

# 2017 RESEARCH REPORT



## STATE OF LATINO ENTREPRENEURSHIP

**STANFORD** GRADUATE  
**BUSINESS** SCHOOL OF

Latino Entrepreneurship  
Initiative



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# ABOUT THIS REPORT

**With this report, the Stanford Latino Entrepreneurship Initiative (SLEI) highlights key research findings from its third annual Survey of U.S. Latino Business Owners. In this survey, we examine issues specifically related to Latino entrepreneurs and Latino-owned businesses in the United States. This report expands upon existing studies, including the 2015 and 2016 State of Latino Entrepreneurship reports. We continue to investigate financing and the importance of growth for Latino businesses, and conduct further analysis on the role of national banks.**

Where other third-party research on this population may focus only on specific regions or have small sample sizes, our survey of more than 5,000 self-identified Latino business owners allows us to consider various segments within the larger group (i.e., intragroup comparisons), including firm size, gender, age, and nativity of entrepreneurs.

Additionally, we collect information about growth and growth challenges, with our primary findings around financing, and include detailed business-owner demographics. This report provides academic researchers, policymakers, and business leaders with insights on U.S. Latino-owned firms and the barriers they face in scaling up their businesses.

We supplement our data with national data for other demographic groups from the most recent U.S. Census Bureau Survey of Business Owners (SBO) and the Annual Survey of Entrepreneurs (ASE), as well as other third-party data sources. Since these sources use a variety of terms to define their samples and measures, we have provided a glossary of terms in Appendix A. Read more about our methodology in Appendix B.

We include in this report insights from alumni of the Stanford Latino Entrepreneurship Initiative-Education Scaling Program (SLEI-Ed). While these contributions are currently anecdotal, as the alumni network of the program grows and we track the development of their businesses, we will include more formal analyses of the group in future reports.

## **CONTRIBUTORS**

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# SECTION I EXECUTIVE SUMMARY

**This report uses our 2017 Survey of U.S. Latino Business Owners to provide comprehensive insights into an increasingly important and growing segment of businesses in the United States. We explore the profile of the Latino entrepreneur and examine the opportunities and barriers in funding that Latino business owners face as they launch and grow their enterprises.**

Latino-owned firms compose a significant—and still growing—percentage of U.S. businesses. The growth rate of Latino businesses in the United States, both non-employer and employer firms (those that have paid employees), has outpaced the growth rate of all other groups.<sup>1</sup> This growth comes despite the fact that Latino businesses have the lowest rate of financial institution-based loans among all other groups of employer firms.

While the rising U.S. Latino population has an influence on the number of Latino firms being created, as a demographic segment, Latinos have the highest rate of new entrepreneurs. That is, if we consider entrepreneurial outcomes as opposed to inputs, such as the rate of new entrepreneurs (the percentage of adults becoming entrepreneurs), the opportunity share of new entrepreneurs (the percentage of new entrepreneurs driven by opportunity as opposed to necessity), and startup density (the number of new employer businesses by total business population),<sup>2</sup> Latinos make up a substantial segment of the U.S. economy.

In 2015, the gross domestic product (GDP) produced by all Latinos in the United States was \$2.13 trillion.<sup>3</sup> In 2012, we calculated an additional \$1.38 trillion added to the U.S. GDP if Latino businesses managed to close the opportunity gap (i.e., the difference between the average annual revenues of Latino vs. non-Latino owned firms). Supplemental census data shows that the number of Latino firms has continued to rise since 2012, which indicates that the opportunity gap has also grown. In today's dollars, that is about \$70 billion more, or \$1.47 trillion. The insights that follow highlight key issues and findings related to this opportunity gap.

**National banks provide less loan funding to Latino-owned businesses, relative to other external funding sources and other demographic groups.**

National banks provide less loan funding to surveyed Latino-owned businesses relative to other external funding sources such as venture capital, angel investment, and private equity, and relative to other demographic groups. In fact, the low rate of national bank funding is second only to that of the Small Business Administration, which is the lowest funding source for Latino firms.

Considering only Latino-employer firms, Latino-owned businesses have the lowest rate of business loans from financial institutions among all other firms. Only 12 percent of Latino businesses access bank loans, compared to 18.4 percent for white-, 15.3 percent for Asian-, and 14.2 percent for black-owned firms.<sup>4</sup> National bank loans are used less often than all other funding except SBA loans. Latino firms currently have the lowest number of government-backed loans, although nine times that number say they would like to have them.

