BEYOND 5
Small Business Survivability Study for New Majority Entrepreneurs

Brought to you by 1863 Ventures

Learn more at 1863ventures.net
But first...

A thank you to our research partners:

- Georgetown University
- Surdna Foundation
- CapitalOne
- Living Cities
- M&T Bank
- Wells Fargo
And also a special shout-out to

Living Cities CTG Leadership

Living Cities' Closing the Gaps (CTG) Network is a ten-year initiative that brings together leaders from cities across the country to imagine and build an anti-racist society by transforming government policies, practices, and operations.
THE INTRO
Despite their prevalence & impact, New Majority firms lack the necessary support to thrive.

7.1 million people employed
$1.4 trillion in annual revenues

> 90% are non-employer firms
85% generate less than $100K in annual receipts
Support & promote New Majority firms who have exceeded the national avg of failure by focusing on their success & resiliency.

Common misconception

80% of all firms consistently fail in the first FIVE yrs

Data on failure rate ACTUALLY shows:

20% 65%
2 years 10 years

45% 75%
5 years 15 years

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New Majority firm potential is stifled by a lack of access...

Our founders need support.

To reach profitability and achieve scale, founders need contextual support to help them become better operators & guidance on what tools they should adopt to scale with confidence.
Barriers exist that hinder growth beyond sole proprietorship

Wealth/opportunity gaps depress growth and increases the risk of failure.

Without a targeted effort, we risk creating asymmetrical business conditions that advantage non-minority firms who are often better capitalized and more likely to be backed by sources of growth capital.

**Changing**

**Demographics**

**Input Costs**

**Increasing costs of**

**Real Estate**
During 2021 a survey was created to understand the performance of Black and Brown businesses that survive beyond five years. While 50% of businesses fail within five years in the US, we were convinced that Black businesses were surviving longer. However, we did not have the data to prove it.
The Beyond 5 respondents were resoundingly:

- African American and female.
- Over indexing in the sector of beauty products.
- They over indexed single compared to the national average.
- The median age was 42 years old.
- Most of these business owners were operating in B2C markets.
- Most were single parents and heads of households.
The Beyond 5 Research Project yielded the following results…

- Black businesses are surviving at least 8.5 years, compared to the median of 6 years.
- **Profitable** businesses were 2.5x times more likely to have a business plan.
- The majority of respondents noted **partnerships were critical** to their success.
- Most respondents accessed **debt** for growth.
- Fewer than 20% had worked with **CDFIs**.
- Only a small percentage accessed debt in the last 6 months with the average loan size of ~$10,000.
Almost half of the businesses used personal credit cards to support their businesses.

Profitability vs. Access to capital were better predictors of longitudinal survivability for Black businesses.

Repeat entrepreneurs were slightly more likely to be profitable than the first-time founders.

The Beyond 5 Research Project yielded the following results...
FOCUS GROUP FINDINGS
During our focus groups, key challenges noted by founders...

Access to experienced talent, citing rapid wage growth as a major hinderance...

Limited access to experienced coaching and mentorship...

Overworked due to inability to hire more staff due to capital constraints...

Lack of access to ongoing capital for business growth after using savings and credit cards to start their businesses...

“Even though I’ve been in business for 13 years, I’ve never gone to the bank to get any money. When I checked all the boxes: good credit, cashflow, brick and mortar. I have a solid business and assets. I own a home. I still couldn’t get any money from the banks”

- ENTREPRENEUR FROM AUSTIN, TX
Proposed Solutions from Focus Group Founders

PART 01

Transparency with application processes, selection criteria and repayment terms.

Race based policy to ensure equitable access to capital available.

Leverage grants and debt to support the recovery of small businesses.

Leverage diverse distribution channels for funds, such as banks, fin-tech firms, CDFIs, credit unions, etc.

Create standard process to level the playing field in terms of application and investment.

Contextual resources by language, community, size, age, gender, etc.

“So you’re kind of piece-maileing stuff together, and by the time you create what you think, you’re like, ‘Oh, I think I have all my ducks in a row.’ And then you go and they’re like, ‘Nah.’ And you’re like, ‘I thought I was making moves, but I’m wasting time in the wrong order with the wrong people, with the wrong organization.’”

