

# The New Realities for Minority Business

## Introduction

The beginning of the 21<sup>st</sup> century is a critical time in the development of minority businesses. As a result of the Civil Rights movement and the urban turbulence of the late 1960s, federal and state governments and the private sector developed programs to promote Minority Business Enterprise (MBE) growth. Generally, these programs concentrated on business development and included sheltered markets, management and technical assistance, and preferred access to capital for smaller businesses. The combined efforts of the private and public sectors over the years have helped to create over 2 million minority firms, with sales in excess of \$205 billion.<sup>i</sup>

*Markets* have changed dramatically over the past ten years. Corporations have significantly restructured their organizations and re-engineered many of their processes, including procurement. These companies will continue to search for innovative ways of decreasing administrative and other costs, and increasing the efficiency of their operations, including greater use of e-business strategies, greater outsourcing of non-core competencies, and exploration of new markets.

*Government*, traditionally a significant source of business for minority entrepreneurs, has moved in a similar direction, redesigning its procurement process and contracting for a greater number of services. This has resulted in “bundling” of government contracts, with management of these contracts performed by fewer contracting officers. These changes, in both government and the private sector, have had a dramatic impact on all businesses and have encouraged an increasing number of alliances, partnerships, and mergers and acquisitions among vendors and suppliers.

*Technology* also has revolutionized the business environment. Companies and government agencies are increasing their use of technology and electronically streamlining their processes, including purchasing and selling. Business-to-business commerce is growing at a rapid rate and is projected to be a major growth area in the Internet economy. Like all businesspersons, minority entrepreneurs must understand these trends and develop strategies to address them.

In addition to these changes, there is a major **demographic transformation** occurring in this country. Minorities, who now represent approximately 26% of the U.S. population, are expected to represent nearly 50% by 2050.<sup>ii</sup> This will create opportunities for consumer and business sales in those communities where minority businesses, if correctly positioned, could have a competitive advantage. These demographic changes will ultimately alter the relationships between corporate America and communities that have traditionally been under-served by the business sector.

**New strategies for Minority Business Enterprise Development (MBED) must acknowledge that MBEs are not islands unto themselves, but are operating in a rapidly changing, global economy that places a premium on technological know-how, managerial effectiveness and decisiveness, equity capital, and business partnerships.** While these changes present challenges, minority businesses can continue to grow and compete as they leverage their uniqueness and growing economic power. MBEs can be major players in the global economy if they:

- Advocate to the public and private sector the importance of MBED to the U.S. economy
- Leverage the resources of government
- Develop new business structures
- Access new markets
- Develop new sources of capital

**To encourage the development of new strategies, a national consortium must be formed, meeting on a regular basis to discuss the changing business environment and advocate, both within and outside the minority business community, effective strategies for empowering minority businesses. The MBE community as a group must set the agenda, and develop and implement solutions. The discussion should include the following areas:**

- Present Status of Minority Business Enterprise Development
- Trends Impacting Minority Business Development
- Recommendations and Strategies to Enhance Minority Business Enterprise Development in the 21<sup>st</sup> Century
- Benefits to the U.S. and Global Economy

This clearly is not a comprehensive discussion of all trends impacting minority businesses. However, it is intended to provide a general overview of the business environment and serve as a starting point for a discussion of the necessary strategies for promoting minority business success in the 21<sup>st</sup> century.

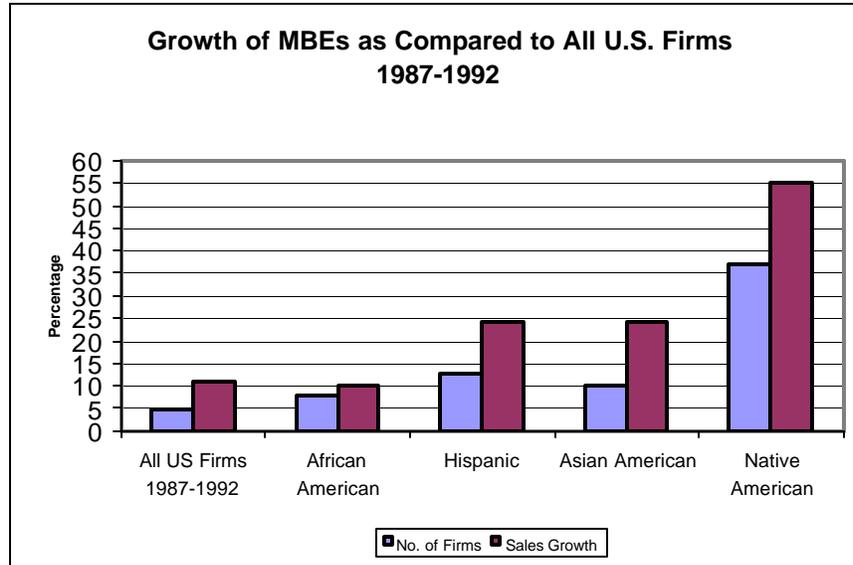
## **I. Present Status of Minority Business Enterprise Development**

Minority-owned firms have grown over the past ten years at approximately double the rate of all firms in the U.S. economy, in terms of both new firms and total sales. There are estimated to be 2 million minority firms, generating in excess of \$205 billion annually.<sup>iii</sup> From 1987 to 1992, the overall growth rate for all firms was 4.7%, with sales growth of 10.75%. The numbers and sales of minority businesses grew at the following rates.<sup>iv</sup>

- Hispanic-owned firms increased 12.8%, with sales growth of 24.11% per year
- African-American firms increased 7.9%, with sales growth of 10.25% per year
- Asian-American owned firms increased 10%, with sales growth of 23.98% per year
- Native-American-owned firms increased 37%, with sales growth of 55% per year

See Figure 1.