**Latina-owned companies are increasing in number at a rapid rate; however, Latina entrepreneurs face a funding ceiling.**

Latinas play a prominent role in Latino-owned business growth trends, having increased by 87 percent between 2007 and 2012. Latina-owned businesses represent nearly half of all Latino firms. In contrast, non-minority women-owned firms represent a smaller share of all non-minority-owned firms (just over one-third). However, access to capital, a major facilitator of business growth, presents a challenge for Latina business owners, many of whom perceive themselves as “not qualified” to receive funding from financial institutions compared to men, even when holding firm size constant.

**Successful Latino immigrant entrepreneurs are more likely to be millennials who came as children to the United States.**

Millennial (ages 18-34) immigrants who came to the United States as children are overrepresented amongst immigrant owners of businesses earning \$1 million or more annually. Specifically, 86 percent of scaled (\$1M+) immigrant-owned firms are owned by millennials who immigrated as children. By spending their formative school years in the United States and with expanded access to higher education, they develop English language skills more quickly than older immigrants and have opportunities to acquire various forms of capital (i.e., social, cultural, and financial). At the same time, they are motivated by “immigrant optimism,”<sup>5</sup> and through psychological acculturation,<sup>6</sup> this group excels as entrepreneurs.

**Latino-owned businesses are international in reach.**

Among all employer firms, Latino firms have the highest rate of business clients and customers outside the United States (4.5 percent vs. 4 percent for Asian-, 2 percent for white-, and 1.9 percent for black-owned firms).<sup>7</sup> Among all Latino firms surveyed, 9 percent have international clients and 28 percent have clients throughout the United States, demonstrating a propensity to be global-minded.



# SECTION II INTRODUCTION

**The Latino population continues to steadily grow, representing 17.6 percent of the total U.S. population today and accounting for more than half of total U.S. population growth in recent years.<sup>8</sup> Furthermore, Latinos make up the youngest major racial or ethnic group in the United States, of which one in three (17.9 million) are under the age of 18, and about 25 percent (14.6 million) are millennial age.<sup>9</sup> Population size plus youth make the trends highlighted in this report all the more defining.**

Consumer-focused reports often emphasize the significant purchasing power that Latinos represent. However, Latinos are more than just consumers as they produce immense value as employees and as employers throughout their entrepreneurial careers. According to the Latino Donor Collaborative, if Latinos in the U.S. were an independent country, the Latino gross domestic product would be the seventh largest in the world. In 2015, the GDP produced by Latinos in the United States was \$2.13 trillion, larger than the GDPs of India, Italy, or Canada. This represents a massive opportunity to expand the United States economy. One pathway forward is through the opportunity gap found between Latino-owned and other businesses. If the opportunity gap (the difference between the average annual revenues of Latino vs. non-Latino owned firms) were closed, we could expect to see more than \$1.47 trillion added to the Latino GDP.

## **THE GROWTH OF LATINO BUSINESSES OUTPACES OTHER DEMOGRAPHIC SEGMENTS**

As we have seen in previous years, the creation rate of U.S. Latino-owned firms continues to rise; they currently compose more than 40 percent of all minority-owned firms. Between 2007 and 2012, the growth rate of both non-employer and employer<sup>A</sup> Latino firms nearly outpaced the growth rate of white-, Asian-, and black-owned firms combined. Without the increased numbers of Latino firms created during that period, the total number of firms in the United States would have decreased. If we consider only employer firms, this growth rate is still strong relative to black- and white-owned firms, and comparable to Asian-owned firms (Figure 1).

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<sup>A</sup> An “employer firm” is a firm that has employee(s) on payroll. See Appendix A for the Glossary of Terms used in this report.

