



State of Black Business

AUGUST 2022 REPORT

In partnership with:








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A photograph of two Black women sitting and talking. The woman on the left is seen in profile, facing right, with her hair in a bun. The woman on the right is facing forward, wearing glasses and a light-colored cardigan over a white top. The background is slightly blurred, showing some indoor plants and a wall-mounted calendar. The entire image has a blue tint.

“... the pandemic also brought to the forefront the issue of disparity around access to capital between Black-owned businesses and the overall business community.”

Introduction

Black Arizonans are employers, innovators, consumers and taxpayers who contribute to Arizona's culture, growth and economy. The Black/African American population in Arizona is a small percentage of the state's population but as outlined in the first State of Black Business report, it is a significant contributor to its economy.

Due to the impact of the pandemic, new data for many of the indicators in the previous State of Black Business Report are not available or incomplete. However, the pandemic also brought to the forefront the issue of disparity around access to capital between Black-owned businesses and the overall business community. This report focuses on the data and solutions to address this issue.

This report uses several data sources to evaluate the state of Arizona's Black/African American access to capital. Data on entrepreneurship were obtained from Kauffman Foundation's Early-Stage Entrepreneurship in the United States, the Brookings Institution's *Black-owned businesses in U.S cities: The challenges, solutions and opportunities for prosperity*, and the Federal Reserve's Small Business Credit Survey. Capital data were obtained from the GoDaddy Venture Forward Phoenix Market Survey, Census Bureau Annual Business Survey and Crunchbase's Diversity Spotlight Initiative. Data on undercapitalization were from Congressional Black Caucus Foundation and GoDaddy Venture Forward Phoenix Market Survey.



Black-Owned Business Spotlight:

Chic Chef Co.

Phoenix, Arizona

Chic Chef Co. specializes in gourmet olive oils, specialty spice blends, vinegar, sauces, chef boxes and more.

chicchefco.com

Entrepreneurship

Black people are overwhelmingly under-represented in U.S. entrepreneurship. As of 2021, they have the lowest entrepreneurship rates of any single race and ethnicity in the U.S., averaging just 0.23% since 1996



Black-Owned Business Spotlight:

Nanny's Chicken

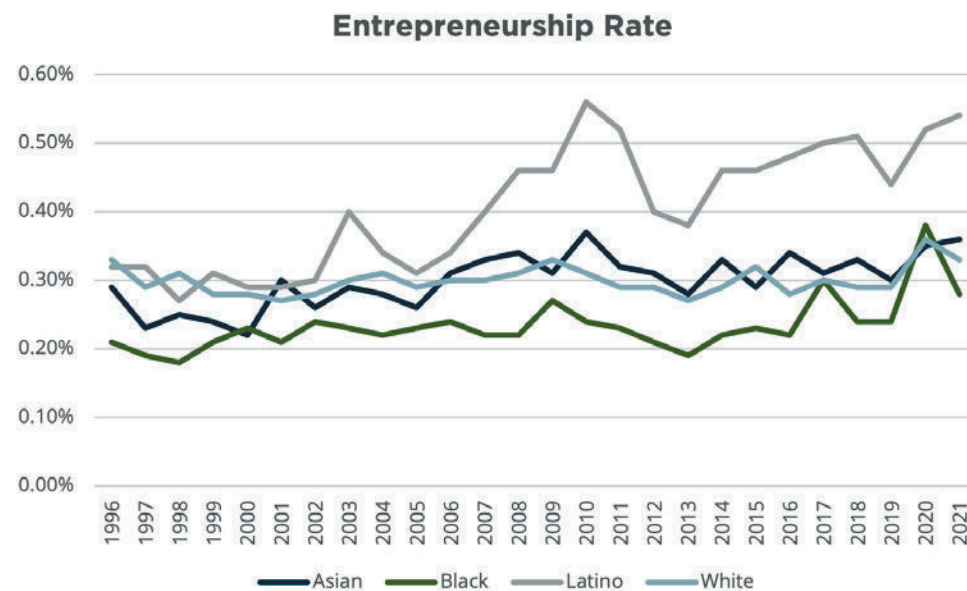
Phoenix, Arizona

For years Andrea Nebors and her husband traveled across the Valley in their popular food truck serving hot fried fish, chicken shrimp, and more. Now, Nanny's Chicken opened their first restaurant in Downtown Phoenix.

nannys-chicken.square.site

compared to 0.41% of Hispanic Americans and 0.30% of White and Asian Americans. However, entrepreneurship rates have increased slightly since the pandemic, with Black Americans having entrepreneurship rates of 0.38% in 2020 and 0.28% in 2021.