- ENTREPRENEUR FROM AUSTIN, TX
Proposed Solutions from Focus Group Founders

PART 02

Increased collaboration within entrepreneurial ecosystems.

More holistic approaches to investor due diligence.

Institutions investing more in understanding communities of color.

More diversity on boards of investor committees.

More government assistance towards supporting business viability.

Cultural competence courses in MBA programs.

“We need people in the boardroom, people with authority, in the White circles to hear these stories. We need them to become humble and create opportunities… They should be prepared to hear directly from us.”

- ENTREPRENEUR FROM ROCHESTER, NY
BEYOND 5

NATIONAL FINDINGS
Nationally founders noted the following capital related challenges in business growth...

**PROFITABILITY IMPACTED PPP ACCESS, CREDIT AVAILABILITY**

<table>
<thead>
<tr>
<th>Profitable</th>
<th>Received PPP Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>I’m not sure</td>
<td>No</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
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- **Racial wealth gap caused by structural racism**
- **Existing policies that limit founder opportunity, such as redlining**
- **Lack of access to capital**
- **Limited social capital to advance businesses**
- **Housing discrimination that limits access to startup capital**
- **Student loan debt that impacts ability to borrow**
Nationally founders noted the following educational & strategic positioning challenges in business growth...

- Disparities in education and training which limits access to critical business information
- Lack of access to, and understanding of, technology to advance business growth and scale
- Entrepreneurs of color start businesses in less lucrative sectors
- Customer bias which leads to reduced sales
- Discrimination in contracting
Economic development solutions should be inclusive of a racial equity lens.

Redefine CRA to account for gentrification.

Unbundle contracting opportunities to allow for smaller firms to be competitive.

Make licensing easier, less cumbersome and time consuming.

Eliminate red tape and unnecessary bureaucracy.

Create small business committee as part of city council.

"In the end, you can talk about red tape, but if we elevate the conversation to the concept of prosperity, talking about wealth distribution, there's all these pot of money. The government has a lot of money, companies have all these money to be invested. But the way in which this money flows has to do with relationships, who knows who."

- ENTREPRENEUR FROM ST. PAUL, MN
Assess budgets to align small business investment to close the racial wealth gap.

Create an equitable small business agenda and measure success.

Host annual hearing of local capital providers to report equity impact in the region.

Promote small business in tourism campaigns to change the narrative and skepticism of black and brown businesses.

Align services by size, sector – policy and ecosystem.

Streamline certification processes.

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“\[ENTREPRENEUR FROM AUSTIN, TX\]

"I am a certified Minority and Woman owned business in the state... That doesn’t mean that I get any business. I found out that the contracts are written by the person who got them. If you have a relationship with a contracting manager, and they might not know the job well enough, they will ask a contractor to write the contract. Of course they will win the bid, they wrote the contract and put their skills in the criteria."

- ENTREPRENEUR FROM AUSTIN, TX

BEYOND 5
Explore any friction in current procurement practices.

Require percentage to MWBE in local government.

Review existing business services to meet the needs of local founders in terms of hours, customer experience, processing times, fees, etc.

Support diverse business structures – from C corp to sole proprietor to worker cooperatives to B corp.

Establish a Small business ombudsman.

Map ecosystem to make the path easier.
Multilingual service delivery.

Race based policies – budgetary commitment to support historically marginalized communities.

Set a bar for training to ensure quality and credibility of content and practitioners.
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The Problem

The hospitals and universities in the District of Columbia collectively spend more than $2B on goods and services every year, but a small percentage goes to DC minority-owned business enterprises (MBEs). This perpetuates the wealth and inequality gap.

The Solution

Increased procurement with DC-based minority-owned businesses, through DCAP, will create jobs, boost incomes, and generate wealth for residents of color, supporting institutional corporate objectives and advancing inclusive prosperity in the District of Columbia.
Ecosystem Solutions

PART 01

Create navigator program for entrepreneurs of color.

Help increase access to technology to support business growth.

Create certification for business educators, coaches and mentors.

Expand access to capital via diverse deployment vehicles to match the needs of the entrepreneurs.

Provide culturally competent education to small business owners.

“[Entrepreneurial support organizations] cannot help you. They are going to discourage you. They are going to give you misinformation. Instead of helping you, they say, ‘Go talk to this person.’ They do not have all the information and many do not have experience running businesses.” with the wrong organization.”

