CAPACITY BUILDING IN THE NEW ECONOMY:
A MANDATE FOR MINORITY-OWNED BUSINESSES

Prepared for the Georgia Minority Supplier Development Council

By

Thomas “Danny” Boston, PhD

CEO of EuQuant and Professor of Economics at Georgia Tech

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EuQuant
100 Galleria Parkway SE, Suite 250
Atlanta, GA 30339-5959

About the Author

Dr. Thomas "Danny" Boston is a Professor of Economics in the School of Economics at Georgia Tech. He is also CEO of EuQuant, which is an economic consulting and research company. Dr. Boston's specialization is Quantitative Program Performance Evaluation, and he specializes in minority and small business performance and entrepreneurship. He contributes regularly to CNN and serves as consultant to the Congressional Black Caucus Foundation and he is currently advising the Nigerian National Assembly House Committee on Millennium Development Goals. Dr. Boston has received major research grants from the MacArthur Foundation, Kauffman Foundation, and US Dept. of HUD, among many others, and has authored or edited six books and published numerous scholarly articles, research reports and commissioned papers.

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Executive Summary

Capacity is the foundation and building block of high-performing firms. Greater scale is a necessary ingredient of capacity, but scale alone is not sufficient to create it. Capacity is achieved when a firm successfully transitions from the start-up and entrepreneurial stages of business development to the stage of a "professionally managed enterprise" (PME).

To be successful in the new economy, minority businesses must build greater scale and capacity. Global competitive pressures and greater consumer intelligence have forced corporations to implement radical changes in supply chain management. They use fewer suppliers, manage the supply chain costs more closely, require each supplier to have larger production and service capabilities, and select only those suppliers who can respond efficiently and flexibly to changing demand conditions. Public sector procurement is now characterized by more contract bundling, regular use of design-build solicitations and construction managers for at risk contracts.

Over the last quarter of a century, the formation rate of minority-owned businesses has more than doubled that of non-minority owned businesses and the most recent Census Bureau survey indicates that (between 2002 and 2007) for the first time minority firms with paid employees grew faster than did nonminority owned firms with paid employees.

Among all minority groups, African American businesses currently experience the greatest gap in scale, capacity and racial parity. While the gap is narrowing for other races and ethnic groups, it remains persistently large for African American businesses.

Between 2002 and 2007, Georgia ranked first among states in percent growth in the number of small businesses, percent growth of minority-owned businesses, percent growth of African American owned businesses, and percent growth of women owned businesses; Georgia ranked 10th in the growth of Hispanic/Latino businesses and 10th in growth of firms owned by whites.

Minority-owned companies now employ for 6% of the workforce. National survey data shows that two-thirds of the workforce in African American owned firms is African Americans. Given the growing importance of minority owned firms (they now account for 20% of all small businesses) and the high rate of unemployment among some racial groups, policies targeted to increase the growth and performance of the minority business sectors are likely to have a direct impact on job creation, especially among African Americans and Hispanics.

A 2007 national survey of 350 CEOs of high-performing black-owned businesses found that 37.4% are corporate suppliers and 52% participate in government sponsored minority business procurement programs.

Black-owned firms that achieved high-growth status (i.e. 20% or greater annual growth in employment) did not do so by planning and executing growth plans. Growth is no Accident. Setting high growth targets, executing a growth strategy, implementing professional management practices, and engaging in value innovation were the most important elements in achieving high growth black-owned companies.

It is estimated that 80% of corporations do not use spend analytics. We are not aware of any that use diversity spend analytics. Given the current economic dynamics, DSA (Diversity Spend Analytics) is more important than ever before. DSA allows corporations to measure the value proposition of supplier diversity through the use of standardize metrics, a uniform coding and classification system, common analytical techniques, and standard expected outcomes across enterprises and industries.

The greatest challenge for minority business owners is becoming PMEs (Professionally Managed Enterprise). Historically, a small percentage of businesses has achieved the scale of operation that is typically required to become a PME. In 2007 only 14% of nonminority enterprises had achieved this scale, 9% of minority businesses have, while only 6% of African Americans businesses have. It is also important to recognize that scale does not automatically translate into capacity.

I. Capacity Building: A Strategic Mandate

Global competitive pressures have forced corporations to implement radical changes in supply chain management. The "Great Recession" has saddled the national treasury with a $1.7 trillion deficit and forced government agencies to implement a new epoch of fiscal austerity. Mobile applications have added more price pressure from customers than ever before - by simply swiping a barcode with a smart phone, the consumer can identify instantly the lowest price at which a product can be purchased and the nearest location where it is the can be bought. Welcome to the new economy!

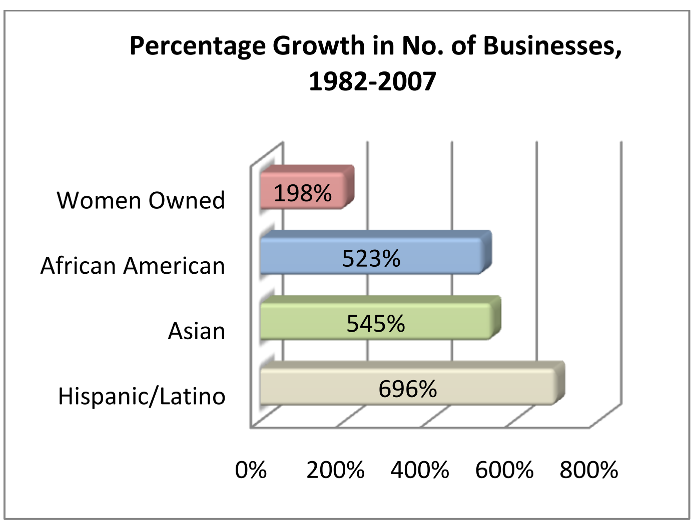
In this new economy, global competition and consumer intelligence are forcing manufacturers to reduce supply costs. OEMs have responded by using fewer suppliers, managing supply chain costs, requiring each supplier to have greater production and service capabilities, and selecting only suppliers who can respond efficiently and flexibly to changing demand conditions. Likewise, public sector procurement officers are adjusting to austerity budgets by bundling contracts, using design-build solicitations and awarding construction managers at risk contracts.

This new business environment is uncharted territory for minority-owned businesses. One example helps to illustrate the point. In May 21, 2009 testimony before the House Judiciary Committee the president of the National Association of Minority Automobile Dealers indicated that even before Chrysler and General Motors reorganization, the number of minority-owned dealerships had declined to 1200, from its peak of 2000. Following the reorganization, it was estimated that the two auto manufacturers would eliminate as many as 314 of their 475 minority dealerships. The smallness of scale and lack of product diversity among minority dealerships were cited by GM and Chrysler as primary factors upon which their decision depended. This example illustrates most vividly how corporate supply chain success for minority firms, given the new economy, will depend upon their ability to build greater scale and capacity. Capacity building therefore is the new mandate of minority business development.

This report lays out the rationale for capacity building and it outlines strategies for achieving greater scale and capacity among minority owned businesses. The fundamental message is simple, but extremely important. For minority businesses to attain high performance status in the new global economy, they must build capacity.

Over the last several decades, minority businesses and advocates on behalf of those businesses focused on gaining greater parity in the number of firms and in the value of their sourcing and contracting opportunities. Although significant disparities remain, notable progress was made. In fact, over the last quarter of a century, the formation rate of minority-owned businesses has more than doubled that of non-minority owned businesses. The Census Bureau's surveys of minority-owned businesses indicated that between 1982 — 2007, businesses owned by African Americans increased from 308,260 to 1.9 million or by 523%. The growth in the number of Asian-American businesses was slightly greater than was the growth of African American-owned businesses; they increased from 241,806 to 1.6 million or by 545%. Hispanics and Latinos businesses grew fastest among all minority groups (with the exception of Native Americans) – from 284,011 in 1982 to 2.3 million in 2007, or by 696%. Woman-owned businesses also increased significantly, but lagged behind the increase in minority-owned businesses; they grew from 2.6 million to 7.8 million or by 198%.

Chart 1. Percentage Growth in No. of Businesses, 1982-2007



More importantly, the most recent *Survey of Business Owners* (2007) indicates that for the first time, the number of minority-owned businesses with paid employees grew faster than did the number of nonminority owned firms with paid employees. This is a development of significant importance. In all previous surveys, the rapid growth of minority-owned businesses was confined almost exclusively to firms that did not have paid employees. Although large disparities still remain between the characteristics of minority-owned businesses and non-minority-owned businesses, it is indisputable that substantial progress in narrowing the gap has been made.