Figure 1



Source: SBA Office of Advocacy, 1992 Economic Census

MBEs are not, however, as well-represented in the business arena as the rapid MBE business growth suggests. For example:

- Minority groups represent 26.1% of the population, but own only 11.6% of the nation's businesses<sup>v</sup>
- Minority businesses comprise only 6% of total business gross receipts<sup>vi</sup>
- Minority businesses employ only 3% of the American civilian labor force<sup>vii</sup>
- Recent studies conducted by the Center for Advanced Purchasing Studies revealed that, in the 19 industries with the largest representation of minority subcontractors, only 3.5 % of supply dollars are estimated to have gone to minority businesses. See Figure 2.

Figure 2

## Corporate Purchases across Industries

Industry	Total Sales/Assets	Number of companies in study	% of purchases from minority businesses
Automotive Industry	394.40	9	2.80
Beverage	14.30	8	2.60
Carbon Steel	31.00	16	2.10
Chemical Industry	139.00	11	0.80
Computer and Telecommunications Industry	138.10	11	3.50
Higher Education	28.30	49	3.00
Life Insurance	1231.40	17	1.90
Machinery Industry	49.50	13	1.50
Municipal Governments	22.10	34	8.50
North American Food Manufacturing	35.60	9	7.20
Personal Care Products	15.70	13	3.70
Pharmaceutical Industry	47.60	14	4.80
Semiconductor Industry	47.60	19	2.04
State Governments*	254.70	32	3.90
County Governments*	8.90	32	3.90
Telecommunications Services Industry	238.20	11	6.40
Textiles	10.70	23	1.10
Transportation Industry	122.50	29	2.50
U. S. Banking Industry**	984.30	14	3.60
U. S. Engineering/Construction	41.50	12	3.90
			<b>Avg. across Industries</b>
<b>Totals</b>	<b>3,855.40</b>	<b>376.00</b>	<b>3.49</b>

\*Sales Numbers reflect budget; All remaining numbers average of State and County combined

\*\* Asset Numbers reflect sales

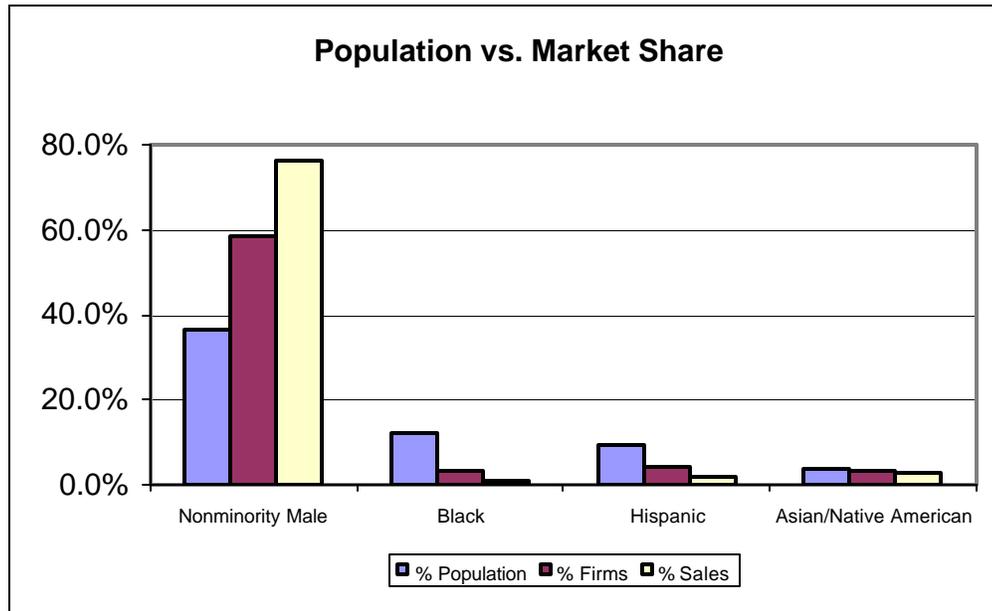
Source: Center for Advanced Purchasing Studies, 1997

In addition, many minority-owned firms are relatively small, without the capacity to perform large contracts for the private and government sectors. For example, 46% of all minority firms had annual receipts of less than \$10,000 in 1992 (the most recent Department of Census data). By contrast, the same data reflects that minority-owned firms with annual receipts of \$1 million or more accounted for only 1.2% of overall minority firms.

However, larger firms have a significant economic impact, both in terms of gross revenues and employment. Although constituting only 1.2% of minority-owned firms, these larger companies generated 52% of the total gross receipts of all minority businesses. In 1992, 1,700 or less than 1 % of minority firms had 100 employees or more; these firms, however, generated 16% of the revenues of all minority firms.<sup>viii</sup> These findings are supported by a recent study of Latino businesses in Los Angeles, which concluded that Latino businesses with more than \$1 million in annual receipts constituted 1.2% of overall Latino firms, but generated 52% of sales receipts and employed 47% of the workforce in Latino firms with paid employees.<sup>ix</sup>

Figure 3 demonstrates the disparity in minority business participation in the corporate marketplace across a broad range of business areas.

Figure 3 *Reprinted from: Milken Institute; Data Source: SBA Office of Advocacy, 1992 Economic Census*



These statistics show that minority business growth is not tracking overall growth in the minority population. To reverse this trend, the MBE community must develop strategies to take advantage of the strengths of minority communities and translate these strengths into economic power.

