2021
RESEARCH REPORT

STATE OF LATINO ENTREPRENEURSHIP

STANFORD GRADUATE SCHOOL OF BUSINESS | Latino Entrepreneurship Initiative

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ABOUT THIS REPORT

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President, Accurate Firestop, Inc

This is the seventh annual State of Latino Entrepreneurship report in which we have collected robust survey data from Latino-owned businesses across the country to provide a timely account of the fastest growing segment of the U.S. business population. This year, we administered our largest survey to date of 15,000 business owners — 7,500 Latino-owned employer businesses and 7,500 non-Latino, White-owned employer businesses as a benchmark comparison group. The comparative analysis provides a detailed understanding of existing gaps, but also captures encouraging ways in which Latino-owned employer businesses are distinct.

In this report, we explore the financial viability of Latino-owned employer businesses through the multiple characteristics of credit that are commonly used to evaluate borrowers. We have previously reported some significant funding gaps, but the ongoing COVID-19 pandemic continues to amplify both the need for financing and the understanding of critical levers in the current and future landscape. Moreover, our historical research focus has been on the business outcomes and experiences related to the Latino entrepreneur, but this report also looks inward into the employment opportunities within Latino-owned businesses. Thus, our current research focuses exclusively on employer firms, those with at least one paid employee other than the owner, as these businesses are poised to have great impact on the economy and job creation. The findings in this report are also considered in the context of broader national trends as we weight our sample to be as nationally representative as possible; additional methodological information related to sampling and measures can be found in **Appendix A**. We include a glossary of terms to support readers in **Appendix B**.

ABOUT THE COVER

Miriam Puentes, featured on this year's report cover, is cofounder and CEO of Honrama Cellars, established in 2008 with her husband, Juan Puentes. Miriam and her family immigrated to the U.S. in 1980 from Guanajuato, Mexico in search of the American Dream. Miriam's father dreamed of creating his own wine label but passed before he could realize this ambition. Honrama Cellars is named in honor of her father, Honorio Ramriez Mata. Although there are only a couple dozen Latino-owned wineries in Napa Valley, like Miriam, these are founded by the second generation, children of hard-working parents that tended the vineyards and are now harvesting greater fruits of this labor. Latinos in the U.S. span multiple generations and although not a monolithic group, stories of resiliency and entrepreneurship unite dreams.

In addition to our focus on the kinds of jobs created by Latinos, which we operationalize through novel indices, this report continues the work we undertook last year in measuring the ongoing impact of COVID-19. The broader context of the pandemic continues to permeate businesses on a global scale. We report on the strategies deployed to mitigate challenges and consider the impact of the $800 billion small business relief aid distributed through the Paycheck Protection Program (PPP). We also feature five case studies with Latino entrepreneurs, former participants of the SLEI-Education Scaling program, that speak directly to themes uncovered in the national survey.

The 2021 State of Latino Entrepreneurship report provides organizations focused on supporting businesses (e.g., chambers of commerce, trade associations, economic development associations, etc.), think tanks, governmental policymakers, and corporations with insights into the business outcomes of Latino-owned businesses to inform data-driven policy and programs. Additionally, we hope Latino business owners leverage these data to inform their business decision-making and operations. We acknowledge that business owners continue to operate in largely uncertain and unprecedented times, and we would like to thank those who contributed their time and data.

ABOUT US

STANFORD LATINO ENTREPRENEURSHIP INITIATIVE (SLEI) RESEARCH PROGRAM

SLEI operates a research program (SLEI-Research) that explores and expands our knowledge of the Latino entrepreneurial segment of the U.S. economy through research, knowledge dissemination, and facilitated collaboration. SLEI Research 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. The program is jointly supported and funded by Latino Business Action Network (LBAN) and Stanford GSB Center for Entrepreneurial Studies.

SLEI EDUCATION SCALING PROGRAM

SLEI also operates an education program (SLEI-Ed) focusing on business scaling for Latino business owners. LBAN is the key architect and driver executing this program in collaboration with Stanford GSB Executive Education. The SLEI-Ed business scaling program is designed for U.S. Latino business owners generating more than $1 million in annual grossrevenues or have raised at least $500,000 of external funding. This eight-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 874 alumni from 34 states and Puerto Rico who collectively generate over $5.4 billion in annual revenue.

LATINO BUSINESS ACTION NETWORK (LBAN)

LBAN is a dynamic nonprofit based in Silicon Valley with a big mission to strengthen the U.S. economy by empowering Latino entrepreneurship across the country. We partner with Stanford University through the jointly supported Stanford Latino Entrepreneurship Initiative (SLEI). In addition to driving SLEI-Research, SLEI-Education Business Scaling Program, LBAN focuses on building a national ecosystem for Latino business owners.

This State of Latino Entrepreneurship Report was made possible in part through the investment and support of LBAN's principal partners; Wells Fargo, Bank of America, Surdna Foundation, Chavez Family Foundation, and John Arrillaga.

Learn more: www.lban.us

STANFORD GRADUATE SCHOOL OF BUSINESS

Stanford Graduate School of Business has established itself as a global leader in management education through educational programs designed to develop insightful, principled, global leaders. Stanford GSB supports faculty research, curriculum development, and interaction among academic disciplines.

Learn more: www.gsb.stanford.edu

MIRIAM PUENTES
Propretaria, Honrama Cellars

SECTION I
EXECUTIVE SUMMARY

According to the 2020 Census, Latinos now make up 19% of the total U.S. population, or 62.1 million people having grown 23% since 2010.[1] In addition to representing a formidable consumer base, with Latino consumption totaling $1.85 trillion,[2] Latinos continue to start businesses at a faster rate than all others — 44% growth in the number of businesses in the last 10 years compared to just 4% for non-Latinos.[3] These growing consumption and business ownership trends result in $2.75 trillion of total economic output by Latinos in the United States.[4] As Latinos continue to play an important role in the U.S. economy through business ownership and job creation, we highlight below key findings on the opportunities and challenges facing this fast-growing segment of the business population. All data reported henceforth refer to Latino-owned employer businesses (LOBs), with at least one paid employee other than the owner, and White-owned employer businesses (WOBs), unless stated otherwise.

Latinos are important job creators, growing their number of employees at a faster rate than White-owned employer businesses.

The number of Latino-owned employer firms has grown 35% in the last 10 years compared to 4.5% among White-owned businesses, with job growth outpacing growth in the number of new businesses. The number of employees at LOBs has grown 55% since 2007, compared to 8% job growth among WOBs. Among the roughly 5 million LOBs in the U.S. 9% are employer businesses. This subset of 400,000-450,000 LOBs employs over 2.9 million people. The average LOB has about 8 employees, providing an important and growing source of employment across the United States. This year's research finds that Latino business owners are more likely to provide opportunities for the growth and advancement of their employees than White business owners.

Opportunities for employee growth and advancement are indicators of a good job. Using components to create indices for overall employee benefits and opportunities, we find that, on average, LOBs are more likely to provide their employees with benefits and opportunities, including promotions, employer paid benefits, above minimum wage jobs, the development of skills, and training.

Latino-owned employer businesses are as likely as White-owned businesses to be tech businesses.

The overall industry distributions of LOBs and WOBs are similar, though LOBs over-index in food services and WOBs in professional services. Last year, we reported on the fast growth in the number of LOBs across virtually all industries.[5] Contrary to stereotypes about the industries in which Latino-owned businesses operate, we find that among employer businesses, Latinos are equally likely as their White counterparts to own tech companies.

Latinos are more likely to be required to provide collateral to secure funding despite Latino-owned employer firms having credit characteristics similar to White-owned employer firms.

We explore the financing of Latino-owned employer businesses through the characteristics of credit that are commonly used to evaluate borrowers. LOBs and WOBs show no statistically significant difference in low risk credit scores (720+), with 60% of LOBs and 63% of WOBs reporting this credit range. Although LOBs demonstrate similar overall financial viability to WOBs, when we examine several characteristics of credit worthiness, LOBs are more likely to be asked to provide collateral, such as personal guarantees and putting up personal and business assets, when taking out loans.

PPP funding provided a greater lifeline for Latino-owned businesses during the pandemic despite some challenges in accessing it.

Although more LOBs were interested in the PPP than WOBs, 57% compared to 49%, a similar share of LOBs and WOBs ended up applying for the PPP, 31% and 30% respectively. Prior research on the PPP has shown that there were racial disparities in the propensity to extend PPP loans across different lending institutions.[6,7] Our research last year corroborated these findings as our data showed that in the early stages of the PPP, LOBs had their PPP loans approved at nearly half the rate of WOBs.[8] In February 2021, SBA implemented rule changes in later rounds to prioritize lending to the smallest businesses and those that are minority-owned.[9] We find that, when we consider the full time frame of the PPP and only those that applied, 30% of LOBs received funding compared to 23% among WOBs. However, LOBs report more challenges than WOBs in accessing the PPP, including a lack of response from banking providers or lack of guidance on how to apply.

Latinos are more likely to report making proactive strategic business changes in response to the business challenges created by the pandemic.

The pandemic had significant negative impacts for both Latino and White owned businesses, with supply chain disruptions, reduced revenues, and increased costs showing up as important challenges for both groups. Latino business owners reported a greater number of specific negative consequences to their businesses (e.g., temporary business closures and lack of financing). However, they were more likely to report making proactive efforts to combat the challenges of the pandemic. Chief among these was a propensity for LOBs to more frequently initiate technology-based solutions and strategies as they sought to adapt their businesses to the demands and opportunities created by the pandemic.

Latinos were more likely to tap into their personal savings and max out on credit cards and their home equity in order to weather the pandemic.

The pandemic exacerbated many of the pre-existing financing challenges that Latino-owned businesses faced prior to the pandemic. Chief among these challenges is the lack of available financing, resulting in high use of credit cards and other sources that leave business owners personally vulnerable. Compared to White business owners, Latinos were more likely to report tapping into their personal savings, using business and personal credit cards, soliciting loans from banks, and taking out home equity loans. These debt sources create greater risks to the Latino entrepreneurship community, possibly impacting their growth prospects.

Both Latino and White business owners are generally optimistic about their ability to rebound from the pandemic.

Both LOBs and WOBs reported confidence that their businesses will recover from the pandemic, with 79% and 77%, respectively, sharing this outlook. This confidence has remained high for both groups relative to 2020 confidence levels despite the many twists and turns of the pandemic. The pandemic has also fundamentally changed the workplace whereby more than half of all LOBs indicate some combination of remote work and in-person for employees. Among employer businesses, 19% of LOBs and 23% of WOBs indicate that all employees can work remotely post-pandemic.

SECTION II FIRMOGRAPHICS

MERCEDES O. ENRIQUE
President and Owner, CMS Corporation

Latinos are 1.7 times more likely to start a business than other demographic groups,[10] representing the fastest growing segment of the small business ecosystem. We estimate that, today, there are roughly 5 million Latino-owned businesses in the U.S., both employer and non-employer. Among these, 9% are employer businesses. The number of Latino-owned employer businesses (those with at least one employee other than the owner) grew by 26% between 2012 and 2019, over twice the U.S. average of 12%. In 2018, there were roughly 350,000 Latino-owned employer businesses that generated over $460 billion in annual revenue and employed 2.9 million people.[11] By our latest projections, we estimate there could be 400,000-450,000 Latino-owend employer businesses today.

In this report, we focus on Latino-owned employer businesses as job creators and important economic engines. Business ownership is also a critical driver of wealth generation as Latinos with business assets have a personal net worth of $314,380, or nearly nine times the wealth of Latinos overall.[12] Understanding how LOBs navigate the challenges of the pandemic and the financing landscape will have important implications for the Latino community, overall U.S. economic recovery, and future economic prosperity.[i] In this section, we contextualize who Latino entrepreneurs are and the firmographics of their businesses.

LATINO-OWNED BUSINESSES ARE EQUALLY LIKELY TO BE TECHNOLOGY PRODUCING BUSINESSES AS WHITE-OWNED BUSINESSES

As noted in our prior research, Latinos are starting businesses across virtually all industries faster than the average industry growth rate. Among the surveyed population, LOBs and WOBs track closely on industry[ii] representation with the exception that LOBs over-index in food services and WOBs in professional services. However, it is important to note that technology intersects virtually all traditional industries and businesses are producing new technologies or being enabled by technology in innovative ways. Among those surveyed, 19% of LOBs report "developing and selling a technology or software product" compared to 14% among WOBs (**Figure 1**). The technology module in the 2019 U.S. Census Annual Business Survey (ABS)[iii] captures the share of businesses in technology production across Artificial Intelligence (AI), cloud-based, specialized software, robotics, and specialized equipment. **Figure 2** shows that 10.6% of LOBs are producing these technologies compared to 10.1% among WOBs.

i All data reported are for Latino-owned employer businesses (LOBs) and White-owned employer businesses (WOBs), unless specified otherwise.