Chart 2. Percent Change in No. of Firms Between 2002 and 2007

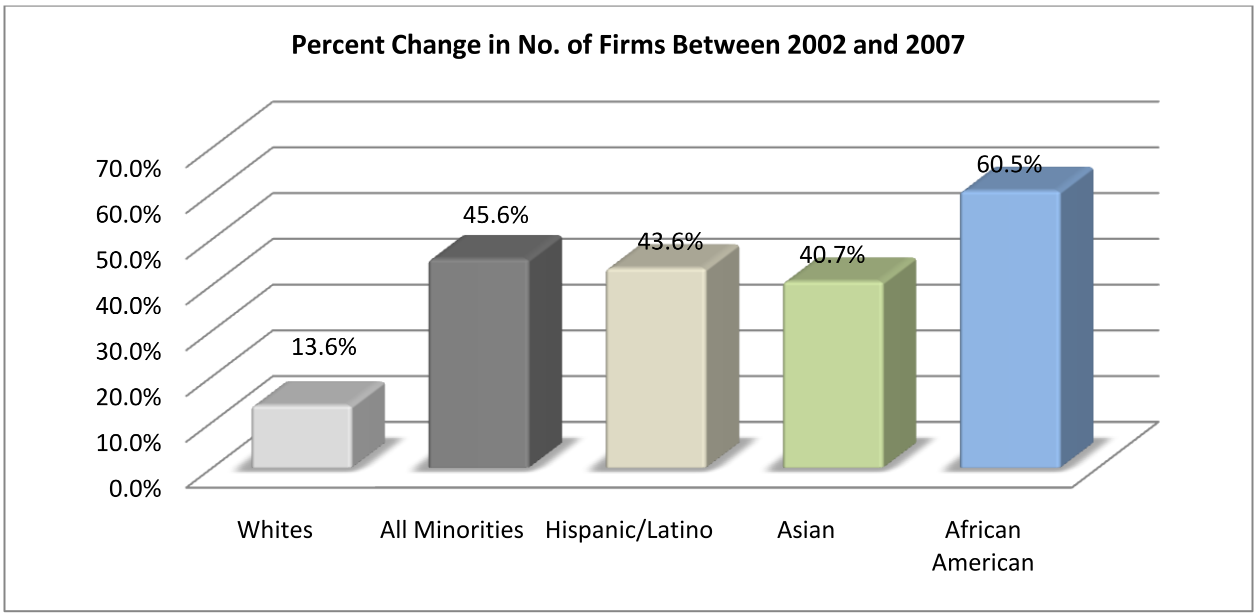
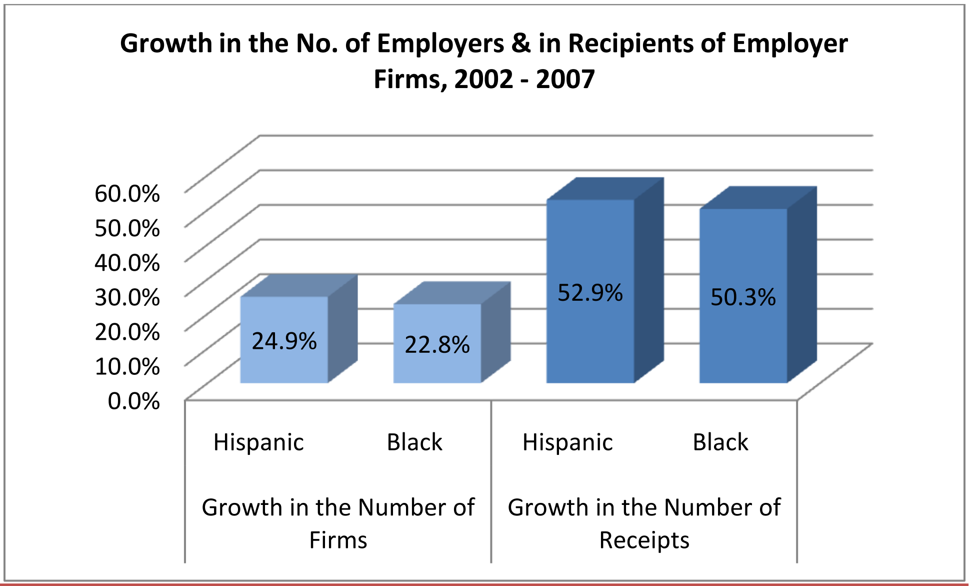
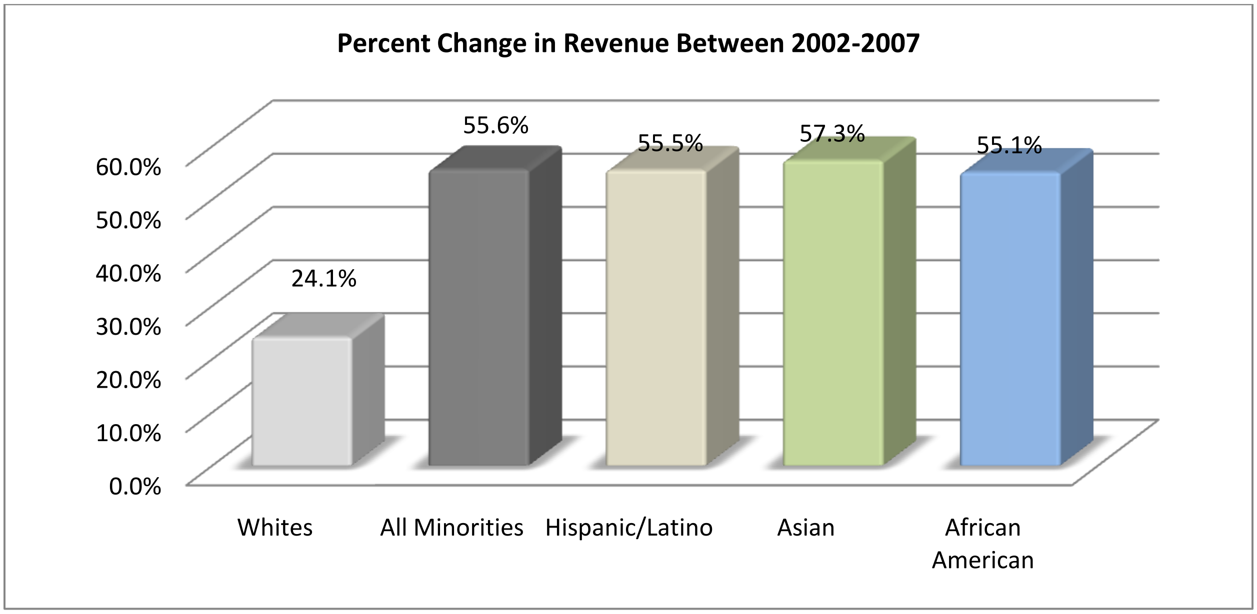


Chart 3. Growth in the No. of Employers & in Recipients of Employer Firms, 2002 - 2007



The growth in minority-owned businesses has been accompanied by a transformation in their scale of operations and industry concentration. No longer is the typical minority firm a marginal establishment that is engaged in personal service or small-scale retail activity. In fact personal service, maintenance, and repair services, no longer account for the largest concentration of businesses for any minority group. Today, African Americans are most heavily concentrated in health care industries, the largest percentage of Hispanic Latino businesses are engaged in construction, and Asians are most heavily concentrated in professional, scientific and technical service industries. The latest SBO also revealed that the revenue of minority-owned firms increased almost as fast as the number of firms increased.

Chart 4. Percent Change in Revenue Between 2002-2007



Businesses Growth in Georgia outpaced all Other States

It would not be proper to close this section without commenting on the unique performance of small and minority owned businesses in the State of Georgia. Between 2002 and 2007, Georgia was first among states in the following categories: the growth of all small firms 33.7%; the growth of minority-owned firms 91.3%; the growth of African American owned firms 103.3%; and the growth of women owned firms 41.8%. Georgia ranked second in the growth of Asian-American owned firms (71.8%) and it ranked 10th in the growth of Hispanic/Latino firms (78.0%) and in the growth of white owned firms (13.6%).

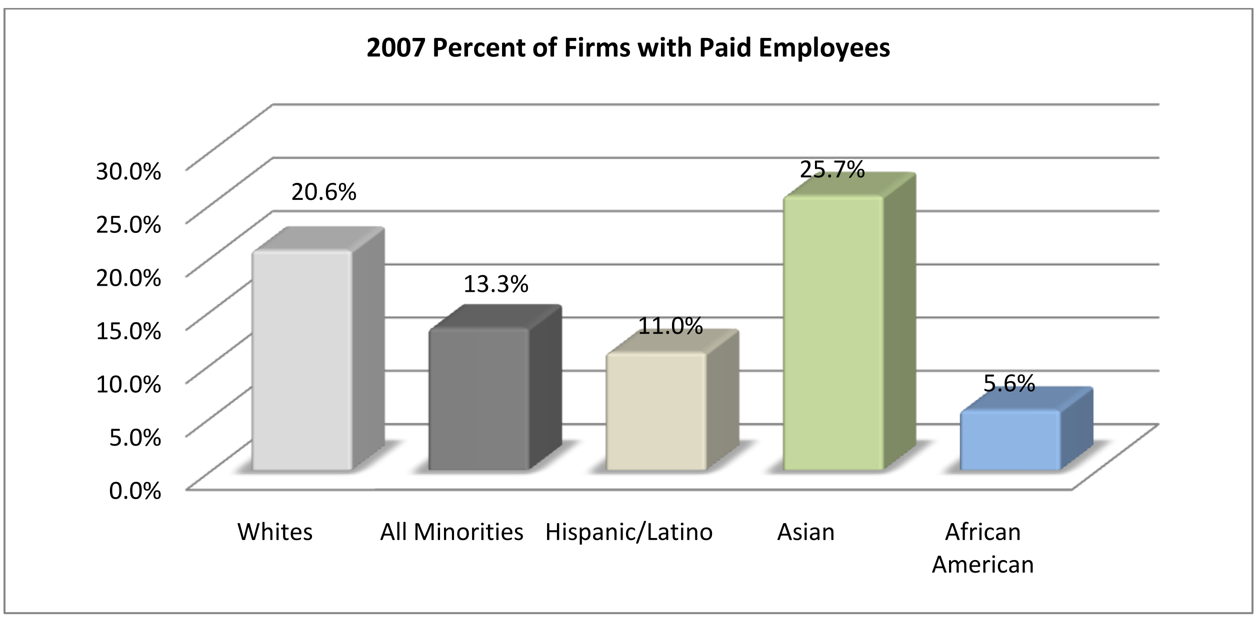
TABLE 1. Ranking of Georgia by the Percent Change between 2002 And 2007

Category	Value	Georgia Rank Among All States
All Small Firms	33.7%	1
All Minority Firms	91.3%	1
African American Firms	103.3%	1
Hispanic/Latino Firms	78.0%	10
Asian American Firms	71.8%	2
Women Owned Firms	41.8%	1
White Owned Firms	13.6%	10

II. Defining Capacity

Capacity is the foundation and building block of high-performing firms. As used in this report, capacity means more than a firm's scale of operation, i.e. its revenue, employee size, and ability to produce a given product or provide a particular service. Capacity is the ingredient that allows a firm's scale of operation to serve its mission efficiently. Greater scale is a necessary ingredient of capacity, but scale alone is not sufficient to create capacity. We say that a firm has achieved scale and capacity when it has successfully transitioned from the start-up and entrepreneurial stages of business development to the stage of a "professionally managed enterprise" (PME). We will see that African Americans experience the greatest gap in scale and capacity. One indication of this is the small percentage of African American firms that have paid employees, when compared to other race and ethnic groups.