## II. Trends Impacting Minority Business Development

The trends most strongly impacting MBED can be grouped under four main categories:

- **Corporate Business Strategies**
- **Government Restructuring**
- **Financial Trends**
- **Minority Demographics**

These trends will be discussed in greater detail in the following sections.

### A. Corporate Business Strategies

The way in which business is conducted in the U.S. has changed dramatically over the last twenty years. Some of the most significant changes are:

- Industry Consolidation
- Process Redesign
- Increase in Strategic Alliances
- Expansion of the Internet and Use of E-Commerce

### Industry Consolidation

One of the dominant trends affecting businesses is the continuing proliferation of mergers and acquisitions. Primarily driven by technological advances or new government policies, the number and size of mergers have escalated as firms attempt to compete or access new opportunities. In 1992, there were nearly 5,000 mergers and acquisition deals valued at \$150 billion.<sup>x</sup> Five years later, the number of deals nearly doubled and were valued at \$860 billion.<sup>xi</sup>

This trend seemingly has not affected the minority business community. Although there is insufficient quantitative information to track the numbers of mergers and consolidations of MBEs, anecdotal evidence suggests that these are not strategies frequently utilized by minority businesses. While mergers and acquisitions are not viable alternatives for all firms, the apparent dearth of these transactions in the minority business community is alarming.

This merger activity has critically impacted the procurement process in the following ways:

- The number of suppliers is decreasing  
At all corporations, but particularly those that have consolidated, procurement is moving from a cost center to an activity of strategic importance. As corporations lower costs, reduce inventories, reduce the number of negotiations, and gain increased flexibility in product and service delivery, they are reducing the number of suppliers utilized. Today most corporations have aligned themselves with a smaller number of large suppliers who can deliver greater customization and better quality management and can achieve economies of scale.
- The size and capacity of suppliers, particularly first-tier suppliers, have increased dramatically  
Large, merged companies usually streamline their operations by seeking larger first-tier suppliers who can deliver high volumes at consistently high quality, provide rapid execution, and have substantial capital resources. Larger companies more frequently outsource their non-core competencies to first-tier suppliers and require that they provide these services at a reduced cost. This trend continues down the supply chain, as all purchasers enter into longer-term, exclusive arrangements with a limited number of suppliers.

## Process Redesign

Over the past ten years, U.S. companies have redesigned their production, service and procurement processes to be more market-focused. Two of the most significant redesigns are Just-in-time production and procurement of supplies and services.

The changing procurement process has been discussed in the preceding section. Just-in-time production requires that suppliers deliver their products on a schedule directed by the producer. In general, these suppliers must increase their overhead costs in the areas of research and development and human resource management in order to sustain the delicate balance of sufficient inventory levels and management while simultaneously increasing shareholder value through rising profit margins. Larger, more established suppliers are better equipped to deliver these new demands and still turn a profit.

**Currently, most MBEs do not have adequate size, capital, expertise, and infrastructure to compete for these selective supplier positions. The key will be to identify quicker means of rapid growth and sufficient access to capital not only to compete, but to gain a competitive edge.**

## Increase in Strategic Alliances

The numbers of strategic alliances between majority companies have grown exponentially. Globally, over 32,000 alliances were formed between 1995 and 1998, which account for 18% of the revenues of America's biggest companies.<sup>xii</sup> The key reason these alliances are formed is to enable businesses to enhance their ability to enter larger markets.

As majority companies grow larger, minority businesses must compete with these alliances that, due to combined resources, will have significant market share. In order to remain competitive, minority businesses may need to develop partnerships and joint ventures, whether with minority or majority partners.

**The benefits of strategic alliances for minority businesses are tremendous, whether they partner with other MBEs or with majority-owned companies. Although many large businesses increasingly look to large-scale suppliers, there continues to be a role for smaller businesses providing specialized services. These businesses are often more flexible, move more quickly and are more responsive than larger businesses. In either case, the primary reason for a partnership is that it enables an MBE to expand the scale and/or scope of service without additional capital requirements.**

## Expansion of the Internet and Use of E-Commerce

In 1995, approximately 18% of businesses were electronically connected to their suppliers. Figure 4 demonstrates that this number has grown substantially over the past four years. Compared to \$8 billion in 1997, revenue generation is predicted to reach \$300 billion in just a few years.<sup>xiii</sup>

Internet usage for business purposes is growing rapidly; the statistics speak for themselves<sup>xiv</sup>:

- Twenty-seven million purchases are now made on the Worldwide Web everyday.
- At the beginning of 1993, there were just 50 sites on the Web; the number now is estimated to be over one billion.
- The percentage of small businesses with access to the Internet nearly doubled over a two-year period, from under 22% in 1996 to over 41% in 1998.