Black entrepreneurs have the lowest opportunity share — meaning they are more likely to start a business out of necessity (i.e., unemployment) rather than opportunity — of any single race or ethnicity.



Source: Kauffman Foundation, National Report on Early-Stage Entrepreneurship in the United States: 2021

A Brookings Metro report on Black-owned businesses ⁱ shows that there are currently 1,019 Black-owned firms in Greater Phoenix which accounts for 1% of employer firms in the region. If Black-owned businesses reached parity with the population there would be 4,945 more businesses in the region. Black businesses create an average of 9 jobs per firm, compared to 24 jobs for all businesses. If the average number of employees per black business reach parity, it would create approximately 15,133 new jobs in the metro area. Over 132,000 jobs would be created if the number of Black-owned businesses and the average size reached population parity.

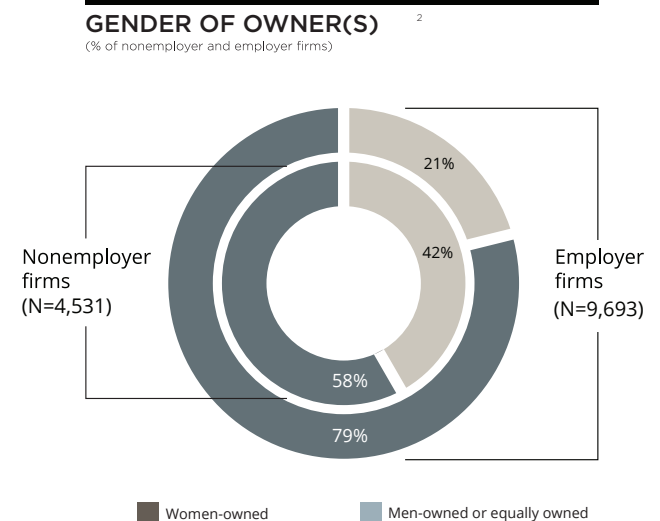
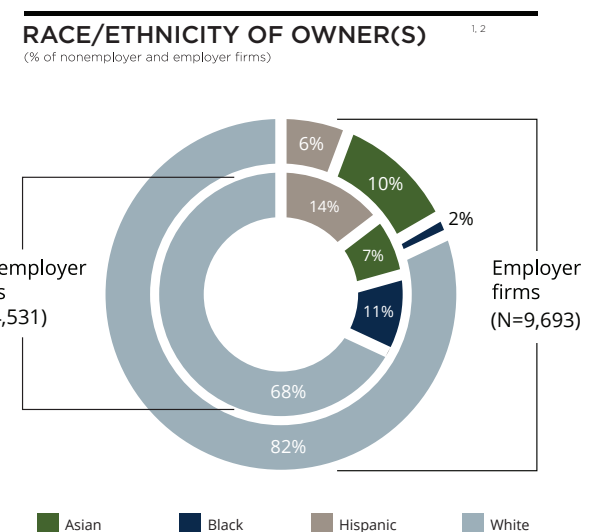
The report also indicates that Black-owned businesses are much more likely to be sole proprietorships. In 2019, only 4.1% of Black-owned firms had employees, compared to 19% of White-owned businesses nationally. Increasing the share of

Black-owned firms with employees to equal the population would result in 798,318 more businesses.

The Small Business Credit Survey conducted by the Federal Reserve showed similar results. This is a national representation of firms classified by sole-proprietorships (nonemployer firms) and employer firms. An analysis of these businesses shows that a higher percentage of Black-owned businesses are sole-proprietorships compared to Asian-owned businesses and Hispanic-owned businesses. This data presents an opportunity for future analysis on needed resources to help sole proprietorships bridge the gap to becoming employer firms.

