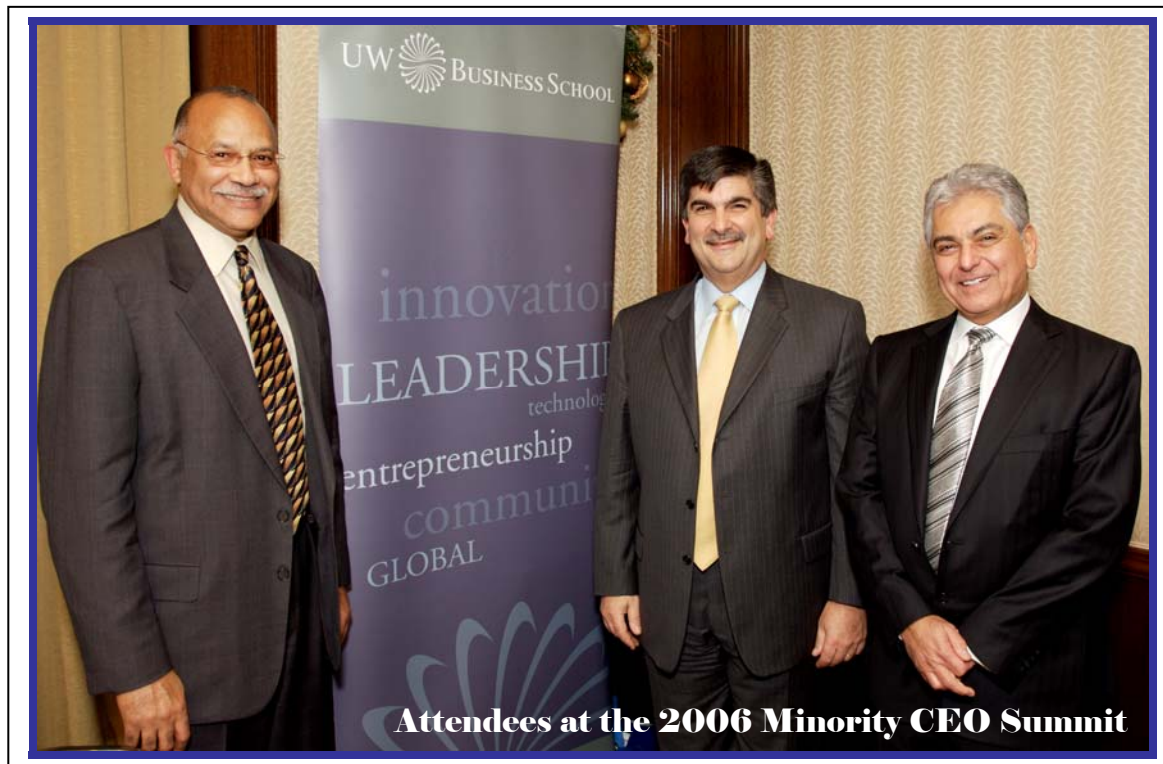


# *Washington Minority Small Business Survey*



**1<sup>st</sup> Semi Annual Survey**  
**Effective Date of Data: January, 2007**  
**Publication Date: May, 2007**

**BUSINESS AND ECONOMIC DEVELOPMENT CENTER**

**William Bradford, PhD • Vandra L. Huber, PhD • Richard Yalch, PhD**

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# ***EXECUTIVE SUMMARY***

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This inaugural Minority Business Survey focuses on the characteristics, growth prospects, and challenges faced by minority-owned companies in Washington. This survey will be published twice each year and is intended to provide private- and public-sector decision-makers with information about an important business sector that is experiencing rapid growth. Due to the limited number of Native American-owned businesses (outside of tribal enterprises) this survey focuses on companies owned by African Americans, Asian/Pacific Islanders, and Latinos/Hispanics.

People of color who own businesses in Washington, much like entrepreneurs across the country, expect to succeed. The inaugural **Minority Small Business Confidence Index** was 56 on a 100-point scale. This index reflects the owners' optimism about their firm's prospects over the next few months; the higher the number the more optimistic the owners' outlook.

The inaugural **Recent Performance Index** reflects the owners' opinions about the sales and profit performance of the most recent quarter and year. This index came in at 57 on a 100 point scale. The higher the number the more favorable is the owners' opinion of their firms' recent performance. These indexes blend the opinions of the owners over several questions about the recent past and the prospects over the near future.

A higher percentage of Washington's minority-owned businesses are owned by men, and minority owned businesses in Washington tend to have a longer life span than is true for minority-owned firms across the US.

Washington's small businesses providing services to consumers and owned by people of color tend to serve customers outside their own racial or ethnic group as much as they serve those within their same ethnic group. In fact, Black-owned and Latino-owned business owners generally report that no specific ethnic group dominates their consumer customer base. Asian-owners report Caucasians as their primary customer base.

A higher percentage of Washington's minority-owned businesses are owned by men than is true nationally. Minority-owned businesses in Washington tend to have been in business longer than is true for minority-owned firms across the US.

## **Promising Trends**

There are a number of promising trends that point to potential future growth for minority-owned companies in Washington.

- Forty-eight (48) percent of minority-owned firms made capital investments;
- Nearly 50 percent purchased new technology;
- More than 43 percent funded worker training in the last quarter of 2006; and
- Between 20 and 30 percent of firms were seeking to hire new employees in the first quarter of 2007.

## **Business Challenges**

While they are optimistic about their potential, business owners of color in Washington are facing a number of hurdles including significant challenges meeting their growth expectations:

- Nationally, only five percent of all small businesses have unmet capital needs but in Washington, 14-17 percent of minority-owned businesses report that they can not get the financing they need.
- Nationally, minority business owners reported that competition with bigger businesses is only the fifth most important challenge they face (after taxes, insurance costs, employee costs, and weak sales) while minority-owned businesses in Washington report that competition with bigger businesses is their top challenge and taxes was the 4<sup>th</sup> most pressing problem.
- Among the 40 percent of minority business owners who felt that the business climate in 2007 would be okay to poor, 50 percent worried most about sales prospects.

# ***INTRODUCTION***

Eighteen percent of the 23 million U.S. firms are minority-owned. Hispanics constitute the largest minority ownership group with 6.6 percent of firms. By comparison, Blacks own 5 percent of firms and Asians and Pacific Islanders own 4.7 percent of U.S. firms.

There are an estimated 561,300 small businesses in Washington state. Only one third of these firms (194,963) have any employees.<sup>1</sup> Asians owned 5.7%; Hispanics, 2 % and Blacks 1.4 % of all firms (with and without employees). Small businesses with less than 500 employees in the state employ more than 1.2 million workers, represent more than 98 percent of employer-businesses in the state. They employ more than 50 percent of the state's non-farm private sector workforce.<sup>2</sup>

A total of 376 interviews were completed for the January 2007 study. The sample was generated by a list of small businesses produced by Dun & Bradstreet. This data set contained a total of 4,694 minority business contacts, including 1,163 Hispanic, 473 African American and 2,622 Asian/Pacific Islander firms in Washington state. From this group, 155 Asian / Pacific Islander, 114 Hispanic and 107 African American business owners completed the January 2007 Minority Small Business Survey. While random, the group of respondents includes an over sampling of Black- or African American-owned small business owners. Over sampling allows comparisons to be made more easily and conclusions to be made with greater assurance of accuracy.

The Washington Minority Small Business Survey (WMSBS) was undertaken to answer two questions. First, are minority-owned businesses experiencing the same changes in employment and revenue as white and/or larger firms in the state and nationally? Secondly, how do minority small business owners perceive the business climate?

