



2024

# The Impact of Diverse Small Business

Trends and Insights - Executive Summary



# Acknowledgments

Thank you to our sponsors



## Project Conveners



The CalAsian Chamber was founded in 2010 to give a voice to the more than 746,000 AA-PI-owned businesses in California. Today, CalAsian is the largest statewide ethnic chamber in the state and operates three federal business centers, dozens of programs providing technical and financial assistance to small businesses, and a foundation offering leadership and workforce development programs.

Learn more at [calasiancc.org](http://calasiancc.org)

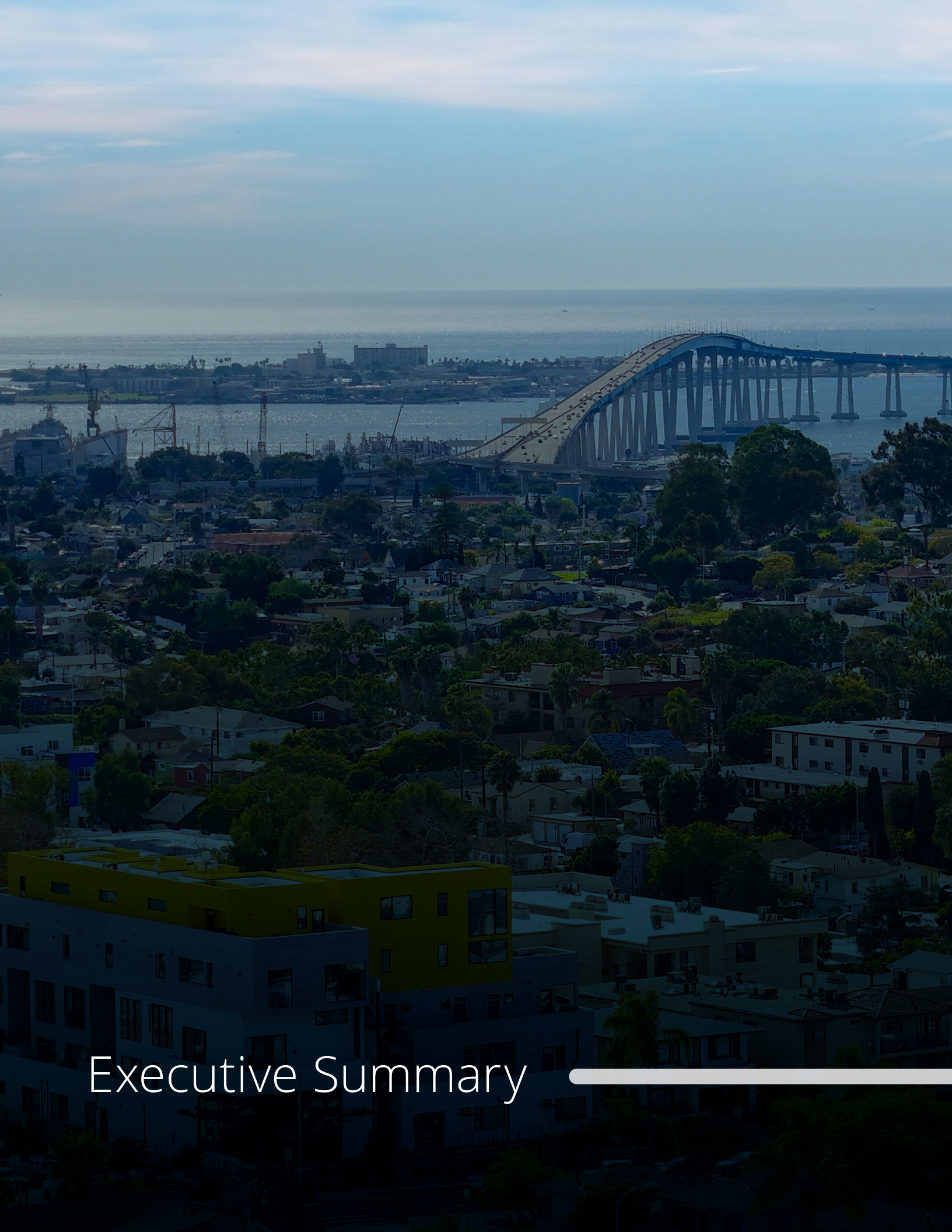
As California's largest statewide African American chamber organization, the group's mission is to drive economic opportunity and wealth creation for African American businesses, connect, and harness the collective strength of a statewide network of member organizations to elevate the fiscal health of the community.