The growth of E-commerce and Internet usage is staggering, both are having an impact on the future of business development. Through the use of E-commerce, companies gain several advantages:

- Efficiency
- Speed
- Enhanced marketing and communication capabilities
- Enhanced customer service
- Reduced transactional costs and cycle times

With greater access to the Internet and increased financial resources, the opportunities become endless. **Yet, in order to maximize these opportunities, more minority business owners must develop an Internet presence as part of their core business objectives.** Many minority business owners still face the same obstacles that plagued them before in developing the appropriate infrastructure:

- Lack of understanding of the benefits of using e-commerce and e-business strategies
- Inability to afford, internally or through outsourcing, the expertise and time required to use these business strategies
- Lack of capital for state-of-the-art technology and equipment

Figure 4

Corporate Use of E-Commerce by Industry

Industry	Total Sales/Assets \$billions	Number of companies in study	Percentages						
			Number of suppliers with whom E-C. was conducted	Purchasing transactions	Internet Transactions	Invoices	Payments	Purchase releases	Requisitions
Automotive Industry	394.40	7		56.4		54.8	47.5		
Beverage	14.30	6		39.0		34.8	45.5	49.2	23.3
Carbon Steel	31.00	16		39.2	-				
Chemical Industry	139.00	11		23.1	0.6	66.1	11.9		
Computer /Telecom.	138.10	9	19.2	36.7		25.7	6.9	46.6	56.3
Higher Education	28.30	49		2.0					
Life Insurance	1231.40	16	18.3			27.6	13.1		35.6
Machinery Industry	49.50	13	24.0						
Municipal Governments	22.10	30		32.0	31.0				
N. A. Food Manuf.	35.60	9		37.0					
Personal Care Products	15.70	12	13.2						
Pharmaceutical	47.60	14		14.8		7.4			37.3
Semiconductor	47.60	19		2.4					
State Governments*	254.70	32		60.0			9.0	57.0	51.0
County Governments*	8.90	32	110.0	26.0		48.0	21.0	65.0	
Telecommunications	238.20	11		11.7	7.0	2.0	1.5		
Textiles	10.70	23		36.0	36.0	32.0	18.0	46.0	49.0
Transportation I	122.50	28		5.0		9.5	3.9	21.4	26.1
U. S. Banking**	984.30	14		2.6			1.5		
U. S. Engineering/Const.	41.50	12							
Averages			36.9	26.5	14.9	30.8	16.3	47.5	39.8

\*Sales Numbers reflect budget; All remaining numbers average of State and County combined

\*\* Asset Numbers reflect sales

Source: Center for Advanced Purchasing Studies Research, 1997

**Whether revenues are generated from business-to-business sales or direct end consumer purchases, it is clear that MBEs must embrace the trend both in concept and through implementation. However, MBEs cannot break the barriers to entry unless they develop appropriate support systems and capital is made available.**

## **B. Government Trends**

As the federal government budget has been reduced, government agencies have used strategies similar to those of corporate America to increase their efficiency. For minority businesses, the primary impact has been felt in government procurement practices, where there is greater use of e-business strategies and the Internet. In addition, the effects of recent legal actions have had a significant impact on the environment for minority businesses.

### Procurement

Because of the budget reductions:

- Government purchasing departments have been downsized
- Government procurement budgets have been cut
- More emphasis has been placed on customer/supplier allocation
- There is an increased use of information technology in procurement activities

The federal government has been using more streamlined contracting practices to purchase goods and services in an efficient, cost-effective manner. In general, governmental agencies are putting larger contracts out for bid, through the process called bundling. For example, through bundling, an agency will consolidate what in the past would have been ten \$250,000 contracts into a single \$2.5 million contract to be satisfied by one supplier.

In addition, much more government procurement is taking place electronically. By presidential directive, federal procurement officers are more aggressively using electronic commerce for procurements, especially those under \$100,000. Within the federal government, contract opportunities over \$25,000 are advertised once in the Commerce Business Daily; thereafter, these opportunities are posted electronically.

**Although the outcome is a more streamlined process, the impact on MBEs is twofold:**

- **The number of available contracts for small, disadvantaged and 8(a) businesses is dwindling.**
- **All government contractors must be technologically savvy. In the future, it will be difficult to do business with the government without using e-business strategies.**

**Technology may be leveling the playing field with respect to access to information, but MBEs will not benefit unless they acquire and use these tools.**

## Legal Trends

In the legal arena, minority business programs are facing increased scrutiny, including those programs that establish set-asides for minority businesses. More than 120 cases have been filed across the country challenging race-based programs that will affect the viability or legality of certain minority business opportunity programs, or the existing interests of certain minority businesses. Although these cases generally involve government contracting programs and the criteria used in awarding contracts, the outcome of these cases will most likely affect private sector procurement programs.

In general, there have been two emerging trends regarding government contracting: 1) resistance to set-aside programs, and 2) the need for clear evidence of past discrimination to justify the continuation of these programs. The federal and state courts have tightened the standards used to review programs that have race (and gender) as a criterion in contract awards. Specifically, the Supreme Court case of City of Richmond v. J.A. Croson (1989) required “strict scrutiny” in many public-sector minority contracting programs, with the presentation of a compelling need for the program and clear evidence of:

- Past and/or present discrimination both in quantitative and qualitative terms
- A program design that is sufficiently narrow to benefit only the victims of such past acts of discrimination

More recently, in the case of Adarand Constructors, Inc. v. Pena, the federal courts have re-affirmed this analysis. The courts may assess (a) whether or not an agency could have used other, race-neutral methods to achieve its objectives, (b) whether numeric targets set by an agency were correlated with so-called “qualified minorities” in the applicable contracting or subcontracting pool, and (c) the extent of the “burden” placed on non-minorities who are not involved in these programs.

**As the courts continue to limit race-based affirmative action and minority business development programs, federal contract opportunities available for minority businesses will continue to shrink. In addition, this approach to government programs will most likely spill into the private sector.**

## **C. Financial Trends**

### **1. Debt Financing**

There have been a number of trends in the financial services industry, including bank consolidations, decreasing numbers of regional and community banks and the use of credit scoring, that have impacted the ability of all businesses to obtain debt financing.<sup>xv</sup> Minority firms, traditionally more dependent on debt financing

than majority firms, have been particularly impacted by these trends. The Federal Reserve Board's National Survey of Small Business Financing, released in 1995 indicated that only 41% of those minority businesses surveyed obtained bank loans, compared with 51% of white businesses.<sup>xvi</sup> The same survey indicated that minority businesses are turned down more frequently for loans than their majority counterparts. There continues to be a clear discrepancy with respect to access to capital between majority and minority businesses.