The objectives of the Washington Business Minority Index Survey is to:

- Benchmark the state of minority-owned small businesses
- Provide relevant, comprehensive data regarding minority-owned small businesses in Washington state
- Communicate changes in the economic condition and issues of minority businesses over time
- Provide a measure of changes that can be compared to state businesses as a whole and white-owned businesses in Washington state and nationally
- Identify areas of concern and opportunity relevant to minority-owned small businesses

When using the results of this survey, it should be remembered that survey results report the opinions of small, minority-owned business owners and should only be one factor in determining the business climate for small businesses in Washington state.

The BEDC retained Northwest Research Group (NWRG) to assist with data collection for this project. The BEDC and Northwest Research Group have exercised reasonable care in compiling data and preparing the results but they do not warrant that the report is free from all errors and omissions. The BEDC disclaims all expressed and implied warranties, including without limitation the implied warranties of merchantability and fitness for a particular purpose.

You may reproduce information, tables, or figures from the January 2007 Washington Business Minority Index Survey if you cite the publication name and date and note that the tables, figures and analysis are a copyright of the Business and Economic Development Center (BEDC) at the University of Washington Business School. Questions about the survey contents, using or interpreting the survey results, should be directed to:

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<sup>1</sup> Source: US Department of Labor Census and Office of Advocacy, Small Business Administration, Washington Profile. 2006

<sup>2</sup> Source: US Department of Commerce, Census Bureau, Statistics of U.S. Businesses

# ***S.M.A.L.L BUSINESS CONFIDENCE INDEX***

Minority-owned small businesses were guardedly optimistic about the business environment in Washington state at the beginning of 2007. Looking forward, the **Minority Small Business Confidence Index** was at 56 overall. Asians and Hispanics were slightly more optimistic with indices of 57 each. Blacks were less positive with an index of 54 points.

The **Minority Small Business Confidence Index** (MSBCI) measures the business confidence and expectations of 365 randomly selected minority owned small business in Washington State with from one to 100 employees. It is a statewide representative index with a margin of error of + or - 5%. In the second half of 2007, a representative sample of Caucasian small businesses will be added as a comparison group.

The indices are derived from two series of four questions. Questions focus on small business owners' perceptions about business prospects, sales and profits over the short (three months) and mid-term (one year) period preceding the survey and their perceptions of the future.

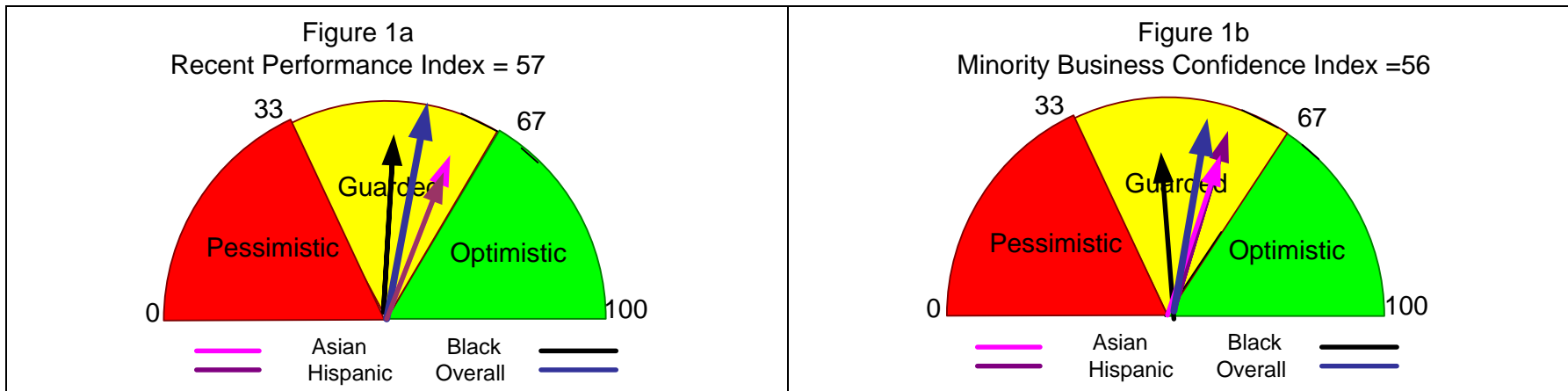
Looking forward, 31.2% of owners felt the business environment is supportive; 41.1% neutral and 27.2% non-supportive. Black business owners have less favorable opinions of state's business climate (including government, banks, media and community groups), and business conditions in their market area than do Hispanic and Asian businesses.

Half of all business owners felt market conditions were good or very good; 32.1% felt conditions were okay; and 17.9% felt

conditions were poor or very poor. Black small business owners were more pessimistic with 23.4% viewing market conditions negatively, 28% okay and 48.6% positively.

The **Recent Performance Index** was 57 on average. Hispanics viewed the recent past the most positive with a score of 59, followed by Asians at 58. Blacks lagged significantly with an index score of 53 out of a 100. More than fourth of companies viewed sales performance over the past three months as poor/very poor, one third as okay and the remaining 44% as good/very good. Blacks had a slightly higher proportion of poor/very poor and a lower proportion of good/very good than Asians or Hispanics.

Profit performance over the last quarter of 2006 was listed as good/very good by 44.4%; okay by 34.8%; and poor/very poor by 25.4% of firms. Blacks were slightly more pessimistic than Hispanics or Asians about profits.



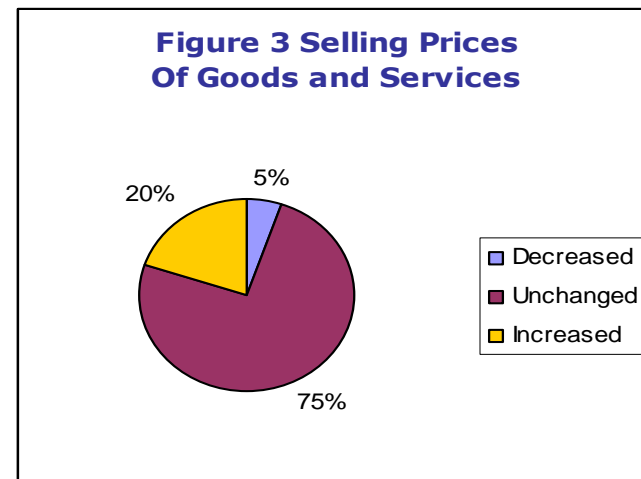
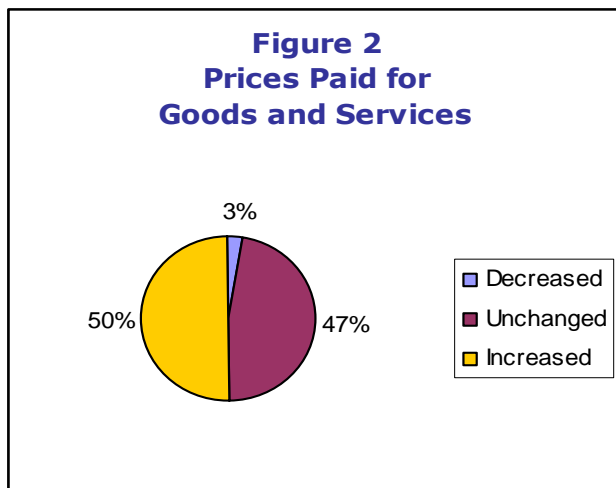
# ***SMALL BUSINESS CONFIDENCE INDEX: Individual Question Responses***

Several factors are responsible for the guarded confidence expressed in Washington business climate by minority business owners. First, last quarter's profits were reported as down. Second, 50.5% of owners reported that the prices they paid for goods and services for their businesses were up.