FIGURE 1: NUMBER OF NON-EMPLOYER AND EMPLOYER FIRMS ACROSS GROUPS, 2012 AND 2015

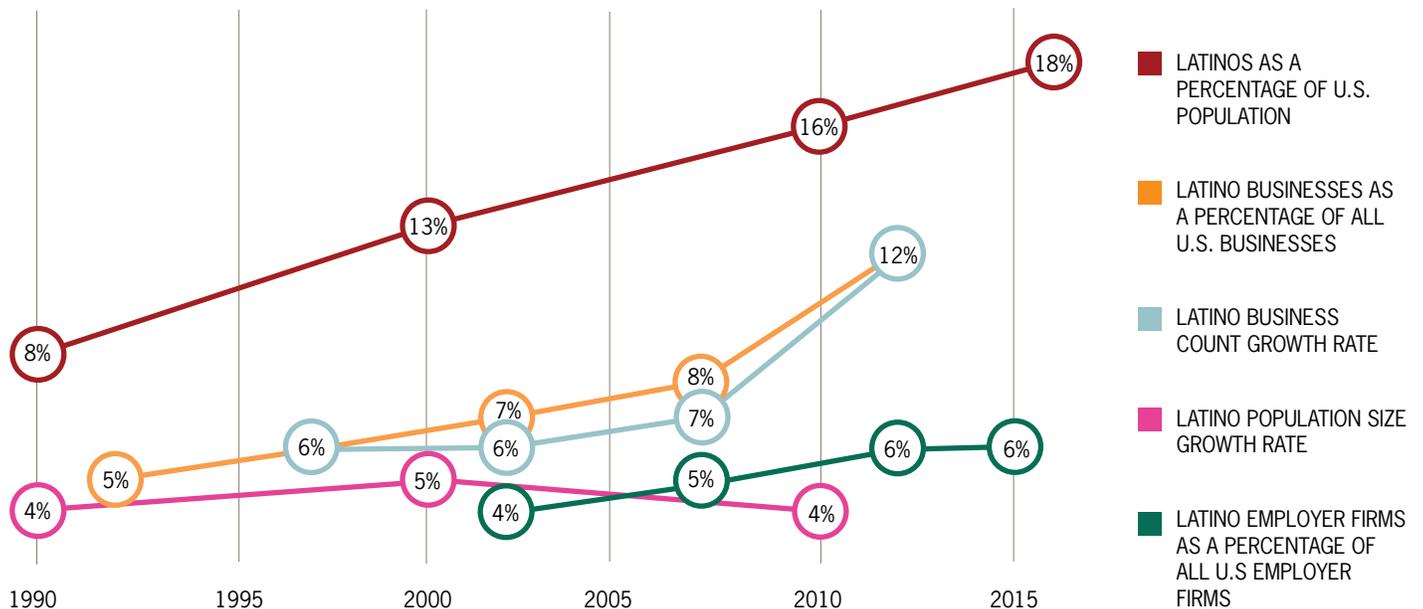
	2012 SURVEY OF SMALL BUSINESS OWNERS		2015 ANNUAL SURVEY OF ENTREPRENEURS	
	FIRMS WITH OR WITHOUT PAID EMPLOYEES	GROWTH, ALL FIRMS SINCE 2007	EMPLOYER FIRMS ONLY	GROWTH, EMPLOYER FIRMS SINCE 2007
WHITE-OWNED FIRMS	18,987,918	-6%	4,172,715	-4%
<b>LATINO-OWNED FIRMS</b>	<b>3,305,873</b>	<b>46%</b>	<b>312,738</b>	<b>26%</b>
BLACK-OWNED FIRMS	2,584,403	34%	113,643	7%
ASIAN-OWNED FIRMS	1,917,902	24%	530,406	33%

Source: Survey Of Small Business Owners (SBO), U.S. Census Bureau; Annual Survey Of Entrepreneurs (ASE), U.S. Census Bureau

**LATINO BUSINESSES ARE GROWING FASTER THAN THE LATINO POPULATION**

The rapid growth of Latino-owned firms comes despite a recent downward trend in the U.S. Latino population growth rate. That is, Latino businesses are growing at an even faster rate than the U.S. Latino adult population.<sup>A</sup> By total numbers, Latino businesses make up 42 percent of all minority firms. It is difficult to estimate an exact number of Latino firms in 2017 given current data availability. One projection estimates there were 4.4 million in 2017.<sup>10</sup> Using an updated projection method from our 2015 report, the estimate can be as high as 5.3 million. Figure 2 shows the growing size of the Latino firms as a percentage of all U.S. businesses and as a percentage of all U.S. employer firms.

FIGURE 2: LATINO POPULATION AND BUSINESSES WITHIN THE UNITED STATES



Source: Calculations from the SBO and U.S. Census

<sup>A</sup> Still, the growth is not unabated as it captures firm starts but masks firm failures. As Fairlie and Robb (2008) note, Latino- and black-owned firms have higher failure rates relative to white- and Asian-owned firms, and have lower sales and receipts. By total numbers, Latino-owned businesses make up 42 percent of all minority-owned firms. However, Latino business owners are underrepresented given their population size.