Learn more at [calaacc.org](http://calaacc.org)

The CHCC, through its network of over 125 local Hispanic chambers and diverse trade associations, represents the interest of over 815,000 Hispanic businesses in California. For over forty years, the CHCC has served as the nation's leading regional Hispanic business organization. The CHCC works to bring the issues and needs of Hispanic-owned businesses to the forefront of the California and national economic agendas.

Learn more at [cahcc.com](http://cahcc.com)






# Executive Summary

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The promise of California's economic prosperity is intertwined with the success of its minority-owned small businesses. These companies are fundamental to the Golden State's economy, constituting 1.9M, or almost half, of the state's 4.1M businesses. Yet, these companies face long odds. Proportionally, there are fewer minority-led firms in California than in other peer states, and they face formidable barriers to sustainability and growth.

“ [Minority Owned Small Businesses] are fundamental to the Golden State's economy, constituting 1.9M, almost half, of the state's 4.1M businesses

This report builds on pioneering research commissioned by the California Office of Small Business Advocate (CalOSBA) focused on the economic, fiscal, and community impact of minority-owned small businesses (MOSB).<sup>1</sup> This research combines a series of complex datasets to provide the most detailed and in-depth analysis on California MOSB that has been conducted to date. The CalOSBA report, released last year, measured the substantial contribution MOSB's make on the state's economy, calculating their economic and fiscal impact for the first time. This report not only dives deeper into that analysis, but it includes multiple years of data, and takes the research a step further to examine the barriers MOSB face and policies that could support them.

The figures in this report are the most detailed estimates of California's minority-owned small businesses currently available. They are constructed from the American Community Survey, the American Business Survey, the Nonemployer Statistics by Demographics dataset, from the United States Census Bureau, the Bureau of Economic Analysis, and a handful of other data sources. This research was commissioned by the CalAsian Chamber of Commerce, California African American Chamber of Commerce, and the California Hispanic Chambers of Commerce, and was underwritten by Kaiser Permanente and SoCalGas and SDGE.

1 “The State of Diverse of Businesses in California.” <https://calosba.ca.gov/about/publications/>

One finding that repeatedly emerged from the data was the fact that there are large differences within the MOSB population, and that different policy solutions will apply to each of these groups in a different way. Thus, it is important to take into account the nuances within MOSB groups. For example, 87% of MOSB are “nonemployer” firms, meaning that only the owner works for the company. These firms face very different circumstances than small “employer firms,” who employ less than 20 people, especially as it relates to being approved for loans and gaining access to capital.

“ If California's minority-owned small businesses were their own state, their economies would be larger than Oregon and South Carolina.

There are also significant differences based on what industry the MOSB is in. Firms offering Professional Services face very different challenges than those in Construction or Healthcare. Asian-owned firms are more likely to be in Professional Services, whereas Hispanic-owned firms are more likely to be in Construction. This report provides details on these sub-groups so that policy makers can craft more targeted technical assistance and multifaceted policy approaches.



# Economic Impact

Regardless of their differences, all MOSBs play an important role in the California economy, and this report provides an update on their economic and fiscal impact. Using newly released data and improved econometric modeling methods, Beacon Economics is now able to produce a more accurate and detailed economic impact analysis than in the past. We have found that these firms contribute even more than initially reported. Minority-owned small businesses in California contributed \$443 billion in 2019 to the California economy, and \$414 billion in 2020. This is roughly 8% of the state’s total output. Moreover, these businesses support 3.6 million jobs each year, equivalent to 15% of total state employment. Their “value added,” an economic term measuring their contribution to gross domestic product (GDP), was \$252 billion in 2020, larger than the economy of 23 other US States. If California’s minority-owned small businesses were their own state, their economies would be larger than Oregon and South Carolina.

## Total California Minority-Owned Small Business Economic Impacts by Type

	Impact Type	Jobs Supported Annually (000s)	Labor Income Supported (\$ Millions)	Value Added Supported (\$ Millions)	Total Economic Output Contribution (\$ Millions)
2019	Direct	2,596	102,001	144,180	228,644
	Indirect	403	32,999	55,994	92,798
	Induced	651	43,326	75,911	122,027
	<b>TOTAL</b>	<b>3,650</b>	<b>178,326</b>	<b>276,085</b>	<b>443,470</b>
2020	Direct	2,628	95,826	131,267	218,260
	Indirect	383	33,425	53,931	88,035
	Induced	570	40,630	67,666	108,060
	<b>TOTAL</b>	<b>3,581</b>	<b>169,881</b>	<b>252,864</b>	<b>414,355</b>

Source: Bureau of Economic Analysis and IMPLAN. Analysis by Beacon Economics.