The following trends have impacted the availability of debt capital for minority businesses:

### Bank Consolidations

The financial services industry has changed dramatically over the past decade. Since 1990, the number of insured commercial banks has fallen by 3,000 due to mergers, acquisitions, or failures<sup>xvii</sup>. This has restricted financing options for minority and small businesses (the majority of minority businesses fall within the small business range). In addition to the financing gap, smaller businesses have been affected in the following ways:

- In the six years from 1987 to 1993, commercial banks and thrift institutions' market share of small business loans outstanding fell from 70.6% to 65.3% as finance companies and other institutions gained market share.<sup>xviii</sup>
- Commercial banks, traditionally the primary source of commercial credit, represent an increasingly smaller share of the financial services markets (decreasing from a 51% share to a 23% share in 1997).
- Local independent banks, historically more receptive to small business lending than larger banks, have been acquired by regional bank holding companies at a rapid pace.

### Credit Scoring

Credit scoring is increasingly used by banks to make decisions about business credit. Credit scoring models assign values to various criteria – such as how long an applicant has lived in his or her residence, and how well he or she has paid off debt in the past. These values are then compiled into a single numerical score.

Credit scoring is more efficient and less costly than traditional methods for making credit decisions, since the information provided by applicants can be quickly and automatically converted to a score<sup>xix</sup>. It has, however, both positive and negative implications for minority business lending. One of the benefits of credit scoring is its potential to promote a secondary market for small business loans. Credit scoring, by providing a method of assessing small business loans according to uniform standards, which currently does not occur, can be one of the key factors in creating a secondary market.

In addition, credit scoring, by use of seemingly objective credit criteria, has the potential to make financial decisions race-neutral by running an application against a standard model. On the other hand, while it is illegal to use race, religion, national origin, sex or marital status in any credit scoring model, the use of geographical information is permitted; this may prove disproportionately detrimental to minority business owners, who often are clustered in urban areas.<sup>xx</sup>

### Regulatory Effects on Financing

Regulatory changes also have contributed to the tightening of commercial lending to small businesses.<sup>xxi</sup> The most significant of these are:

- The 1989 establishment of risk-based capital standards. Under these standards, banks are required to shift from lending to the private sector to investment in U.S. Treasury and other government securities. The effect of these regulations on business lending was reflected in a precipitous fall in business loans from 1989 through 1992.
- Various state level regulations that have constrained branch banking, interstate banking, bank holding companies and usury limits on corporate borrowing.<sup>xxii</sup>
- The Federal Reserve Board's interpretation of Regulation B of the Equal Credit Opportunity Act, which prohibits banks from collecting data on the race or gender of business loan applicants. Consequently, there is no data on the unmet demand for such loans which could help in decision-making, strategic marketing, and product development on the part of financial institutions that want to increase lending to minority businesses.<sup>xxiii</sup>

## **2. Equity Financing**

Equity capital has not been a traditional source of financing for minority businesses as the result of lack of availability. Of the estimated \$85 billion in equity capital available, the funds targeted at minority businesses are estimated to equal \$1-2 billion.<sup>xxiv</sup> Minority firms also have not had the networks to access the venture capital community. In addition, many minority businesses have been unwilling to seek equity financing, due to concerns over losing control of their businesses.

This lack of equity has hampered the growth of minority businesses. There are several advantages to equity financing over debt financing:

- Personal guarantees and collateral are not required
- There is a certain level of protection from bankruptcy
- Investors can add expertise and networks to the venture
- Riskier ventures are more acceptable

In addition, investors are increasingly using other strategies, including mezzanine financing. A small but growing number of mezzanine and other equity funds providing competitive rates of return (15-25%) are focused on minority and inner city markets. Any capital strategy devised for minority businesses must focus on the increased use of these types of vehicles.

Minority entrepreneurs often are reluctant to give up equity in their companies, fearing that they will lose control of their companies. While this is a possible outcome, entrepreneurs can structure contracts with equity investors to protect their interests (e.g. non-voting stock, equity options based on performance, options to buy-out equity partners, clauses that prohibit arbitrary removal).

**MBE growth through equity funding has great potential and may be preferable to debt financing. However, equity funding is difficult to obtain and is often controversial, due to the perceived risk of entrepreneurs losing control of their businesses. MBED must focus its efforts on preparing minority businesses to compete through access to all forms of capital. Any strategy for minority capital access must seriously consider and explore all financing options, including equity.**