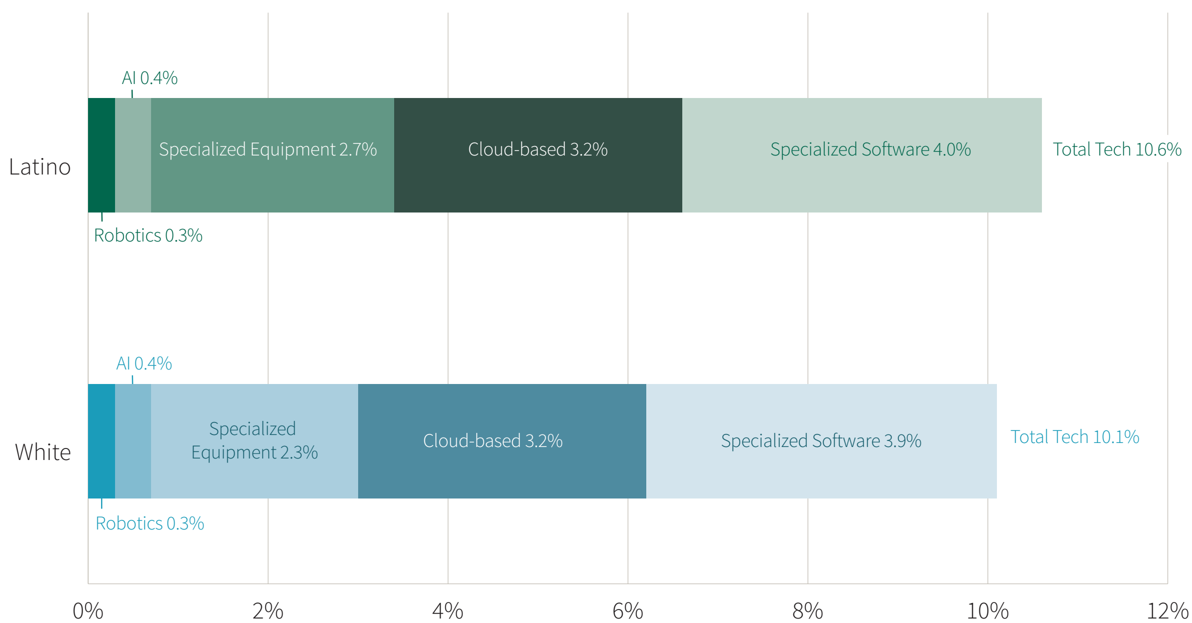
ii We use the standard industry classifications set forth by the National American Industry Classification System as this is used by federal statistical agencies to report on the U.S. business economy.

iii The 2019 ABS covers reference year 2018.

Figure 1
Employer Businesses in Tech

SOURCE: U.S. Census Annual Business Survey, 2019 and SLEI Survey of U.S. Business Owners, 2021

Figure 2
Share of Employer Firms in Technology Production



SOURCE: U.S. Census Annual Business Survey, 2019.

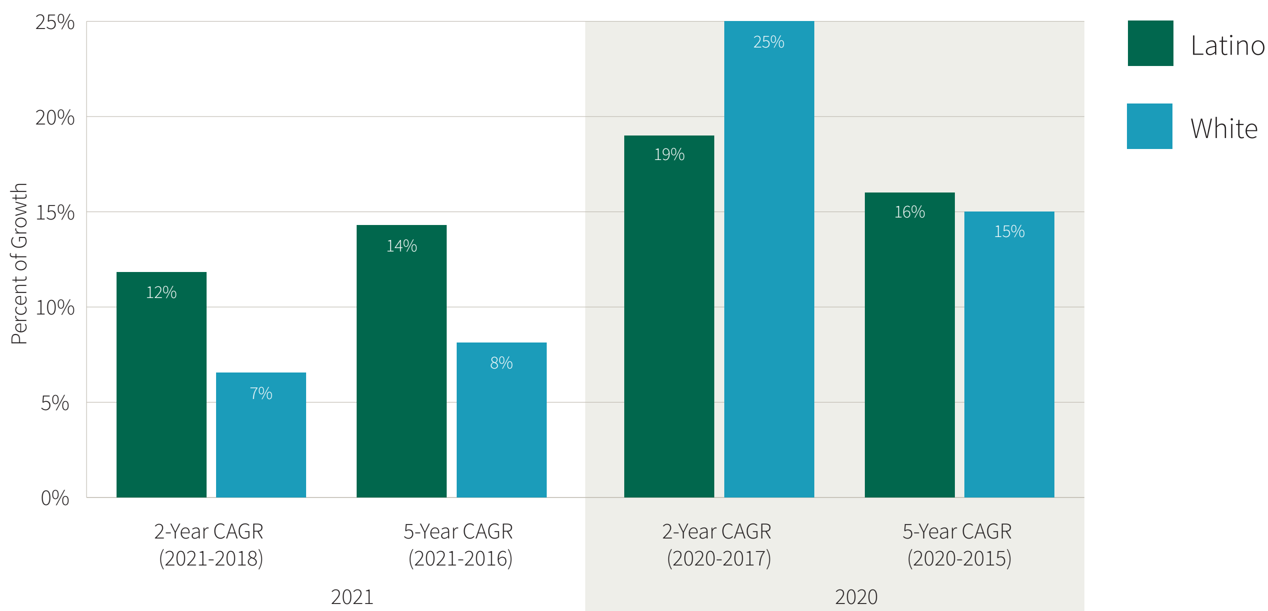
Our survey findings, along with the ABS data, are particularly important because they contradict the widely held belief by the general investment community that the Latino entrepreneurial pipeline in tech does not exist or that minority entrepreneurs have less of an inclination towards starting tech businesses. However, we find that the share of Latino-owned employer businesses in tech is at least comparable to, if not slightly outpacing, the share of tech among White-owned employer businesses. An important barrier persists in crossing the employer threshold as White-owned employer businesses outnumber Latino-owned employer businesses by a factor of 14. However, once Latinos cross the employer threshold, the breakthrough in tech comes despite the low amounts of venture capital allocated to Latino and Black founders — 2.6% of VC in 2020.[13]

The share of Latino-owned employer businesses in tech is at least comparable to, if not slightly outpacing, the share of tech among White-owned employer businesses.

BUSINESS OUTCOMES ACROSS REVENUE GROWTH AND PROFITABILITY

All businesses, on average, reported slower revenue growth in summer 2021 than summer 2020, presumably due to the pandemic (**Figure 3**). LOBs continue to report lower average revenue per company ($1.3 million vs $2.5 million for the average WOB[14]), but higher revenue growth than WOBs (12% vs 7%). These are both similar to results from prior years.

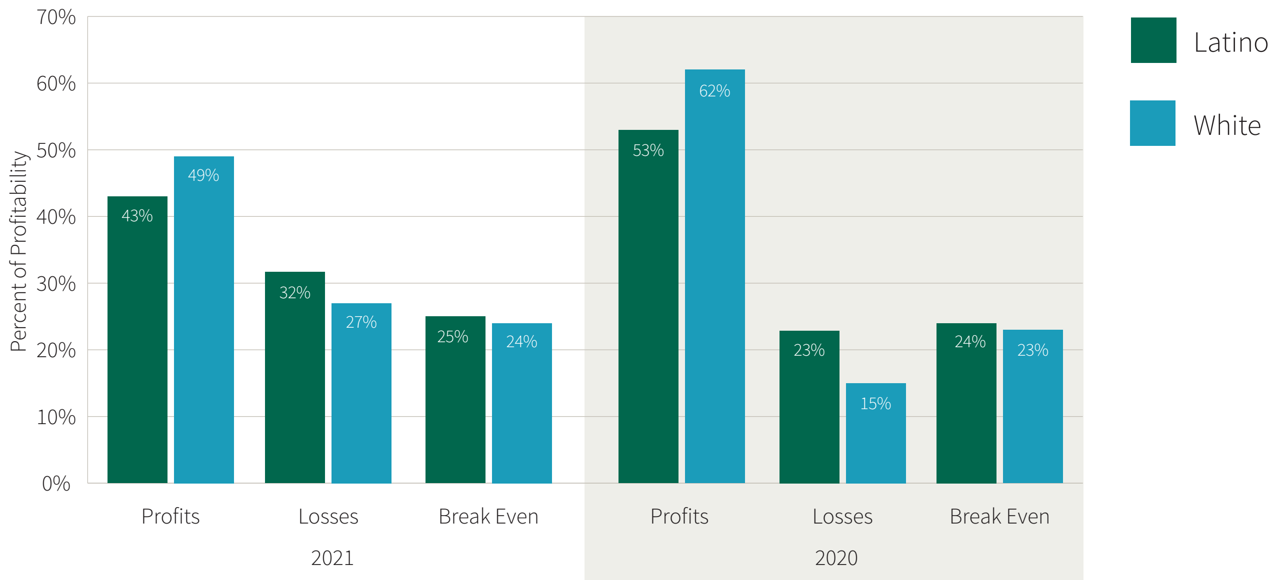
Figure 3
Historical Revenue Growth Over a 2- and 5-year Period in 2021 and 2020



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000 and SLEI Survey of U.S. Business Owners, 2020. N=7,000

Perhaps unsurprisingly, fewer LOBs and WOBs reported having a profitable year than in the prior year (respondents report profitability for the past 12 months and respond during summer months each year), likely representing the ongoing impact of the pandemic. As in prior years, LOBs were less likely than WOBs to be profitable, 43% and 49% respectively (**Figure 4**). Among profitable LOBs, profit margins skew smaller with only 7% of profitable LOBs reporting profit margins of greater than 25% after taxes compared to 10% among WOBs.

Figure 4
Profitability in 2021 and 2020

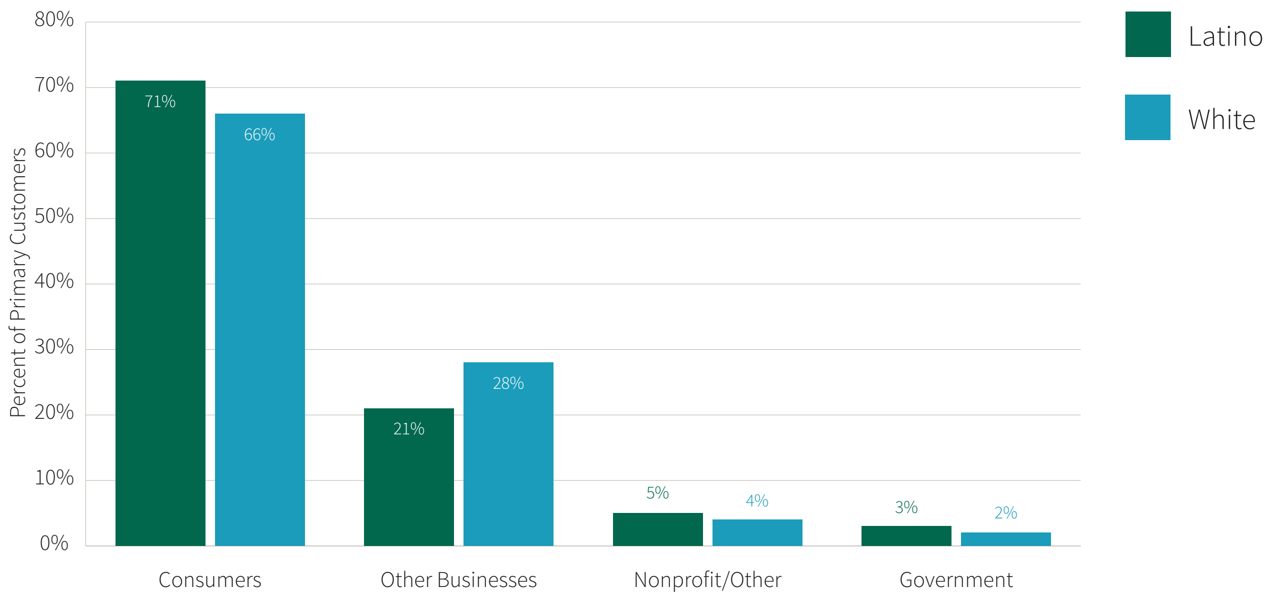


SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000 and SLEI Survey of U.S. Business Owners, 2020. N=7,000

EXPANDING PRODUCT MARKET ACCESS FOR GROWTH

For both LOBs and WOBs, the primary customers of their businesses tend to be consumers, 71% and 66% respectively (**Figure 5**). LOBs are less likely to provide goods and services to other businesses. Businesses that have other businesses or government as customers are more profitable and are more likely to be scaled. In our previous research, we have shown that expanding product market access through contract and procurement opportunities is positively correlated to growth.[15]

Figure 5
Primary Customers



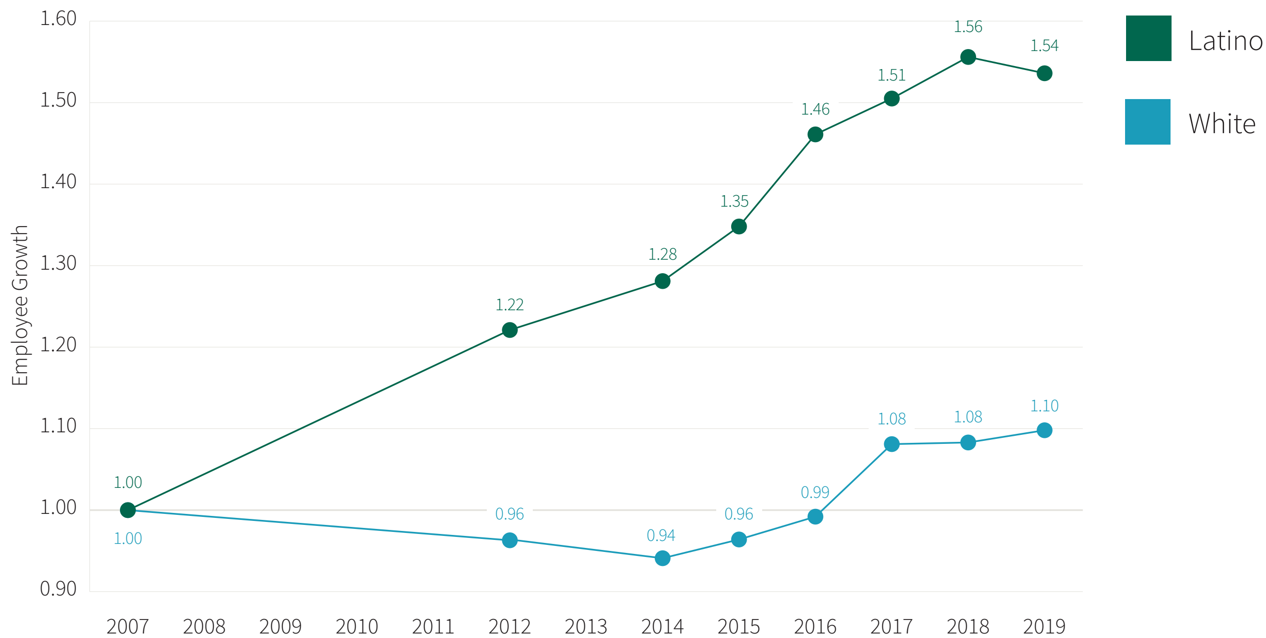
SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

FAST GROWTH IN NUMBER OF EMPLOYEES

LOBs are experiencing rapid growth in the number of employees. We have previously reported that one of the largest hurdles for Latino entrepreneurs is the employment threshold, or going from a self-employed solopreneur to an employer business.[16] However, once this threshold is crossed, the average LOB employs 8 people compared to 12 among WOBs.[17] The number of jobs created by LOBs have grown from 1.9 million in 2007 to 2.9 million in 2019, representing a 53.6% growth rate. This is compared to 9.8% job growth among WOBs over the same time period (**Figure 6**). We add more clarity to the employment picture in Section V of this report, where we explore the quality of the jobs being produced in terms of the opportunities for growth and advancement and the benefits provided.