Even though the prices of goods and services rose, fourth quarter profits were down. In Washington, three fourths of minority owners held the line and did not report passing cost increases on to their customers.

One fourth of Asian business owners raised business prices. But only 20% of Hispanic and 15.3% of Black business owners reported price increases. This may partially explain why Asian owners were slightly more confident in the business environment than Black owners.

<b>TABLE 1. WASHINGTON MINORITY SMALL BUSINESS CONFIDENCE INDEX</b>	<b>Asian Pacific Islander</b>	<b>Black/African American</b>	<b>Hispanic</b>	<b>Total Sample</b>
<b>Minority Small Business Confidence Index</b>				
1. Overall Supportiveness of Business Climate	3.12	2.79	3.11	3.02
2. Business Conditions in Market Area (7pt)	3.45	3.36	3.42	3.42
3. Expected Business Improvement/ Decline	4.12	3.93	4.14	4.07
4. Future Business Prospects	3.60	3.65	3.66	3.63
Confidence Index	57%	54%	67%	56%
<b>Recent Performance Index</b>				
1. Last Quarter's Sales	3.36	3.05	3.32	3.26
2. Last Years Sales	3.50	3.44	3.64	3.52
3. Last Quarter's Profits	3.14	2.92	3.16	3.09
4. Last Year's Profits	3.30	3.10	3.36	3.26
Recent Performance Index	58%	53%	59%	57%



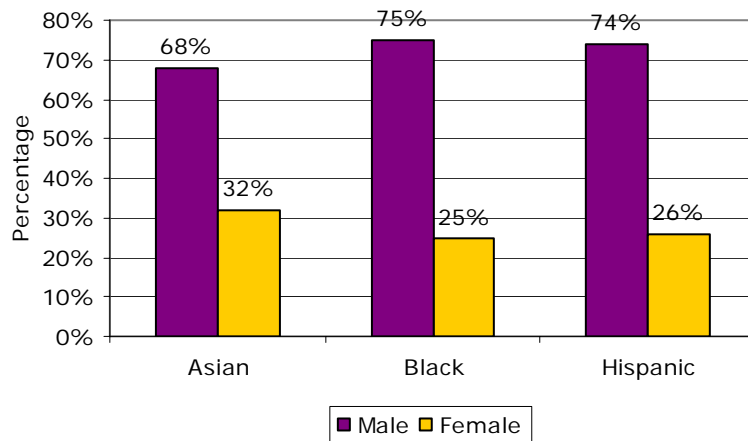
## OWNERSHIP: Gender

Nationally, women constitute more than 51 percent of the U.S. population and nearly 47 percent of the labor force. Women owned 28.2% of non-farm firms and accounted for 6.5 % of total employment in 2002<sup>3</sup>. The estimated numerical growth rate of women-owned firms was nearly twice that of all firms (17% vs. 9%). Eighty-six percent of women-owned businesses had no paid employees. The rates for Washington State are consistent with national figures.<sup>4</sup> Women owned 29% of all firms in Washington State and 84% of these female firms had no paid employees.

The rate of female ownership is higher among minority-owned firms on the national level. Women of color own 36% of all firms owned by persons of color nationally. Fewer minority-women owned businesses in Washington state than minority women nationally. According to the 2007 Washington Business Minority Survey, less than one third of minority owned small businesses are owned by women of color.

Consistent with national trends, one third of Asian small businesses in Washington state are women-owned. Nationally, an equal number of Black men and women are owners. In Washington State, only one fourth of small businesses were owned by African American women. The percentage of small businesses owned nationally by Hispanic (26.3%) women is less also less in Washington state (26.3%) than it is nationally (34%).

**Figure 4**  
Percent of Minority Owned Small Business Owned by Women and Men



**TABLE 2: GENDER OF OWNERS**

GENDER	Asian Pacific Island	Black/African American	Hispanic	Total
<b>1. Male</b>	105 67.7%	80 74.8%	84 73.7%	269 71.5%
<b>2. Female</b>	50 32.3%	27 25.2%	30 26.3%	107 28.5%
<b>Total</b>	155 100.0%	107 100.0%	114 100.0%	376 100.0%

<sup>3</sup> Source: Lowrey, Y. 2006. Women in Business, 2006: A demographic review of women's business ownership. SBA Office of Advocacy.

<sup>4</sup> Source: 2002 Business Census data for Washington State

## ***OWNERSHIP: Business Longevity***

Minority-owned businesses have grown three times faster than other businesses in the last decade according to the U.S. Department of Commerce. In 2002, minorities owned approximately 18 percent of the 23 million U.S. firms.<sup>5</sup>

On the national level, only three fourths of all new businesses survive two years, 50 percent survive more than four years; and 40 percent are still in business after 6 years<sup>6</sup>.

In Washington State, firms owned by people of color have been in business an average of 13.58 years. More than one fourth of Asian-owned firms in Washington have been in business more than 20 years in Washington state. This compares to Hispanic (17.5%) and Black (12.1%) owned firms with 20 plus years of business experience.

Only one-fifth of minority owned businesses were less than five years old. The percentage was highest for Black-owned firms (29%) and lowest for Asian-owned firms (14.3%). Given the failure rate for small businesses is highest during the first five years, these results are impressive.

**TABLE 3  
YEARS IN BUSINESS**

	<b>Asian Pacific Island</b>	<b>Black/ African American</b>	<b>Hispanic</b>	<b>Total</b>
<b>1. 1 to 5 Years</b>	22 14.3%	31 29.0%	27 23.7%	80 21.3%
<b>2. 6 to 10 Years</b>	48 31.2%	31 29.0%	32 28.1%	111 29.6%
<b>3. 11 to 15 Years</b>	26 16.9%	13 12.1%	22 19.3%	61 16.3%
<b>4. 16 to 20 Year</b>	18 11.7%	19 17.8%	13 11.4%	50 13.3%
<b>5. 21 to 30 Years</b>	28 18.2%	10 9.3%	17 14.9%	55 14.7%
<b>6. More than 30 Years</b>	12 7.8%	3 2.8%	3 2.6%	18 4.8%
<b>Total</b>	154 100.0%	107 100.0%	114 100.0%	375 100.0%
<b>Mean</b>	15.62	11.48	12.8	13.58

<sup>5</sup> Source: Lowrey, Y 2007. Minorities in Business: A demographic review of minority business ownership. Small Business Administration Office of Advocacy.

<sup>6</sup> Sources: "Survival and Longevity in the Business Employment Dynamics Database" by Amy E. Knaup, Monthly Labor Review, Volume 128, Number 5 (May 2005), pp. 50-6.

# INDUSTRY DISTRIBUTION

On the national level, more than 50% of businesses owned by people of color offered services. To a lesser extent, the service sector dominated minority-owned business operations in Washington State (35.6%). The service sector includes professional, scientific and technical services; education; health care; arts and entertainment and recreation. Retail business was the second largest industry category for all three ethnic groups.

Black-owned firms reported the highest involvement with 39.3% of small businesses providing services. This compares to Asian-owned at 34.8% and Hispanic-owned at 33.3%.

Nationally, 23.2% of Asian, 10.6% of Black, and 12.7% of Hispanic-owned firms were concentrated in the retail sector. A slightly higher percentage of African American- and Hispanic-owned firms engaged in retail trade in Washington state than nationally. Among Asians, there are slightly fewer retailers than on the national level. Asians (18.7%) and Hispanics (16.7%) were more likely to be engaged in retail trade than Black small business owners (12.1%).