## MEASURES OF GROWTH: SCALE AND PROFIT

Scaled firms, those generating at least \$1 million in annual revenue, represent a measuring stick of economic success and viability. Scaled firms, however, represent only 2 to 3 percent of the Latino-owned firm ecosystem.<sup>A</sup> A second measure of economic success is profit growth. Among those surveyed, 62 percent of Latino businesses report profit growth in the last 12 months. These profit-growth firms are evenly spread across gender, age, and nativity of the entrepreneurs. Profit-growth firms are more likely to be scaled, and more than one-third of Latino businesses experiencing profit growth are under 5 years old. Given this, we expect that in the near future, the number of scaled Latino firms should increase substantially. Third-party research has found that when young firms are growing, they strongly contribute to job growth.<sup>11</sup>

While scale and profit growth capture internal success, as a final measure, we consider the growth in the number of employer firms (those that have paid employees). This measure captures the aggregate success of Latino-owned firms. Employer firms make up a smaller but critical subset of the small business ecosystem in the United States. Employer firms, which according to the SBA make up one-quarter of all businesses, account for about 97 percent of business receipts. Employer firms make up about 9 percent of all Latino firms, and 80 percent of Latino business receipts. This segment is on the rise, having grown in number by 26 percent since 2007.

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<sup>A</sup> Among non-minority-owned firms, 6 percent are scaled firms, having annual revenues of \$1 million or more.



# SECTION III

## ENTREPRENEURIAL PROFILES

**Our 2017 survey of more than 5,000 Latino entrepreneurs enables us to analyze various segments within this demographic, including (but not limited to):**

- Scaled vs. unscaled firms
- Native-born vs. immigrants
- Female vs. male entrepreneurs
- Millennial (ages 18-34) vs. non-millennial (age 35+)
- Regional insights (U.S. and global)
- Profit-growth vs. profit-loss/break-even firms

### **ENTERPRISING QUALITIES**

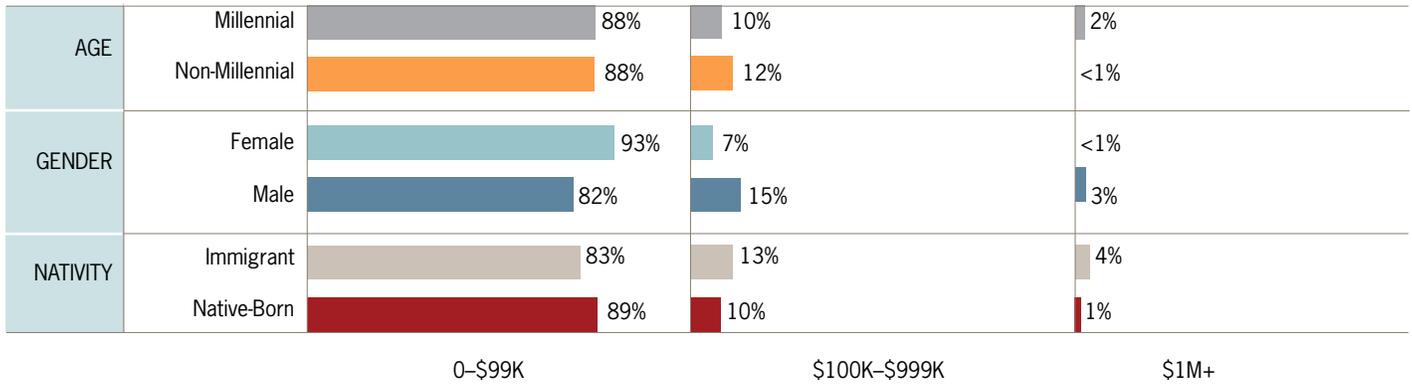
Latino entrepreneurs exhibit strong enterprising qualities through their engaged networking behaviors, above-average levels of higher education, and strong family histories of entrepreneurship. One out of three Latino-owned firms is engaged with a formal business institution, such as a general or Hispanic chamber of commerce, advisory board, or trade association. Scaled-firm owners are very highly engaged, with 78 percent reporting active networking. Additionally, more than twice the number of Latino business owners hold at least a four-year college degree (37 percent), compared to the Latino general population (16 percent). Lastly, 51 percent of Latino entrepreneurs surveyed report a family history of entrepreneurship, with a close family member currently or previously owning a business. Taken altogether, these qualities signal a high entrepreneurial drive within the Latino population.