The number of jobs created by LOBs have grown from 1.9 million in 2007 to 2.9 million in 2019, representing a 53.6% growth rate.

Figure 6
Employee Growth (Base-year 2007)



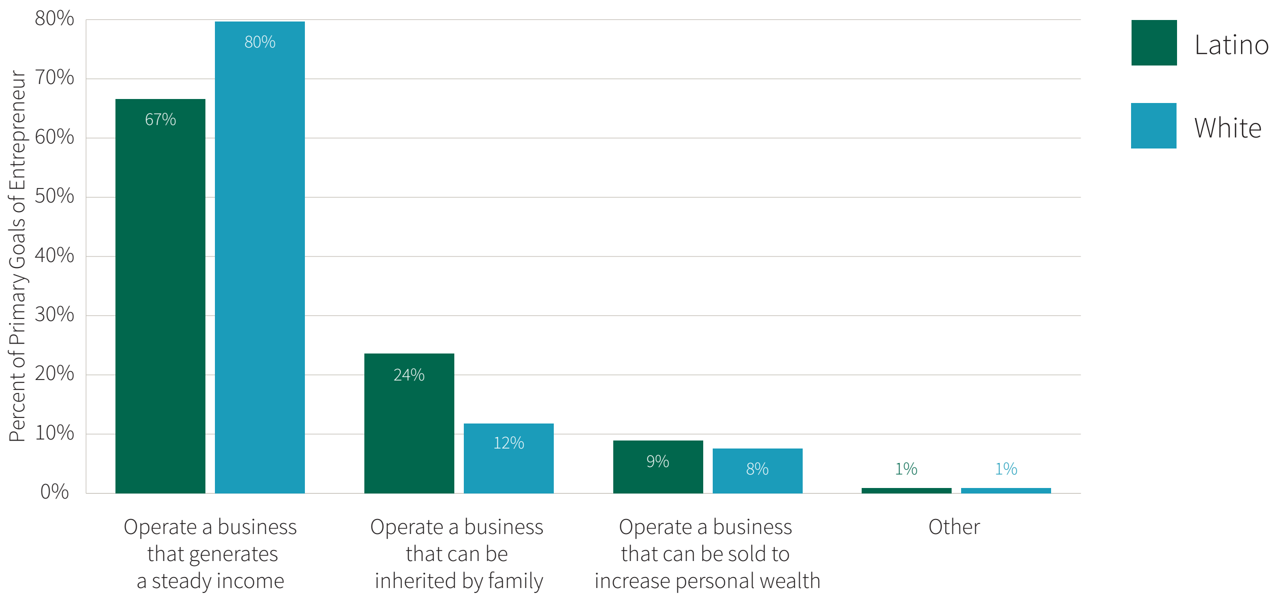
SOURCE: U.S Census - Annual Business Survey, 2017-19; American Survey of Entrepreneurs, 2014-2016; and Survey of Business Owners, 2007 and 2012.

LATINO ENTREPRENEUR GOALS AND WEALTH PROSPECTS

Our prior research has shown that Latino business owners are more highly educated than the general U.S. Latino population, have higher homeownership rates relative to their wage-working counterparts, and generate greater personal income, representing a path to upward mobility and wealth generation.[18] Secretary Yellen has classified business ownership as one of four building blocks of economic opportunity and a way to mitigate wealth inequality.[19]

Our research indicates that both Latino and White business owners anticipate that their businesses will support them in building sufficient wealth for retirement and future generations. LOBs responded with an average 7.7 on a 10-point scale about their chances of generating enough wealth to retire comfortably, and WOBs responded with an average of 7.5. Additionally, Latino business owners are more likely to be building businesses for the long term — they are twice as likely to report their primary goal as an entrepreneur is to operate a business that can be inherited by their family (see **Figure 7**).

Figure 7
Primary Goal as an Entrepreneur



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

Latino business owners are more likely to be building businesses for the long term — they are twice as likely to report their primary goal as an entrepreneur is to operate a business that can be inherited by their family.

DAVID FAVELA
CEO, Border X Brewing LLC

SECTION III
FINANCING

Since the civil rights movement, policy provisions have attempted to lower discriminatory barriers within the banking system, a traditional source of funding for small businesses. This includes the Community Reinvestment Act of 1977, which was meant to eliminate bank redlining[20] and most recently with the establishment of a regulatory government agency in 2011, the Consumer Financial Protection Bureau, meant to protect consumers and small businesses from unfair or abusive banking practices. Despite these efforts, minority-owned businesses continue to experience disparate financing outcomes. In venture capital, Black and Latino-founded firms obtained only a small portion, 2.6 percent, of total funding allocated in 2020.[21]Audit studies have revealed that minority entrepreneurs are shown different, more expensive banking products and face more questions to legitimize their businesses, providing some evidence of implicit biases and discriminatory practices at the point of initial engagement.[22] Disparate loan outcomes are also a challenge as we have previously reported. The odds of a $100,000 loan approval from a national bank are 60% lower for Latinos compared to White business owners, even after considering business performance measures.[23] Nonetheless, external capital remains critical not just for weathering the pandemic but for continual growth prospects.[24] In this section we explore the business characteristics that are commonly used by capital providers to inform their decisions on funding.

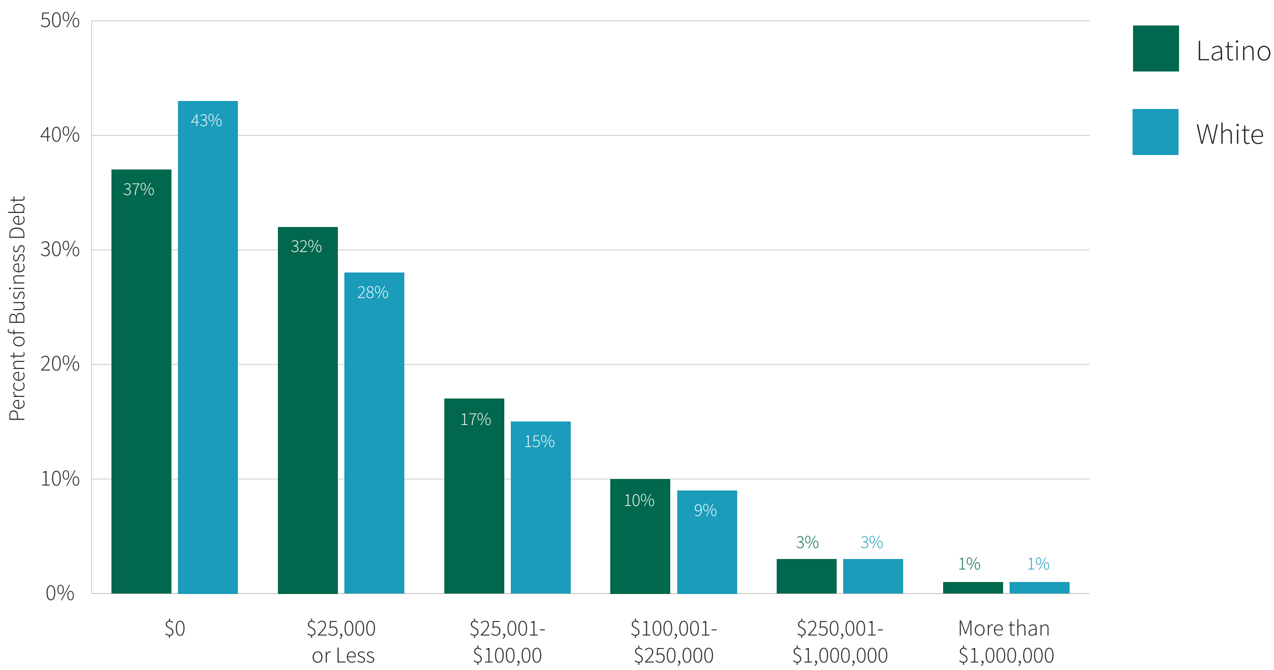
MAJORITY OF LATINO- AND WHITE-OWNED BUSINESSES REPORT GOOD PERSONAL CREDIT SCORES

The advent of the credit score has quantified credit history information and reduced it to a single score. As we have previously reported, even when we factor in credit scores, there are some disparate outcomes in funding across similar credit levels. Roughly one-third of LOBs and WOBs use only their personal credit scores to solicit financing, and 64% among both groups use either their personal credit score or some combination of personal and business credit scores. When the credit scores are collapsed into low risk (720+), medium risk (620-719), and high risk (<620), the personal credit score ranges are not statistically different between the two groups, with 60% of LOBs and 63% of WOBs reporting personal credit scores of 720 or higher. A greater share of WOBs report credit scores higher than 760, 34% compared to 22% among LOBs. Good credit ranges vary in the credit scoring model, but typically a score above 670 is considered good.[25] Typically, each lender develops their own criteria depending on the level of risk it finds acceptable for a given product,[26] so there can be some level of subjectivity in credit score modeling. The key implication of this finding is that whatever modeling approach might be used by a particular lender, the relative similarity between Latino and White business owners' credit scores should mean that loan decision differences are not accounted for by acceptable credit score differences.

LATINO OWNED BUSINESSES' CAPACITY TO REPAY LOANS MAY BE UNDERESTIMATED DUE TO STRUCTURAL BARRIERS

While credit is a common indicator for a borrower's likelihood of paying back a loan, other measures of this likelihood are considered under one of the C's of credit — capacity. In addition to income, and, by proxy, revenue of the business, lenders may consider employment history. A little over one-third of LOBs are owned by immigrants, thus, employment history may be difficult to assess among other records, such as a long-standing credit history in the United States. Another measure used in assessing the capacity of the borrower to repay is the current debt-to-income ratio. As shown in **Figure 8**, LOBs have higher outstanding business debt on average than WOBs. Latinos have one-eighth the wealth of White households,[27] making a Latino entrepreneur's access to friends and family financing severely limited in comparison to White entrepreneurs. As a result, debt may be among the only startup financing options available. Prior research has attributed the level of startup capital as the most important factor contributing to success among Black-, Asian-, and White-owned businesses.[28] In spite of higher levels of debt, if we consider the cash flow levels of LOBs versus WOBs, 87% and 88% report being able to maintain stable cash flow, thus, LOBs, on average, are not taking on more debt than they can manage.

Figure 8
Outstanding Business Debt



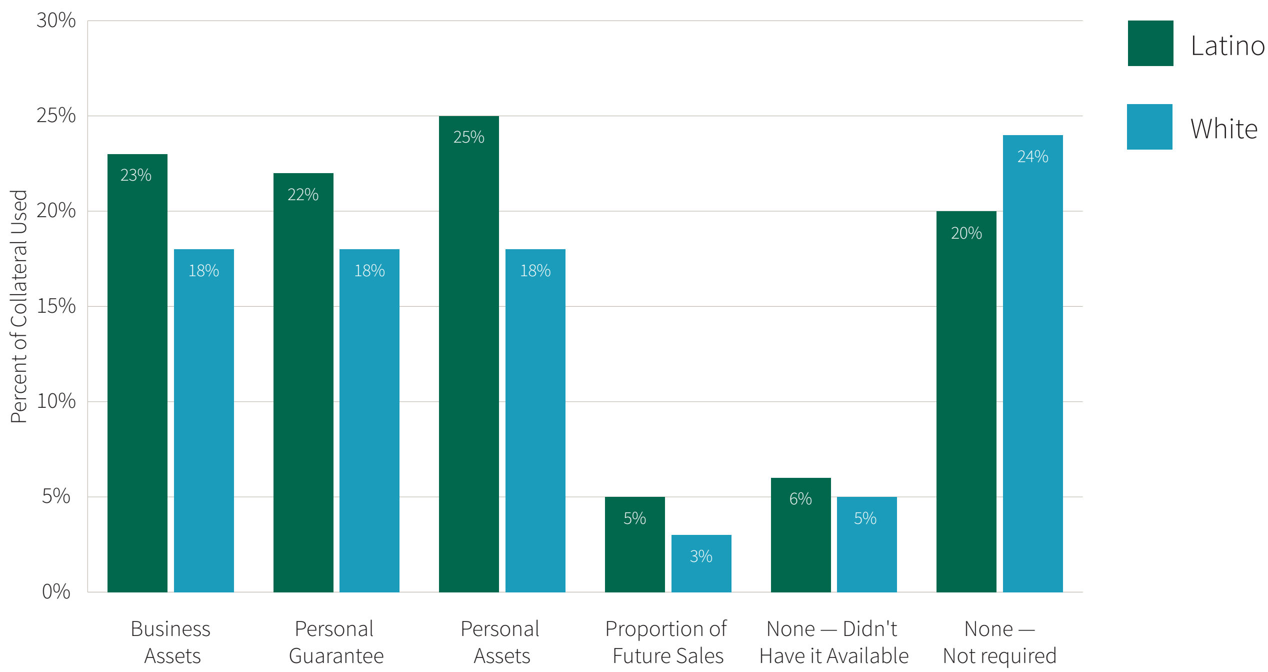
SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

