 4.1 times the rate of the private sector in 2018. This difference was even greater when comparing Interise companies in low- and moderate-income areas to the national average, as this segment created jobs at a rate 6.7 times higher than the private sector.

Across the alumni network, 52% of respondents created new jobs. The portion of respondents creating jobs across race and ethnicity ranged from 54% among Latinx-owned businesses to 51% among white-owned and minority-owned businesses.

Measured in full-time equivalents (FTEs), the average number of jobs created among businesses in low- and moderate-income census tracts was higher (1.6 jobs per business) than among businesses in middle- and upper-income areas (1.1 jobs). Among job creators, those in low- and moderate-income census tracts exhibited a higher job creation rate (5.4 jobs) than those in middle- and upper-income areas (4.9 jobs). Job growth was driven by outcomes in low- and moderate-income areas more so than in middle- and upper-income areas, a finding that holds across race and ethnicity.
Looking at job creation outcomes from the perspective of race and place, the average number of jobs created remained higher in low- and moderate-income areas across racial and ethnic segments of alumni. Among businesses that created jobs, minority-owned and white-owned businesses in low- and moderate-income areas led on job creation.

One cannot overlook the magnitude of impact by racial and ethnic minorities, especially in low-and moderate-income communities—where good jobs are needed the most. Minority-owned businesses in low- and moderate-income areas created on average 1.3 jobs per business; and among job creators, 5.7 jobs. Likewise, Latinx-owned businesses created 1.6 jobs on average; and among job creators, 4.3 jobs.

Business owners also reported that 60% of their full-time staff was hired from within their community. On average, minority- and Latinx-owned businesses hired greater percentages of their employees from the local community regardless of income. Minority-owned businesses hired 69% locally, while Latinx-owned businesses hired 61% locally, and white-owned businesses hired 55% locally. Low- and moderate-income businesses had slightly higher percentages of local employees (62%) than their middle- and upper-income counterparts (59%).

Findings consistent with previous Interise Impact Reports, Interise companies continued to create good jobs with salaries and benefits that exceeded the private sector. The average salary of new full-time positions registered at $53,700, which was $1,740 or 3% higher than the national average in 2018.¹ Salary and benefits results by demographic segment were not possible due to insufficient sample sizes. Interise alumni offered healthcare benefits and paid sick time, vacation, and holidays at a greater rate when compared to private sector firms of a similar size, measured at 1-49 employees.¹¹

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Interise</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement</td>
<td>47%</td>
<td>49%</td>
</tr>
<tr>
<td>Medical</td>
<td>58%</td>
<td>51%</td>
</tr>
<tr>
<td>Paid Sick</td>
<td>72%</td>
<td>60%</td>
</tr>
<tr>
<td>Paid Vacation</td>
<td>80%</td>
<td>69%</td>
</tr>
<tr>
<td>Paid Holidays</td>
<td>78%</td>
<td>70%</td>
</tr>
</tbody>
</table>
WINNING PROCUREMENT OPPORTUNITIES

Procurement is an effective means to increase B2B revenue streams with the added benefit of improving supplier diversity for the purchasing institutions. The value of all new contracts was $895 million secured by 34% of respondents. Among alumni companies reporting new contacts, the average value per firm was $2,400,000.

Interise companies with new contracts reported government as the largest buyer of their goods and services, accounting for 79% of contracts by value. At 90%, minority-owned businesses received the largest portion of their contracting dollars from government, followed by Latinx-owned businesses at 76% and white-owned businesses at 68%.

Interise asserts that the larger proportions of the value of federal contracts going to minority- and Latinx-owned companies are due to specific supplier diversity goals set forth by the federal government.¹²

While government contracting comprised the largest portion for minority businesses, this trend was reversed in doing business with anchor institutions and corporations, where white-owned businesses had higher portions of their contracting relative to Latinx- and minority-owned businesses.

With respect to place, the average value of new contracts in middle- and upper-income census tracts ($2,843,000) was more than double the value in low- and moderate-income areas ($1,353,000). Latinx business owners in middle- and upper-income areas reported a lower average value of new contracts ($1,741,000) than their white ($3,017,000) and minority ($2,945,000) peers. However, Latinx businesses in low- and moderate-income census tracts saw a higher value on average ($2,355,000) than white ($1,022,000) and minority businesses ($1,301,000).¹³

SOURCES OF NEW CONTRACTS

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>56%</td>
<td>Federal Government</td>
</tr>
<tr>
<td>9%</td>
<td>State Government</td>
</tr>
<tr>
<td>14%</td>
<td>Local Government</td>
</tr>
<tr>
<td>14%</td>
<td>Corporations</td>
</tr>
<tr>
<td>7%</td>
<td>Anchor Institutions</td>
</tr>
</tbody>
</table>

¹² Interise asserts that the larger proportions of the value of federal contracts going to minority- and Latinx-owned companies are due to specific supplier diversity goals set forth by the federal government.