#### **D. Minority Consumer Trends**

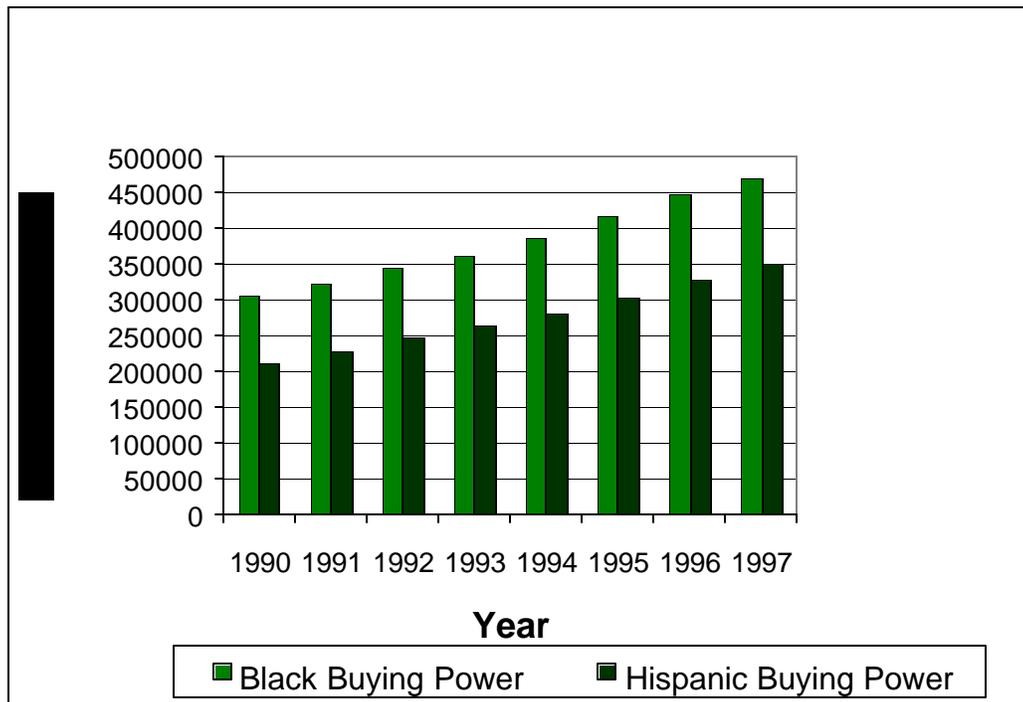
The minority population can benefit from certain trends, including the increasing size of the minority consumer markets, the expanding pool of minority managers, the increased number of minority entrepreneurs, and growth of the nation's inner cities.

##### Minority Consumer Trends<sup>xxv</sup>

The size of the minority consumer market is growing and creating more opportunities for minority businesses. The nation's black buying power rose from \$308 billion in 1990 to \$475 billion in 1997, up by 54.2% in seven years and at a compound annual growth rate of 6.4%. In 1997, 28.6 million Americans claimed Hispanic ancestry, almost 11% of the country's population. It is estimated that the nation's Hispanic buying power has risen from \$208 billion in 1990 to 328 billion in 1997, up by 58 % in seven years - a compound annual rate of 7.5%. Both Black and Hispanic percentage gains exceed the 41.1 % projected for total buying power. Asian Americans' buying power rose from \$113 billion in 1990 to \$194 billion in 1997, a 72% increase. Over 50% of all minority-owned businesses with sales over \$1,000,000 were owned by Asian Americans, i.e., and 12,505 out of 24,727 minority firms. See Figure 5.

Figure 5.

African-American and Hispanic Buying Power



Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia

By the year 2010 it is projected that the minority population will make up over 30% of the US labor force and by 2050 will be almost 50% of the US population. See Figure 6 and 7.

Figure 6. Projected 2010 U.S. Workforce

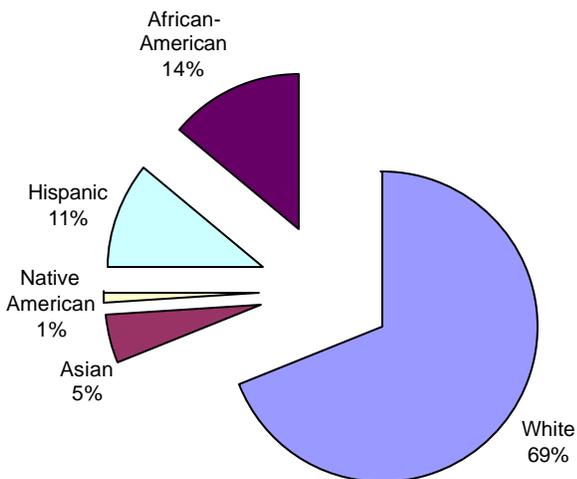
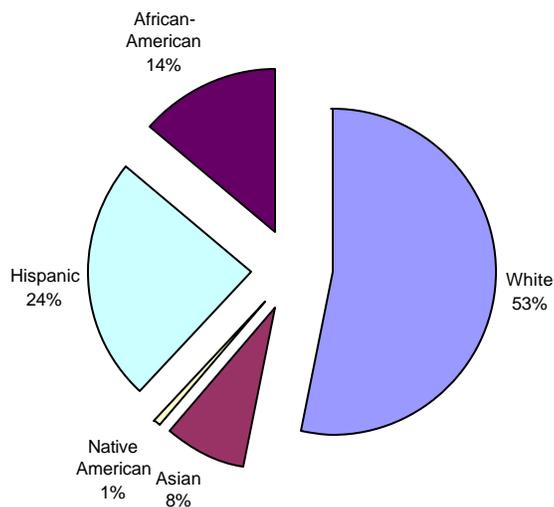


Figure 7. Projected 2050 U.S. Population



Source: Hudson Institute, *Workforce 2020*

### Inner City Markets

Despite lower household incomes, inner-city areas concentrate more buying power into a square mile than many affluent suburbs. Although not exclusively minority, many inner city areas have large numbers of minority residents. These communities are poorly served by small, medium, and large corporations. Currently, estimates indicate that at least 30% of inner city retail demand is unmet, equaling approximately \$25 billion nationwide. In some areas such as Harlem, unmet demand is estimated to be as high as 60%.<sup>xxvi</sup>

Minority businesses often are competitively positioned in many of these markets. An MBE owned and operated by a resident of the inner-city, or another individual with information about and an understanding of inner city communities, may have a greater chance for success than a majority business. In addition, minority entrepreneurs can maximize their networks within many inner city markets to enhance the competitiveness of their businesses.