### **SCALED FIRMS ARE MORE LIKELY TO HAVE HIGHLY EDUCATED IMMIGRANT OWNERS**

Examining the immigrant vs. native-born categories more closely in this year's survey, we see that for the overall population of Latino business owners surveyed, over half are owned by immigrants or children of immigrants. Twenty seven percent are first generation immigrants, 26 percent are second generation since since immigration (U.S.-born with at least one immigrant parent), and 46 percent are third-plus generation since immigration (U.S.-born with U.S.-born parents).

As highlighted in our 2016 report, immigrants are overrepresented among owners of businesses with annual revenues of \$1 million or more, with nearly half of scaled firms being immigrant-owned. Immigrant owners tend to be more highly educated, with at least a four-year college degree (54 percent vs. 50 percent), and more networked (42 percent vs. 31 percent) than native-born Latino entrepreneurs, which may be among the reasons we see success among immigrants in terms of their ownership of scaled firms. Figure 3 shows that Latino males, immigrants, and millennials represent slightly greater segments of scaled firms.

FIGURE 3. REVENUE ACROSS LATINO ENTREPRENEUR PROFILES



Composition of U.S. Latino-Owned Firms: Millennial 40%; Non-Millennial 60%; Female 42%; Male 58%; Immigrant 27%; Native-Born 73%  
 Source: SLEI Survey of U.S. Latino Business Owners 2017

**DACA-COMPARABLE MILLENNIALS OWN THE MAJORITY OF SCALED LATINO IMMIGRANT BUSINESSES**

Given our large sample size, we break the immigrant category down further into a DACA<sup>A</sup>-comparable group, millennial-age immigrants who came to the United States as children. Twenty-seven percent of Latino businesses are immigrant-owned, with 42 percent of those in the DACA-comparable group. Further, 86 percent of the scaled Latino businesses are owned by immigrants under the age of 34.

One of the only existing estimates of the number of undocumented entrepreneurs is from New American Economy, which estimates that there were approximately 912,472 undocumented entrepreneurs in the United States in 2014, accounting for almost 10 percent of the working-age undocumented population. In more than 20 states, they have higher rates of entrepreneurship than their permanent resident or citizen counterparts. These individuals often create American jobs and generate approximately \$17 billion in business income.<sup>12</sup>

Third-party research shows that early-arriving first-generation immigrants perform better in school than second- and later-generation immigrants.<sup>13</sup> Immigrant families, including young immigrant children, arrive with “immigrant optimism,” where higher ambitions drive their success in school.

We see a similar ambition among millennial immigrant entrepreneurs who have learned they can be successful in the United States through entrepreneurship. Third-party research on psychological acculturation, or the process by which immigrants develop an emotional attachment to the host culture, shows the impact of entrepreneurial behavior on the paths of acculturation.<sup>14</sup> The path for the DACA-comparable group is shown here to be one of successful business ownership. Entrepreneurship also allows a vulnerable segment of this population, undocumented immigrants, to overcome the structural barriers to pursuing employment in the United States. Although employers may not knowingly hire an undocumented immigrant without work authorization, federal and state laws do not require proof of immigration status for an individual to start a business. The majority of DACA beneficiaries speak English fluently, have higher-education degrees, and have built strong social networks through civic engagement and advocacy. The limited opportunities in the employment sector as a result of immigration status may push young immigrants to pursue entrepreneurship as an alternative to employment in their chosen fields of study. Proficient English skills, higher education, and strong networks are likely to play a role in the success of young immigrant entrepreneurs.

<sup>A</sup> DACA, the Deferred Action for Childhood Arrivals, is an immigration policy that allowed undocumented immigrants who came as minors to the United States to receive a renewable two-year deferred action from deportation, with the opportunity to continue their schooling or obtain a work permit. In this report, a “DACA-comparable group” is defined as immigrants under 31 years of age as of June 15, 2012, who came to the U.S. before their 16th birthday. That would make them 35-36 years old in 2017, which is around millennial age and suitable for the purposes of a proxy category. DACA-comparable does not imply DACA-eligible or -granted status. These are approximations to comparable criteria; actual immigration status is not surveyed.