Asians were more involved in the wholesale industry (9.7%) than either Hispanic- (3.5%) or Black- (2.8%) owned businesses.

By comparison Black-owned firms and Hispanic firms were more likely to be involved in construction (14% each) than local Asian-owned firms (5.8%) and the national average. Nationally, 13.5% of Hispanic-owned and 6.3% of Black-owned business were concentrated in construction. Minority-owned businesses were equally dispersed between the utilities, financial insurance and real estate sectors, and wholesale trade sectors. Agriculture and government sectors were least representative in the sample.

TABLE 4: INDUSTRIES	Washington				National <sup>7</sup>		
	Asian Pacific Island	Black/African American	Hispanic	Total	Asian Pacific Island	Black/African American	Hispanic
1. Agriculture, forestry and fishing	1.3%	.9%	7.0%	2.9%	2.5%	.3%	.6%
2. Utilities	9.0%	8.4%	4.4%	7.4%	.4%	.0%	.0%
3. Construction	5.8%	14.0%	14.0%	10.6%	3.5%	6.3%	13.5%
4. Finance, insurance and real estate	7.7%	8.4%	1.8%	6.1%	2.7%	2.4%	2.1%
5. Manufacturing	6.5%	4.7%	7.9%	6.4%	3.3%	.8%	2.0%
6. Public administration	2.6%	2.9%	2.6%	2.7%	n/a	n/a	n/a
7. Retail Trade	18.7%	12.1%	16.7%	16.2%	23.2%	10.6%	12.7%
8. Services	34.8%	39.3%	33.3%	35.6%	57.1%	54.4%	44.9%
9. Transportation	2.6%	5.6%	7.0%	5.9%	4.7%	8.3%	8.0%
10. Wholesale trade	9.7%	2.8%	3.5%	5.9%	4.2%	1.0%	2.2%
11. Other	1.3%	.9%	1.8%	1.3%	.1%	.1%	.1%

<sup>7</sup> Source: Lowrey, Y. April, 2007. Minorities in business: A demographic review of minority business ownership. Office of Advocacy, U.S. Small Business Administration Table 8, p. 9. National survey did not have a category for public administration.

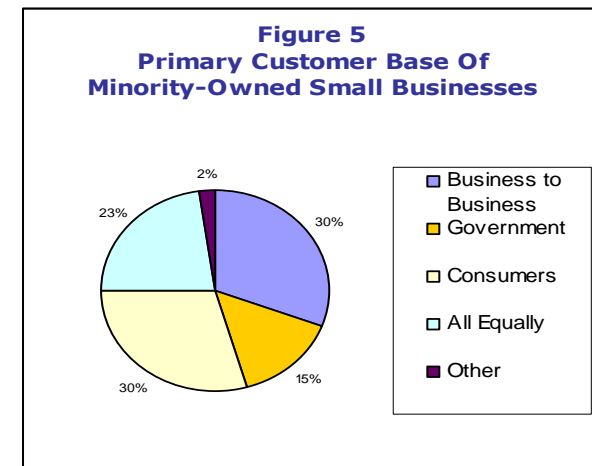
## ***CUSTOMERS: Type***

Business-to-business relationships accounted for 30% of the customer base of Washington's minority-owned small businesses. Another 30% of small businesses reported that consumers served as their primary customer base.

Black-owned businesses were three times more likely than Asian-owned and almost double that of Hispanic-owned businesses to report government (local, regional or national) as their primary customer base.

Businesses with Hispanic owners were more likely to report that they served all customer groups equally (32.5%) than Asian-owned (23.7%) or Black-owned (20.6%) firms.

<b>TABLE 5: CUSTOMER BASE</b>	<b>Asian Pacific Island</b>	<b>Black/African American</b>	<b>Hispanic</b>	<b>Total</b>
<b>1. Business to Business</b>	51 33.6%	32 29.9%	32 28.1%	115 30.8%
<b>2. Consumers</b>	51 33.6%	22 20.6%	37 32.5%	110 29.5%
<b>3. Government</b>	13 8.6%	27 25.2%	15 13.2%	55 14.7%
<b>4. All Equally</b>	36 23.7%	22 20.6%	37 32.5%	85 22.8%
<b>5. Other</b>	1 .7%	4 3.7%	3 2.6%	8 2.1%
<b>Total</b>	152 100.0%	107 100.0%	114 100.0%	373 100.0%



## ***CUSTOMERS: Ethnicity of Consumer Customers***

Two-fifths of all minority businesses in Washington reported that Caucasians were their primary customer group. Asian-owned businesses were more likely to serve Caucasians (49.4%) than Blacks (38.6%) and Hispanics (31.7%).

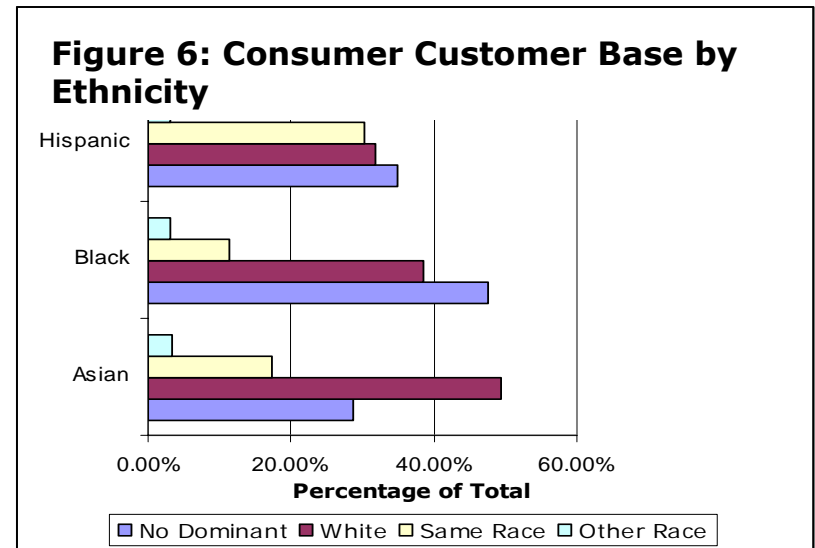
Nearly half of small businesses owned by Blacks did not serve a particular ethnic group. This compares to one-third of Hispanic owned firms and one-fourth of Asian owned firms.

Minority-owned businesses were more likely to serve consumer customers of the same, rather than different ethnicity. Among Asian-owned firms, 17.2% of firms reported Asians as the ethnic group they were more likely to serve. Asian firms reported little or no targeted customers who were Black or Hispanic.

Almost one third of Hispanic-owned small businesses indicated that Hispanic consumers were their primary target customers and had very few customers who were Black or Asian.

Only 11.4% of Black-owned consumer based businesses reported Blacks as the dominant ethnic group they serve. Black-owned firms were most likely to report no dominant ethnic group as their dominant customer. While the sample size was small (only 44 Black consumer focused firms), only one firm reported that Asians were their target consumer group.

<b>TABLE 6: ETHNICITY OF CONSUMER CUSTOMERS</b>				
<b>ETHNICITY</b>	<b>Asian Pacific Islander</b>	<b>Black/ African American</b>	<b>Hispanic</b>	<b>Total</b>
<b>1. Asian/Pacific Islander</b>	15 17.2%	1 2.3%	1 1.6%	17 8.8%
<b>2. Black/African American</b>	0 .0%	5 11.4%	1 1.6%	6 3.1%
<b>3. Hispanic</b>	3 3.4%	0 .0%	19 30.2%	22 11.3%
<b>4. White/ Caucasian</b>	43 49.4%	17 38.6%	20 31.7%	80 41.2%
<b>5. No Dominant Ethnic Group</b>	25 28.7%	21 47.7%	22 34.9%	68 35.1%
<b>6. Other</b>	1 1.1%	0 .0%	0 .0%	1 .5%
<b>7. Total</b>	87 100.0%	44 100.0%	63 100.0%	194 100.0%



## ***EMPLOYMENT: Full and Part-Time Workers***

Among firms participating in the study, approximately 16 percent were sole proprietorships employing no employees other than the owner(s). Approximately 80 percent of Washington's minority-owned small businesses employ less than five full-time employees.