### Increase in Minority Managers

Another encouraging development has been the increase in minority manager-entrepreneurs. Many minority managers are dissatisfied with the opportunities for corporate upward mobility and, as a result, entrepreneurship has become an attractive alternative. This new group of entrepreneurs has a multitude of resources, including well-placed connections in both the majority and minority communities, and a strong drive to be successful. As they begin to prosper, they are also becoming very savvy with their investment and buying habits.

Entrepreneurship will continue as a necessary and viable option for a large part of the workforce population. The development of MBEs can best be fostered through a stronger partnership among government, the private sector, and the MBE community. This partnership should focus on ensuring that MBEs gain full understanding and equitable access to key business development trends.

### **III. Recommendations and Strategies to Enhance Minority Business Enterprise Development in the 21<sup>st</sup> Century**

The MBED community must develop specific and practical strategies to empower minority businesses. These strategies are:

## 1. Build a Strong Case for MBED

Starting immediately, minority business leadership must build a compelling case to the business community of the importance of minority business development. These leaders should continuously stress that the ultimate goal of MBED is building a strong economic infrastructure.

Advocacy efforts on behalf of minority business must demonstrate the national economic importance of developing strong, competitive minority businesses. The minority business community must develop quantitative data on the overall economic effects of minority businesses, including increased employment opportunities, a larger tax base, and greater economic infrastructure in minority communities. To address this, MBE leadership should:

- Produce additional quantitative information on minority businesses and their economic effect
- Meet annually with Native American, Asian American, Hispanic and African American publishers
- Continually produce op-ed articles in national print media, including the Wall Street Journal, New York Times, Washington Post and Los Angeles Times
- Meet annually with leaders of minority business and trade organizations to develop a mutually agreeable strategy with specific:
  - \* Objectives
  - \* Milestones
  - \* Responsibilities
  - \* Action Plans

## 2. Develop New Business Structures

MBEs must develop mutually supportive relationships and new structures that allow them to grow. New structures or alliances could take the form of:

- Joint Ventures
- Strategic Alliances
- Mentor-Protégé Programs
- Consortiums
- Partnerships

These types of transactions are not for all businesses. However, if MBEs as a group do not increase the number of strategic alliances, mergers and consortiums, minority businesses will not prosper in the 21<sup>st</sup> century. MBEs must also position themselves for growth by seeking equity investments. Companies with substantial equity bases can

more easily create wealth, successfully complete public offerings and have an enhanced ability to impact the U.S. economic infrastructure.

### 3. Access New Markets

As traditional domestic markets become saturated and larger companies merge, growth will be a challenge for minority firms. Exploring new markets will be essential to the continued prosperity of new and growing companies. The most lucrative new opportunities are generated from overlooked domestic markets such as inner cities, new markets created by the Internet, and untapped overseas markets.

### 4. Develop New Capital Sources and New Capital Structures

The most common sources of borrowed capital for minority entrepreneurs are commercial bank lending, SBA-backed funding, and minority-lending programs. A business sector that is so dependent on commercial bank debt is hampered by the fixed requirements of debt financing, which tends to hinder growth.

Additional sources of equity, quasi-equity and other alternative forms of financing must be created for minority business to have a fair chance of competing against majority companies. Specifically, we recommend the following:

- Explore opportunities for the creation of new equity vehicles focused on minority businesses.
- Monitor secondary market demonstration models that could be replicated nationwide. This includes identifying new and specific incentives for primary lenders to sell small business loans easily and enhance their liquidity, thus increasing the funds available for increased commercial lending.
- Explore the opportunities created by and the possible drawbacks of credit scoring

### 5. Support and Encourage the Use of Technology

Minority businesses must keep pace with new cutting-edge technology by using the Internet for marketing, purchasing or supply strategies.

In addition, new technology can be leveraged to:

- Support Internet and E-commerce education for minority businesses
- Monitor the technology and telecommunications industry in its efforts to recruit minority professionals, managers and executives
- Inform MBEs about government grant programs that encourage innovation
- Develop a technology mentor/protégé program for the sole purpose of increasing the technology infrastructure within the MBE community

## 6. Leverage Government Resources

The government often has taken a leadership role in increasing minority involvement in contracting. Recently, this has included such programs such as the Department of Transportation's Information Technology Omnibus Procurement (ITOP), and Department of Commerce's Commerce Information Technology Solutions (COMMITTS). The former provided that at least one contract within each of the three service categories would be awarded to small businesses and 8(a) firms. The latter is a total small business set-aside to enable agencies to access the services of small, small disadvantaged, 8(a) and women-owned small businesses. In the COMMITTS program, twenty-nine small businesses were awarded contracts for a total of \$1.5 billion worth of information technology products.

- Develop new approaches to assist MBEs in obtaining a larger share of multi-year contracts

Every year, billions of dollars are spent on service contracts that generally are awarded to large firms. Many minority companies are unaware or unprepared to participate in the bidding process. To improve this situation and receive procurement information, MBEs should register in the MBDA contract matching database(Phoenix), the National Aeronautics and Space Administration database, and other government market opportunity databases.