FIGURE 4. IMMIGRANT DISTRIBUTION ACROSS FIRM TYPES

	UNSCALED FIRMS (<\$1M)	SCALED FIRMS (\$1M+)
IMMIGRANT MILLENNIALS (18-34)	10%	25%
IMMIGRANT NON-MILLENNIALS (35+)	90%	75%
IMMIGRANT MILLENNIALS: ARRIVED BEFORE AGE 16	39%	<b>86%</b>
IMMIGRANT NON-MILLENNIALS: ARRIVED AGE 16 AND OVER	61%	14%
NATIVE-BORN MILLENNIALS	30%	19%
NATIVE-BORN NON-MILLENNIALS	70%	81%

Source: SLEI Survey of U.S. Latino Business Owners 2017

**IMPACT OF LATINA ENTREPRENEURS**

Latinas play an important role in creating new businesses, representing nearly half of the growth of all U.S. Latino-owned firms. Between 2007 and 2012, the number of Latina-owned firms grew 87 percent. Between 2007 and 2015, Latina-employer firms grew in number by 44 percent. While the growth rate in the number of Latina-owned firms remains healthy, they tend to be smaller than male-owned firms. Among the 3 percent of scaled firms, 30 percent are owned by women. Latinas are less represented in the construction industry, which makes up four in ten of the scaled firms (see High Growth Industries subsection below), and are overrepresented in the “other services” industry classification as compared to male-owned firms.

FIGURE 5: GROWTH RATES FOR FEMALE-OWNED FIRMS ACROSS RACIAL AND ETHNIC GROUPS, 2007-2015

FEMALE-OWNED EMPLOYER FIRMS, 2007-2015			
ASIAN	91,775	146,101	59%
BLACK	32,109	38,478	20%
LATINA	53,044	76,383	44%
WHITE	726,149	815,526	12%
	2007 EMPLOYER FIRMS	2015 EMPLOYER FIRMS	GROWTH RATE, EMPLOYER FIRMS

ALL FEMALE-OWNED FIRMS, 2007-2012			
ASIAN	522,969	794,197	43%
BLACK	911,728	1,521,494	67%
LATINA	787,914	1,469,991	87%
WHITE	5.5M	6M	9%
	2007 ALL FIRMS	2012 ALL FIRMS	GROWTH RATE, ALL FIRMS

Source: SBO 2012, ASE 2015

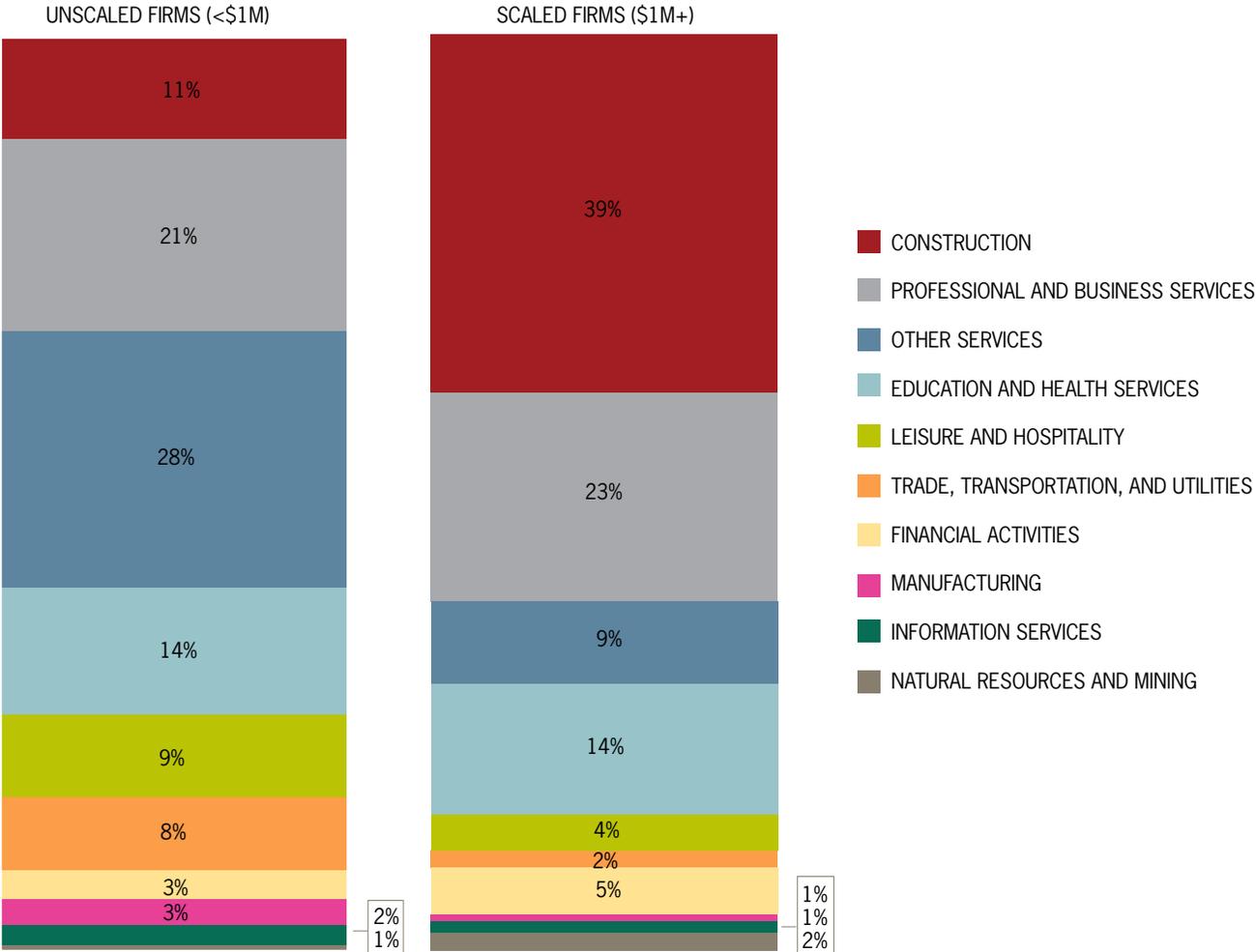
Our survey findings show that, despite their high levels of business creation, Latinas feel that they are not qualified to access funding from financial institutions at higher percentages as compared to men (40 percent vs. 21 percent), even when compared to men with similarly sized firms. Thus, there may be a funding ceiling (either external or self-imposed) preventing more Latinas from reaching their full business potential.