Chart 5. 2007 Percent of Firms with Paid Employees



PMEs have formal structures of management, planning, organization and control. Flamholtz and Randall (2007) note that professionally managed firms can be distinguished by the following characteristics: 1. Pursuit profit as an explicit goal; 2. Engagement in formal planning;

3. Well defined organizational structures and functions; 4. Management controls and performance metrics; 5. Implementation of budgeting systems; 6. Orientation towards innovations in products, services and operational methods; 7. Broadening of leadership structures; and, 8. The presence of competitive advantages that are reinforced by organizational culture and brand. Their research indicates that the typical scale (revenue) of firms in the PEM stage ranges from $3.3 million to $30 million for business service enterprises and $10 million to $100 million for manufacturing and construction firms.

Measuring the Minority Business Deficit

We operationalized the capacity "Stage" framework by using proprietary data on 47,254 small businesses that were registered vendors with the federal government in 2007 and 2010. The results revealed that 14% of nonminority-owned firms had revenues that were equivalent to a Stage III firm and 9% of all minority-owned firms had the requisite revenue of a Stage III firm. In contrast, only 6% of African American owned firms did.

To get an even clearer picture of the current scale of minority-owned businesses, we restricted the data to firms whose average revenue ranged between $100,000 and $1 billion in 2007 and 2010. There were 27,877 firms within this category. The average revenue of these firms was as follows: $5,175,542 for nonminority-owned firms; $5,058,282 for firms owned by Asian and Pacific Islanders; $3,797,524 for firms owned by Hispanics and Latinos; $4,769,508 for firms owned by Subcontinent Asian Americans; $5,079,512 for Native American owned firms; and $2,466,360 for firms owned by African Americans. The data was also used to identify the revenue threshold values for each group. Specifically, the 25th percentile refers to the revenue value at which 25% of the firms in the group earned less than and 75% earned more than. The median is the revenue at which 50% of firms earn less and 50% earn more. The 75th percentile is the threshold at which 75% of the firms earn less and 25% earn more. Finally, the 95th percentile is the revenue value at which 95 % of the firms earn less than. We see that for African Americans, 95% of these high-performing firms earned less than $10 million. This is significantly lower in comparison to the 95th percentile for other groups, including nonminority business owners. The 95th percentile for the latter group was $20 million, twice the level of

African Americans. The data revealed the enormous gap in scale experienced by African American business owners. It also revealed that the gap is much narrower for other race and ethnic groups. In the appendix to this report, we provide similar information for 2010 data.

Table 2. Revenue Thresholds of Minority Firms with Earnings between $100,000 and $1 Billion In 2007

	REVENUE THRESHOLDS OF MINORITY FIRMS WITH EARNINGS BETWEEN $100,000 AND $1 BILLION IN 2007						
	Mean	No Firms	% of Total	Percentile 25	Median	Percentile 75	Percentile 95
Asian Pacific Americans	$5,058,282	1708	6.1%	$500,000	$1,300,000	$4,000,000	$16,000,000
Black Americans	$2,466,360	3200	11.5%	$250,000	$700,000	$2,212,296	$10,000,000
Hispanic Americans	$3,797,524	2834	10.2%	$414,064	$1,239,328	$3,982,900	$15,000,000
Native Americans	$5,079,512	1233	4.4%	$500,000	$1,700,000	$5,000,000	$20,880,000
Subcontinent Asians	$4,769,508	1275	4.6%	$500,000	$1,500,000	$4,000,000	$18,000,000
Non-Minority Owners	$5,175,543	17627	63.2%	$500,000	$1,600,000	$4,950,000	$20,000,000
Total	$4,694,463	27877	100.0%	$500,000	$1,500,000	$4,118,496	$18,000,000

III. Globalization of the Economy

In the new economy small businesses, rather than Fortune 500 corporations, are the leading engine of US innovation and job growth. The “great recession” and subsequent jobless recovery have made this clear. Since 1992, 77% of all new jobs have been created by businesses with 500 or fewer employees. Additionally, during the worst quarter of the last recession (Q1: 2009) small businesses added 82% of all new jobs while the share of new jobs added by large firms fell from 23% to 18%. Interestingly, among all small businesses, only those with 50 or fewer employees added more jobs than they terminated. Every other employment size category of business, including large corporations, terminated as many or more jobs than they created.

The economy is continuing to experience the aftermath of the recession. But economic growth in the fourth quarter of 2010 and the first quarter of 2011 has picked up significantly. New estimates suggest that first-quarter GDP growth should be 4% or higher. However, this accelerating growth has not translated into a significant reduction in the unemployment rate. The slowly adjusting labor market is not only the result of the recession, but also a reflection of the globalization of the world's economy.

Chart 6. Share of New Jobs Created by Small Businesses Since 1992

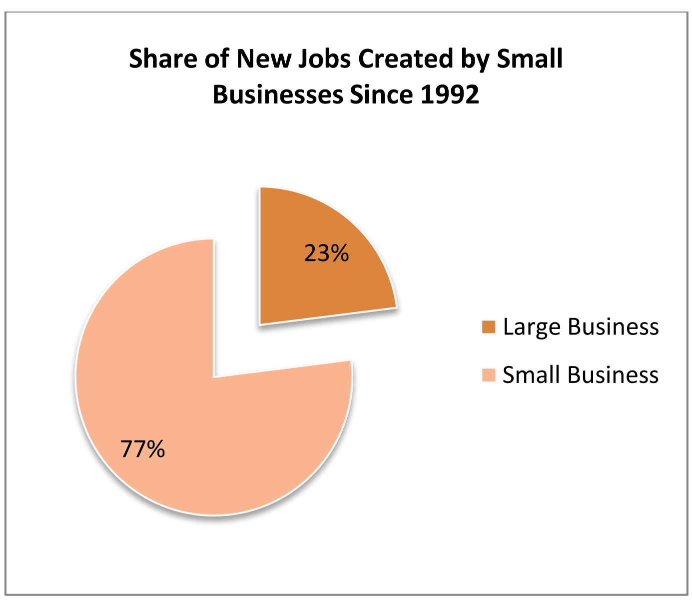
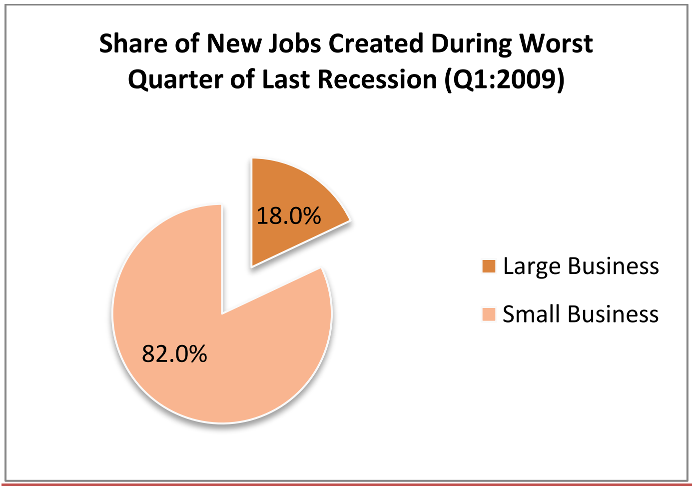


Chart 7. Share of New Jobs Created During Worst Quarter of Last Recession (Q1:2009)



Globalization has been characterized by the emergence of serious competitors to US economic leadership. As a result, the current economy cannot grow fast enough to achieve prerecession levels of unemployment. To do so would lead to rapidly accelerating inflation - especially since that the Federal Reserve has printed large quantities of money as part of its quantitative easing strategy. That strategy was designed to keep interest rates close to zero by purchasing medium-term assets and injecting cash into the economy as payment.

The fundamental problem the US is confronting is how to restore global competitiveness. To understand this, we have to look beyond the recent recession. The causes are rooted in economic dynamics that have been occurring over the last quarter-century. It is important that we recognize the real causes because when we do, it will become apparent that fiscal stimulus or quantitative easing policies can ease the pain, but they cannot solve the problem.

The Problem of Unemployment

Since the dot com era, the pervasive psychology in the US has been that there is an instant path to wealth. Gone is the expectation that one should labor for years developing and perfecting new innovative ideas and put those ideas to work on a day-to-day basis until success is achieved-no matter how long it may take. The legendary tales of how billionaires were created almost overnight through dot com ventures or through stock investment are pervasive. Too often it is believed that the secret to success is a novel idea and luck, rather than hard dogged labor. When the.com bubble burst, the new get rich scheme was real estate investment; this involved flipping houses, pushing subprime mortgages on unknowledgeable and unsuspecting home buyers, creating exotic new instruments such as mortgage-backed securities, and guaranteeing them with complex forms of insurance that few people understood --such as credit default swaps. The housing bubble was a continuation of the psychology that wealth accumulation need not be long and arduous but can be achieved instantly.

As the nation indulged in these superficial forms of wealth creation, other rapidly emerging economies pursued wealth the old-fashioned way. China, India, Brazil, Korea, Russia and other countries sought to become the fastest growing and most innovative in the world-- always with a hidden objective of displacing US competitive leadership in a strategic industry or key market. To achieve this, they invested heavily in improving their domestic educational system by placing their most promising scholars in leading academic universities of America and Europe. Domestically, they also invested in infrastructure, transportation, and communication systems, and improved the efficiency of their financial institutions. Finally, they sought to achieve leadership in key strategic industries by copying or sometimes even illegally appropriating the most innovative ideas in the US and elsewhere. Finally, their governments worked hand-in-hand with private industry sectors to help secure the country's competitive advantage.

As these countries became more competitive, US corporations made strategic decision to outsource large segments of their supply chain to the lower-cost centers in Asia, Africa and Latin America (rather than stepping up this as Apple and Google did). This allowed them to downsize labor costs and create greater profitability by becoming leaner and meaner. At the same time, they were falling further behind in innovation. General Motors today (which is now one of the world's most dynamic automobile manufacturers because it has finally decided to focus on quality and innovation) versus General Motors just a few years ago (which had become so stagnant, downsized and outsourced so much, that it virtually lost its identity as a successful auto company) is a prime example of how we lost and must regain the competitive edge.