Significantly more Hispanic-owned firms were sole proprietors with no workers (27.2%) than either Black- or Asian-owned businesses. By comparison, only 12.3% of Black-owned firms and less than 10 percent of Asian-owned firms employed no full-time workers.

On average, less than 10% of ethnic business owners reported employing more than 10 full-time workers. Black- and Asian-owned firms employed, on average, 8.29 and 7.02 full-time employees respectively. Hispanic firms employed significantly fewer full-time workers (3.42).

Washington's small minority businesses were more likely to employ full-time, rather than part-time workers. Almost half of business owners reported that their company did not employ any part-time workers. This includes two thirds of Hispanic- compared to 44.5% and 43% of Asian- and Black-owned firms, respectively.

Firms, on average, employed 3 part-time workers. However, two-fifths of Asian and Black firms and three-fifths of Hispanic firms employed no part-time workers. Asian-owned firms employed the most part-timers with an average of 4.59 compared to 2.35 and 1.26 part-time workers in Black- and Hispanic-owned firms.

<b>TABLE 7: NUMBER OF EMPLOYEES</b>	<b>Full-Time Employees</b>				<b>Part-Time Employees</b>			
	<b>Asian Pacific Island</b>	<b>Black/ African American</b>	<b>Hispanic</b>	<b>Total</b>	<b>Asian Pacific Island</b>	<b>Black/ African American</b>	<b>Hispanic</b>	<b>Total</b>
<b>None</b>	15 9.7%	13 12.3%	31 27.2%	59 15.7%	69 44.5%	46 43%	71 62.3%	186 49.5%
<b>One Employee</b>	44 28.4%	28 26.4%	30 26.3%	102 27.2%	28 18.1%	16 15.0%	16 14.0%	60 16.0%
<b>Two employees</b>	35 22.6%	20 18.9%	15 13.2%	70 18.7%	28 18.1%	18 16.8%	14 12.3%	60 16.0%
<b>3 to 5 employees</b>	34 21.9%	16 15.1%	18 15.8%	68 18.1%	18 11.6%	17 15.9%	8 7.0%	43 11.4%
<b>6 to 10 employees</b>	15 9.7%	12 11.3%	10 8.8%	37 9.9%	5 3.2%	6 5.6%	3 2.6%	14 3.7%
<b>11 to 20 employees</b>	5 3.2%	8 7.5%	5 4.4%	18 4.8%	4 2.6%	3 2.8%	1 .9%	8 2.1%
<b>21 to 100 employees</b>	5 3.2%	8 7.5%	5 4.4%	18 4.8%	2 1.3%	1 .9%	1 .9%	4 1.1%
<b>More than 100 employees</b>	2 1.3%	1 .9%	0 .0%	3 .8%	1 .6%	0 .0%	0 .0%	1 .3%
<b>Total</b>	155 100.0%	106 100.0%	114 100.0%	375 100.0%	155 100.0%	107 100.0%	114 100.0%	375 100.0%

## ***EMPLOYMENT: Openings and Costs***

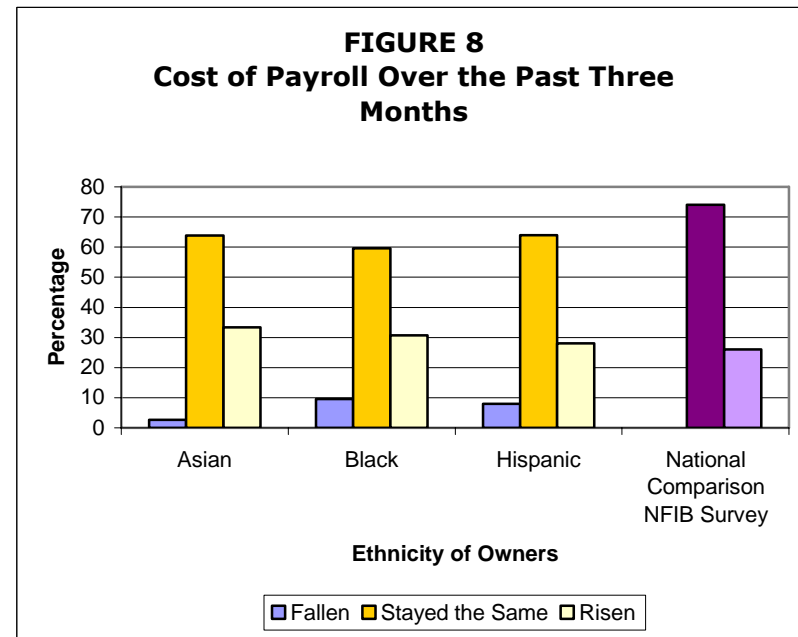
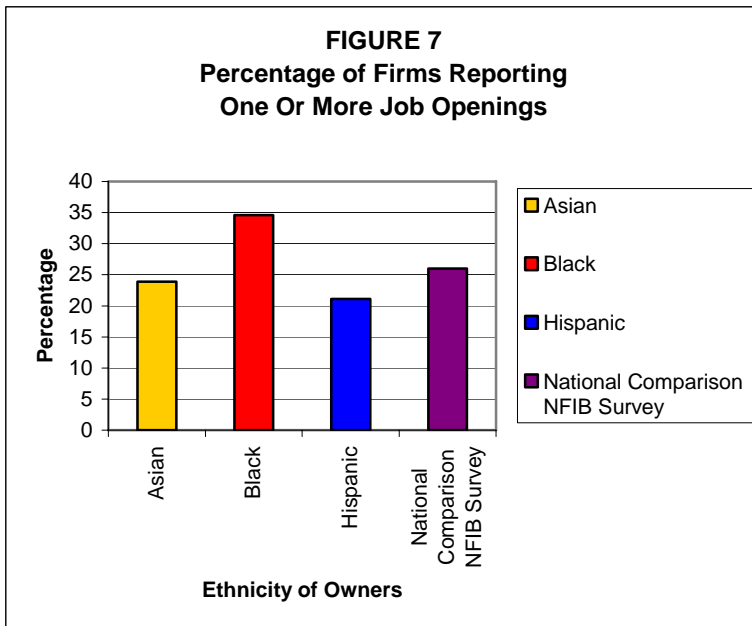
Washington minority businesses provide employment opportunities to state residents at about the same rate as small businesses nationally. It is important to understand minority businesses, because they are becoming a larger portion of Washington's businesses; and if provided the proper climate, will provide an increasing amount of jobs to state residents.

Black-owned firms reported the highest percentage of job openings, with 34.6 percent of firms reporting openings, compared to 23.9% for Asian- and 24% for Hispanic-owned firms.

Washington minority-owned small business owners overwhelming (62.7%) reported no significant increases in their payroll over the preceding three months. However, the percentage reporting no increase in payroll costs was smaller than the percentage reported in the National Federation of Independent Business (NFIB) survey. This may partly be due to the increase in Washington State's minimum wage to \$7.93 on January 1, 2007. This is the highest minimum wage in the country.

A small percentage of Washington's minority-owned small businesses reported a drop in payroll costs, namely 2.7% for Asian-owned; 9.6% for Black-owned; and 8.0% for Hispanic-owned firms.