COLLATERAL MORE LIKELY TO BE REQUIRED AMONG LATINO-OWNED BUSINESSES

The availability of collateral to secure a loan is another standard lending criteria. Lenders may want to know what kinds of physical assets the borrower has available that may be used to secure the loan. These commonly include auto, home, or business equipment. Our prior research considered homeownership as part of a personal financial well-being index comparing business owners to wage workers.[29] We find that Latino business owners are more likely to own a home compared to their wage-earnings counterparts. Moreover, LOBs and WOBs are equally likely to report being able to offer the needed collateral to obtain funding. However, Latinos are required to offer up more collateral than their White counterparts, as shown in **Figure 9**. Put differently, the odds of not needing collateral are higher (or better) for White business owners with one out of four White business owners not needing to put up collateral compared to one out of five Latino business owners for whom collateral is not required.[iv]

Figure 9

Collateral Used to Secure Funding



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

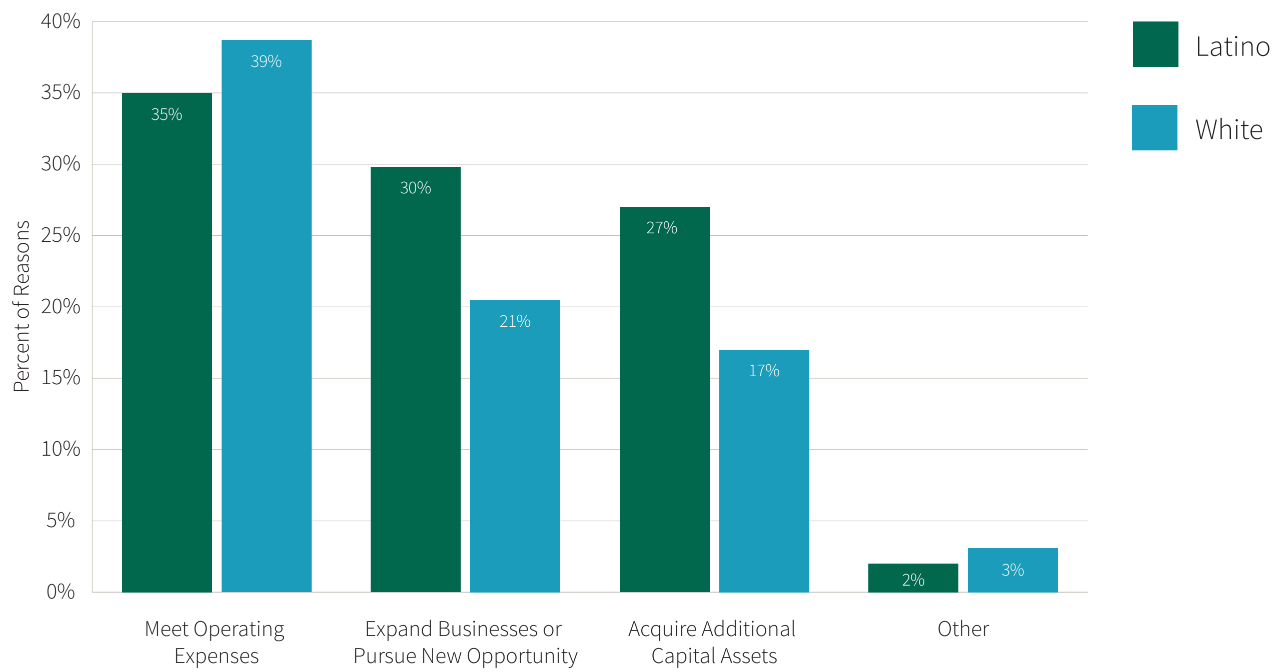
iv We ran several regression models controlling for business credit score, race, debt, and profitability. In comparison to WOBs, LOBs are more likely to provide future sales and business assets as collateral when they held a debt between $100K to $250K and personal guarantees when liabilities are above one million. However, for lower and higher levels of debt, we did not find a statistically significant difference between both groups.

LATINO OWNED BUSINESSES TENDED TO USE FINANCING FOR ADAPTATION AND GROWTH

Despite the pandemic impacting the need for financing to mitigate challenges (read more about COVID-19 impact in **Section IV**), LOBs report notable differences for why financing was sought. Both LOBs and WOBs report needing to meet operating expenses as the number one reason for financing (**Figure 10**). However, LOBs are more likely to report applying for financing to expand their business or to acquire additional capital assets. LOBs appear to be more frequently using the pandemic period as an opportunity to innovatively adapt and grow while their White counterparts focus more on dealing with current operations.

Figure 10

Reasons Why Financing Was Sought



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

LOBs are more likely to report applying for financing to expand their business or to acquire additional capital assets.

SECTION IV
ONGOING IMPACT OF COVID-19

JUAN HERNANDEZ
CEO, CRESER Capital Fund

Both LOBs and WOBs reported continued business impact from the COVID pandemic in the summer of 2021. Government programs and business-serving organizations stepped up to connect small businesses with relief aid. Making up one of the largest single public finance programs in U.S. history, the Paycheck Protection Program (PPP) has distributed over $800 billion in federal relief aid to small businesses. In this section, we detail the ongoing impact of the pandemic by exploring the reach of the PPP throughout the program's three rounds, the operational strategies and bright spots that have surfaced, and business outlooks for a post-pandemic world.

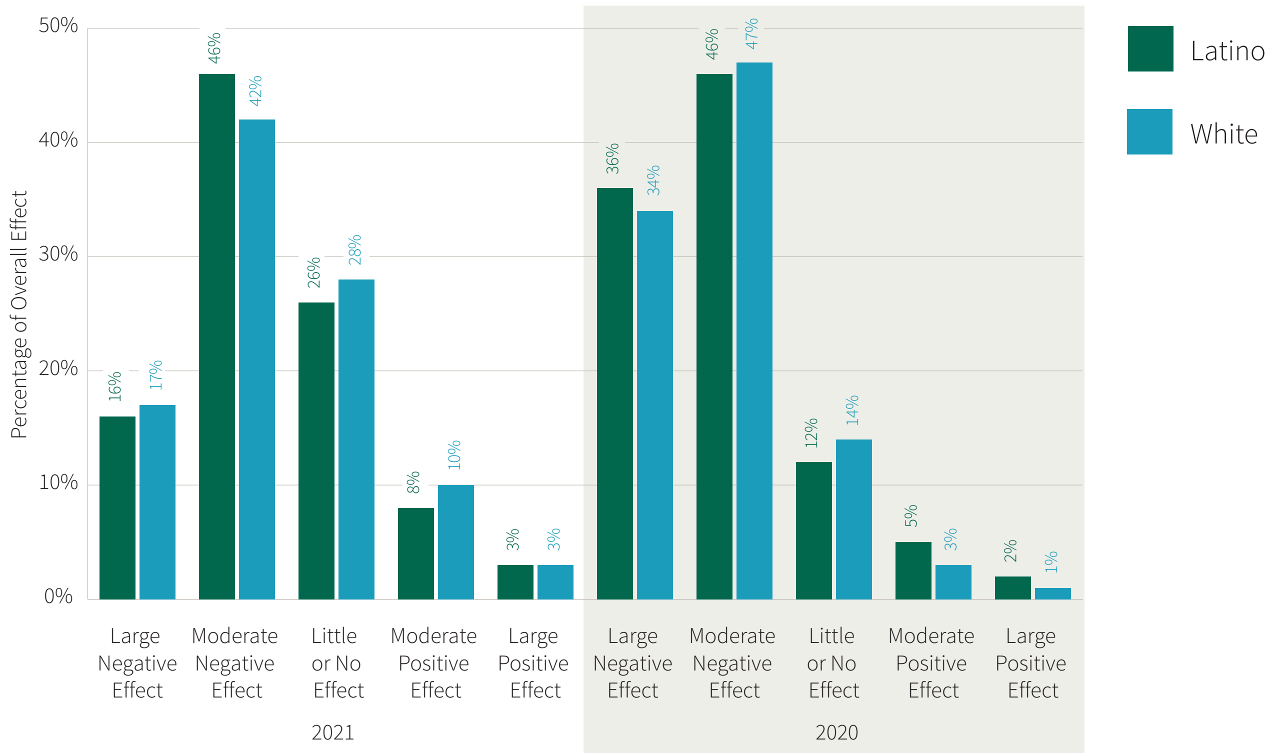
OVERALL EFFECT OF PANDEMIC COMPARABLE ACROSS EMPLOYER FIRMS

The pandemic has been challenging for both LOBs and WOBs over the past 18 months, with both groups reporting similar levels of impact. Both sets of business owners are reporting a lessening of "large negative impacts" as the pandemic has progressed. As shown in **Figure 11**, 2021 saw a 50% reduction in the share of businesses reporting large negative impacts. This may partly be attributed to the $800 billion in relief aid deployed to small businesses and the vaccine rollout in the early part of 2021 that allows businesses to operate at greater in-person capacity.

2021 saw a 50% reduction in the share of businesses reporting large negative impacts.

Figure 11

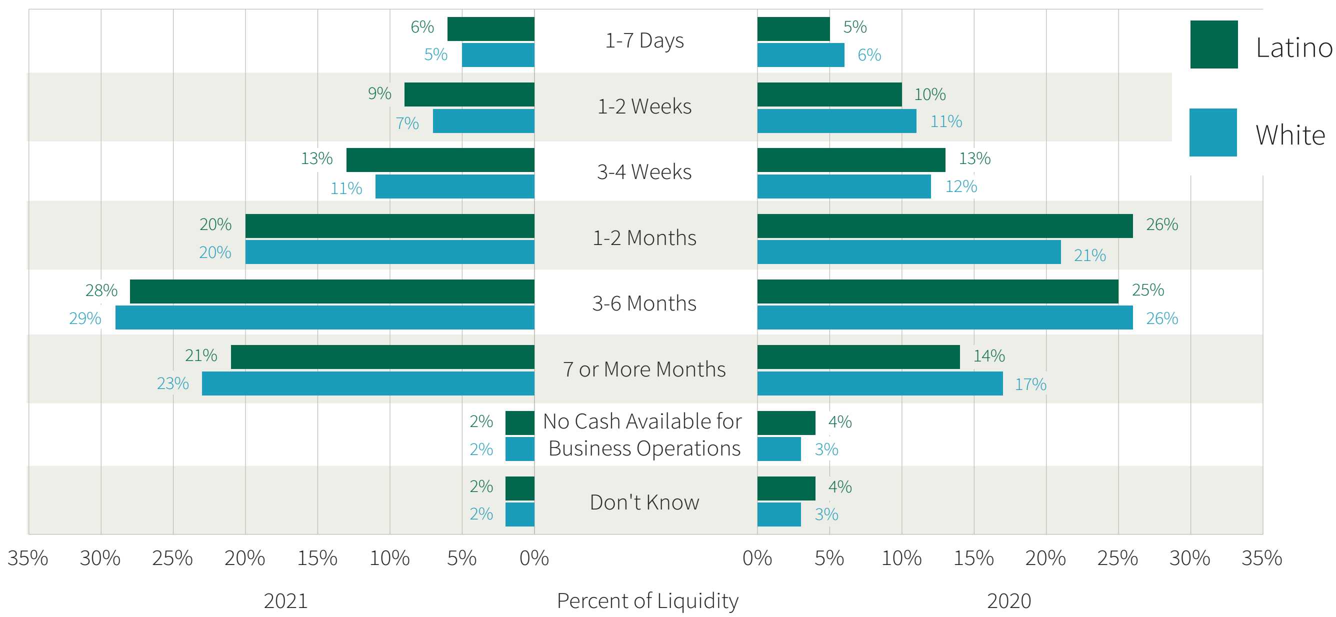
Overall Effect of Pandemic in 2020 and 2021



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000 and SLEI Survey of U.S. Business Owners, 2020. N=7,000

Additionally, the cash runway, or liquidity, of Latinos has improved slightly since last year, with 48% of LOBs reporting three or more months of available cash compared to 39% last year. WOBs also reported improvement in liquidity relative to last year, with 52% reporting three or more months of available cash compared to 43% last year. (**Figure 12**).

Figure 12
Liquidity in 2020 and 2021



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000 and SLEI Survey of U.S. Business Owners, 2020. N=7,000

LATINOS REPORT SLIGHTLY MORE SPECIFIC NEGATIVE IMPACTS

While in the aggregate, negative impacts of the pandemic appear similar between the two groups, LOBs are more likely to report specific negative impacts compared to WOBs, including a greater likelihood of temporary business closure (27% vs 23%), lack of financing (16% vs 11%), layoffs (14% vs 10%), looming permanent business closure (8% vs 6%), and missed schedule loan payments (7% vs 4%). Some of the negative impacts can be explained by the greater representation of business to consumer (B2C) businesses among LOBs. For example, 28% of LOBs that are B2C experienced temporary closure compared to 23% among LOBs that are business to business (B2B). However, LOBs that are primarily business to government (B2G) experienced greater negative impacts. Among B2Gs, 21% of LOBs report lack of financing and 18% report temporary business closure that is likely to be permanent. This is 1.5 times greater than WOBs that are primarily B2G. This may reflect reliance on a smaller set of customers by B2G firms, making it more challenging to weather a significant economic disruption.

