

A photograph of two women in business attire, one smiling and looking at the other, overlaid with a teal tint. The woman on the right is holding a pen and looking at a document.

# Facilitating Growth for Minority-owned Businesses

How rethinking supplier diversity and creating results-driven processes will achieve revenue parity



*Presented by*

**The Michigan  
Minority Supplier  
Development  
Council**



and

**supplier.io**

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# Introduction

The **Michigan Minority Supplier Development Council** (MMSDC) is a non-profit 501(c)3 organization committed to driving economic growth within minority communities. MMSDC operates the Department of Commerce's Minority Business Development Agency and Advanced Manufacturing Project Centers serving the state of Michigan and beyond. MMSDC is also one of 23 affiliates of the National Minority Supplier Development Council, a nonprofit organization that advances business opportunities for its certified Asian, Black, Hispanic, and Native American business enterprises and connects them to its corporate members.

The MMSDC commissioned research from [supplier.io](#), a provider of supplier diversity solutions, to assess the growth rate of **minority business enterprises** (MBEs) and determine the gap that remains in the revenue parity for MBEs relative to the number of minorities in the US.

Minorities and MBEs continue to drive disproportionate economic growth in the US. In the five years from 2014-2018, MBEs created 14.2% of the new jobs in the US. However, MBEs continue to lag in receiving the equitable economic benefits of their contribution. MBEs collected only 7.3% of the revenue growth during this same period.

MBEs are also at greater risk during economic downturns. During the worst periods of the pandemic, Black-owned businesses were hit especially hard, experiencing a 41 percent drop in revenues. Latinx business owners' revenue fell by 32 percent, and Asian business owners' revenue dropped by 26 percent. In contrast, White-owned firms fell by just 17 percent<sup>1</sup>. The Fed's *2020 Small Business Credit Survey* found that MBEs received loan approvals from banks at lower rates than white-owned firms. Only 69.7% of MBE loan requests were approved compared to 84.4% for white-owned firms.<sup>2</sup> Even with facing these adversities, MBEs were 48% more likely to add new services to support their employees and communities during the pandemic.<sup>3</sup> Much needs to be done in the public and private sectors to help close these systemic gaps and achieve economic parity for MBEs. Using data published by the US Census Bureau, this report analyzes the growth of MBEs in the years from 2014 to 2018, the latest year for which complete data are currently available. If MBEs continue to grow at the current rates, it will take over 333 years for MBEs to achieve revenue parity with White-owned businesses. There are significant benefits to everyone in achieving revenue parity. McKinsey estimates that achieving revenue parity between Black and white-owned businesses alone will add over \$290 billion to overall wealth<sup>4</sup>.

# Defining Revenue Parity

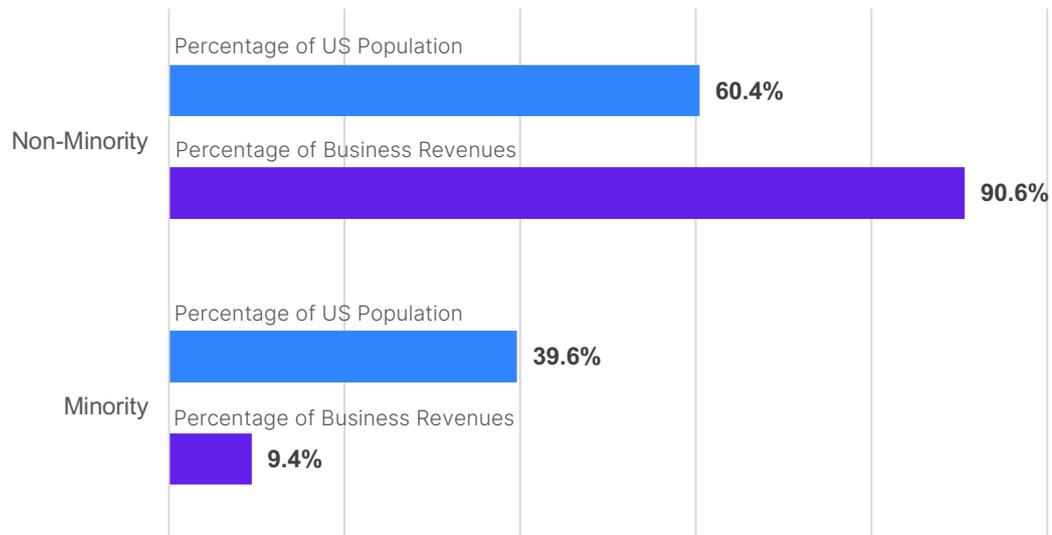
There are two primary methods of understanding revenue parity:

1. **Population Representation Method: Revenue earned by MBEs as a percentage of their representation in the US population.** In 2018, minorities represented approximately 40% of the US population. However, revenues collectively earned by MBE represented only 9.4% of the revenues earned by private US firms. Spending with MBEs needs to increase four to five times the current levels to achieve revenue parity.

Exhibit 1

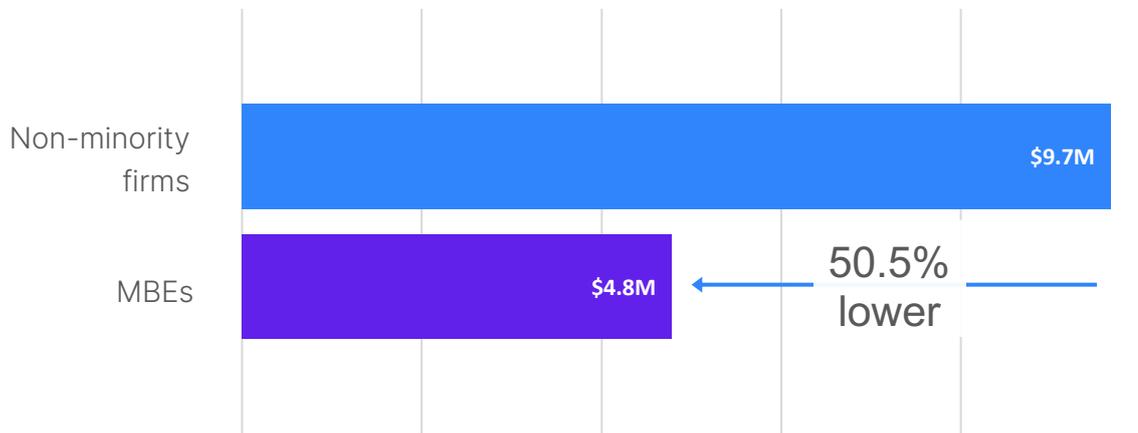
## MBEs earn a disproportionately lower percentage of revenues relative to minority population representation

Firms with more than \$1 million in revenues (excluding public firms)



2. **Average Revenue Method: Average revenues earned by MBEs in an industry relative to their white-owned peers.** MBEs have historically earned lower average revenues than their white-owned counterparts, even within the same industry. In 2018, in MBEs with more than \$1 million in revenues, MBEs earned \$4.8 million on average compared to \$9.7 million for white-owned firms. Spending with MBEs must double to achieve revenue parity.

Exhibit 2  
Average Revenues  
Firms with more than \$1 million in revenues (excluding public firms)



Irrespective of the method used, there exists a sizeable gap that corporations must work to close.

## MBE Growth: 2014 to 2018

This analysis evaluates data from the Annual Business Survey conducted by the US Census<sup>6,7</sup> to understand the growth of minority-owned suppliers in the five years from 2014 to 2018. We restricted the dataset for this analysis to businesses with at least \$1 million in annual revenues. This restriction was added to limit the analysis to firms within the typical corporate supplier diversity supply chain.