One-fourth of minority firms reported a slight increase in payroll costs over the past three months. An additional 7.5% of Asian-owned firms reported a sharp rise in payroll costs compared to only 4.8% and 3.0% of Black- and Hispanic-owned firms, respectively.



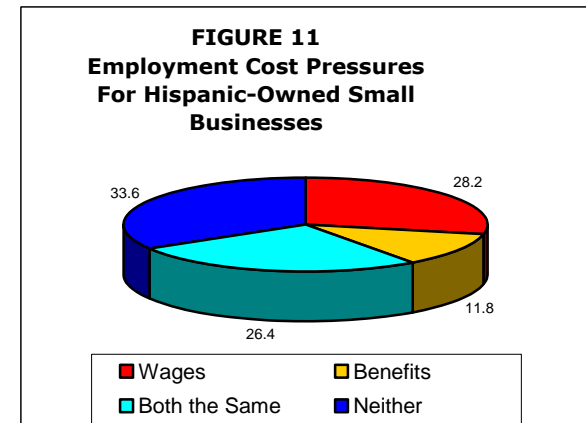
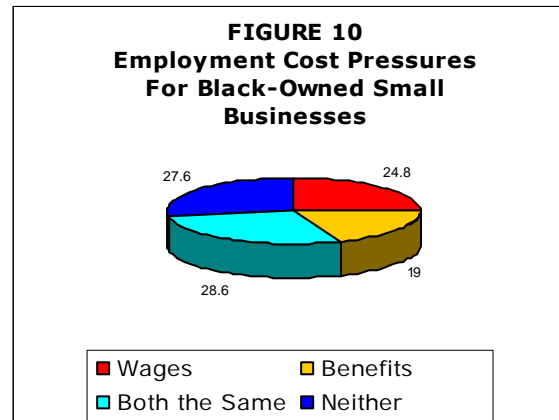
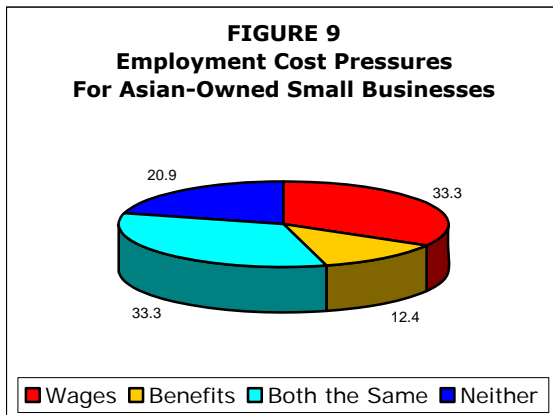
## ***EMPLOYMENT: Cost Pressures***

One third of Hispanic-owned businesses and one fourth of Asian- and Black-owned firms did not feel that wages or benefits were a significant business problem. Given that Washington has the highest minimum wage in the country, this result is somewhat surprising as increases in the minimum wage are typically viewed as affecting small businesses to a greater extent than large businesses.

An additional 30 percent of firms felt that wages and benefits were of equal concern. Eighty percent of Asian-owned firms felt employee cost pressures compared to only 72 percent of Black and two-thirds of Hispanic small businesses.

Regarding firms that felt employee costs were an issue, wages, compared to benefits were a more critical cost consideration than benefits to minority-owned businesses. Wage pressures were slightly higher for Asian-owned firms than Black or Hispanic small businesses. This may partly be due to a larger concentration of Asian-owned firms in the communications, wholesale and sectors.

Across all three groups, benefits were cited as a less critical cost concern. However, Black small business owners reported more significant pressure to meet benefits costs (19%) than Asian (12.4%) or Hispanic (11.8%) owners.



## ***BUSINESS SITUATION: Business Prospects***

More than half of all minority business owners expressing confidence in Washington economic picture, citing strong sales prospects as the reason for their confidence. Expectations for good sales in 2007 was the driver for all three ethnic groups.

Two-fifths of Hispanic and Asian small business owners felt that the seasonality of the weather was responsible for the positive business climate. In late 2006 a major storm caused severe power outages across the state. At the time of the survey, the power outages had been resolved. Greater productivity was cited by 12.3% of Asian and 8.5% of Hispanic owners.

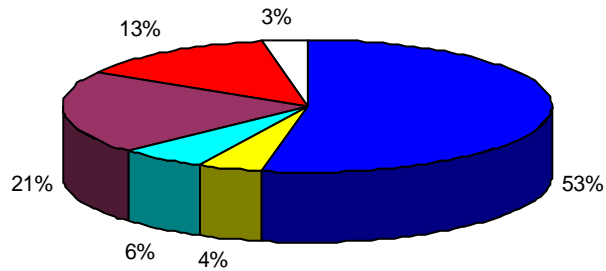
Favorable government policies and regulations (23.8%), better equipment and technology (14.3%) were the three most common reasons for a favorable business climate cited by Black-owners.

Forty percent of minority-owned business owners felt the business climate in the first quarter of 2007 would merely be okay, poor or very poor. Among these responders, one third cited government policies including tough regulations, reduced funding for specific types of projects, and paperwork associated with Request for Proposals (RFPs).

Asian-owned firms listed their top four reasons for poor business prospects in 2007 as low/decreasing sales prospects (30.6%), government regulations and cutbacks (27.4%), reasonable weather (24.2%) and cost increases 19.4%.

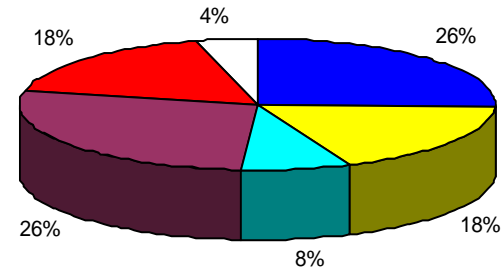
Priorities were the same for Hispanic and Black owners. Government was more likely to be cited as problematic by Black (39.5%) and Hispanic (36.8) firms. Low or decreasing sales prospects was the second most common concern for Blacks (36.8%) and Hispanics (28.9%). Cost increases were a concern for more Hispanic (28.8%) than Black (18.4%) owners.

**Table 12**  
**Reasons Why Business Prospects Are Good**



■ Sales Prospects	■ Lower Costs
■ Greater Productivity	■ Government Policies
■ Seasonal Weather	□ Price Increases

**Table 13**  
**Reasons Why Business is OK or Poor**



■ Sales Prospects	■ Higher Costs
■ Lower Productivity	■ Government Policies
■ Seasonal Weather	□ Other

## ***BUSINESS SITUATION: Problems***

Nationally, one-fourth of all small business owners cited taxes as their most significant business problem. In the second through third place problems were: (1) escalating insurance costs (19%); (2) employment costs (19%); and weak sales (10%). Competition from big business ranked 5<sup>th</sup>.

The business situation was perceived differently by Washington's small minority business owners. Two-fifths of owners listed competition from big business as the most pressing business problem. More than one fourth (26.2%) of Black, and one-fifth of Asian (20.4%) and Hispanic (17.5%) small business owners in Washington state cited competition from big business as their top concern.

Two-fifths of African American small business owners cited weak sales forecasts as their top concern. Employee quality and costs was the third most important concern – particularly due the number of openings – of black-owned firms. Asians were equally concerned with tax and employment costs, 13.8% each. Insurance costs (14.9%), weak sales (13.2%), and inflation (12.3%) followed competition from big business as top concerns of Hispanic owners.