- ENTREPRENEUR FROM ROCHESTER, NY
Increased coordination and collaboration amongst training programs to reduce time wasted by founders.

Use asset framework as impetus for supporting entrepreneurs of color since the lack of investment in these communities has created a significant opportunity costs to the country and local communities.

Share stories of success about diverse entrepreneurs from membership and alumni.

Frame conversations and planning sessions to explicitly discuss diverse small businesses & not just small business as the journeys are different.

Acknowledge the differences amongst founders and deploy programs and support accordingly - one size does not fit all.

"We’re talking about having access to wealth creation that white people have. That they can set up businesses, that they can get capital to start new business, or they can have their relationships to have access to loans, to things, like they can be put on their names and can be invited to…"

- ENTREPRENEUR FROM ST. PAUL, MN
Acknowledge the disparities between founders of color and white founders and adjust screening and selection criteria to support diverse cohorts.

Advocate to funders on the importance of supporting founders of color.

Increase research about entrepreneurs of color to better align supports, training and capital.

“I think in the past two years, two and a half years with the pandemic and the murder of George Floyd, things have happened, the curtain has been lifted, what people are seeing through and they’re seeing new things about the realities of the dynamics, the disparities, the socioeconomic and racial disparities in the Twin Cities that had always been there but the people had ignored and wanted to look the other way. And now people, the younger folks that have a higher sense of social justice and they want more equality, more transparency, they are questioning these things.”

- ENTREPRENEUR FROM ST. PAUL, MN
Founder to Founder Solutions

PART 01

Find mentors and coaches with entrepreneurial experience.

Join local networks to access information and support.

Be willing to disengage from supports and networks that are not effective.

Find a peer group for ongoing personal and professional support; entrepreneurship is a team sport.

Develop a risk tolerance to help you improve your short and long term decision making.

Read and research business strategies, sector trends and economic forecasts.
Founder to Founder Solutions

PART 02

Be willing to, be uncomfortable.

Be steadfast in your values and flexible in the journey.

Find a community that makes you feel safe and supports your growth.

Pace yourself.

Be humble.

Celebrate the small wins!
Moreover, the people of color are fueling the growth in entrepreneurial activity in the country.

To this end we have to do a better job supporting business growth and scale amongst founders of color.

Demographic data points to a shift in the US population where people of color are becoming the New Majority.
Why Support Founders of Color?

The purpose of this report.

This report is intended to help founders, ecosystem builders and policy leaders effectively respond to the increase of diverse founders across their communities, and support their long term sustainability and growth.

2021

11% of new business owners were Black or African American...

Previously

3% ↑266%

In recent years

While people of color are the fastest growing entrepreneurs, these same communities are lagging in most other economic indicators. They face discrimination - formal and informal.

The historical structural barriers, coupled with individual bias, allow for continued segregation and racism in terms of access to financing, social capital and business supports.

Learn more at 1863ventures.net
Why Support Founders of Color?

It’s an economic imperative.

These factors not only limit the growth of founders, but the country as well. If we do not actively support founders of color, there will be a huge cost to the US in terms of time, talent and economic prosperity.

Had these gaps been addressed 20 years ago, the report finds that the nation could have:

- $13 trillion in additional business revenue
- $2.7 trillion in additional income earned by Black Americans
- 770,000 More Black homeowners
- 6.1 million in new jobs annually, if Black entrepreneurs have access to fair & equitable lending
- $218 billion boost to the national economy

Learn more at 1863ventures.net
Why Support Founders of Color?

It’s time we understand that...

CULTURE is an asset and economic driver that deserves our attention and investment.
1863 Ventures evolved from a 2015 entrepreneurial summit I created with students at Georgetown University, called Venture DC, to support emerging business owners from Southeast Washington, D.C. In 2016, we created a fiscally sponsored entity named Project 500 to commit to surfacing 500 D.C.-based, Black entrepreneurs in three years. The organization found 527 founders in just 18 months. These milestones signaled the need for business training, mentorship, and capital for Black business owners and underscored a clear market opportunity to support local entrepreneurs in creating generational wealth.

Today 1863 Ventures is an independent, Black-led non-profit organization providing access to capital and delivering business development programs to New Majority founders to bridge the gap between entrepreneurship and equity.
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