### Number of MBEs

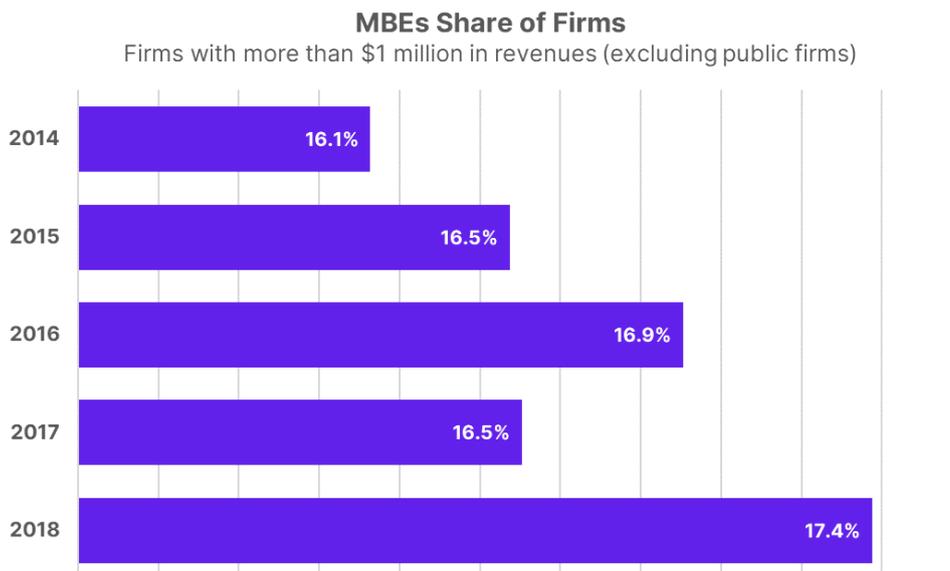
From 2014 to 2018, the number of MBEs with more than \$1 million in revenues grew by 26% (Exhibit 3). This is a positive sign indicating that relative to non-minority-owned firms, a larger percentage of MBEs can scale to more sustainable sizes. This growth increases the pool of viable MBEs available to corporations for purchasing opportunities.

Exhibit 3



As a percentage of the overall number of businesses, MBEs continue to be underrepresented. As of 2018, the number of MBEs with over \$1 million in revenues represented only 17.4% of all firms. Taking a closer look, the representation of minority-owned businesses, compared to all US businesses, is concerning, with only a 1.25% increase over the last five years.

Exhibit 4



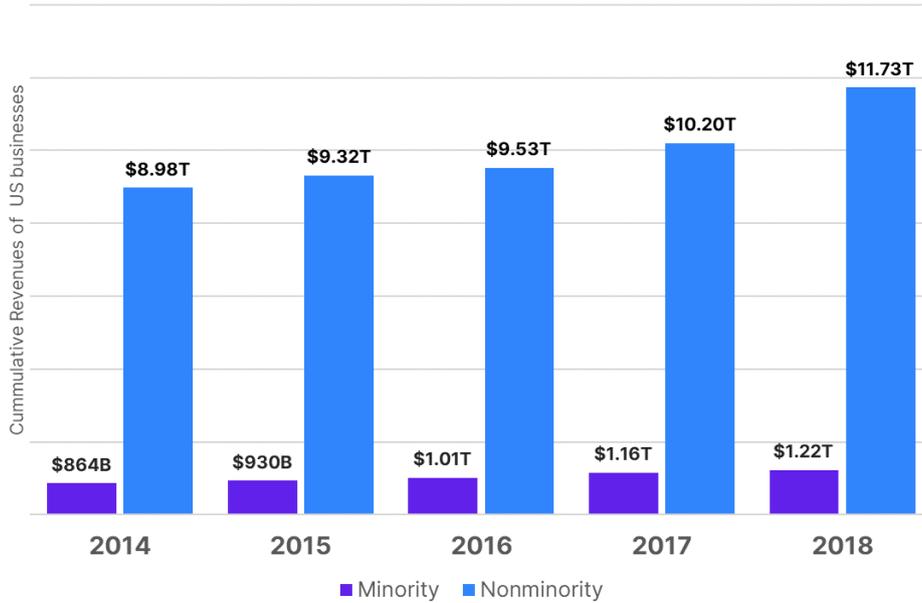
## MBE Revenues

The cumulative sales of MBEs with revenues of more than \$1 million grew from \$864 billion to \$1.2 trillion from 2014 to 2018.