**TABLE 8 : BUSINESS PROBLEMS FACING MINORITY-OWNED SMALL BUSINESSES**

<b>BUSINESS PROBLEM</b>	<b>Asian Pacific Island</b>	<b>Black/ African American</b>	<b>Hispanic</b>	<b>Washington Minority Average</b>	<b>National Average<sup>8</sup></b>
<b>1. Big Business Competition</b>	31 20.4%	28 26.2%	20 17.5%	79 21.2%	8.0%
<b>2. Weak Sales</b>	13 8.6%	22 20.6%	15 13.2%	50 13.4%	10.0%
<b>3. Employee Quality or Costs</b>	21 13.8%	16 15.0%	10 8.8%	47 12.6%	14.0%
<b>4. Taxes</b>	21 13.8%	13 12.1%	12 10.5%	46 12.3%	24.0%
<b>5. Inflation and Rising Prices</b>	16 10.5%	8 7.50%	14 12.3%	38 10.2%	3.0%
<b>6. Insurance</b>	12 7.9%	2 1.9%	17 14.9%	31 8.3%	19.0%
<b>7. Regulation Red Tape</b>	15 9.9%	4 3.7%	10 8.8%	29 7.8%	10.0%
<b>8. Credit Availability or Interest Rates</b>	9 5.9%	10 9.3%	2 1.8%	21 5.6%	5.0%
<b>9. Other</b>	2 1.3%	0 .0%	1 .9%	3 .8%	2.0%
<b>10. All of the Above</b>	6 3.9%	1 .9%	5 4.4%	12 3.2%	n/a
<b>11. None of the Above</b>	6 3.9%	3 2.8%	8 7.0%	17 4.6%	n/a
<b>Total</b>	152 100.0%	107 100.0%	114 100.0%	373 100.0%	100.0%

<sup>8</sup> Source:NFIB Small Business Economic Trends, February, 2007. Specific numbers of firms participating in survey not specified.

## ***BUSINESS SITUATION: Expenditures***

Almost three-fifths of Washington's minority small business owners felt they could increase sales in 2007 without investing in new equipment or making new hires. Blacks were most confident they could increase sales without additional expenditures. Two thirds (65.4%) said they could increase sales by 10% compared to 54.1% of Hispanic owners and 53.2% of Asian owners.

On the national level, 62% of small business owners made capital expenditures in late 2006. Minority business owners in Washington state were more conservative. Slightly less than half of small diverse businesses in Washington state made capital expenditures. The percentage of firms reporting capital expenditures during the last quarter of 2006 was highest for Black-owned businesses (53.3%) and lowest for Asian-owned businesses (43.9%). The percentage of Hispanic firms making capital expenditures mirrored the mean for all Washington minority businesses.

A larger percentage of Black-owned firms invested in employee training (55.7%). By comparison, two thirds of firms owned by Hispanics (62.8%) and Asians (59.7%) did not make investments in training employees in the three preceding the survey.

Technology and process improvement was the top priority of Black firms. Nearly two thirds (63.3%) these firms reported technology upgrades. Only two-fifths of Asian- and Hispanic-owned firms reported that they made process and technology improvements in the last quarter of 2006.

**TABLE 9  
EXPENDITURES IN MINORITY-OWNED SMALL BUSINESSES**

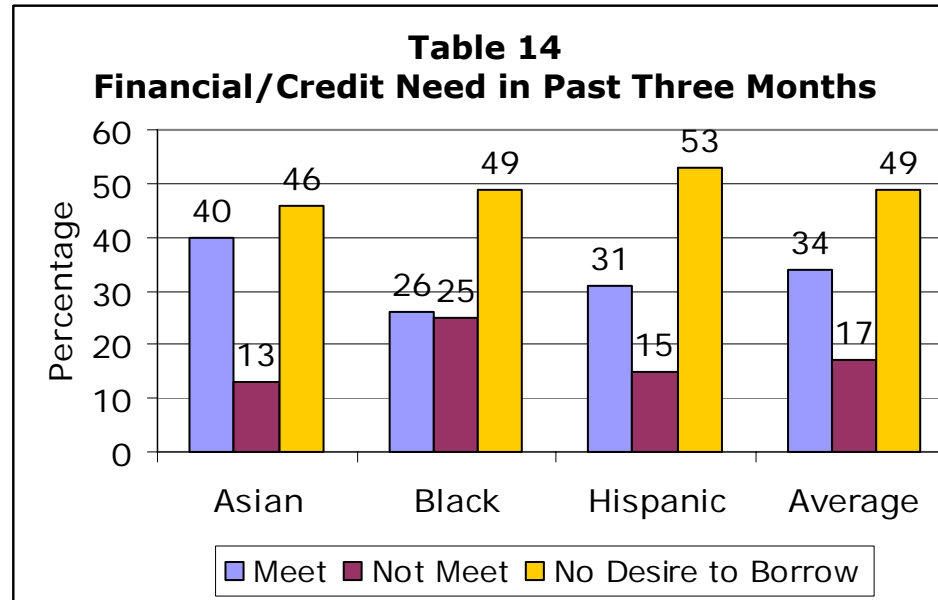
	<b>Made Capital Expenditures In Past Three Months</b>				<b>Made Expenditures to Train Employees In Past Three Months</b>			
	<b>Asian Pacific Island</b>	<b>Black/ African American</b>	<b>Hispanic</b>	<b>Total</b>	<b>Asian Pacific Island</b>	<b>Black/ African American</b>	<b>Hispanic</b>	<b>Total</b>
<b>Yes</b>	68 43.9%	57 53.3%	55 48.7%	180 48.0%	62 40.3%	59 55.7%	42 37.2%	163 43.7%
<b>No</b>	87 56.1%	50 46.7%	58 51.3%	195 52.0%	92 59.7%	47 44.3%	71 62.8%	210 56.3%
<b>Total</b>	155 100.0%	107 100.0%	113 100.0%	375 100.0%	154 100.0%	106 100.0%	113 100.0%	373 100.0%
	<b>Made Technology/ Processes Upgrades In Past Three Months</b>				<b>Increase Sales By 10% Without New Equipment or Hiring</b>			
<b>Yes</b>	63 42.4%	68 63.3%	50 44.8%	181 48.8%	74 53.2%	68 65.4%	59 54.1%	201 57.1%
<b>No</b>	89 58.6%	39 36.4%	62 55.4%	190 51.2%	65 46.8%	36 34.6%	50 45.9%	151 42.9%
<b>Total</b>	152 100.0%	107 100.0%	112 100.0%	371 100.0%	139 100%	104 100%	109 100%	352 100%

## ***BUSINESS SITUATION: Credit Availability***

Financing business growth is a serious concern for all businesses but it is more of a concern for small businesses. The majority of small minority-owned firms nationally are financed by personal and family savings.<sup>9</sup> Rates are highest for Asian firms (75%) followed by Hispanic (71%) and Black firms (69%) rather than through loans. Nationally, 36% of small businesses felt their credit needs were satisfied and only 5% were dissatisfied.<sup>10</sup>

Almost half of all small minority firms in Washington state did not need to borrow in the last quarter of 2006. This is noteworthy considering that almost half (48.8%) of firms upgraded technology and processes and made capital expenditures (48%) during the same period.

Black-owned businesses had the highest proportion of credit needs that were not satisfied (25%). Asian and Hispanic businesses had about the same percentage of credit needs which were not satisfied, 13% and 15%, respectively. As already noted, a larger proportion of Black owners invested in technology, process improvements and employee development than Hispanic and Asian owners. Thus, Blacks may have had greater credit needs than their counterparts and therefore it was less likely that all needs were or could be met.