**SCALED FIRMS ARE MORE LIKELY TO BE FOUND IN HIGH-GROWTH INDUSTRIES**

As discussed in our previous reports, Latino firms span a variety of industries and are most concentrated in industries that have the highest projected growth rates, such as construction, other services (except public), and professional/business services.<sup>A</sup> Some differences in these concentrations emerge when scaled firms are separated from unscaled firms within each industry.

As shown in Figure 6, 39 percent of all scaled Latino firms are in the construction industry, in contrast to only 11 percent of unscaled firms. However, professional services—another industry with a high growth rate—is almost equally represented among both scaled and unscaled firms, at 23 percent and 21 percent, respectively. Because scaled firms tend to be more mature, professional service firms represented among those generating less than \$1 million in annual revenue may not yet have reached maturity to see the high growth expected longer term.

**FIGURE 6. INDUSTRY DISTRIBUTION AMONG SCALED AND UNSCALED LATINO FIRMS**

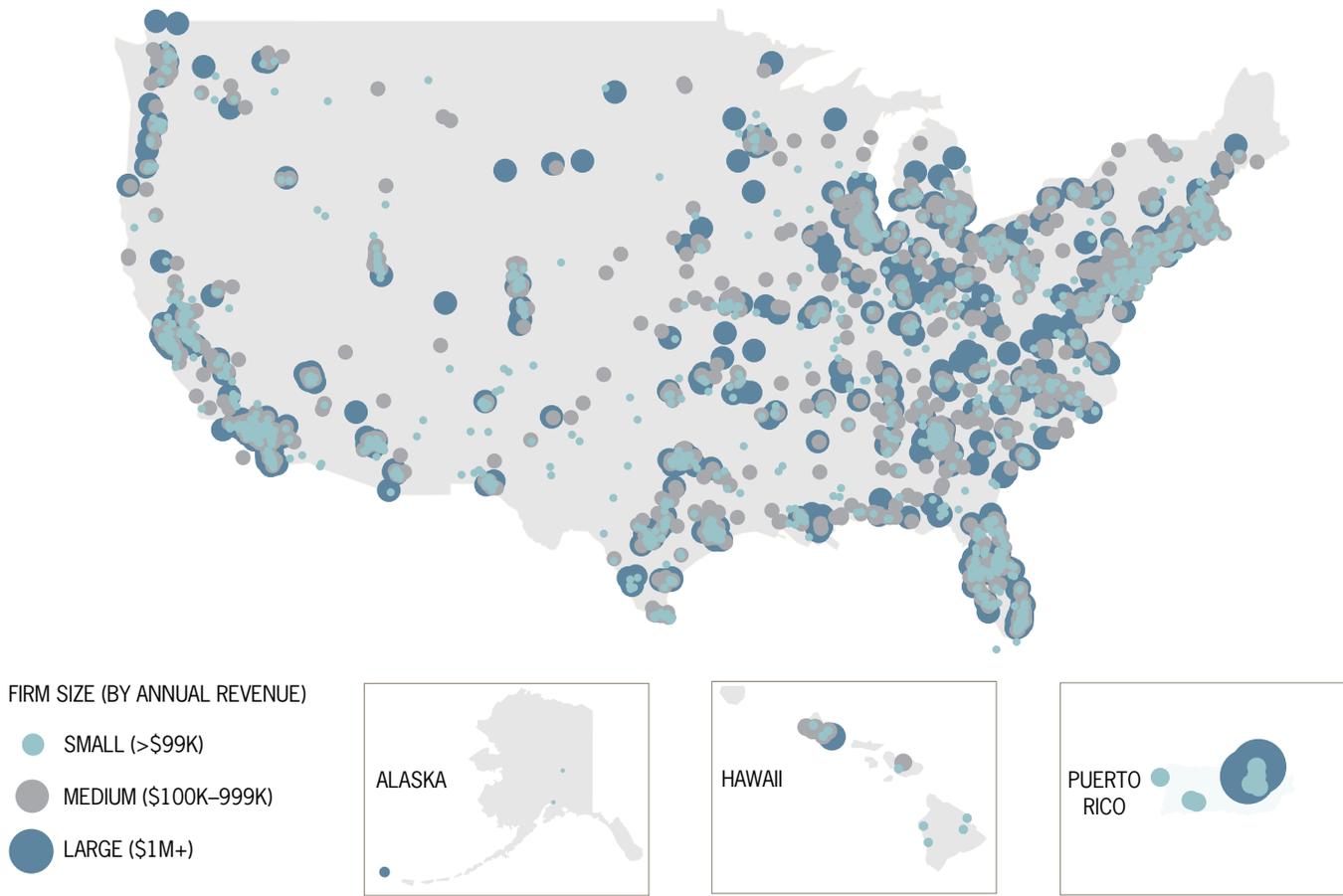