Due to the impacts of COVID-19, the total economic output impact of MOSBs decreased by 6.6% from 2019 to 2020, and the total employment contribution decreased by 1.9%. Data shows that small businesses are more likely to be in sectors heavily impacted by the pandemic, such as transportation, accommodation, and food services. However, it is worth noting that the number of MOSB stayed the same across these years, while non-minority-owned small businesses decreased by 6%.

### California Business Overview by Race/Ethnicity

Racial/Ethnic Group	Number of Establishments (000s)	
	Year 2019	Year 2020
Asian	742	722
Black/African American	198	197
Hispanic	932	960
Native	25	24
<b>TOTAL MINORITY</b>	<b>1,898</b>	<b>1,903</b>

Source: U.S. Census Bureau American Business Survey and Nonemployer Statistics by Demographics. Analysis by Beacon Economics



# Fiscal Impacts

MOSB have significant positive fiscal impacts at the federal, state, and local level. In total, minority firms generated \$24.5 billion in tax revenue across state and local governments in 2020, and \$25.8 billion in federal tax revenues. Of this total fiscal impact, 74% is attributed to income tax and social insurance tax contributions.

## Total California Minority-Owned Small Business Fiscal Impacts by Tax Type, 2020

Tax Type	State & Local (\$ Millions)	Federal (\$ Millions)	Total (\$ Millions)
Income Tax	5,751	16,819	22,570
Social Insurance Tax	550	14,284	14,834
Sales Tax	7,856	0	7,856
Property Tax	7,416	0	7,416
Corporate Profits Tax	841	2,064	2,904
Other	2,071	-7,410	-5,338
<b>TOTAL</b>	<b>24,485</b>	<b>25,756</b>	<b>50,242</b>

Source: Bureau of Economic Analysis and IMPLAN. Analysis by Beacon Economics.

The total fiscal impact of MOSB decreased by 19% from 2019 to 2020.

## Total California Minority-Owned Small Business Fiscal Impacts by Impact Type

Year	State & Local (\$ Millions)	Federal (\$ Millions)	Total (\$ Millions)
2019	26,695	35,412	62,108
2020	24,485	25,756	50,242

Source: Bureau of Economic Analysis and IMPLAN. Analysis by Beacon Economics.



# MOSB Barriers and Policies

MOSBs remain a source of untapped potential for California. Supporting their growth would translate into significant new job, business, and tax growth across the state. However, our analysis shows MOSBs are having a difficult time scaling and growing when compared to other US states. For instance, California has fewer minority-owned small businesses relative to its population than Florida, New York or Texas.

To help these firms, decision-makers in Sacramento should start measuring them in a systematic way. There is no official metric measuring the health or status of MOSBs, and there is very little data on them in general. Beacon Economics used five different datasets to assemble a basic picture of how minority firms are performing, but even our modeling capabilities are limited because of the coarseness of the data, or its absence. More detailed data collection would enable researchers and policy makers to better understand how MOSBs are fairing today, and what government and private-sector assistance providers can do to help.

## Total Minority-Owned Small Businesses by Industry



Source: U.S. Census Bureau. Analysis by Beacon Economics.

Second, policies and interventions should be targeted based on industry and whether companies have paid employees or not. Examples of these interventions include mentorship programs, incubators, and engaging with local universities or industry leaders. As the previous chart illustrates, MOSBs are spread across a variety of industries..

Third, the fact that the government is a large purchaser of products and services can be leveraged to support MOSB sustainability and growth. This report includes an analysis of government procurement patterns showing which industries governments buy from and compares this to industries where MOSBs are concentrated. Programs that streamline the government procurement process overall and reduce barriers to MOSB participation would benefit government and local firms.

There are currently many programs to help small businesses, such as the California Office of Small Business Advocate, the federal Minority Business Development Agency (MBDA) and Small Business Development Centers (SBDCs), and business and trade organizations to support minority-owned businesses. Additionally, California offers programs to facilitate capital access for minority-owned businesses, such as the Minority-Owned Business Loans. These are all helpful in different ways. However, without systematic measurement of the status of MOSBs through a frequent data collection program, policy makers will find it difficult to use data and evidence to craft effective investments and assistance programs and modify them over time in light of new facts. This is perhaps the first step California should take to support minority-owned small businesses in order to improve their already considerable economic, fiscal, and community contributions across California.



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# About Beacon Economics

Founded in 2007, Beacon Economics, an LLC and certified Small Business Enterprise with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis they need to understand the significance of on-the-ground realities and to make informed business and policy decisions.

Learn more at [beaconecon.com](http://beaconecon.com)

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