Footnote:

i. Brookings Institution; Black-owned businesses in U.S cities: The challenges, solutions and opportunities for prosperity; February 2022



Source: Small Business Credit Survey | 2021

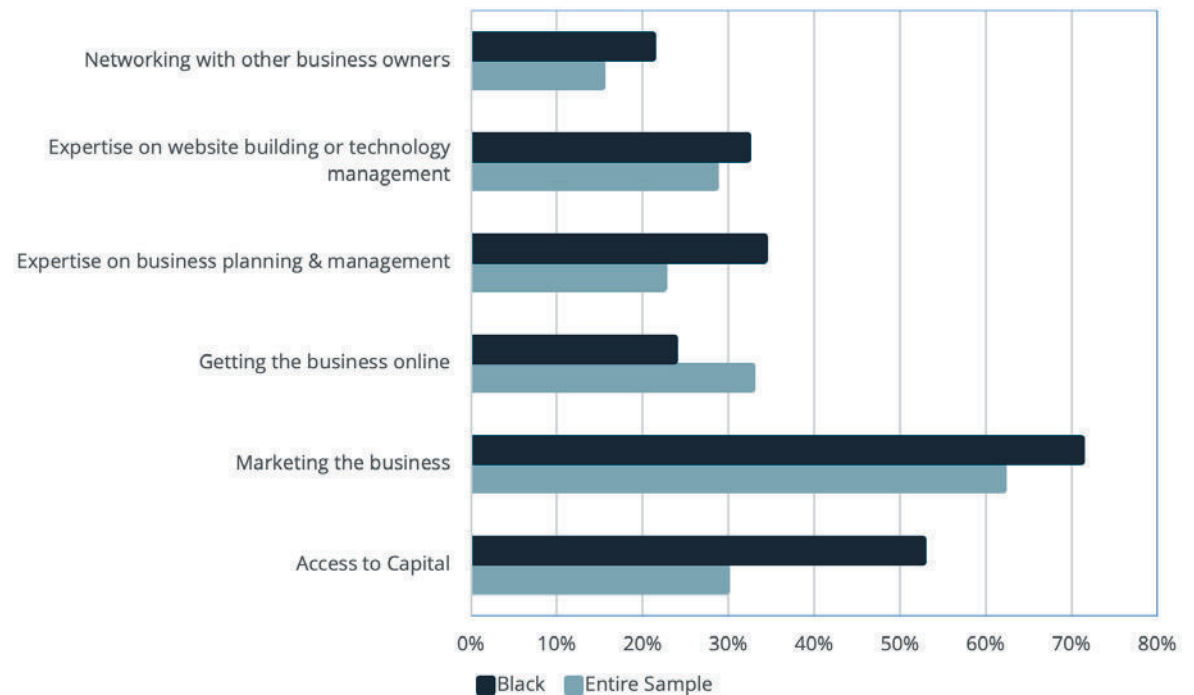


Access to Capital

The concept of access to capital can be simply defined as an applicant's ability to obtain funding based on the security of the revenues to be pledged, the general financial condition of the applicant and other factors outside of the applicant's control.

The following chart outlines some of the challenges small businesses faced when they first launched. Research indicates that Black entrepreneurs have had less access to capital compared to other small businesses in the Phoenix metro.

Challenges Faced By Businesses When They Were Launched



Source: GoVaddy Venture Forward Phoenix Market Survey June 2022

An analysis of Crunchbase data shows 1,485 Black-founded and Black-led startups receiving funding since 1996, totaling over \$17 billion in equity. Just 55% of companies had reported funding, but the median funding amount of these businesses was \$2.2 million, with the largest valuation surpassing \$1.5 billion. Over 30% of these funded companies are based in California and another 17% are in New York. Just seven of these 1,485 companies are based in Arizona and their funding amounts were not reported.

According to the Census Bureau Annual Business Survey, 10.9% of Black or African American-owned businesses received \$1M or more during the coronavirus pandemic, compared to 8.2% for White-owned businesses, 7.0% for Native American-owned businesses, 9.3% for Asian-owned businesses, 10.9% for Pacific Islander-owned businesses, and 10.2% for Hispanic-owned businesses.

Black-Owned Business Spotlight:

Straw and Wool

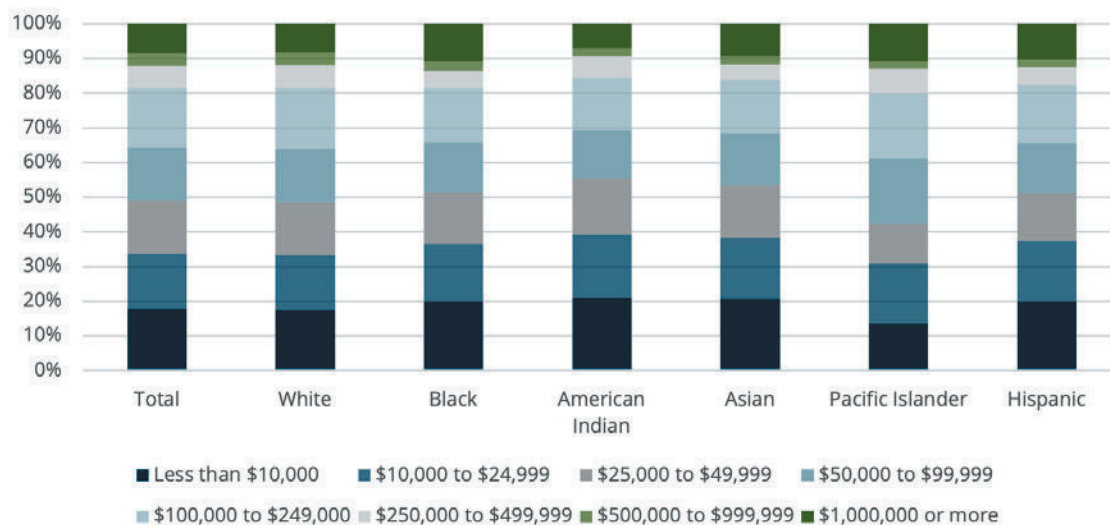
Phoenix, Arizona

Straw and Wool's mission is to bring a sense of style and pride to Downtown Phoenix and beyond, with quality headwear and accessories.

strawandwool.com



% of Employer Firms Receiving Government Assistance During the Pandemic



Source: Census Bureau Annual Business Survey, 2020

Undercapitalization

Undercapitalization refers to any situation where a business cannot acquire the funds they need or cannot afford operational expenses due to lack of capital, or is over-exposed to risk. It could also indicate a situation where a business may be financially sound but doesn't have the funds required to expand to meet market demand.

Undercapitalized businesses translate to lower sales, lower profits and lower employment rates, hence more likely to fail than businesses receiving optimal levels of startup capital. Blacks and Hispanics are about twice as likely as Whites and Asians to start their businesses with less than \$10,000 in capital. The level of startup capital is a strong predictor of business success.ⁱ Studies done by Bates, 1997 and Fairlie and Robb, 2008 show that the level of startup capital is a strong predictor of business success; also, Asian firms are found to have higher startup capital levels and resulting business outcomes.ⁱⁱ

“Blacks and Hispanics are about twice as likely to start their businesses with less than \$10,000 in financial capital, compared with whites and Asians.”

and had to tap into personal credit cards to fund their businesses 17.6% of the time compared to 10.3% for white Americans during the COVID-19 pandemic.

The chart on the following page is a granular representation of microbusinesses in the Phoenix area, and their sources of capital in 2021.

Black-Owned Business Spotlight:

Stardust & Sage

Phoenix, Arizona

Owned by Havana Hunt, the store also carries a variety of crystals, candles, smoke cleansing sticks, and spiritual colognes.

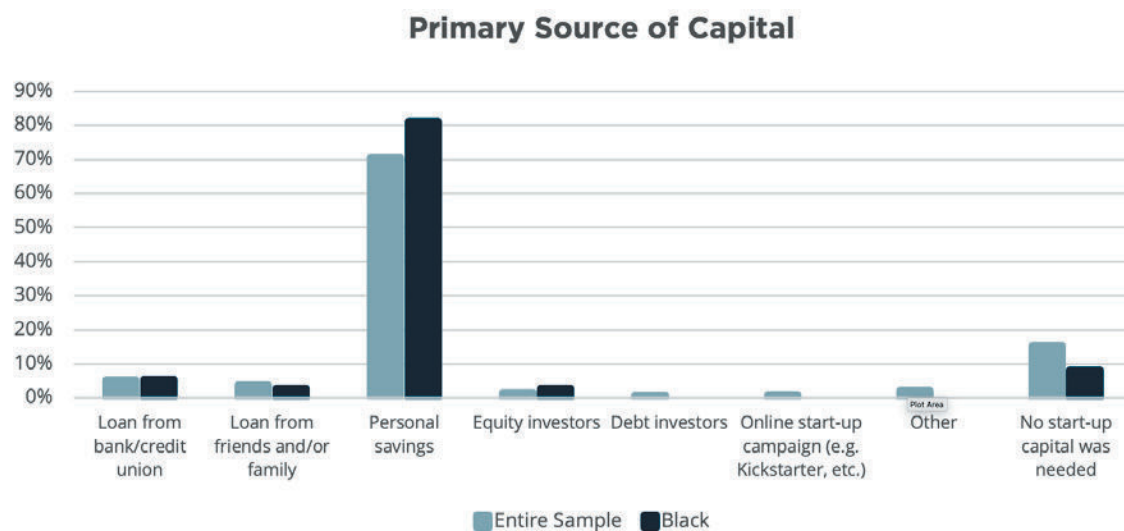
stardustandsage.com



According to the Congressional Black Caucus Foundation, Black Americans are more likely to rely on personal savings to fund their entrepreneurial endeavors