<sup>9</sup> Source: Lowrey, Y. April 10, 2007. Minorities in Business: A Demographic Review of Minority Business Ownership. Office of Advocacy, U.S. Small Business Administration.

<sup>10</sup> Source: National Federation of Independent Business Survey

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## ***APPENDIX A: Sources of Data, Sampling and Definitions***

The BEDC retained Northwest Research Group (NWRG) to assist with data collection for this project. Data collection services are required from a professional marketing and survey research firm to enhance the reliability of the data collected. In addition, this ensured the confidentiality of highly sensitive respondent information that was gathered and conclusions to be made with greater confidence.

A total of 376 interviews was completed for the January 2007 Washington Minority Small Business Index Survey. The sample was generated from a list of small businesses produced by Dunn & Bradstreet and supplemented from other sources. This data set contained a total of 4,694 minority business contacts. After data cleaning, this list produced 1,163 Hispanic, 473 African American and 2,622 Asian / Pacific Islander sample elements. Overall, 155 Asian / Pacific Islander, 114 Hispanic and 107 African American business owners completed the January 2007 Washington Minority Business Index Survey. To ensure meaningful conclusions, the percentage of African American owned firms, participating in the survey was larger than that of Hispanic and Asian firms. Survey participants self-identified themselves by their ethnicities.

Efforts were made to ensure the sample was representative of all geographic areas of the state.

	<b>Interviews</b>
<b>Asian/Pacific</b>	<b>155</b>
<b>Hispanic</b>	<b>114</b>
<b>Black/ African American</b>	<b>107</b>
<b>Total</b>	<b>376</b>

For the Washington Minority Small Business Survey, a mixed mode data collection methodology was utilized. Initial contact with business owners was conducted via telephone and survey respondents were given the option to continue over the phone or participate in the survey online at their own convenience.

For telephone respondents, interviewers then read the questionnaire and entered the data directly into a data file. Interviewers keyed data for closed-response questions directly. Interviewers typed in verbatim responses to questions with an "other" category.

For the online participants, NWRG obtained e-mail addresses via telephone and sent an e-mail invitation and a unique survey link to the web based survey to those respondents. If the respondent chose to start the survey and needed to continue it at a later time, the customized link automatically restarted where the respondent left off.

### **Survey Instrument**

The survey instrument contains the following major sections:

- Introduction and Screening;
- Business Climate;
- Outlook for Business;
- Sales and Earnings;
- Employment;
- Productivity;
- Price; and
- Firmographics.

The telephone survey averaged 14.2 minutes. A version of the telephone questionnaire was also available in Spanish. Just one interview was completed in Spanish during the January 2007 collection period.

### **Sample Disposition**

- Effective Study Incidence = 59.5%. (Qualified Respondents<sup>(1)</sup> / [Qualified Respondents<sup>(1)</sup> + Unqualified Respondents<sup>(2)</sup>])
- Response Rate = 19.9%. Completed Interviews / ([Complete Interviews + Partial Interviews] + [Refusal + Non Contact + Other] + estimate(Unknown Businesses + Unknown Other))
- Cooperation Rate = 59.0%. Complete Interview / ([Complete Interview + Partial Interview] + Refusal) ]

### **Definitions**

The Recent Performance and Minority Business Confidence Indices were calculated by summing the responses to the four questions related to each index (see Table 1), subtracting 4 from the total (to set the minimum at zero) and multiplying the result by either 100/16 (Recent Performance) or 100/18 (Minority Business Confidence) to create a 100 point scale. An index score of fifty is equivalent to mid-scale responses to each question.

The Washington Minority Small Business Index did not drill down to determine the specific ethnicities of Hispanics and Asians or whether business owners were naturalized or not. The ethnicities of the Hispanic subgroup included Mexican, Mexican American, Chicano, Puerto Rican, Cuban, or Other Spanish/ Hispanic/ Latino combinations. Asian business owners included Asian Indian, Chinese, Filipino, Japanese, Korean, Vietnamese and other Asians. Nationally, the majority of Asians (80.8%) and Hispanics (56.8%) in the U.S. are immigrants, either naturalized or not.

## ***ABOUT: The Business and Economic Development Center***

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Since 1995, the **Business and Economic Development Center (BEDC)** has linked students, faculty, and staff from the University of Washington Business School with a racially and ethnically diverse business and nonprofit community to expand students' knowledge and skills, to help small businesses grow, to create and retain jobs, stimulate innovative economic development research, and to open educational opportunities for under-represented minority students.

**Small Business Programs.** The BEDC supports business growth by improving management skills in targeted Washington communities through a number of programs:

- **Business Assistance Program.** Through intensive business consulting by students working with Rotary Club mentors, the BEDC has helped create more than 600 jobs and added more than \$25 million in revenue for client firms.
- **Minority Business of the Year Awards Program** recognizes Washington's largest and fastest growing minority-owned businesses and awards scholarships to under-represented minority students at the UW Business School.
- **Executive Education Scholarships.** Scholarships enable business owners who are seeking to transform their company to attend seminars and the management program offered by the UW Business School.
- **Minority CEO Seminars.** Seminars on business strategy featuring UW Business School faculty and business leaders are offered throughout Washington for CEOs of the state's largest and fastest growing minority-owned businesses.

Additional copies of this report are available from:

**Michael Verchot, Director**  
**BEDC**  
**University of Washington Business School**  
**Box 353200**  
**Seattle, WA**  
**(206) 543-9327**  
[busdev@u.washington.edu](mailto:busdev@u.washington.edu)

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### **Community Development Programs.**

Recognizing that strong communities are important for small businesses success, the BEDC supports nonprofit organizations that develop a skilled workforce and support small business success.

- **Board Fellows Program.** MBA students serve on nonprofit Boards of Directors in a program that simultaneously teaches MBAs about governance and strategic decision-making while assisting organizations to gain access to new ideas and innovative strategies.
- **Summer Internship Program.** The BEDC places graduate and undergraduate students with community development agencies for paid internship positions each summer.

**Diversity in Business Research.** The BEDC has assembled the largest group of faculty in the US that focuses on diversity in business research. Faculty are drawn from Finance, Marketing, Management and Organization, Entrepreneurship, and Information Systems.

**Student Programs.** The BEDC has inaugurated four scholarship programs to increase diversity at the UW Business School and reward students who works with the BEDC to support the growth of minority-owned businesses in Washington.

- **Ernest I.J. Aguilar Endowed Scholarship.** This is the first endowed scholarship for Latino MBA students in the nation.
- **African American Heritage Endowed MBA Scholarship.** This endowed scholarship, when fully funded, will recognize African American MBA students.
- **Association of Black Business Students Endowed Scholarship.** This endowed scholarship will support African American undergraduate students, when fully funded.
- **BEDC Fellowship.** The BEDC Fellows receive \$2,500 scholarships as well as serve as mentors and tutors for high school students of color in Seattle.

# ***ACKNOWLEDGEMENTS***

The Washington Minority Small Business Survey was partially funded with a grant from the University of Washington Diversity Research Institute, Office of Minority Affairs and Diversity, with support from the Provost's Office and a grant from the University of Washington Business School.

Special thanks also goes to the BEDC's advisory board which guides program development and implementation and evaluates the center's impact including the results of the survey. Advisory board members are engaged in building partnerships, leveraging resources, and raising the funding that makes the BEDC a successful program. Members of the BEDC Advisory Board are listed on the right.

We also wish to thank Michael Verchot, Director, UW-Business and Economic Development Center who assisted with planning and fund raising. We are currently seeking one or more corporate sponsors for the bi-annual Washington Minority Small Business Survey.

## **BEDC Advisory Committee**

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