PPP GREATER LIFELINE FOR LATINO-OWNED BUSINESSES

The PPP was first created through the CARES Act on March 27, 2020. The full program with three rounds of funding spanned a little over a year as shown in the timeline in **Figure 13**.

Figure 13

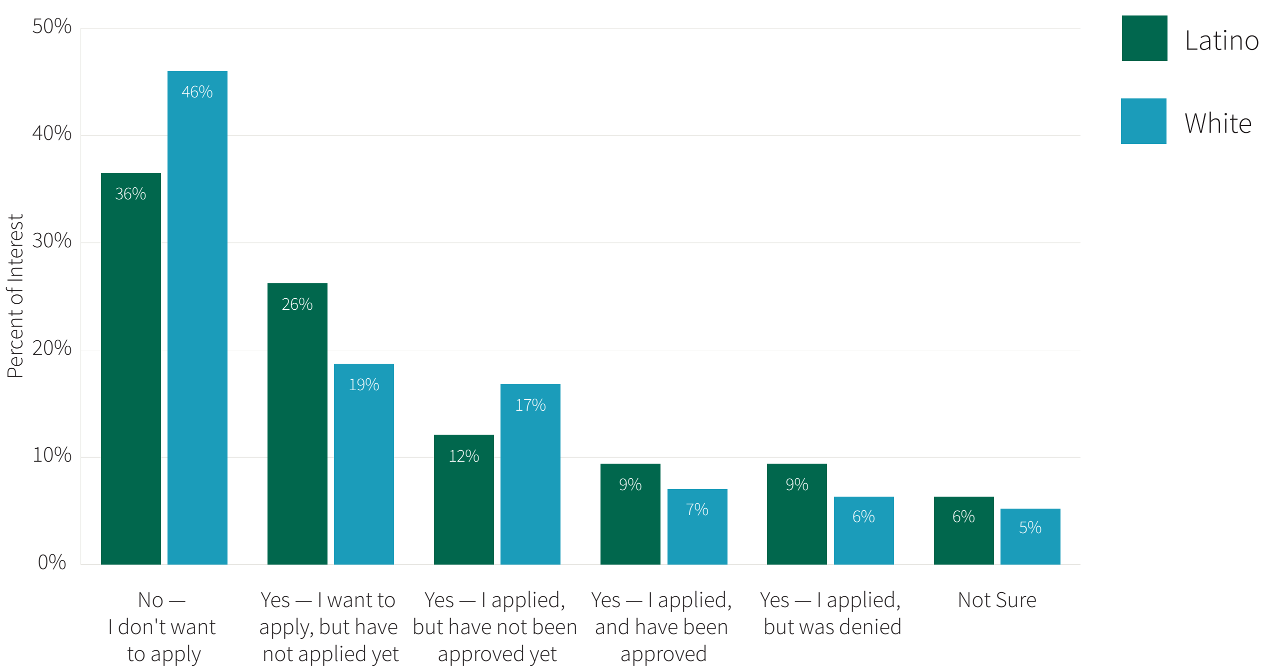
PPP Timeline

SOURCE: U.S. Small Business Administration, 2021.

Prior research on the PPP has shown racial disparities in the provision of PPP loans across different lending institutions.[30,31] Our research last year corroborated these findings; our data showed that in the early stages of the PPP, LOBs had their PPP loans approved at nearly half the rate of WOBs.[32] This year's survey found bifurcated results when we consider the full timeline of the PPP. A slightly higher share of LOBS were approved for PPP loans (9%) than WOBs (7%), possibly reflecting an impact of the February 2021 change in SBA rules for PPP lending.[33] But we also found that a higher portion of LOBs had their PPP loan applications rejected (10%) relative to WOBs (6%) (**Figure 14**). Considering the full time frame of the PPP, 30% of LOBs received funding compared to 23% among WOBs. A higher portion of LOBs indicated an interest in the PPP than WOBs (57% compared to 49%), and similar shares of LOBs and WOBs applied for the PPP (31% and 30%), throughout one or more rounds.

Figure 14

PPP Interest and Application Pipeline



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

Among the businesses that showed an interest in PPP and considered applying or actually applied, LOBs report more challenges than WOBs in accessing the PPP, including a greater share reporting a lack of response from a banking provider (15% vs. 9%), lack of guidance on how to apply (24% vs 15%), technical challenges in submission (12% vs 8%), and a language barrier (5% vs 1%).

LOBs are also more likely to report that the pandemic is the biggest challenge impacting their future growth, with 55% reporting this as a significant factor compared to 44% among WOBs. The effects of the pandemic may also linger for some time as only 7% of Latino-owned employer firms that obtained PPPs have been forgiven. Latinos are also less likely to believe that their PPP loan will be forgiven, which means that this remaining debt may also impact future growth opportunities.

STRAPPED FOR CAPITAL, LATINO-OWNED BUSINESSES DISPROPORTIONATELY TAP INTO PERSONAL SAVINGS, MAX OUT ON CREDIT CARDS, AND USE HOME EQUITY TO WEATHER PANDEMIC

The ongoing impact of the pandemic has meant that financing needs were different in the past year. In the aggregate, 50% among both LOBs and WOBs solicited additional funding from at least one source outside of personal savings. Compared to White business owners, Latinos were more likely to report tapping into their personal savings, using business and personal credit cards, soliciting loans from banks, taking out home equity loans, and seeking private equity because of the pandemic. **Figure 15** shows the top sources of financing sought by LOBs in the last 12 months at the time of the survey.

Figure 15

Top Sources of Financing Sought by Latino- and White-owned Businesses in the Last 12 Months

FINANCING TYPES	LATINO	WHITE
Personal and Family Savings	31%	24%
Business Credit Card	25%	22%
Personal Credit Card	21%	20%
National Bank Loan / PPP	16%	12%
Family and Friends	11%	9%
Home Equity Loan	10%	7%
Grants	8%	7%
Economic Injury Disaster Loan (EIDL)	6%	7%
VCs	6%	3%
Local Bank Loan	4%	3%
Angel Investors	4%	2%
Private Equity	4%	3%
Other Government Guaranteed Loan	3%	4%
Restaurant Revitalization Fund	2%	1%

FINANCING TYPES	LATINO	WHITE
Nonprofit Lenders	2%	1%
Shuttered Venue Operators Grant	1%	1%
Federal Reserve Main St. Lending Program	1%	1%
Hard Money	1%	1%
Factoring	1%	1%
Community Development Financial Institutions (CDFIs)	1%	1%

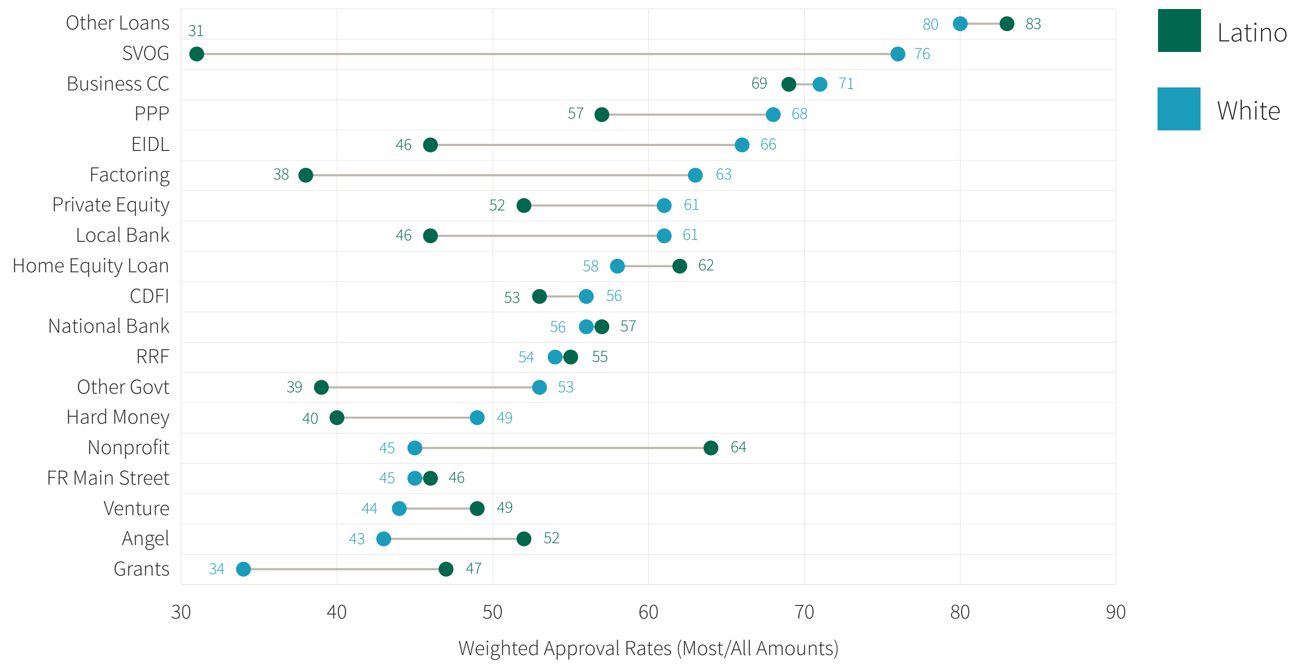
SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

If we consider the different types of financing sought among those who applied for financing, the approval rates vary by funding type as shown in **Figure 16**. To proxy an approval rate, we consider whether all (100%), most (66.6%), some (33.3%), or none (0%) of the requested amount was received. It is important to note that these distributions are conditional on applying for financing as those who opt out of financing form a distinct group. For example, among those not seeking financing in the past year, Latino business owners are more likely to report not knowing how to obtain financing and having bad experiences in the past, whereas White business owners are more likely to report not needing financing outside of the business.

Figure 16 shows that LOBs had lower approval rates than WOBs among government sponsored pandemic programs like the PPP, Economic Injury Disaster Loan (EIDL), Shuttered Venue Operators Grant (SVOG), and the Restaurant Revitalization Fund (RRF). As a result, private financing and nonprofits were critical for LOBs that were more likely to get financing from nonprofits, grants, VC, and angel investors in the past year.

Figure 16

Weighted Approval Rates by Funding Type, 2021



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

Furthermore, the LOBs whose financing was not fully approved are reporting a disconnect with funders. LOBs are more likely to report that funders do not believe in their ability to succeed (9% vs 5%), do not understand the circumstances in which the business operates (9% vs 7%), and do not understand their values (7% vs 5%). These social factors may be mitigated by the growing presence and role of mission-driven banks, like Community Development Financial Institutions (CDFIs), that are addressing the needs of historically marginalized communities[34] (Read more about CDFIs featured in the case study of Juan Hernandez).

LATINOS MORE LIKELY TO REPORT MAKING PROACTIVE BUSINESS PIVOTS

Although the pandemic had broadly negative impacts for both LOBs and WOBs, some firms reported positive impacts — either positive business outcomes (e.g. revenue growth, cost reductions) or positive actions they took to improve their business (e.g. increased use of technology, moving into ecommerce). While we find similar (and low) rates of positive business outcomes for LOBs and WOBs, we find that Latino-owned firms were more likely to report positive outcomes that reflected employing proactive business strategies. The ways in which LOBs and WOBs, respectively, have been postiively impacted by the pandemic are summarized below:

POSITIVE RESULTS DURING COVID RELATED TO STRATEGIC BUSINESS ACTIONS:

- Improved Technology — 21% vs 16%
- Moved into E-Commerce — 18% vs 13%
- Improved Client Outreach — 18% vs 14%
- Improved Management Style — 17% vs 10%
- Offered a New Product or Service — 16% vs 11%
- Increased Client Engagement — 16% vs 13%
- Hiring Additional Employees — 12% vs 7%
- Improved Production Processes — 11% vs 6%
- Increased Relationships with Local Government — 6% vs 3%

POSTITIVE RESULTS DURING COVID RELATED TO BUSINESS OUTCOMES

- Increased Revenue — 15% vs 16%
- Decreased Cost — 10% vs 10%
- Increased Local Inflows/Sales — 4% vs 4%
- Increased International Inflows/Sales — 1% vs 1%
- Greater Cash Runway for Business Improvements — 4% vs 3%

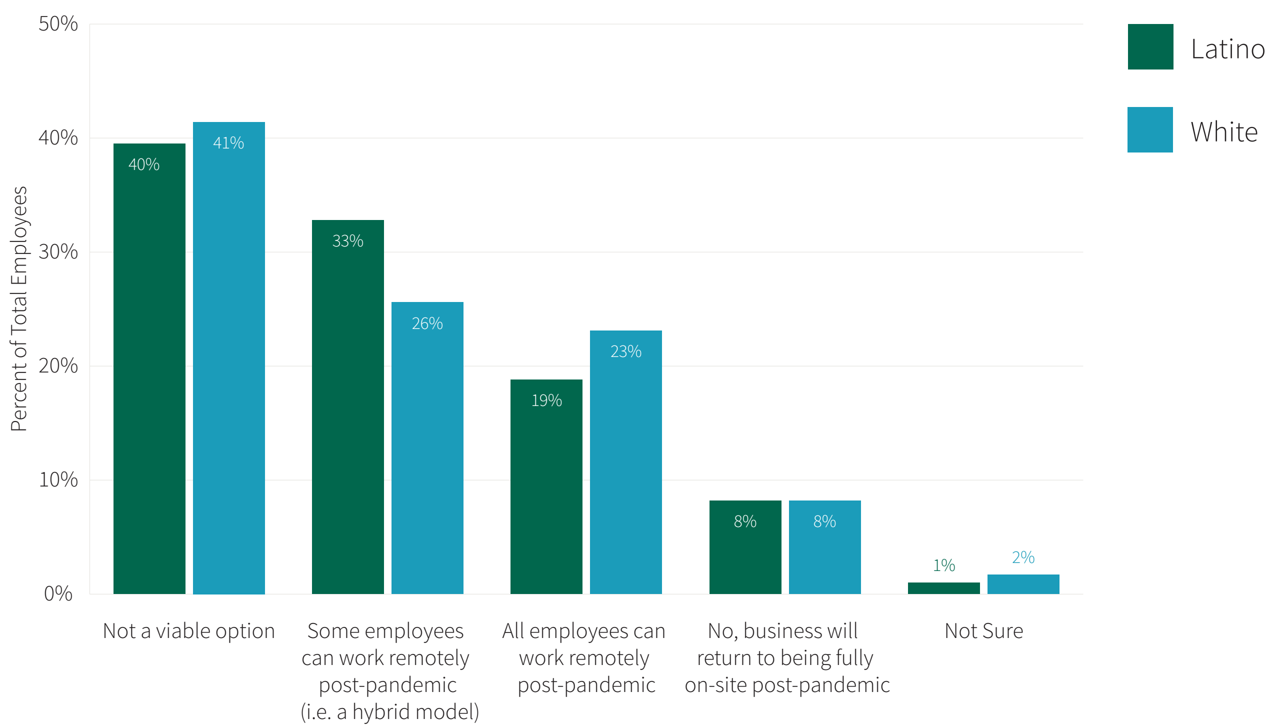
In many ways, these improvements were accelerated due to the pandemic requiring rapid transitions to virtual engagement. Other notable improvements include increased networking opportunities, as virtual engagement has no geographic bounds, and increased relationships with local governments, since local businesses had to be on top of local ordinances and changing regulations.