Footnotes:

- i. Race and Entrepreneurial Success: Black-, Asian-, and White-Owned Businesses in the United States by Robert W. Fairlie & Alicia M. Robb, 2008
- ii. Financing small business creation: The case of Chinese and Korean immigrant entrepreneurs by Timothy Bates, 1997



Low levels of wealth and liquidity constraints can create substantial barriers to entry for would-be entrepreneurs because the owner's wealth can be invested directly in the business, used as collateral to obtain business loans, or used to acquire other businesses. Inequalities in personal wealth could translate into disparities in business creation and ownership.

Disparities in creditworthiness constrain Black entrepreneurs but perceptions of treatment by banks also hold them back. Black entrepreneurs apply for loans less often than white entrepreneurs largely because they expect to be denied credit, even when they have a good credit history and in settings where strong local banks favor new Business development.



Black-Owned Business Spotlight:

Grassrootz Books and Juice Bar

Phoenix, Arizona



Grassrootz Books and Juice Bar is filled with shelves and shelves of books by Black authors and on the Black experience, it's also home to a juice bar and coworking space where community members can host meetings and events.

grassrootzbookstore.com

Programs & Institutions

Working with Black Business Owners

Various Black-owned banks aim to combat the wealth disparity gap through community development lending which involves offering financial literacy workshops for community members.

Arizona Programs

S.E.E. M.E. (Social and Economic Equity for Minority Enterprises)

S.E.E. M.E. was launched by ARG Cultivators Community as part of the Social Justice Project established by Black Philanthropy Initiative (BPI). It was the first and largest known grant in Arizona's history dedicated to the growth and development of Black-owned businesses. BPI partnered with

ARG Cultivators Community to develop an 18-month program that supports, tracks, and elevates a small cohort of companies. Out of the 50 entrepreneurs who applied for the program, 20 were chosen to participate and received a \$16,500 investment in their businesses. During the first six weeks of the program, participants attended a business accelerator

and developed a two-year business plan. The program organizers continue to follow the cohort and provide support for 18 months as they apply what they learned, participate in monthly mastermind sessions, and root each other on.

UPI Loan Fund

The UPI Loan Fund (UPILF) a division of Unified Progress International (UPI) Education is the first African American-established and African American-led Community Development Loan Fund (CDLF) and emerging Community Development Financial Institution (CDFI) within the state of Arizona. Their mission is to provide structural financial education, unparalleled service, and a variety of top-quality loan options and products at affordable interest rates, including, under certain circumstances, “no-interest” rates (like the Jewish Free Loan). Their initial focus is to provide consumer and personal loans, as they expand toward providing community business and real estate loans. The UPI Loan Fund aims to help with healthcare expenses, criminal justice costs, educational and job-related expenses, including emergency expenses that can sabotage everyday life.

Foresight Foundation

Foresight Foundation for Economic Equity is a Black/African American organization seeking to serve minority business enterprises with the ability to offer larger-than-average financial opportunities and transactions. Foresight intends to use federal programming to leverage investment into businesses, service agencies and other organizations in underserved communities to generate measurable social and environmental impact, alongside financial return, in the following minority business verticals: education, healthcare, loan terms and technical assistance.

Small Business Association (SBA) Arizona

SBA is committed to supporting the development and growth of minority-owned small businesses and entrepreneurs from underserved communities.



National Models of Consideration

The below are programs that have been initiated in different parts of the US and can be used as examples of programs that could be implemented in the Greater Phoenix market.

OneTransaction Program

OneTransaction offers customers methods to build wealth through six business loan and personal banking alternatives — for homes, investments, savings accounts, and insurance. This program is a result of OneUnited Bank, the largest Black-owned bank in the U.S., partnering with Lendistry, a black-owned financial technology company to offer business loans ranging from \$50,000 to \$5 million to help Black entrepreneurs maintain working capital and build wealth.