The financial meltdown and subsequent "Great Recession" provided the cover for the corporate sector to improve its profitability by engaging in deep cost-cutting rather than by focusing on becoming more innovative and competitive. Their deep cuts sent the labor market into shock therapy and produced the highest unemployment rate since the Great Depression. More importantly, these companies do not plan to rehire most laid-off workers. Instead, they are working the employed labor force much harder and using larger numbers of part-time employees in jobs that were formerly performed by full-time workers.

IV. The Potential Value Contribution of Minority Business

In the last section, we noted that over the last quarter-century, the strategic objective of large corporations has been to downsize so as to achieve greater competitiveness. As a result, the employment growth we have experienced has come almost exclusively from small and midsize businesses. Minority-owned companies (whose formation rate has been three times faster than the formation rate of all small businesses) now account for 6% of the workforce. However, small and minority owned companies have been largely neglected in economic policies to revitalize the economy; whether those policies have focused on a fiscal stimulus or quantitative easing.

Small companies and minority-owned companies have also not benefited from the loan capital that has been made available through quantitative easing and new government policies. The tight regulations regarding credit worthiness have discouraged and deterred most of these businesses from seeking loans. Yet, the employment potential of minority businesses is evident by the results presented in the table below, which shows the number of Black and Hispanic workers in juxtaposition to the number of jobs created in firms owned by these groups. Furthermore, national survey data r4evealed that two-thirds of the workforce in African American owned companies is African American. Therefore policies targeted to increase the growth and viability of minority business sectors are likely to have a greater marginal impact on job creation among blacks and Hispanics.

Table 3. February 2011 Unemployment Characteristics & Jobs Created by Black and Hispanic Businesses

	Jobs Created in Businesses Owned by Group	Group Unemployment Rate	No. of Unemployed Workers
Blacks	.921 mil	15.30%	2.85 mil
Hispanics	1.9 mil	11.60%	3.03 mil

The government must begin to focus more attention on the businesses that create jobs and innovation, and especially minority-owned businesses. The most innovative and dynamically growing sector of the economy today is small, minority, and women-owned businesses. The government needs to come up with more creative ways to channel financial support and procurement opportunities to this strategic segment. Reducing the interest rate to near 0% and focusing on infrastructure and green projects alone will not solve the problem. New and more innovative forms of credit scoring need to be developed that provide subsidies so that financial institutions can consider not just the past credit history of small businesses, but also their current and future revenue, growth and job creating potential. Finally, numerous regulatory changes can be improved to make government procurement programs with minorities more effective.

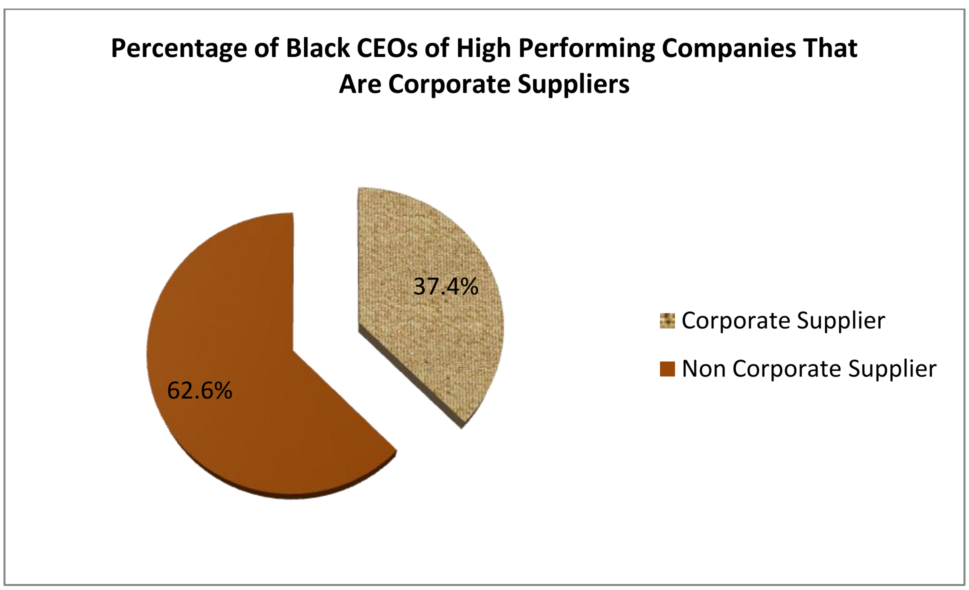
Impact on Jobs and Communities

Minority-owned businesses are an increasingly important component of all small businesses. Furthermore, a larger share of their workforce is drawn from disadvantaged neighborhoods and groups that are disproportionately unemployed that is the case among nonminority owned firms. So by helping minority businesses to achieve a greater scale, jobs and income are created in communities that have the greatest need. EuQuant's research found that the 6,758 minority and disadvantaged businesses which participated in the federal government's 8(a) and SDB program had a $3.7 billion impact on national income and output and created 86,038 jobs in 2006. Furthermore, neither of these impacts would have existed had the SDB program not been in existence. The study also selected fourteen central cities for close examination, geocoded the address of each SDB, and analyzed the location of businesses relative to high pockets of central city poverty. It was found that 31% of minority businesses were located in high poverty areas as opposed to 24 percent of nonminority owned businesses. In cities such as Baltimore and Philadelphia, 69% and 60% respectively of SDBs were located in high poverty areas. In addition, minority entrepreneurs operated more high skilled ventures in these locations than was the case among nonminority entrepreneurs. In short, there is a real business case for supporting the efforts of minority business owners to achieve greater scale and capacity -- it is not just a matter of social equity. Rather, given the value these firms at to the national economy, it should be a matter of national priority.

V. Government Contracting: Opportunities and Challenges

The new character of minority-owned businesses is due in large part to a more talented and capable minority entrepreneur – persons who possess greater endowments of business related attributes and skills that are critical to success. Accompanying this development, corporate supplier diversity policies have been crucial. In a 2007 national survey of 350 CEOs of high-performing black-owned businesses, 37.4% are corporate suppliers. The survey was developed by EuQuant and administered by a national survey research company. The survey population consisted of African American-owned businesses with 10 to 100 employees and had experienced a 5% growth in employment over the previous three years. The results indicate that corporate sourcing to minority suppliers has been an important element in the transformation of minority-owned enterprises.

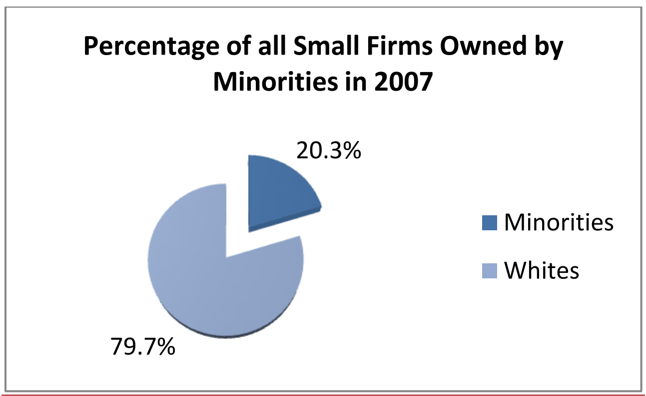
Chart 8. Percentage of Black CEOs of High Performing Companies That Are Corporate Suppliers



Government preferential procurement programs have also played and enormously important role; especially for African American entrepreneurs. For example, the survey found that 52.3%

of all African American owned businesses have participated in a government-sponsored minority business program. National statistics support this finding. A recent report conducted by EuQuant (2007) revealed that 40.7% of the small businesses that were registered with the federal government's Central Contractors Register System in 2007 were owned by members of minority groups. The importance of the observation is that collectively, minorities only comprised 20.3% of all small businesses in the country.

Chart 9. Percentage of all Small Firms Owned by Minorities in 2007



Yet they pursued government contracting opportunities to a much greater degree than was their percentage representation among all businesses. Asian owned businesses comprise 5.5% of all small businesses but represented 10.3% of federally registered contractors. Hispanic owned businesses accounted for 8.0% of all small businesses and 10.8% of federal contractors. Most telling however is that African American owned businesses comprise 6.8% of all businesses in the country but 15.3% of centrally registered contractors.