¹³ While government contracting comprised the largest portion for minority businesses, this trend was reversed in doing business with anchor institutions and corporations, where white-owned businesses had higher portions of their contracting relative to Latinx- and minority-owned businesses.
ACCESS TO CAPITAL

Alumni secured $129 million in new capital. The most commonly reported form of capital was a line of credit, followed by loans. Among alumni who secured at least one new form of credit, 61% secured a line of credit, 15% secured SBA-guaranteed loans, 30% secured non-SBA-guaranteed loans, and 17% secured other forms of new debt and equity financing. Many of the lending patterns presented in this section were consistent with those regularly found in the Federal Reserve Bank’s Small Business credit surveys.¹⁴

Despite similarities in the size of businesses, measured in revenue and full-time jobs, large differences in the average value of new financing were seen across race and ethnicity segments. Minority- and Latinx-owned businesses received amounts of new capital that were about 35% lower than white borrowers on average. The average amount of new capital for white-owned business registered at $340,000, while Latinx- and minority-owned businesses received $224,000 and $221,000, respectively.

This trend was especially stark for businesses in low- and moderate-income areas, where white borrowers received twice as much in new financing as minority and Latinx borrowers. White business owners received an average of $378,000 compared to $184,000 among Latinx business owners and $180,000 among minority business owners.¹⁵

The frequency of each type of financing was similar across race and ethnicity, but the average values varied greatly.¹⁶ In other words, it was the amount of financing that white-owned businesses received rather than frequency that was the driver of the disparity in financing. Outcomes such as these continue to fuel the trust gap in lending between borrower and lender.
A CALL FOR ACTION

Interise small businesses drive significant impact in their communities by increasing revenues and creating well-paying jobs and wealth, yet the nation’s wealth gap is growing. We must do better. Interise calls upon all stakeholders involved in small business led economic development — visionaries and practitioners, including ourselves, and the public and private sectors — to make bold, system-level changes in step with small business. This is how we create an inclusive and equitable economy.

Capacity Building Programs
Small business owners need access to more capacity building programs to help them create systemic changes at the firm level. Business owners need the knowledge, know-how, and networks to scale their businesses through strategic growth. This requires changing the mindset of the business owner from operations to strategy.

Capacity building is seen to generate the largest impacts at the intersection of race and place, supporting minority business owners who operate in low- and moderate-income communities. Programs should also be culturally appropriate by design and in implementation.

As businesses grow and create good jobs with fair wages and fringe benefits, they increase the quality of life for employees and their families. Revenue growth and job creation pave a path to wealth accumulation. Due to the interconnectedness of economic systems, revenue growth leads to more business-to-business activity and new jobs lead not only to increased consumer spending but also to savings, which is wealth accumulation.

Interise calls upon the field to provide and support capacity building programs, technical assistance, and mentorship with the goal of scaling businesses in low- and moderate-income communities, especially those that are minority- and Latinx-owned.

Procurement Systems Change
Small business and large buying institutions, such as anchor institutions and corporations, need more mutually beneficial contracting opportunities, particularly for minority- and women-owned business enterprises. Procurement is a vehicle to small business growth that is based on a business-to-business (supply chain) model, and is a means for anchor institutions and corporations to invest in supplier diversity.

Interise’s Leadership in Anchor Procurement (LEAP) initiative seeks to develop these mutually beneficial outcomes through systems change. LEAP convenes small business owners, procurement professionals, capital providers, and capacity builders to explore their roles within the procurement system and to surface systemic blockages. These very blockages are used as leverage points where each stakeholder commits to actions that move the system towards parity.

Interise calls upon state and local government to activate aggressive goals for supplier diversity driven by leadership, policies, processes, and incentives to rebuild procurement systems that are inclusive and free from blockages.
Access to New Finance Vehicles

Sufficient access to working and growth capital is a perennial challenge for small business owners, and minority-owned small businesses face additional systemic challenges in borrowing. Systems change in small business lending includes creating mechanisms for small businesses to build relationships with lenders and for the creation of new loan products, particularly around capital needed for successful contracting. Small businesses, especially those under $1 million in annual revenue, have more success working with smaller lenders such as local and regional banks, community development financial institutions, microlenders, and other mission-based lenders. Commercial banks can better serve small business capital needs through developing and offering a wider range of loan products, such as those appropriately sized for small business.