Exhibit 5

### Total Revenues

with more than \$1 million in revenues (excluding public firms)

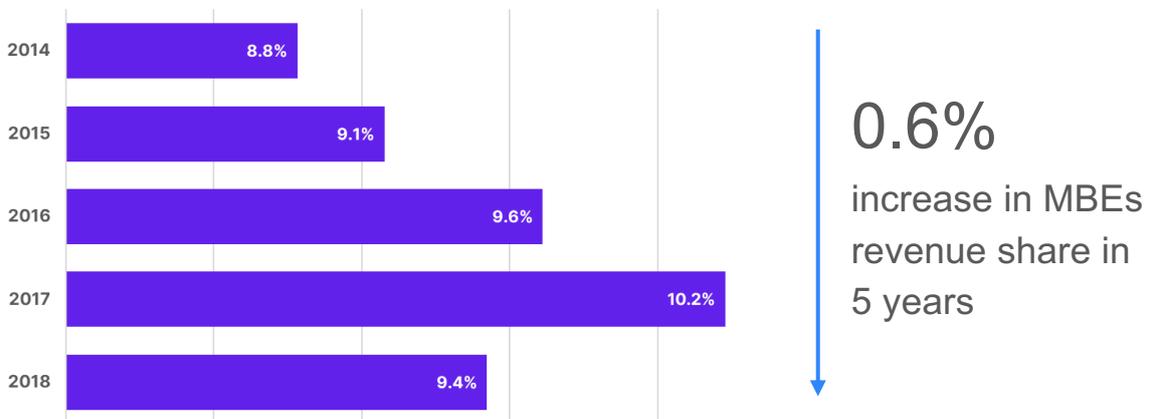


While this is impressive growth, MBEs' share of total revenues barely budged during this period. It grew from 8.8% in 2014 to only 9.4% in 2018. In fact, in 2018, MBEs' share of revenues *decreased* from 2017, erasing the equivalent of two years of gains (Exhibit 6).

Exhibit 6

### MBEs Share of Revenues

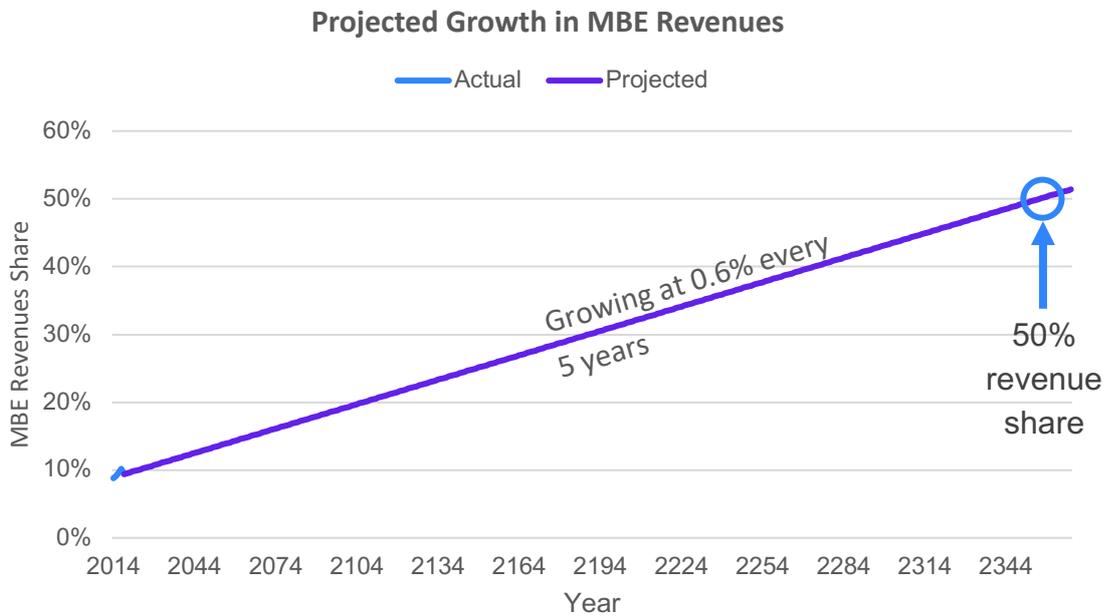
Firms with more than \$1 million in revenues (excluding public firms)