Chart 10. Percentage of all Small Firms Owned by Minorities in 2007

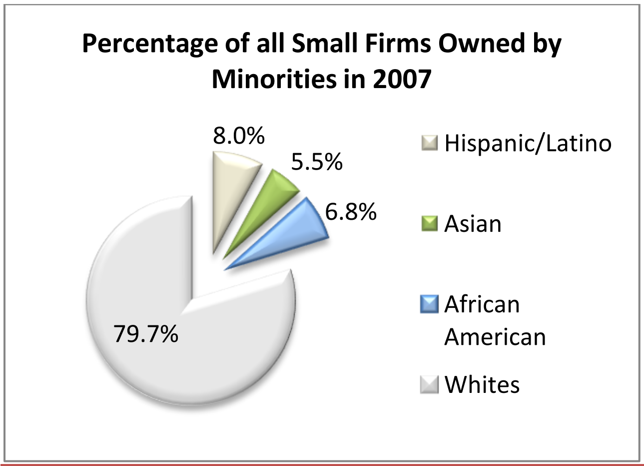
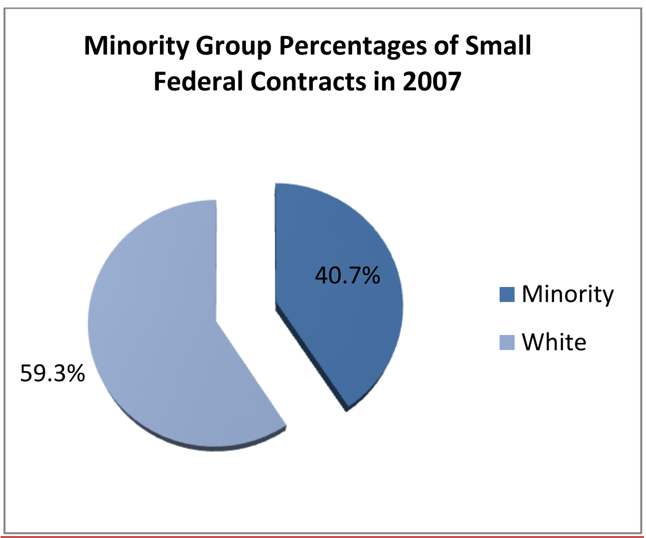
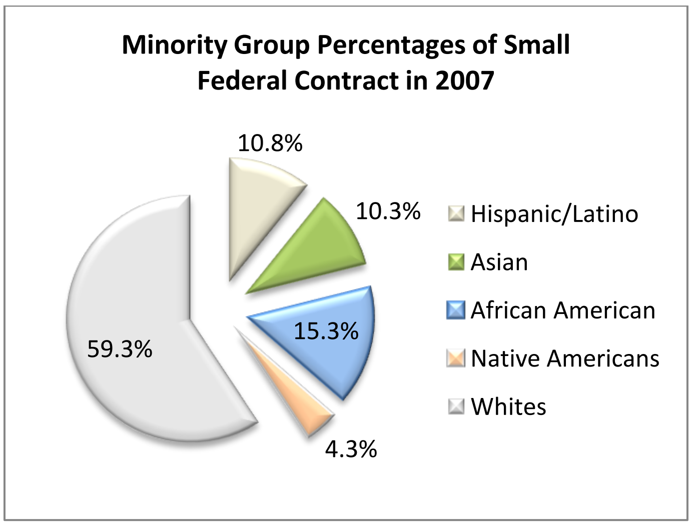


Chart 11. Minority Group Percentages of Small Federal Contracts in 2007



This report found that the heavy dependence on government contracting can be both a blessing and a curse for minority-owned businesses, especially at the federal and state levels. Their two main reasons for this observation: first, state and federal programs have been extremely slow to adjust the "economic disadvantage" criteria for entry and continued participation in the Disadvantaged Business Enterprise (DBE) program, and the Small Business Administration's 8(A) and Small Disadvantaged Business (SDB) programs. The failure to adjust the criteria means that program participants must have lower levels of personal net worth. As we discussed later in this report, the failure to adjust the criteria for inflation or for the capital requirements of different industries (e.g. manufacturing versus retail) hits minority firms particularly hard. It means that entering and staying in the program forces the company to have a lower scale of operation, smaller bonding capacity, less of an ability to raise capital and finance, and a smaller capability to perform prime contracts of significant scale.

Chart 12. Minority Group Percentages of Small Federal Contract in 2007



Equally as important, this problem also affects corporate supplier diversity relations. For example, smaller companies are less able to operate efficiently in corporate supply chains, but as minority suppliers achieve greater scale the personal net worth of the minority owner may exceed the program limits. If it does, and if the corporation is a government supplier, it can no longer receive credit for using the minority supplier. Three outcomes are therefore possible: 1. the corporation continues to use the minority supplier even though it receives no credit; 2. the corporation uses smaller minority suppliers in low value added segments of its supply chain; 3. the corporation solicits a new minority supplier for which credit can be gained.

How the Failure to Diversify Hurts Scale and Capacity

In 1998 the eligibility criteria of the federal government's Small Disadvantage Business (SDB) Program and 8(a) Program was modified by the establishment of a personal net worth (PNW) cap. The $750,000 ceiling was designed to comply with legal decisions which mandated that such programs be narrowly tailored in line with the US Supreme Court Decision in the case of Adarand v. Pena. The government's response was to establish a wealth ceiling to prevent individuals with substantial wealth from having access to programs that were designed for small disadvantaged businesses. In theory, the PNW ceiling seemed reasonable, but in practice, the ceiling impeded the growth of minority business capacity. The policy changes created in response to the Supreme Court Decision caused a number of problems that are finally being addressed by Congress. The problems are as follows:

- The $750,000 PNW ceiling has not been adjusted for inflation since it was established more than a decade ago; this makes its real value today slightly greater than $500,000.
- The ceiling was not established by an industry study but simply determined on an ad hoc basis by debate in Congress.
- Bonding is heavily dependent upon the owner's personal net worth. Therefore, the PNW ceiling has severely constrained the ability of minority firms to increase their bonding capacity. Furthermore, when the real value of PNW is not adjusted for inflation, the real value of an owner's bonding capacity is also lower.
- Just as PNW affects bonding, it also affects a firm's access to capital because both are tied closely to the owner's net worth.
- Congress established a single PNW ceiling for all industries. No consideration has been given to the differences in capital that is required to operate successfully in industries such as heavy construction, professional services, manufacturing, retail, etc.
- EuQuant research determined that the relationship (in technical terms the elasticity) of personal net worth to firm revenue is .4. Very simply this means

that if a firm's revenue increases by 100%, the personal net worth of the business owner will increase by 40%. The fact that personal net worth and business revenue are closely correlated means that if the value of PNW is too low, the revenue of SDBs will also be lower than expected.

- The low PNW has also affected the revenue of SDBs by lowering size of prime contracts and subcontracts they are capable of performing.
- Perhaps the most detrimental aspect of the PNW ceiling is the disincentive it creates for corporations to mentor and grow SDB suppliers as protégées. When the protégées company reaches reach a scale that allows them to operate successfully as a Tier I or Tier II supplier, the chances are very strong that the growth in owner's PNW will be such that the company is no longer eligible to participate in the SDB program. This distorted incentive structure may encourage corporations to stop soliciting SDB suppliers for direct value added segments of their supply chain.

Whatever the outcome, it is clear that a failure to adjust program (economic disadvantage) criteria may have serious adverse consequences for minority suppliers. It makes it very difficult to maintain long term mentor protégé relationships and even more perverse, some minority firms keep their scale of operation low so as to remain eligible for government procurement programs. In fact, we have observed that the business model of a significant segment of minority-owned businesses is too heavily focused on participating in government procurement operations even when doing so constrains their ability to achieve greater scale and capacity. This differs from a more diverse growth strategy that sets targets for profit and revenue growth from the private, public and nonprofit sectors.

In 2011, changes are being implemented to these criteria. The Department Of Transportation has increased the wealth threshold from $750,000 to $1.3 million. The Small Business Administration's 8(A) program no longer uses wealth, but a combination of income and total assets, and to our knowledge, no change has been made in regards to the SDB program criterion. EuQuant has been actively involved in efforts to alter these criteria and these changes are encouraging. Nevertheless, uniform criteria should be developed across all federal programs, and it is absolutely essential that similar changes be made to the SDB program.

While corporate supply chain rationalization create new challenges for minority suppliers, fiscal austerity measures of government agencies impose heavy penalties upon firms that fail to diversify their sources of revenue.

VI. Measuring the Value Proposition of Supplier Diversity

Silvon Software's white paper recently observed the following. "… most companies don't know how much they spend, on which products, and with which suppliers. This essential lack of good data at the commodity level makes true strategic sourcing a statistical impossibility and the identification of hidden cost opportunities virtually out of the question…Inadequate spending analysis is a corporate epidemic that costs companies $260 billion in missed savings. ". Silvon advocates that corporations make greater use of analytics to leverage their supplier base.

For years, corporate supplier diversity officers have argued that diversity is not a social proposition but a value proposition. But the argument has been devoid of spending analytics to determine its validity. While some studies suggest that 80% of corporations do not employ spend analytics, the situation is even worse when it comes to diversity spend. The total value of sourcing dollars spent with diverse suppliers is the prevailing benchmark in the industry. Most often, even this falls short of accurately capturing Tier II diversity spending.

In contrast to the state of corporate spend analytics for supplier diversity programs, government procurement has over time developed a standardized set of data collection procedures, coding and classification framework, common metrics, and analytical approaches to measure agency spend with minority and diverse vendors. Constitutional challenges to the legality of government preferential procurement programs force these steps to be taken.

A similar framework is missing when it comes to corporate spend. This means that the value proposition of corporate diversity has never been fully validated. Therefore, the commitment to diversity is too often based on or falls on ad hoc decisions made by managers (who may be more or less committed to diverse sourcing outcomes) or it depends upon the persuasiveness of diversity advocates. The value proposition is assumed rather than measured and the prevailing argument is that supplier diversity, branding and emerging market penetration are closely correlated. We believe this intuition is correct. But it still does not establish the value proposition of diversity as a part of the corporate bottom line.

Diversity Spend Analytics (DSA)

Corporations are being asked to increase their Tier I and Tier II spend at the same time that weak worldwide product demand and global competition have forced them to diversify supply chains by outsourcing and managing supplier costs. To establish supplier diversity as part of the corporate bottom line, a common approach to DSA must be developed.

For industry consideration and debate, EuQuant has developed the following rationale, anticipated outcomes and metrics for DSA.

Rationale and anticipated outcome of DSA:

1. Better data collection, data organization, customization and standardization of diversity spend metrics
2. Identification of commodity categories where opportunities for significant cost savings can be generated by using diverse suppliers
3. Quantification of how diversity spend leverages revenue growth in diverse markets
4. A strategic rationale for why the Corporation should focus on improving diverse suppliers in its drive to continuously improve key suppliers
5. A better understanding of the value proposition of diversity within the entire supply chain
6. An improvement in the ability of management to identify and manage risks associated with Tier II supplier diversity
7. An improvement in contract compliance monitoring capability
8. Quantifiable information on the performance of diverse suppliers
9. Assessment of the impact of corporate spend on improving the capacity of diverse suppliers

10. A breakdown of Tier I and Tier II spending by commodity codes, Tiers, suppliers, dollar values, number of purchase transactions and geographic location of supplies
11. More direct, on-contract diversity spending
12. Greater business intelligence regarding diverse market opportunities
13. Ability to present to shareholders and customers a more compelling business case for supplier diversity.