POST-PANDEMIC IMPACT

In addition to increased virtual operations and engagement, businesses are also starting to signal what to expect from a post-pandemic workplace. At the time of the survey, LOBs reported a 3:2 ratio of some remote work options for employees compared to remote work not being a viable option. **Figure 17** shows that one third of LOBs will continue to have some remote work functions post-pandemic and nearly one out of five LOBs will have full remote-work functionality. Remote work is here to stay among the employer businesses surveyed.

Figure 17

Remote Work Post-pandemic



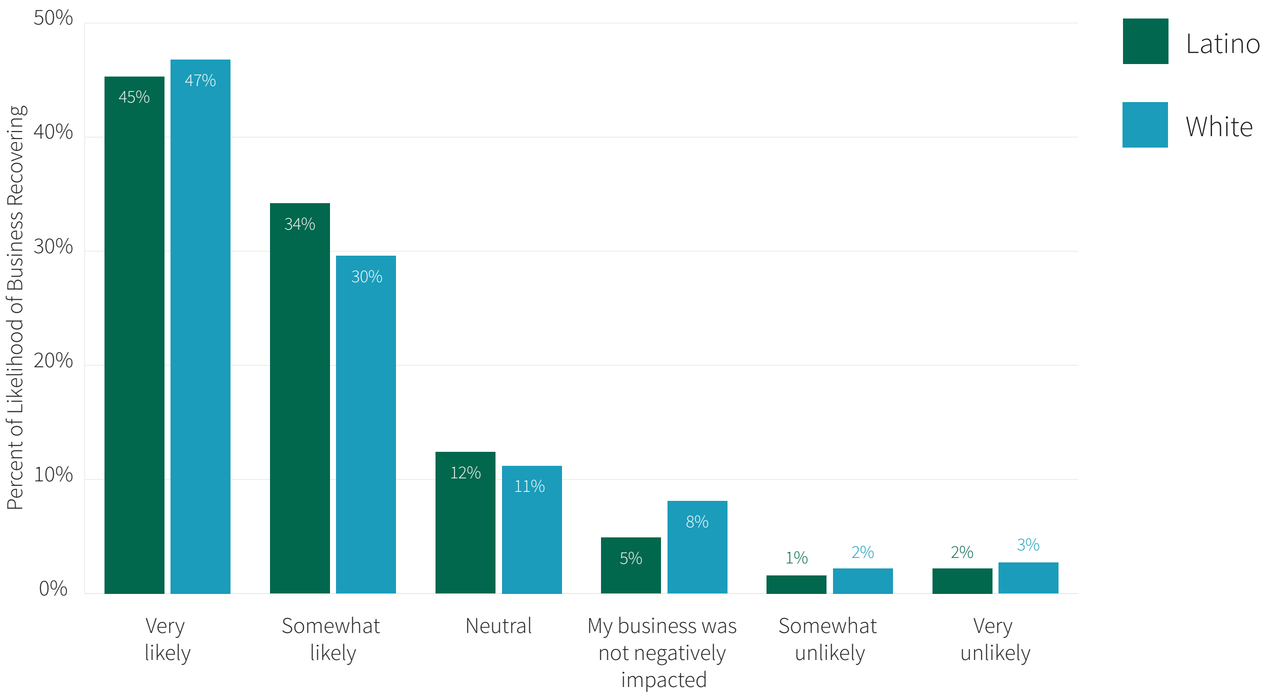
SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

BOTH LATINO AND WHITE BUSINESS OWNERS GENERALLY OPTIMISTIC ABOUT REBOUNDING FROM PANDEMIC

Encouragingly, both LOBs and WOBs reported confidence that their businesses will recover from the pandemic, with 79% and 77%, respectively, sharing this outlook (**Figure 18**). This confidence has remained high for both groups relative to 2020 confidence levels despite the many twists and turns of the pandemic.

Figure 18

Likelihood of Business Recovering from Negative Impact from COVID-19



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

CASE STUDY:
LEEANNA FRESQUEZ, FRESQUEZ CONCESSIONS

LeeAnna Fresquez is a second-generation entrepreneur and proud operator of Fresquez Concessions. Based in Albuquerque, Fresquez Concessions boasts more than 20 restaurants across New Mexico, Texas, and Colorado. The company was founded by Fresquez's parents, Lenny and Linda, in 1984, and today Fresquez is focused on growing her parents' legacy.

Prior to joining the family business, Fresquez worked as an auditor for PwC. There, she learned the importance of implementing the right systems and infrastructures to help a company succeed. She saw an opportunity to apply these lessons to her family's company, and when her father's health began to decline, she decided it was time to join the family business.

Fresquez joined Fresquez Concessions in 2008 and used her expertise to evolve the company into what it is today. For years, Fresquez Concessions thrived — performance hit an all-time high in 2019. But beginning in March 2020, with the rise of the pandemic, the food service industry took a turn. Fresquez Concessions was hit particularly hard with most of their locations based in airports.

Fresquez was forced to furlough about 80% of its team members, reducing its workforce from 500 to 100 employees. "That was the hardest thing we had to do. We're a family business and know everyone by name." Still, Fresquez and her family tried to provide support any way they could. "My mother is amazing. She called food suppliers and made bags for every single person we furloughed."

Despite the immense economic uncertainty brought on by the pandemic, Fresquez worked hard to find solutions where she could. The company was fortunate to receive first-round PPP funding. This was no easy feat, as the PPP application process was considered confusing and nontransparent.

But, as one of the larger family-owned businesses in the state, Fresquez had a little more visibility and leverage into funding decisions. "We were very, very grateful that we received funding. We have great relationships with our community bank in New Mexico." Fresquez also had a top-notch team behind her, including an exceptional controller who worked tirelessly with their banker to craft a successful application.

Fresquez and her team spent hours deliberating how to best use of their funding, ultimately pivoting in their strategy several times. "It was tough for team members to have confidence and trust in us, primarily because the state of New Mexico had a 14-day quarantine in place and travel was highly discouraged." The company made big investments in its payroll infrastructure, relying on its payroll system to get temperature checks of the organization via surveys and polls. They also focused on providing employee development and training opportunities for their remaining workforce.

The travel industry has since made a big turn. Fresquez Concession is in recovery mode. In 2019, the company had 21 restaurant locations as well as a food truck. As of November 2021, they have reopened all but three locations. Additionally, the company is back up to 350 employees with the goal of hiring approximately 80 more by the end of the year. Thanks to increasing travel trends, as well as innovative ways of working adopted by the company during the pandemic, Fresquez Concessions is well on its way to a record year in 2022.

CASE STUDY:

JUAN HERNANDEZ, CRESER CAPITAL

When Juan Hernandez looked around his community, he saw a gap in access to capital and was moved to fill the need.

As CEO and cofounder of CRESER Capital, Hernandez is accomplishing his objective by pairing capital with step-by-step, culturally responsive education about the borrowing process. “Our aim is to create pathways for Sonoma County families to achieve financial independence, participate actively in civic and economic life and create jobs and collaborate with other businesses.”

Like most entrepreneurs, Hernandez’s journey was not a straight path. “Initially, I wanted to get into business school, but after an unsuccessful attempt, I dedicated myself to working with the community at the grassroots level.” For eight years, La Luz Center in Sonoma Valley was his executive training ground. As executive director, Hernandez gained the skills required to work with a community and a board. During his tenure, Hernandez launched a micro loan program. This experience gave him the confidence, skills, and expertise he needed when he started CRESER Capital in 2020.

CRESER was built on the idea of access and innovation, “CRESER is providing access to capital to those Latino small businesses that do not qualify for traditional bank loans.“ As of December 2021, the fund has raised $1 million and has lent almost $400,000 to the community. Hernandez sees small business ownership as one of the primary pathways to wealth-building in America, a big reason as to why he has dedicated his career to narrowing financing gaps for Latino entrepreneurs.

During the pandemic, the PPP loan process widened the financing gap for Latino small businesses. “If a small business did not have a relationship with the bank, they were most likely left out of the PPP loan process.” These trends are exacerbated by technology barriers that commonly exist in industries where many Latino businesses operate. For example, due to stay-at-home and quarantine mandates, businesses that lacked an online presence (a website, social media, etc.) were hit harder than their peers.

After nearly two years of the pandemic, Hernandez is ready for a new age and optimistic about the new normal. He hopes to see an increase in the number of Latino-led businesses in Sonoma County and beyond. Hernandez recognizes that building and strengthening infrastructure to support these small businesses will be critical for their growth and success and is confident that CRESER Capital will be a leader in efforts to invest in and build this community.

CASE STUDY:
CARLOS LOFSTEDT, NOVOAGLOBAL

Carlos Lofstedt is no stranger to the highs and lows of the entrepreneurial landscape. From a very young age, he understood the importance of hard work and independence, values that were instilled in him by his Chilean father. Since 2010, Lofstedt has owned and operated NovoaGlobal, a developer and manufacturer of advanced traffic management, photo enforcement, and intelligence solutions designed to improve safety.

Lofstedt has been working in traffic safety for most of his life. Upon graduating from Linkoping University in Sweden with a degree in Industrial Engineering and Management, he was part of the inception of Vision Zero in Sweden. Vision Zero is a multinational road safety project that requires liaising across many different groups, like policy- and auto-makers, many of whom hold competing interests. But eventually Vision Zero found success. “People thought it was unrealistic to get zero deaths on the roads, but Sweden got that lead and the people stopped laughing. Vision Zero has so far been adopted in 40 communities across the U.S., including D.C. and Orlando, which are both our customers today.”

Lofstedt eventually decided to take his expertise to the United States, where he could apply his knowledge to the country’s countless traffic problems. The transition was not easy. Because Lofstedt did not have a credit history in the United States, funding was nearly impossible to come by, so he initially funded NovoaGlobal out of his own pocket. Today, the company has about 25 employees and contracts across numerous locations including Washington, D.C., Tacoma, and Orlando. “Today we’re at a level where we don’t really need financing. We’re self-sufficient at our current scale.”

Although they were not immune to the adverse effects of the pandemic, in some ways NovoaGlobal was uniquely situated to navigate it. “We have the luxury of having long-term contracts, so that’s a big advantage.” That said, NovoaGlobal’s deeply intertwined relationships with state and local governments also brought unique challenges. “Politics gets strange. You’re dealing with city councils and mayors who may or may not extend or renew contracts signed by their predecessors.” The company had several contracts fall through as a result of state budgets that were hit hard during the pandemic. Despite that, NovoaGlobal has kept growing.

At the height of the pandemic, Lofstedt joined the Stanford Latino Entrepreneurship Initiative Education Scaling Program where he expanded his network and connected with other CEOs around subjects such as scaling and lead management. During this time, the company also adopted new mechanisms for building more powerful email campaigns based on data and logic. It also adapted by developing a COVID-ready eHearing platform that enables cities to provide hearings to citizens without the need for in-person contact. This process is completely online, thus saving time for citizens and city personnel and eliminating the danger of spreading the virus through in-person contact.

For the future, Lofstedt is feeling optimistic. NovoaGlobal stays ahead of the competition by providing technology that integrates seamlessly and is not available from competitors. An additional benefit to customers is a License Plate Recognition system (LPR) that has the ability to incorporate an Amber Alert and/or Silver Alert program for immediate notification and response. At the same time, NovoaGlobal is able to integrate external systems into the platform, which NovoaGlobal piloted in Volusia County and in New York State. When thinking about what comes next, Lofstedt states, “I’m optimistic we’ll keep growing in the future.”

CASE STUDY:

LESLEY LOPEZ, REKON PRODUCTIONS

When Lesley Lopez joined ReKon Productions in 2012, she knew she would be continuing her journey as what she referred to as "a total anomaly," a Latina independent film producer. Ten years later, now a partner and part of the executive team at ReKon, she says, "The reality is that I have been singular for a long time. Just this year they released a report that stated that Latina women made up less than 10% of people in front of and behind the camera." These numbers come as no surprise, given how challenging it has historically been to enter the independent film and production industry, particularly for marginalized groups.

ReKon Productions is an independent production company located in Culver City, California. Lopez's background in film and television, in combination with her corporate operational expertise, meant that Lopez brought special value to the burgeoning independent company. Upon joining, Lopez took ReKon's reins on strategic processes and frameworks, she became a partner in 2016.