# Path to Parity

By 2045, people of color are projected to make up more than 50% of the US population. Genuine access that allows MBEs to compete to supply products and services is paramount. Likewise, spending with MBEs needs to increase significantly to close the gap between MBEs and non-minority firms. In fact, it must quadruple in the next 20 years. Otherwise, MBEs will attain parity in revenues with the majority population in 333 years, more than three centuries.

Exhibit 7



This projection is untenable. Rethinking our approach to corporate Supplier Diversity programs is critical as we take bold steps to make a meaningful dent in the parity gap.

Partnering with minority businesses is a powerful way for corporations to drive their business goals by gaining access to unique perspectives and expertise to satisfy their customer base. The byproduct creates generational wealth in minority communities, which fuels growth in all communities.

Actions that corporations can take today to close the gap:

- **Commit to increasing spend targets:** The revenue gap closes when spending with MBEs increases. Corporations must increase their commitment and spend more with

qualified MBEs every year. There are manageable ways to make a difference. The average MBE spending (when spending with public companies is included) is 3.29%. This average must increase 4-5 times current levels to between 13%-16% to achieve parity. If all corporations commit to growing their MBE spend percentage by 1% every year, the time to parity is reduced to fewer than 15 years.

- **Commit to including MBE spending across all categories:** Corporations often gravitate to 'tail spend' or 'indirect spend' categories when looking to increase their supplier diversity spending. Areas such as construction, low-growth manufacturing, catering/food services, or janitorial services, while easy targets for supplier diversity, often tend to be in low margin and low growth areas of the economy. Corporations should commit to procuring from MBEs in high-growth, high-margin areas of the economy, such as advanced manufacturing, technology and professional services.
- **Help create pools of viable and qualified MBEs:** Spending with MBEs requires the availability of qualified MBEs. In some situations, there may not be sufficient MBEs due to barriers to entry, such as access to growth capital and strategic knowledge. Corporations can help create viable MBEs through:
  - **Access to capital:** Black and Hispanic businesses lack access to capital that fuels many high-growth industries today. For example, in 2020, Black and Hispanic businesses received only 2.6% of all venture funding.<sup>5</sup> MBEs also start with lower start-up capital than white-owned firms and are less likely to receive credit from banks. Corporations may leverage their access to capital to provide more cost effective options to MBEs without diluting owner equity. Funded companies achieved 30 percent more growth in revenue and 50 percent more growth in employment than companies that did not raise funding.<sup>9</sup> Using this metric, improving access to capital for MBEs can accelerate revenue growth and may reduce the time to parity by as much as 25%.
  - **Access to customers:** MBEs need access to customers to grow. Corporations can commit to increasing the inclusion of MBEs in their sourcing activities. This inclusion must be across all categories and include MBEs in opportunities where they have a legitimate chance to compete and win.
  - **Access to strategic knowledge:** In addition to capital, MBEs require strategic knowledge to scale their businesses. This goes beyond the strong mini-MBA

programs that abound in the diversity arena. Providing strategic expertise and assistance directly from buying decision makers who mentor and partner with MBEs to develop their ability to grow in their specific industries, is paramount.

The challenge to attaining economic parity is unquestionably complex, and the solutions are not always known or easy. But the responsibility to act boldly to make a meaningful difference remains. Corporations must act urgently to address the racial wealth gap that persists in the US economy. Local, state and federal governments can support with policies that drive sustainable, inclusive growth.

Finally, to ensure the full ecosystem of opportunity works, certified minority entrepreneurs must continue to over-index in hiring and promoting people of color while also increasing their own firms' diverse spending with other minority businesses. Together, we can all change course and realize parity that benefits us all in far less than three centuries.

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