EuQuant proposed Metrics for Measuring Diversity Impacts

- Diverse Market Demand = Tot. no. of units or sales volume to diverse markets
- Diverse Market Segment Demand = Diverse demand within market segments
- Diverse market Top of Mind product = First brand purchased in diverse markets
- Diverse Market Growth and Segment Growth = % growth in diverse market/segments
- Diverse Market Potential Penetration= estimated volume of products that could be sold
- Spatial Analysis of Diverse Market Demand = Geography of Diverse market demand
- Diverse Market Share = t corporate purchases as a % of market demand
- Diverse Competitive Market Share = corporate purchases vs major competitors

EuQuant proposed Metrics for Supply Chain Diversity Analytics

- Diverse Supplier Availability = Total no. of diverse suppliers available to the corporation
- Diverse supplier spend= total spending with diverse suppliers
- Diverse Supplier Capability = total diverse suppliers classified by their core competencies
- Competitive commodity codes= commodity areas where diverse suppliers have capabilities
- Diverse supplier Segment Availability = No. of diverse suppliers by market segments
- Competitive Segment Spend = total spend with diverse suppliers in market segments

- Spatial analysis of diverse suppliers = Geographic location of diverse suppliers
  Competitive supplier Utilization = corporate spend vs. major competitors
- Heavy Usage Index of Diverse suppliers = Segment concentration spend
- Top of Mind diverse suppliers = corporate spend with the first supplier in each category
- Diverse Supplier Churn Rate = diverse supplier attrition rate vs. all suppliers

The implementation of these metrics must go hand-in-hand with the use of best practices in supplier diversity. Most importantly, they must be oriented towards achieving the goals outlined in the rationale and objectives section above. Many years ago, Reginald Williams (1995) identified the best practices in supplier diversity, which have not changed much over Time. To implement a successful supplier diversity program, there are several factors that need to be considered. First, upper management must support the view that utilizing minority-owned businesses adds value to the company's bottom line. The company must make sure that the business decisions of its staff are in sync with the corporation's diversity goals. The company must also set reasonable goals for itself and track its progress in achieving objectives through quarterly reports. Benchmarks should be established to evaluate the company's progress. Finally, the company should implement a Tier II program to encourage other companies to utilize minority businesses and it must be ready and able to provide guidance to prime contractors on how to establish such Tier II programs and track diversity spend; This may require training, education, and other resources.[1] To these practices identified by Williams, one should add that supplier diversity goals should be embedded in the corporate reward system.

[1] Williams, Reginald (1995) 2nd Tier Minority Purchasing: Effective Strategies.

VII. Growth is not an Accident

EuQuant has conducted research that attempts to pry open the hidden secret of growth. To do this the company issued a new national survey that was designed to tease out more precisely the factors associated with high-growth, high performance status (defined as companies that achieved a 20% annual growth in employment over a three year period). The major research finding can be summarized in one phrase. Growth is not an Accident! That is to say, we found that the most important differences between high-growth and low-growth firms is that the former plans growth, executes a growth strategy and engages in professional management practices that allow the strategy to be successful.

Increasingly, researchers are pointing to small firms as the major engine of innovation. Baumol observed that when innovation is measured by the number of employees, small firms are 13 times more innovative than are large firms. In addition, their patents are twice as likely to rank among those having the highest impact (2005). Between 1998 and 2004 small businesses, meaning those with 500 or fewer employees, accounted for 50.5% of the total US GDP, 85% of value added in the construction, 67% of value added in professional and technical services and 48% of value added in the retail trades (Kobe 2007).

The concept of value innovation helps to explain large differences in rates of growth among firms in the knowledge-based economy (Kim and Mauborgne 1998, 2005). In the past, firms sought to achieve high rates of growth by beating the competition. Instead value innovators do not focus on their competitors but on creating uncontested market space (Kelly and Chris 2004). They seek to dominate their markets by making quantum leaps in value through innovations in products, services or distribution networks. Unlike less successful companies of the past, value innovators pay little attention to matching or beating their rivals (Kim and Mauborgne 1998, 26-27; 2005, 12-13).

Kim and Mauborgne (1998) found that high-growth entrepreneurs may be distinguished from low growth entrepreneurs along several dimensions. These include their greater strategic intentions (i.e. greater emphasis on vision, product and service quality, reputation, market-driven focus), entrepreneurial intensity and growth (i.e. the degree of commitment to entrepreneurship), greater willingness to incur the opportunity costs of growing, more decentralized firm structure, higher levels of financial resources, and greater variety of funding sources. Their research indicated that high-growth oriented entrepreneurs are more likely to pursue market expansion through product and service innovation and increased advertising expenditures. They are also more likely to pursue technological change (such as adding new equipment and computerizing existing operations), spend more time searching for financing, engage in operations planning (such as expanding the current facilities), and devote more resources to organizational development (such as off-site training of employees). "The difference in approach was not a matter of managers choosing one analytical tool or planning model over another. The difference was in the company's fundamental, implicit assumption about strategy. The less successful companies took a conventional approach: their strategic thinking was dominated by the idea of staying ahead of the competition. In stark contrast, the high-growth companies paid little attention to matching or beating their rivals. Instead, they sought to make their competitors irrelevant through a strategic logic we call *value innovation.*" (1998, 26-27). The approach is aimed at making a quantum leap in value so as to dominate the market.

Gundry and Welsch reviewed the literature on high-growth businesses extensively. Their review found that entrepreneurs who set high growth targets for their firm were more likely to achieve high rates of growth. Based on a survey of 1,832 entrepreneurs, Gundry and Welsch conclude that high-growth oriented entrepreneurs differ from low-growth oriented entrepreneurs along several dimensions. Specifically, high-growth entrepreneurs exhibit a stronger commitment to success and a greater willingness to sacrifice, in addition they are more likely to do the following: plan for growth, utilize a team-based approach to management, exhibit greater concern for the reputation of their enterprise, seek adequate capitalization, exhibit strong leadership, and use a wide range of sources to finance their venture (2001, 454).

Their review also found that many researchers believe the commitment to growth is a distinguishing feature of the entrepreneur and planning for growth influences rapid growth significantly. Finally, they found a positive correlation between the educational attainment of owners and the growth rate achieved by their firm.

Stewart, Watson, Carland and Carland distinguished small business owners from high-growth oriented entrepreneurs by the latter's ability to capitalize on innovative combinations of resources for the principal purpose of profit and growth. They also noted that entrepreneurs make greater use of strategic management practices. In contrast, small business owners operate their enterprises as simple extensions of their individual personality and their primary purpose is to achieve personal goals and produce family income. So the two types of owners differ in regards to their strategies, personality, cognitive orientation, and preferences (1998, 191). The authors examined achievement motivation, risk-taking propensity, and preference for innovation as a means of distinguishing entrepreneurs from small business owners and corporate managers. They found that entrepreneurs, in contrast to small business owners, are highly motivated, have a greater propensity for risk-taking, engage in innovative activities, exhibit a psychological profile that is consistent with the goal of growth and profitability, and plan systematically (1998, 204). They note the absence of a consensus in the literature regarding the risk-taking propensity of entrepreneurs but point out that it is generally thought that entrepreneurs have a greater tendency towards taking risk.

Mascarenhas and others (2002) examined five strategies that lead to sustainable growth, the context in which they occur, the sources of advantages they create, how strategy is implemented and the potential pitfalls of each strategy. They found that 75% of rapidly growing firms originated in high-growth industries and that rapid firm growth is achieved mainly as a result of one of five strategies: product proliferation, mass-market development, increasing value to select customers, distribution innovations and acquisition consolidation. Product proliferation involves securing early financing, rapidly developing new products, expanding internationally and enhancing organizational and employee responsiveness. Mass-market strategy involved focusing on product segments with the highest market potential, reducing production costs quickly, creating a recognizable brand as part of a mass-market push, broadening the distribution network and consolidating to protect market positioning.

Increasing value to select customers involved deriving metrics to identify high-value customers, developing closer customer relationships, and increasing the value of product offerings through discontinuing low value functions, upgrading complementary services, developing custom-driven products, increasing reliability and quality, developing Internet channels of communication, and instituting round-the-clock troubleshooting. Distribution innovation involved identifying new distribution systems, deepening relationships with suppliers and customers and introducing innovations to gain international market entry, acquisition consolidation strategy involved developing a new business model, refocusing acquisition strategies to fit the new model by decentralizing functions and outsourcing, using new technologies to manage larger volumes and targeting and developing relationships with large suppliers and customers.

Identifying High Growth Factors

EuQuant's research results on high-growth black-owned businesses are consistent with much of the research findings discussed above. Specifically, high-growth black-owned companies set high growth targets and implement professional management practices that allow them to execute their growth strategy. They are also much less likely to be concerned about their competitors than their competitors are likely to be concerned about them. Where the research findings differ from the findings of others is that EuQuant did not find high-growth and low-growth companies to be run by entrepreneurs with different skills, education or work intensity. This contradicts the assumptions that attribute high-growth status to differences in human capital attributes, how hard the entrepreneur is willing to work, the firm characteristics, access to external capital and finance, and similar factors. Instead, *strategies that center on setting high-growth targets, executing growth plans, improving managerial efficiency, and* *implementing professional management practices are more likely to create high rates of growth than simply working long hours in the day*. While product and service innovations were found to be crucial to achieving business performance goals, innovation alone could not explain why some firms were high growth and others were not – because high performance and low performance companies pursued innovation to the same extent. Specifically, 76.2% of the owners of high-performing black-owned businesses said that product and service innovation is "very important" in their overall business strategy, while 75.4% of the owners of low performing companies said the same thing. We found that in comparison to low performing companies, black-owned high-growth companies have the following characteristics: they set much higher annual growth targets; are more likely to have executed a business growth plan; pay more attention to improving the company's management efficiency; spend less time focusing on competitors, and are likely to be controlled by younger entrepreneurs. *What was surprising is that we did not find statistically significant differences in the following factors*: the industries in which high-performing and low performing black-owned companies operated; the gender of their owners; the educational attainment of owners; the years of business related experience of owners; the risk tolerance of owners; owners' optimism about the future; the time that owners allocated n between managing and growing the enterprise; or their access to external financing and capital.