Prior to the pandemic, ReKon was producing 40–60 projects a year within a given division. But in March 2020, the entertainment industry was hit hard by the shutdown. COVID-19 increased the average project cost by at least 20%, putting immense stress on an already resource-constrained team. Faced with tough decisions, Lopez was forced to furlough most of her staff.

In her search for solutions, Lopez encountered many highs and lows. In June 2020, filming began to open up again. However, this high was short-lived as many productions were impacted by protests that occurred that month. Lopez's team was able to squeeze out a few small projects, such as narrative content for now virtual conferences like E3. However, the experience was less than ideal, as many of her employees were concerned for their health and safety. "It was awful, it wasn't easy and no one felt safe." It was then that Lopez decided to start an internal taskforce to navigate the pandemic and determine a way for production companies to safely operate.

During the uncertainty and unexpected decrease in regular business, ReKon Productions expanded. Lopez oversaw the opening of a new sales and distribution division in spring 2020, which has found new revenue for the business. The division had early success with a feature film project that screened at the Cannes Festival in 2020 and secured theatrical distribution in 2022. The pandemic also gave Lopez and the rest of the executive leadership team the opportunity to evaluate quality and balance of life for their employees, something difficult to achieve in the film industry.

With fewer productions, Lopez found time to grow her professional toolkit through the Stanford Latino Entrepreneurship Initiative Education Scaling Program. Lopez used the new networks, peers, and resources to help her problem-solve and stay on top of global trends.

Today, Lopez feels optimistic that the new ways of working and other innovations that ReKon unlocked during the pandemic will carry the company into its next chapter. Demand within the film industry is trending upward, and productions that were paused are starting to kick off again. "In 2021, we've done approximately 12 shows. It's not great for us, but things are starting to look better."

What excites Lopez most about the changing tide is bringing her team members back to work and rebuilding her organization. Although there are still many challenges ahead, Lopez is confident that the investments she has made in both people and culture will restore ReKon to its pre-pandemic success.

SECTION V

EMPLOYEES OF LATINO-OWNED BUSINESSES

MARTHA DE LA TORRE
Cofounfer & President, EC Hispanic Media

As the number of people employed by Latino-owned businesses continues to grow, it is important to consider the types of jobs being created. The Good Job Institute defines a good job as meeting people's basic needs including: pay and benefits that are fair for the work and comparable to others; stable and flexible schedules; a career path and advancement to higher pay; and job security and safety if performed well.[35] This section considers some of these basic needs through employer provided compensation, benefits, and growth opportunities.

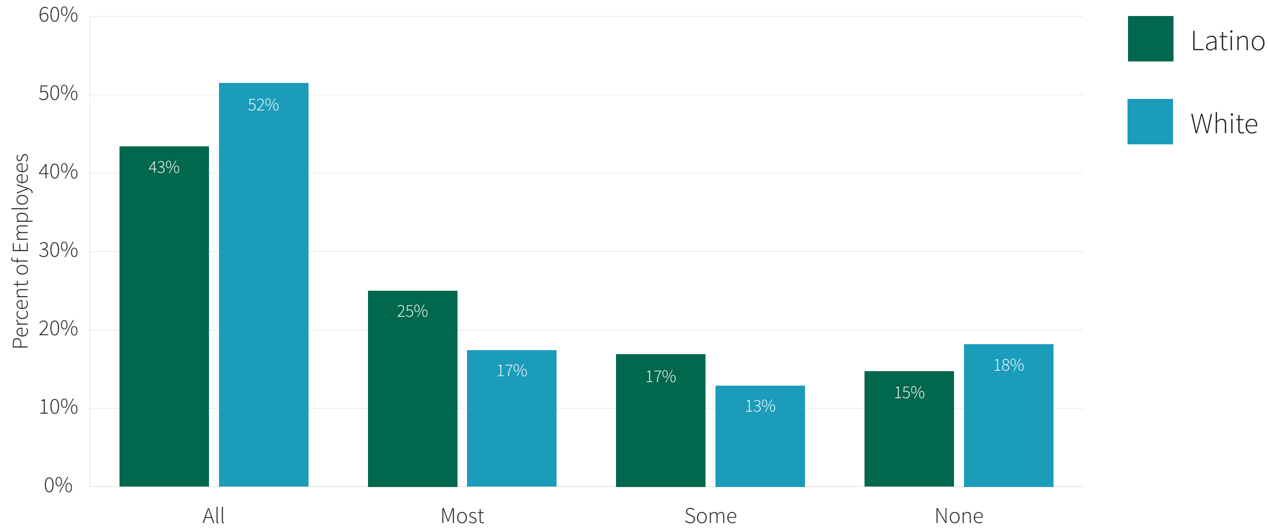
PAY AND BENEFITS

While pay will vary by industry standards and occupations, one basic measure is a minimum wage standard. Mandated by federal law, the minimum wage is the lowest amount a worker can be paid hourly, set at $7.25 per hour as of 2021; this can be set higher by states.[36] Although the minimum wage is not the same as a living wage, the minimum wage can serve as a minimum baseline and is more commonly used in business practice. Fewer LOBs report that all their employees are paid above minimum wage than WOBS (42% vs 57%), but more LOBs report that most of their employees are paid above minimum wage relative to WOBS (25% vs 17%) as shown in **Figure 19**.

Another standard marker of a good job is generous benefits provided to employees. Latino-owned firms report providing benefits to their employees at rates higher than WOBs, as shown in **Figure 20**.

Figure 19

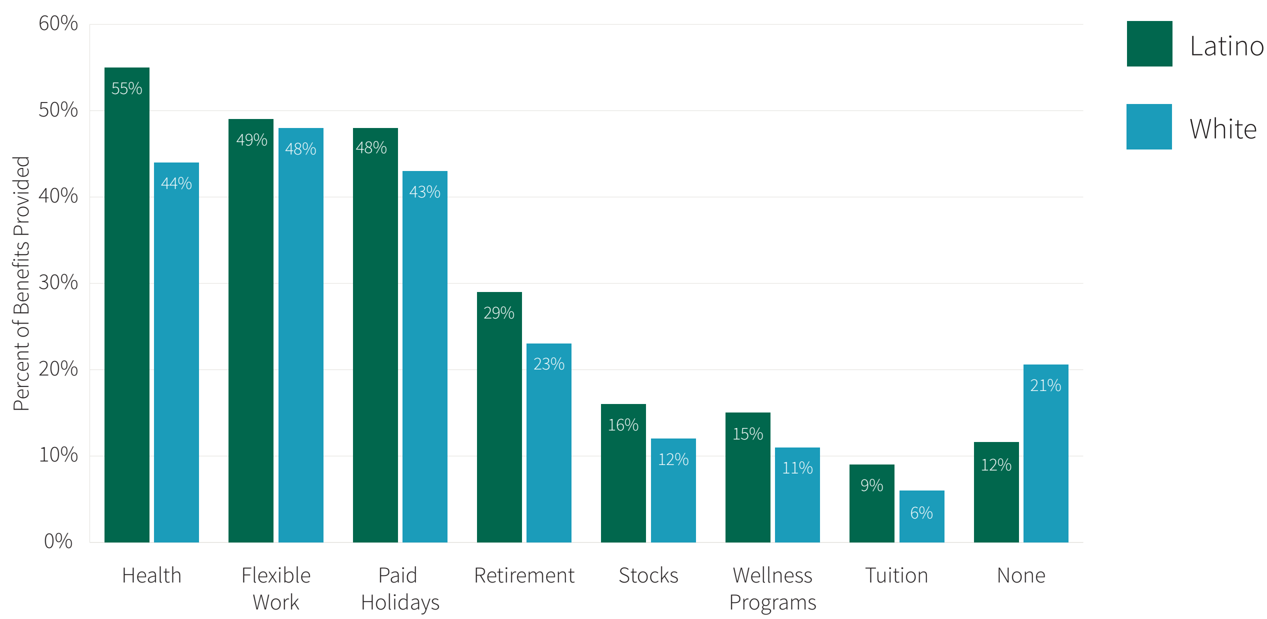
Share of Employees Paid Above Minimum Wage



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

Figure 20

Benefits Provided to Employees



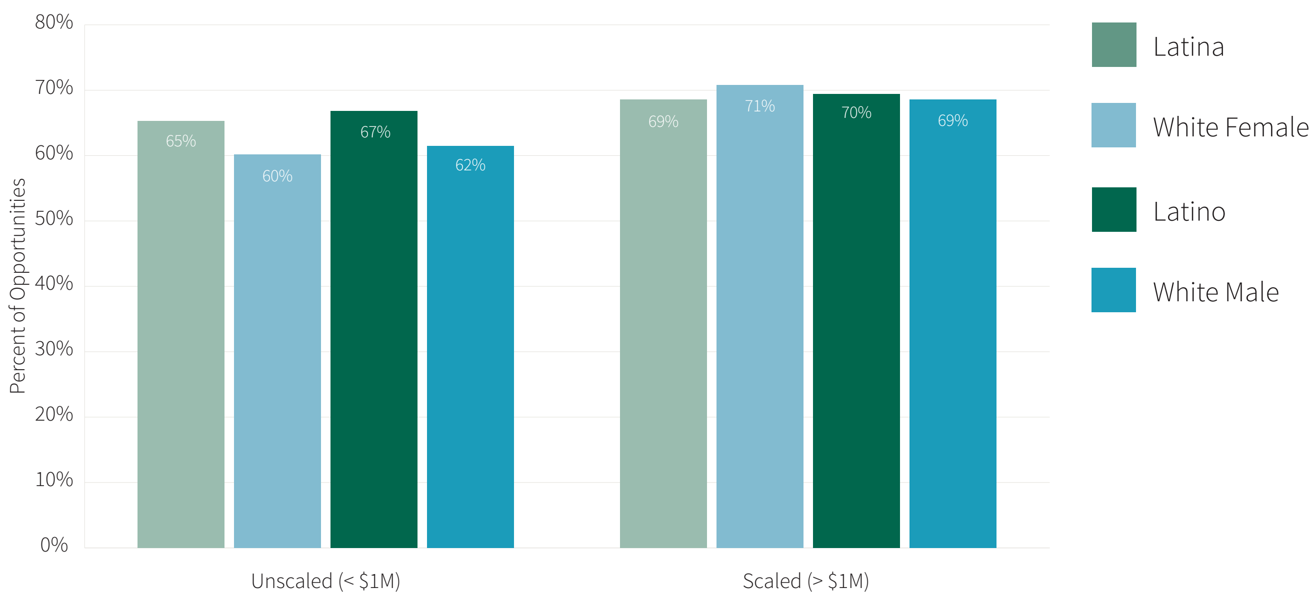
SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

OPPORTUNITIES FOR ADVANCEMENT

While it may come as no surprise, it is important to note that LOBs are more likely to have Latinos represented on their leadership teams with 98% reporting Latino executives other than the owner. We consider other opportunities provided to employees beyond the executive level. We standardized a measure for opportunities, an Employee Opportunities Index (EOI), where we consider the share of employees that have the following opportunities available: promotions, courses to improve skills, training, pay above minimum wage, and employer paid benefits (see **Appendix A** for additional methodological notes). We considered the outcomes of this index across a number of business characteristics, including owner's gender, revenue size, revenue growth, and types of customers. Across most models, LOBs provide similar or greater opportunities to their employees. To simplify the intuition behind these models, a crosstab is captured in **Figure 21** where we see no difference in the employee opportunity index between Latino and White-owned scaled firms (those with revenues above $1 million), but see Latino-owned firms reporting higher rates of employee opportunities among smaller firms.

Figure 21

Employee Opportunities Index Across Revenue Size and Gender



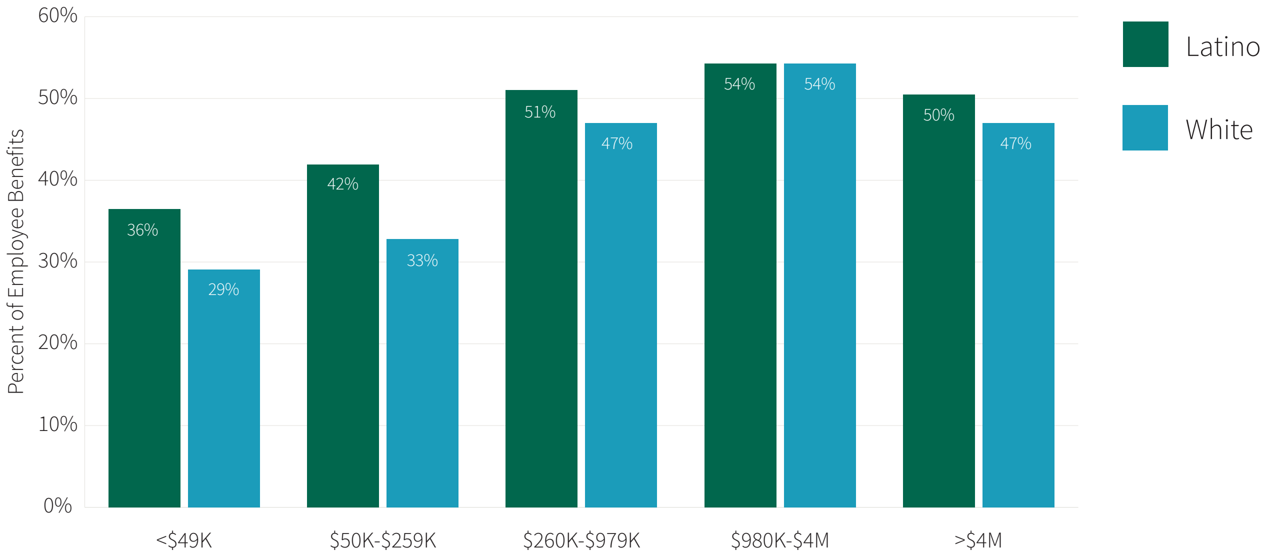
SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

A similar methodology was conducted to create an Employee Benefits Index (EBI). The analysis using this index finds comparable results. All these findings point towards LOBs prioritizing employees largely predicated on revenue size but not by gender, revenue growth, or customer base. Unscaled LOBs are more likely to provide both opportunities and benefits relative to unscaled WOBs.