Chicago & Detroit Entrepreneurs of Color Fund

Fifth Third Bank, JP Morgan Chase, the Kellogg Foundation, Detroit Development Fund, and others partnered with Accion Chicago and LISC (Local Initiatives Support

Corporation) to provide a fund for Black entrepreneurs in Chicago's South and West side neighborhoods to gain access to affordable working capital, training, and technical services. Eligible Black-owned businesses can be in the startup phase or already existing status. Accion Chicago provides loan capital up to \$100,000 while LISC Chicago will provide loans between \$100,000 and \$ 500,000. The capital encourages the revitalization of these and other underserved neighborhoods through commercial and small business development.

Path to 15 | 55

This Initiative endeavors to grow the percentage of Black-owned employer firms. This is a collaboration with five key action groups: high net worth individuals, financial institutions, political leaders, and philanthropic

investors, focused on growing existing businesses, investing in interconnected systems, and transforming how business owners and investors view and value existing assets in the Black community to drive growth.

Fintech Companies

Fintech companies provide a new resource for the Black community to build wealth. Research from Brookings Institution finds that fintech companies can mitigate gaps in financial equity between races, using technology to reduce costs and increase access for underserved populations in banking, money management, lending and investing. Groups like Vested are tracking these programs and companies, sharing resources currently available in this space.

Recommendations

The first State of Black Business report included recommendations to close the disparity gap and provide expanded opportunities that will grow Arizona as a whole. Some of these recommendations are already being implemented such as the creation of a comprehensive directory of Black-owned businesses and support for businesses through increased resources. This report builds on the recommendations of the first report to further address the inequalities in business ownership revealed by the data.

- Increase access to startup capital: Studies show the higher amount of startup capital, the higher likelihood of better business outcomes. Implementing programs like the ones mentioned previously on a larger scale or bringing national programs in-market will increase opportunities for Black-owned businesses to access startup capital.

- Generate new venture funding opportunities: As the data in the report showed, only five Black-owned businesses have received venture capital funding in Arizona. Greater Phoenix has a highly connected business community and a culture of inclusion. Business leaders can make a concerted effort to draw venture capital funding in from outside the state, making it more accessible to Black business owners.
- Terms of credit for Black-owned businesses: According to studies done by Bostic and Lampani, 1999; Cavaluzzo and Cavaluzzo, 1998; Cole, 1996; Bates, 1991, there are racial differences in credit risk.ⁱ Minority-owned firms have experienced higher loan denial probabilities and paid higher interest rates than White-owned businesses. Financial literacy training, wealth building and better access to affordable credit options will close the gap in credit risk. Additionally, programs should target young firms since credit

risk becomes less important as firms age and have an associated revenue history.

- Close the financial institution gap: Community Development Financial Institutions (CDFI) provide a needed source of funding for small and micro businesses. Banks partnering with CDFIs to better match borrowers with lenders that have a mission to lend capital to Black-owned businesses would begin to close some of the financial opportunity gaps. CDFIs should also conduct outreach to businesses with growth potential to connect them with capital opportunities.

Footnote:

- i. Racial differences in patterns of small business Finance : The importance of local geography by Raphael W. Bostic & K. Patrick Lampani, 1999

Black-Owned Business Spotlight:



Andy's Shoe Shine

Phoenix, Arizona

Whether you need your shoes shined, a stiletto repaired, or your shoe re-soled, Andy and Grace can help you out, and they always do it with a smile.

andysshoeshine.business.site



Buy Black Marketplace

Phoenix, Arizona

The Marketplace features many products from Black-owned businesses in Phoenix, including art, jewelry, clothing, beauty products, food and more.

archwoodexchange.com



Lo-Lo's Chicken & Waffles

4 Arizona Locations

Lo-Lo's has been a staple in the Phoenix food scene for more than 22 years. Named after Lo-Lo (Larry) White, grandson of the same Mrs. White with the Golden Rule Cafe.

loloschickenandwaffles.com



Brownstone Spa

Phoenix, Arizona

Brownstone Spa is the spot to escape your everyday stresses and emerge with rejuvenated skin.

brownstone-spa.com



Hustle PHX

Phoenix, Arizona

A nonprofit focused on counseling and promoting Phoenix entrepreneurs outside the mainstream lines of support to launch their business.

hustlephx.com



Onyx Sweet Shoppe

Phoenix, Arizona

Family-owned and operated shop with a plethora of decadent yet healthful treats, including many vegan options.

theonyxsweetshoppe.com

Acknowledgments

The State of Black Arizona is committed to increasing awareness through providing trusted data to expand opportunities for Black entrepreneurs and businesses. We want to thank everyone who contributed time, energy and resources to make this report a reality. In particular we would like to acknowledge the following:

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Inform. Collabo



rate. Empower.

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