VIII. Policy recommendations

EuQuant proposes the following recommendations based on the preceding examination. The section focuses particularly on recommendations that are unique, rather than those that have become standard within the industry.

General Observations and Recommendations

1. Among all minority business groups, statistics across the board revealed that African American business owners experience the greatest disparity in business performance. In some areas Asian-American entrepreneurs have even achieved parity and the gap between Hispanic/Latino Americans, while still wide, is narrowing. On the other hand, the gap between African American businesses and the mainstream business sector is wide and persistent. This must be recognized and acknowledged formally, and efforts to achieve greater supplier diversity and minority business utilization must take this fact into consideration in crafting policies.

2. Given the current global dynamics, developing and standardizing DSA (Diversity Spend Analytics) is more important than ever before. In the future it will become even more essential for continued progress in corporate supplier diversity. That is, the value proposition of diversity must be measurable and quantifiable.

3. Minority businesses achieved significant market penetration and industry diversification through participating in government preferential procurement programs. However, too many businesses that have achieved success through government contracting have failed to develop a more diversified growth strategy. And as a result, the future viability of the enterprise depends almost exclusively on government contracting. This is problematic, especially given the austerity measures in government, which are likely to be in place for many years to come.

4. The greatest challenge for minority business owners is becoming a PME (Professionally Managed Enterprise). History shows that only a small percentage of businesses will achieve the scale of operation that is typical for firms that become PMEs. In fact, only 14% of nonminority enterprises have done so. In addition, achieving sufficient scale is a necessary condition, but it is not sufficient to achieve capacity. One of the most essential guide to understanding the challenges and elements of achieving PME status is a landmark book by Eric Flamholtz and Yvonne Randle (2007) Growing Pains: Transitioning from an Entrepreneurship to a Professionally Managed Firms. (John Wiley & Sons: San Francisco). We strongly recommend this book as a guide for every entrepreneur who is serious about achieving capacity.

5. Government preferential procurement programs are continuing to experience legal challenges. In response, extensive adjustments and modifications have been made in response to legal decisions. In many cases, programs have been suspended altogether. To comply with legal mandates, a variety of race and gender neutral policies have been implemented which are designed to narrowly tailor those programs. Among all such race and gender-neutral policies, EuQuant has determined that the most effective (when implemented properly) is a Small Business Enterprise (SBE) program that restricts competitive bidding for particular projects to qualifying small businesses exclusively. Because minority firms are more likely to qualify for SBE certification and be more competitive within this category, we have found that the utilization (i.e. awards success) is more equal to their availability and capacity than in other contracting programs. The North Carolina Department of Transportation currently operates an extremely effective SBE program, which can serve as a guide to other government jurisdictions.

6. The federal and state threshold for determining "economic disadvantage" (i.e. the personal net worth ceiling) as a criteria for participating in the DBE, 8(A) and SDB programs have not changed in 13 years. This has adversely affected minority business capacity in numerous ways as outlined in this report. In 2011, changes are being implemented to these criteria. The Department Of Transportation has increased the wealth threshold from $750,000 to $1.3 million. The Small Business Administration's 8(A) program no longer uses wealth, but a combination of income and total assets, and to our knowledge, no change has been made in regards to the SDB program criterion. EuQuant has been actively involved in efforts to alter these criteria and these changes are encouraging. Nevertheless, uniform criteria should be developed across all federal programs, and it is absolutely essential that similar changes be made to the SDB program.

Improving Corporate Sourcing with Diversify Suppliers

1. Document the value proposition of supplier diversity by developing **Diversity Spend Analytics (DSA).** This is absolutely essential. There must be established in the diversity arena standardize metrics, a uniform coding and classification system, common analytical techniques, and standardized expected goals and outcomes across enterprises and industries. This will allow better measurement and evaluation to be conducted of Tier I and Tier II corporate diversity spending, as well as the performance of diverse suppliers. This would also establish the value proposition of diversity—for the first time.
2. Develop uniform methods for collecting and coding spending data that avoids double counting of direct and indirect spending.
3. Commission studies to identify trends in industries and commodity categories were opportunities for diverse suppliers exist and where such suppliers have sufficient capabilities and capacity to perform.
4. Develop an industry Tool Kit for implementing DSAs.

5. GMSDC should conduct a case study. Working in cooperation with its corporate partners, it should acquire detailed corporate diversity spending data from a selected number of corporate partners who operate in different industries. Use corporate data to beta test DSA and the value proposition of diversity spending. This information can also be used to develop a framework for analyzing the performance of diverse suppliers, establishing how diverse suppliers compliment the supply chain, and standardizing and customizing spend data to evaluate its impact on ROI, contract compliance monitoring, reporting, and evaluation.

6. Corporate spending data should be examined to evaluate the extent of direct spending (i.e. on-contract spending) and indirect spending (i.e. off-contract spending) with diverse suppliers and the impact of the two types on the development of supply capacity.

7. Document the impact of corporate supplier diversity on the following aspects of the corporate supply chain:

    1. customer service
    2. internal efficiency
    3. demand flexibility
    4. product development
    5. diverse market penetration and growth

8. Diverse suppliers must understand the critical importance of becoming a PME (Professionally Managed Enterprise). Develop case studies that define the pathways to achieving PME status as a guide for diverse suppliers. Develop training programs, algorithms and a Tool Kit to assist diverse suppliers in becoming PMEs.

Table 4. 2007 National Statistics on all Small Businesses by Race and Ethnicity

Racial of Ethnic Group	Number of firms with or without paid employees, 2007 (number)	Receipts for firms with or without paid employees, 2007 ($1,000)	Number of firms with or without paid employees, 2002 (number)	Receipts for firms with or without paid employees, 2002 ($1,000)	Net change in number of firms with or without paid employees, 2002 to 2007 (number)	Net change in receipts for firms with or without paid employees, 2002 to 2007 ($1,000)	Percent change in number of firms with or without paid employees, 2002 to 2007	Percent change in receipts for firms with or without paid employees, 2002 to 2007
Whites	22,600,357	10,269,671,524	19,899,839	8,277,812,084	2,700,518	1,991,859,440	13.6	24.1
All Minorities	5,762,940	1,028,594,858	3,958,610	661,148,403	1,804,330	367,446,455	45.6	55.6
African Americans	1,921,907	137,448,331	1,197,567	88,641,608	724,340	48,806,723	60.5	55.1
Hispanics	2,259,857	345,181,639	1,573,464	221,927,425	686,393	123,254,214	43.6	55.5
Asian	1,552,505	513,871,225	1,103,587	326,663,445	448,918	187,207,780	40.7	57.3
Women	7,793,425	1,192,780,668	6,489,259	939,538,208	1,304,166	253,242,460	20.1	27.0

Source: Bureau of Census, 2007 Survey of Business Owners, Reported in winter of 2010

Table 5. 10 States with the Greatest Percent Change in the Number of All Small Businesses

Geographic area	Number of firms with or without paid employees, 2007 (number)	Receipts for firms with or without paid employees, 2007 ($1,000)	Number of firms with or without paid employees, 2002 (number)	Receipts for firms with or without paid employees, 2002 ($1,000)	Net change in number of firms with or without paid employees, 2002 to 2007 (number)	Net change in receipts for firms with or without paid employees, 2002 to 2007 ($1,000)	Percent change in number of firms with or without paid employees, 2002 to 2007	Percent change in receipts for firms with or without paid employees, 2002 to 2007
USA	27,110,362	30,181,460,789	22,974,655	22,603,658,904	4,135,707	7,577,801,885	18.0	33.5
Georgia	901,626	925,336,735	674,521	738,945,018	227,105	186,391,717	33.7	25.2
Florida	2,010,406	1,470,112,023	1,539,207	1,075,802,198	471,199	394,309,825	30.6	36.7
Nevada	221,423	224,599,685	169,505	147,619,543	51,918	76,980,142	30.6	52.1
Arizona	491,788	494,371,595	381,180	326,396,374	110,608	167,975,221	29.0	51.5
Utah	246,538	237,571,323	193,003	145,817,597	53,535	91,753,726	27.7	62.9
Texas	2,166,131	2,641,700,464	1,734,509	1,811,698,766	431,622	830,001,698	24.9	45.8
Idaho	151,728	124,507,516	121,560	72,736,482	30,168	51,771,034	24.8	71.2
North Carolina	799,346	820,099,630	642,597	603,836,436	156,749	216,263,194	24.4	35.8
Alabama	382,628	408,974,217	309,544	266,638,167	73,084	142,336,050	23.6	53.4

Table 6. 10 States with the Greatest Percentage Change in the Number of All Minority-Owned Businesses

All Minority Owned Firms for States with 5,000 or More in 2007 Geographic area	Number of firms with or without paid employees, 2007 (number)	Receipts for firms with or without paid employees, 2007 ($1,000)	Number of firms with or without paid employees, 2002 (number)	Receipts for firms with or without paid employees, 2002 ($1,000)	Net change in number of firms with or without paid employees, 2002 to 2007 (number)	Net change in receipts for firms with or without paid employees, 2002 to 2007 ($1,000)	Percent change in number of firms with or without paid employees, 2002 to 2007	Percent change in receipts for firms with or without paid employees, 2002 to 2007
Georgia	263,439	30,666,047	137,678	18,193,142	125,761	12,472,905	91.3	68.6
Nevada	45,588	8,633,841	24,318	4,298,224	21,270	4,335,617	87.5	100.9
Alabama	70,556	6,591,274	38,228	4,353,604	32,328	2,237,670	84.6	51.4
North Carolina	131,826	16,371,562	79,303	9,363,646	52,523	7,007,916	66.2	74.8
Florida	680,263	102,061,263	409,604	58,138,447	270,659	43,922,816	66.1	75.5
Tennessee	68,401	9,174,961	41,276	5,567,595	27,125	3,607,366	65.7	64.8
Pennsylvania	96,578	19,041,025	59,064	10,919,520	37,514	8,121,505	63.5	74.4
Utah	16,089	3,280,195	9,857	1,660,578	6,232	1,619,617	63.2	97.5
Delaware	11,369	2,012,823	7,159	D	4,210	D	58.8	D
United States	5,762,940	1,028,594,858	3,958,610	661,148,403	1,804,330	367,446,455	45.6	55.6