The EBI weighted means for LOBs and WOBs is 45.3 and 39.5 points, respectively (difference is statistically significant). For instance, **Figure 22** shows the mean estimates for EBI by race and five revenue categories. First, we observe a positive correlation between the EBI and revenue, that is, more revenue, on average, is positively associated with more benefits. However, in the highest revenue class, the EBI drops a few points for both groups, suggesting a diminishing marginal return function. Second, LOBs provide more benefits, on average, than WOBs, except in the $980K-$4M category, where both groups have the same index value.

Figure 22

Employee Benefits Index Across Revenue Categories

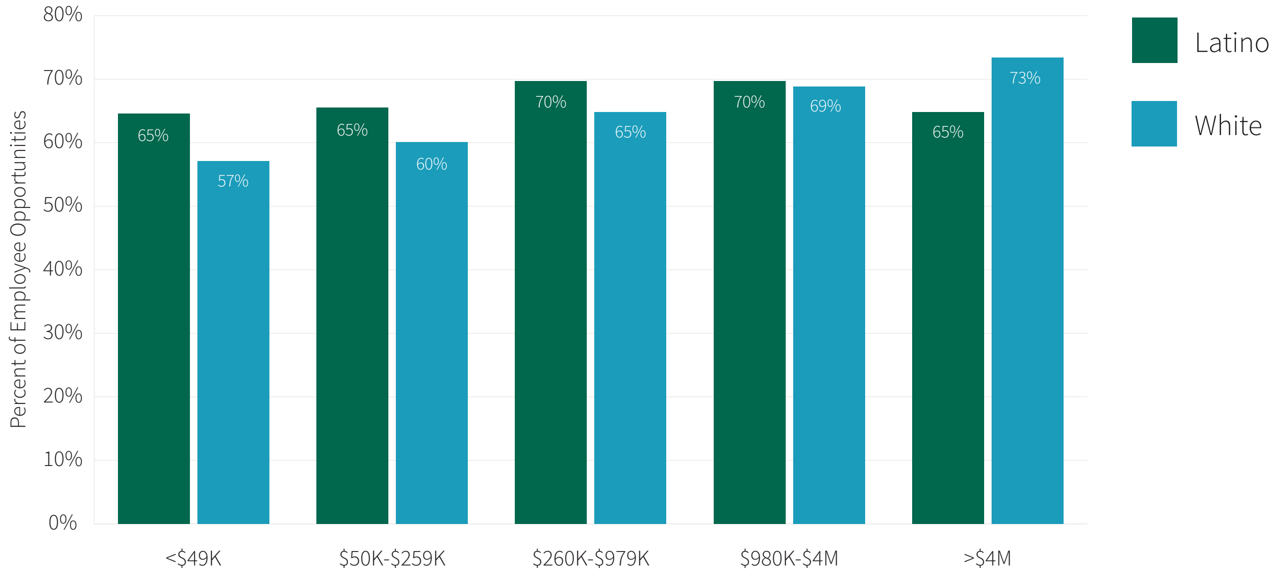


SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

Figure 23 shows the results for the Employee Opportunity Index (EOI) by race and five revenue categories. The EOI weighted means for LOBs and WOBs is 66.8 and 62.8 points, respectively (difference is statistically significant). Similarly, the results show that LOBs provide more opportunities, on average, to their employees, excepting the highest revenue class. This result, however, is probably driven by a smaller sample of LOBs under the $4M category.

Figure 23

Employee Opportunities Index Across Revenue Categories



SOURCE: SLEI Survey of U.S. Business Owners, 2021. N=15,000

GUSTAVO SUAREZ
Founder & CEO, JPG

SECTION VI
CONCLUSION

IMPLICATIONS FOR POLICYMAKERS, LENDERS, AND LATINO ENTREPRENEURS

The growing Latino business sector is one worthy of attention among policymakers looking to encourage economic expansion and the growth of quality jobs. Latino business owners continue to represent an important segment of the U.S. economy, generating $460 billion in revenue and employing 2.9 million workers. The number of Latino-owned firms continues to grow at a rate outpacing all other entrepreneurial groups, with employment by Latino firms growing even more rapidly. Our survey finds that the majority of Latino business owners are paying above minimum wage and that LOBs report equal or higher rates of employee benefits and opportunities for growth, relative to White-owned firms.

Lenders may wish to continue reviewing their loan approval criteria and processes to ensure they are not missing beneficial lending opportunities in the Latino business sector. This year's survey found ongoing gaps in access to debt capital for Latino entrepreneurs, with the exception that we see bifurcated results with respect to PPP loan approvals, where Latino-owned firms were both more likely to have loan applications be approved and rejected, relative to White-owned firms. More generally, Latino-owned firms continue to be less successful in securing business loans, despite displaying similar characteristics, on average, across two loan approval criteria, credit and collateral.

Similarly, this study sparks the question of whether the VC industry is missing opportunities to invest in the Latino tech sector. Contrary to popular belief, Latinos are just as likely as their White counterparts to operate tech companies. Latinos entrepreneurs are breaking into tech despite low representation in the overall tech workforce and the abysmally low VC dollars flowing into Latino-owned companies. While not all tech businesses are necessarily a good fit for VC investment, there may be unrealized investment opportunities in the Latino tech sector.

Finally, while we continue to see significant impacts from the pandemic on both Latino and White owned firms, with decreased revenues, supply chain disruptions, and cost increases; fewer firms reported being significantly negatively impacted relative to last year. With more than three quarters of both Latino and White-owned businesses expressing confidence their company will successfully weather the pandemic, we are hopeful that the coming year will represent renewed prosperity for all businesses.

APPENDIX
A. METHODOLOGY

OVERVIEW OF THE SLEI SURVEY OF BUSINESS OWNERS

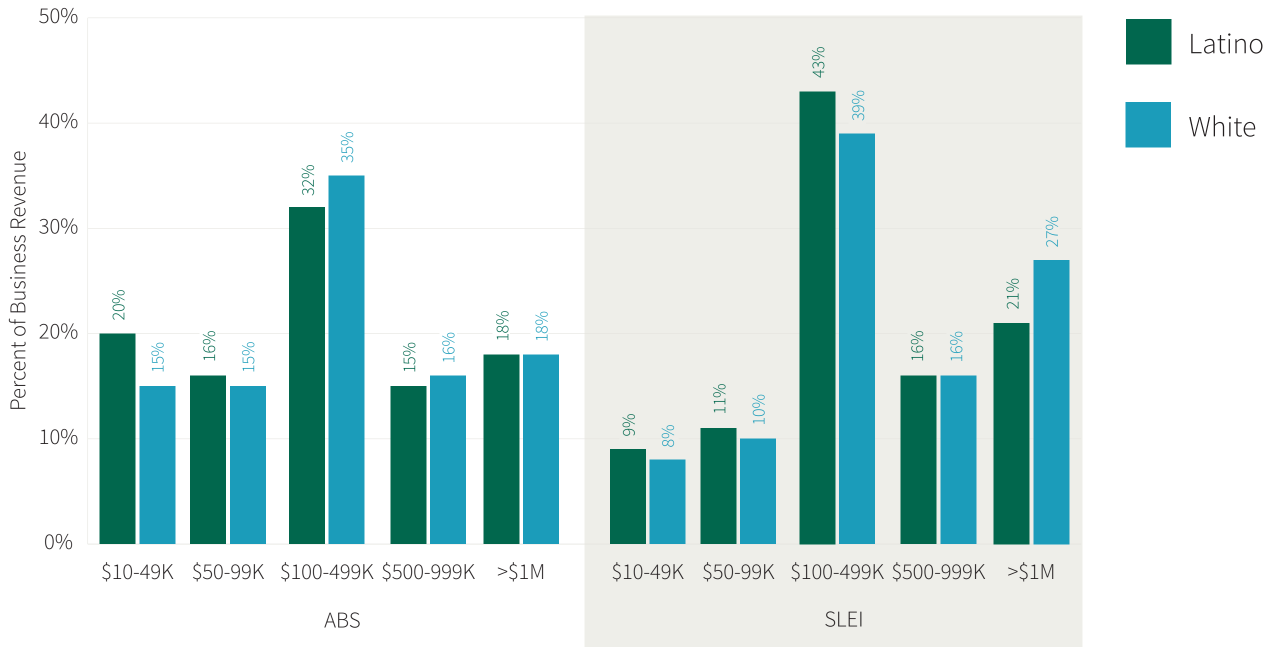
Since 2015, the Stanford Latino Entrepreneurship Initiative has collected national survey data on Latino-owned businesses across the country and Puerto Rico on a yearly basis and revealed the findings about 6 months later in the State of Latino Entrepreneurship report. Similar to last year, we expanded our sample to include White business owners for comparative purposes. To be considered for the Latino business owner sample, respondents must answer these questions affirmatively: Are you a business owner with 50% or more ownership and are you of Latino or Hispanic origin. (If yes to the second, they simultaneously specify country/ancestry.) Latino business owners are of any race and for the White business owner sample, respondents must indicate they are not Latino. Additionally, this year, we focus on employer businesses for the reasons outlined in the “About this Report” section. We also only include businesses earning over $10,000 in revenue to parallel Census survey parameters. The survey instrument is an online questionnaire administered through the Qualtrics platform that typically takes 10 to 15 minutes to complete. Respondents for the comparison sample were obtained through proprietary Qualtrics business panels. All comparison group calculations are conducted on this same panel sample.

WEIGHTING THE SAMPLE FOR REPRESENTATIVENESS

We supplement our data throughout this report with known counts of employer businesses from the 2018 U.S. Census Annual Business Survey (ABS). Our sample of employer businesses are generally representative of employer businesses at large in terms of industry, geography, and age of business. **Figure 24** compares the business revenue between the unweighted 2021 SLEI survey and the 2018 ABS.

Figure 24

2021 Unweighted SLEI Survey Compared to 2018 ABS (Business Revenue)



SOURCE: SLEI Survey of U.S. Business Owners, 2021 and U.S. Census Bureau's Annual Business Survey, 2018.

To more closely match the population of Latino and White-owned firms in the United States, we adjust for sample differences by weighting to estimates from U.S. census data by revenues, number of employees, industry and region, based on the 2018 ABS. 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. We report findings based on statistically significant differences in means when comparing two groups and note places where there are no differences from a statistical vantage point.

INDEX MEASURES

In the employee section of the report, we constructed two indexes to measure how many employees are eligible to receive growing labor opportunities and the extent of benefits coverage within a company. First, the Employee Opportunities Index (EOI) is built upon five variables: promotions, courses to improve skills, training, minimum wage, and paid benefits. These variables were used to assess how many employees were subject to these opportunities, that is, none, some, most, or all. Then, we recoded these four options in percentage terms. In other words, we replaced none with zero, some with 33.3%, most with 66.6%, and all with 100%. For instance, if the respondent answered that all their employees are eligible for training, this option takes the value of 100% instead of four (as originally coded). Finally, we divided the new percentage variables by five (or the total number of variables). The mean value of this index was 68.42% with a standard deviation of 21%. It is important to note that the average value doesn't mean that 68% of the employees are eligible in all the five categories. Since we don't know the exact number, this measure is a good proxy. Thus, about two thirds of the surveyed companies gave to "most" of their employees these opportunities, on average.

Second, the Employee Benefits Index (EBI) is based on the availability of seven benefits: health insurance, retirement, stocks, paid holidays, tuition, flexible work arrangements, and wellness programs. In comparison to the labor opportunity variables, we asked the respondents if they offer these benefits or not. For example, if a respondent answered that they offer paid holidays, this variable takes the value of one and zero otherwise. Finally, we summed up these variables and then we divided the total by seven. In order to present the total in percentage terms we multiplied the resulting division by 100. The EBI mean is 36.2% with a standard deviation of 20.6%. In other words, an employer offers about two out of seven possible benefits, on average.

2-YEAR COMPOUND ANNUAL GROWTH RATE

A simple growth rate formula captures revenue growth between 2 years:

$$\textbf{2-YEAR CAGR} = \left(\frac{\text{Revenue in the past 12 months}}{\text{Revenue 3 years ago}}\right)^{(1/2)} -1$$

5-YEAR COMPOUND ANNUAL GROWTH RATE

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 5-year period. We calculate the 5-year CAGR as follows:

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

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 5 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.

B. GLOSSARY OF TERMS

BUSINESS-TO-BUSINESS (B2B)

A business that sells products or services to other businesses.

BUSINESS-TO-CONSUMER (B2C)

A business that sells products or services directly to consumers.

BUSINESS-TO-GOVERNMENT (B2G)

A business that sells products or services to federal, state, or local agencies.

CREDIT RISK

A measure derived from self-reported personal credit scores ranked from low credit risk (scores above 720) to high credit risk (scores below 620).

CREDIT HISTORY

The track record in managing credit and paying overtime. A credit report will show payment history, types of credit, and previous lenders. A credit score is a numeric value between 300 and 850 that quantifies credit history.

CAPITAL

The income, savings, cash flow, liquidity and other assets that can help repay the loan.

COLLATERAL

Assets currently owned such as an auto, home, or business equipment that can be used to secure a loan.

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. Used interchangeably with business owner.

FIRMOGRAPHICS

Firm demographics used to segment organizations.

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.

SCALED BUSINESS

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

TECH COMPANY

A business that develops and sells a technology or software product.

UNSCALED BUSINESS

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

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