- Increase the staff and resources of the Office of Small and Disadvantaged Business Utilization (OSDBU)

One of the cornerstones of the 95-507 bill, requiring each agency of the federal government to establish/identify set-aside contracts for small and disadvantaged businesses, was the development of the Office of Small and Disadvantaged Business Utilization (OSDBU). Although the legislation required that the OSDBU director report directly to the Secretary or Deputy Secretary of each agency, this has not happened. In addition, these offices often have received limited financial resources.

To effect change in this critical area:

- Raise the visibility of the OSDBU director by having this position report directly to the Secretary or Deputy Secretary of an agency
- Increase the budgets of these offices

## **IV. Potential Benefits to the U.S. Economy**

The potential benefits of increased minority business development to the overall U.S. economy are varied. Analysis of the following information would demonstrate the impact of viable MBEs on the nation's tax base, employment and the individual wealth and well-being of tens of thousands Americans.

- Long-term Business Development Efforts
- Contracts and Services Performed
- Employment
- Economic Status of Firm Owners
- Income Taxes Paid by Firms, Owners and Employees
- Diversity of Individuals Impacted

The MBED sector has unlimited potential for minority job creation, increased economic development and improved the quality of life in urban areas. Unfortunately, this potential will not be realized unless a radical new approach to MBED is implemented, one that involves a partnership among the public and private sector, minority businesses and financial institutions.

If the strategy is successful, it will benefit all members of the partnership as well as the general public. The minority community will have:

- A larger asset base
- Larger, stronger businesses
- More insightful and progressive leaders
- More capital for community and neighborhood development

The private sector will have:

- Stronger suppliers
- A more vibrant community

The government will have:

- An expanded tax base
- A reduction in unemployment in the U.S. population
- Greater economic development in minority communities, including low and moderate income communities.

A new strategy for MBED is long overdue. Progress continues but at a very slow pace. This progress must be accelerated to foster social as well as economic growth of the United States of America and the global community it influences.

## Notes

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- <sup>i</sup> U.S. Census Bureau, *1992 Economic Census, Survey of Minority-Owned Business Enterprises*. This constitutes the most recent and comprehensive information available.
- <sup>ii</sup> U.S. Department of Commerce, Minority Business Development Agency, *The Emerging Minority Marketplace, Minority Population Growth: 1995-2050*, (1999).
- <sup>iii</sup> U.S. Census Bureau, *1992 Economic Census, Survey of Minority-Owned Business Enterprises*.
- <sup>iv</sup> Michael Harrington and Glenn Yago, *Mainstreaming Minority Business: Financing Domestic Emerging Markets*, (Milken Institute, 1999): p.7.
- <sup>v</sup> *ibid.* p. 6.
- <sup>vi</sup> Data provided at the 1997 National Minority Supplier Development Council Annual Convention, October, 1997
- <sup>vii</sup> Estimate derived from 1992 and estimate 1997 statistics quoted by Office of Advocacy, U.S. Small Business Administration, from data provided by the U.S. Department of Commerce, Bureau of the Census.
- <sup>viii</sup> U.S Census Bureau, *1992 Economic Census, Survey of Minority-Owned Business Enterprises*, pp.3-8.
- <sup>ix</sup> Waldo Lopez-Aqueres, *Business Traits, Market Characteristics, and Employment Patterns of Large Latino-owned Firms in Southern California*, (The Tomas Rivera Policy Institute, 04 October, 1999), pg. 1.
- <sup>x</sup> Charles V. Bagli, *Conditions Are Right for a Takeover Frenzy*, New York Times, 02 January 1997, p. 3, Col. 1.
- <sup>xi</sup> Securities Data Company, quoted in Steven Lipin, *U.S. Merger Activity Marks New Record*, The Wall Street Journal Europe, 02 January 1998, p. 9.
- <sup>xii</sup> Amanda Lang, *Consultant Feels Alliances Don't Get the Credit They Deserve*, National Post, 26 January 1999, p.C11.
- <sup>xiii</sup> *Testimony of Daniel O. Hill, Assistant Administrator for Technology before Committee on Small Business U. S. House of Representatives*, 26 May 1999, p. 1.
- <sup>xiv</sup> *ibid.* p. 1.
- <sup>xv</sup> Harrington and Yago, *Mainstreaming Minority Business*, pp. 16-17
- <sup>xvi</sup> *Scoring with Minority-Owned Businesses: Closing the Credit Gap*, (Organization for a New Equality, 1998), pp. 9-10
- <sup>xvii</sup> Jonathan Scott and William Dunkelberg, Bank Consolidation and Small Business Lending: A Small Firm Perspective. Information provided at the *Business Access to Capital and Credit: A Federal Reserve System Research Conference*, 8-9 March 1999
- <sup>xviii</sup> Federal Reserve Board, *National Survey of Small Business Finances*, Federal Reserve Bulletin, (November 1996)
- <sup>xix</sup> *Scoring with Minority-Owned Businesses: Closing the Credit Gap*, pp. 25-26
- <sup>xx</sup> *ibid.* pp. 25-27
- <sup>xxi</sup> Michael Harrington and Glenn Yago., pp. 16-17
- <sup>xxii</sup> *ibid.* p. 18
- <sup>xxiii</sup> *Scoring with Minority-Owned Businesses: Closing the Credit Gap*, p. 5
- <sup>xxiv</sup> Michael Harrington and Glenn Yago, pp. 11-15
- <sup>xxv</sup> Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, 1998
- <sup>xxvi</sup> Michael E. Porter and Mark Blaxill, *Inner Cities Are the Next Retailing Frontier*, The Wall Street Journal, 24 November 1997