Table 7. 10 States with the Greatest Percentage Change in the Number of African American Owned Firms

African American Firms Geographic area (States with more than 5000 firms in 2007)	Number of firms with or without paid employees, 2007 (number)	Receipts for firms with or without paid employees, 2007 ($1,000)	Number of firms with or without paid employees, 2002 (number)	Receipts for firms with or without paid employees, 2002 ($1,000)	Net change in number of firms with or without paid employees, 2002 to 2007 (number)	Net change in receipts for firms with or without paid employees, 2002 to 2007 ($1,000)	Percent change in number of firms with or without paid employees, 2002 to 2007	Percent change in receipts for firms with or without paid employees, 2002 to 2007
Georgia	183,876	8,882,649	90,461	5,664,651	93,415	3,217,998	103.3	56.8
Nevada	8,671	1,138,954	4,343	433,711	4,328	705,243	99.7	162.6
Alabama	56,702	2,149,726	28,666	1,651,017	28,036	498,709	97.8	30.2
Pennsylvania	44,710	3,540,492	24,757	2,117,924	19,953	1,422,568	80.6	67.2
Florida	181,469	10,657,968	102,053	5,721,314	79,416	4,936,654	77.8	86.3
Texas	154,255	9,287,359	88,768	6,419,477	65,487	2,867,882	73.8	44.7
Tennessee	45,762	3,000,850	26,811	1,755,025	18,951	1,245,825	70.7	71.0
Wisconsin	11,275	978,175	6,685	633,444	4,590	344,731	68.7	54.4
New Jersey	60,366	4,354,427	36,280	3,201,827	24,086	1,152,600	66.4	36.0
United States	1,921,907	137,448,331	1,197,567	88,641,608	724,340	48,806,723	60.5	55.1

Table 8. 10 States with the Greatest Percentage Change in the Number of Hispanic Owned Firms

Hispanic Firms for States with 5,000 or more firms in 2007 Geographic area	Number of firms with or without paid employees, 2007 (number)	Receipts for firms with or without paid employees, 2007 ($1,000)	Number of firms with or without paid employees, 2002 (number)	Receipts for firms with or without paid employees, 2002 ($1,000)	Net change in number of firms with or without paid employees, 2002 to 2007 (number)	Net change in receipts for firms with or without paid employees, 2002 to 2007 ($1,000)	Percent change in number of firms with or without paid employees, 2002 to 2007	Percent change in receipts for firms with or without paid employees, 2002 to 2007
Arkansas	5,457	691,337	2,094	373,797	3,363	317,540	160.6	84.9
North Carolina	21,277	4,183,273	9,043	1,789,068	12,234	2,394,205	135.3	133.8
Pennsylvania	22,797	3,278,721	11,023	1,728,956	11,774	1,549,765	106.8	89.6
Tennessee	8,718	1,796,950	4,301	1,004,389	4,417	792,561	102.7	78.9
South Carolina	5,965	1,782,498	3,015	691,372	2,950	1,091,126	97.8	157.8
Nevada	18,022	3,147,383	9,741	1,642,933	8,281	1,504,450	85.0	91.6
Oregon	11,332	1,667,148	6,360	1,416,236	4,972	250,912	78.2	17.7
Utah	9,221	1,318,383	5,177	555,077	4,044	763,306	78.1	137.5
Georgia	32,590	6,024,855	18,310	4,200,106	14,280	1,824,749	78.0	43.4
United States	2,259,857	345,181,639	1,573,464	221,927,425	686,393	123,254,214	43.6	55.5

Table 9. 10 States with the Greatest Percentage Change in the Number of Asian Owned Businesses

Asian Owned Firms for States with 5,000 or more in 2007 Geographic area	Number of firms with or without paid employees, 2007 (number)	Receipts for firms with or without paid employees, 2007 ($1,000)	Number of firms with or without paid employees, 2002 (number)	Receipts for firms with or without paid employees, 2002 ($1,000)	Net change in number of firms with or without paid employees, 2002 to 2007 (number)	Net change in receipts for firms with or without paid employees, 2002 to 2007 ($1,000)	Percent change in number of firms with or without paid employees, 2002 to 2007	Percent change in receipts for firms with or without paid employees, 2002 to 2007
Nevada	17,560	3,886,619	8,872	1,988,575	8,688	1,898,044	97.9	95.4
Georgia	46,252	14,685,419	26,925	7,983,702	19,327	6,701,717	71.8	83.9
Kentucky	5,559	2,086,769	3,236	1,362,528	2,323	724,241	71.8	53.2
Alabama	6,949	2,685,578	4,270	1,491,209	2,679	1,194,369	62.7	80.1
Arizona	16,380	4,594,730	10,215	2,395,790	6,165	2,198,940	60.4	91.8
Florida	65,167	17,655,731	41,258	11,221,605	23,909	6,434,126	57.9	57.3
Tennessee	11,238	3,591,517	7,241	2,182,650	3,997	1,408,867	55.2	64.5
Connecticut	11,115	3,434,000	7,170	1,862,697	3,945	1,571,303	55.0	84.4
Missouri	9,774	3,664,761	6,376	1,883,002	3,398	1,781,759	53.3	94.6
United States	1,552,505	513,871,225	1,103,587	326,663,445	448,918	187,207,780	40.7	57.3

Table 10. 10 States with the Greatest Percentage Change in the Number of Women Owned Firms

Women Owned Firms Geographic area	Number of firms with or without paid employees, 2007 (number)	Receipts for firms with or without paid employees, 2007 ($1,000)	Number of firms with or without paid employees, 2002 (number)	Receipts for firms with or without paid employees, 2002 ($1,000)	Net change in number of firms with or without paid employees, 2002 to 2007 (number)	Net change in receipts for firms with or without paid employees, 2002 to 2007 ($1,000)	Percent change in number of firms with or without paid employees, 2002 to 2007	Percent change in receipts for firms with or without paid employees, 2002 to 2007
Georgia	278,250	40,539,891	196,195	30,026,706	82,055	10,513,185	41.8	35.0
Nevada	63,363	12,479,077	47,675	8,643,138	15,688	3,835,939	32.9	44.4
Florida	581,026	78,669,178	437,355	61,275,106	143,671	17,394,072	32.8	28.4
Alabama	107,531	14,838,512	81,821	11,435,046	25,710	3,403,466	31.4	29.8
Texas	610,279	96,752,101	468,705	65,817,396	141,574	30,934,705	30.2	47.0
North Carolina	225,503	31,950,707	173,874	26,743,381	51,629	5,207,326	29.7	19.5
South Carolina	99,468	13,957,974	76,831	10,890,936	22,637	3,067,038	29.5	28.2
Mississippi	60,849	8,382,425	47,102	6,728,498	13,747	1,653,927	29.2	24.6
Utah	61,463	8,003,290	48,475	5,920,242	12,988	2,083,048	26.8	35.2
United States	7,793,425	1,192,780,668	6,489,259	939,538,208	1,304,166	253,242,460	20.1	27.0

Table 11. States with the Greatest Percentage Change of White Owned Businesses

Businesses Owned by Whites Geographic area	Number of firms with or without paid employees, 2007 (number)	Receipts for firms with or without paid employees, 2007 ($1,000)	Number of firms with or without paid employees, 2002 (number)	Receipts for firms with or without paid employees, 2002 ($1,000)	Net change in number of firms with or without paid employees, 2002 to 2007 (number)	Net change in receipts for firms with or without paid employees, 2002 to 2007 ($1,000)	Percent change in number of firms with or without paid employees, 2002 to 2007	Percent change in receipts for firms with or without paid employees, 2002 to 2007
Arizona	436,353	181,686,072	345,068	134,675,872	91,285	47,010,200	26.5	34.9
Utah	227,322	96,603,041	180,426	61,684,847	46,896	34,918,194	26.0	56.6
Florida	1,695,123	592,140,206	1,354,382	456,967,532	340,741	135,172,674	25.2	29.6
Idaho	142,397	51,403,308	114,551	35,872,691	27,846	15,530,617	24.3	43.3
Nevada	180,899	95,066,701	146,935	66,593,089	33,964	28,473,612	23.1	42.8
Texas	1,822,851	800,276,738	1,514,575	593,295,237	308,276	206,981,501	20.4	34.9
South Carolina	296,246	129,511,849	247,252	96,215,499	48,994	33,296,350	19.8	34.6
Hawaii	55,374	19,572,936	46,262	17,043,162	9,112	2,529,774	19.7	14.8
Georgia	642,087	315,370,874	537,132	244,208,440	104,955	71,162,434	19.5	29.1
United States	22,600,357	10,269,671,524	19,899,839	8,277,812,084	2,700,518	1,991,859,440	13.6	24.1

Table 12. Revenue Thresholds for Minority-Owned Firms, 2010

Revenue Thresholds for Minority-Owned Firms, 2010

	REVENUE_2010					
	Number	**%**	**Percentile 25**	**Median**	**Percentile 75**	**Percentile 95**
Asian Pacific Americans	607	6.2%	$500,000	$1,327,997	$4,000,000	$19,588,997
Black Americans	1148	11.8%	$250,000	$650,000	$2,000,000	$11,438,000
Hispanic Americans	931	9.5%	$450,000	$1,250,000	$3,850,000	$18,022,161
Native Americans	439	4.5%	$595,838	$1,800,000	$6,363,054	$36,000,000
Subcontinent Asian Americans	424	4.3%	$500,000	$1,100,000	$3,000,000	$21,000,000
Non-Minority Owners	6209	63.6%	$500,000	$1,500,000	$4,500,000	$25,378,000
Total	9758	100.0%	$500,000	$1,300,000	$4,000,000	$22,973,652