**Interise calls upon small business capital providers to create innovative financing tools and vehicles suitable for all small businesses, and specifically to support successful procurement activities.**

SOLVE IT: INCLUSIVE ECONOMY

Interise recognizes that there is amazing work being done by organizations, including Interise, to build an inclusive economy, and we applaud those efforts. However, we know that to create an economy that works for all, we must all come together to challenge systemic barriers that hold back the change that we are all striving for — a truly inclusive economy. With that in mind, Interise is convening visionaries, practitioners, and small businesses who are actively changing the model of economic development, making sure to address the systemic issues that prevent sustainable change and impact.

**Join us to create an inclusive economy that works for all.**

MARCH 9-11, 2020 | BOSTON, MA | INTERISE2020.ORG
METHODOLOGY AND SAMPLE DESCRIPTION

The StreetWise ‘MBA’™ was designed for small businesses with several characteristics in mind. The businesses are:

• Established, having survived the startup phase and are poised for growth
• Employers with at least one employee in addition to the business owner
• Located in a low- and moderate-income area¹⁶
• Owned by someone identifying as a racial minority or as Latinx

Data in this report represents business outcomes from the 2018 calendar year for business owners who finished the StreetWise ‘MBA’™ in 2016, 2017, and 2018. All questionnaires were fielded electronically from mid-April 2019 through the end of the month. At the start of the StreetWise ‘MBA’™, respondent businesses averaged 14 years in business, slightly under $1.5 million in annual revenue, and approximately 15 employees.

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<tr>
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<tbody>
<tr>
<td>Average Years in Business</td>
<td>14</td>
<td>Median Years in Business</td>
<td>10</td>
</tr>
<tr>
<td>Average Number of Full-Time Jobs (measured as FTEs)</td>
<td>15</td>
<td>Median Number of Full-Time Jobs (measured as FTEs)</td>
<td>14</td>
</tr>
<tr>
<td>Average Annual Revenue</td>
<td>$1,497,000</td>
<td>Median Annual Revenue</td>
<td>$756,000</td>
</tr>
</tbody>
</table>

The survey response rate was 47%, resulting in a sample size of 1,274 respondents. With respect to race and ethnicity, 32% of the business owners identified as a racial minority (non-Latinx), 13% identified as Latinx (any race), 52% identified as white (non-Latinx), and 3% did not provide race and ethnicity information. Business owners who identified as a racial minority were aggregated into one category to allow for adequate sample sizes to allow segmenting by race, ethnicity, place, and the intersection of the characteristics. Segmenting the businesses by the income designation of its location, 28% were located in low- or moderate-income communities and 59% were located in middle- and upper-income communities. An additional 13% were either in census tracts without sufficient income data or did not provide a valid address.
END NOTES


³ Ibid.


⁸ Interise calculates full-time equivalents as follows: a full-time employee equals 1 FTE and a part-time employee equals 0.5 FTE.


¹⁰ Three values were omitted from these figures because they were not representative of the data, with jobs gains or losses greater than five times the size of the average respondent business. When included, these values would result in an average change of 2.5 jobs among white-owned businesses in low- and moderate-income areas and an average change of -0.2 jobs among minority-owned business in middle- and upper-income areas. For job creators, the average change among white-owned businesses in low- and moderate-income areas was 6.9 jobs.


¹³ The number of respondents reporting revenue data for Latinx-owned businesses is 23 for middle- and upper-income areas and 17 for low- and moderate-income areas. Interise has included the corresponding average revenues for completeness.

¹⁴ See the series of Federal Reserve Bank Small Credit Survey Reports at https://www.newyorkfed.org/smallbusiness.

¹⁵ The number of respondents reporting financing data on Latinx-owned businesses in low- and moderate-income areas is 19. Interise has included the corresponding average financing value for completeness.

¹⁶ Among respondents who received new financing, lines of credit were given to 63% of white-owned businesses, 63% of Latinx-owned businesses, and 59% of minority-owned businesses. SBA- guaranteed loans were given to 19% of Latinx-owned businesses, 16% of minority-owned businesses, and 12% of white-owned businesses. Non-SBA- guaranteed loans were given to 33% of white-owned businesses, 27% of minority-owned businesses, and 22% of Latinx-owned businesses.

¹⁷ Interise uses the definitions of low, moderate, middle, and upper income census tracts as defined by the Federal Financial Institutions Examination Council (FFIEC). The FFIEC Geocoding database may be found at https://geomap.ffcic.gov/FFIECGeocMap/GeocodeMap1.aspx.
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We do this through bold programs that close gaps in business knowledge, know-how and networks; purposeful research that turns insights into actions; and national partnerships that create impact at local, regional, and statewide levels.

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