Source: SLEI Survey of U.S. Latino Business Owners 2017

<sup>A</sup> See the 2015 SOLE report for a detailed breakdown of industries for Latino- and non-Latino-owned businesses.

A key finding in our 2015 SOLE report revealed that Latino-owned businesses are located in all regions of the United States, with 75 percent in majority non-Latino neighborhoods serving mostly non-Latino customers. Figure 7 shows our 2017 sample of Latino firms distributed across the United States. This coincides with the fact that the Latino population has increased most rapidly in areas with a relatively small number of Latinos overall, such as North Dakota and the southern states, according to the Pew Research Center. New Latino firms tend to follow new gateways among Latinos in general.

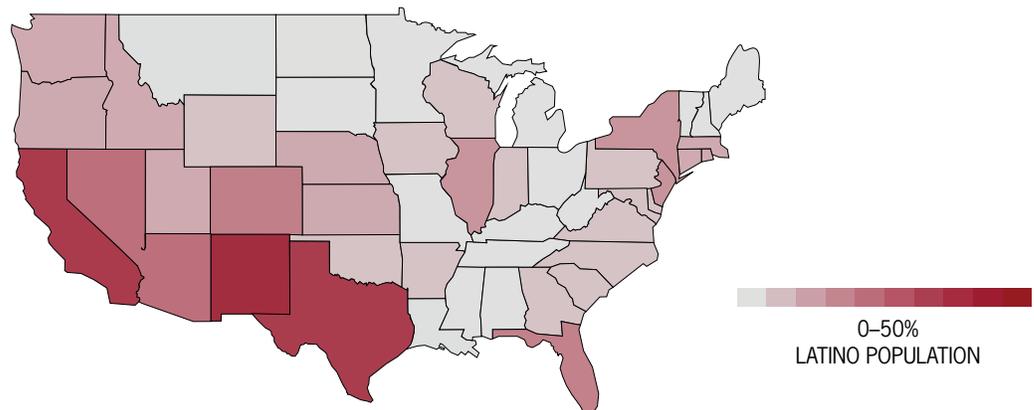
FIGURE 7. LOCATION AND FIRM SIZES OF LATINO-OWNED BUSINESSES IN THE UNITED STATES



Source: SLEI Survey of U.S. Latino Business Owners 2017

POPULATION OF LATINOS IN THE UNITED STATES

The location of Latino-owned businesses is not dictated by the density of the Latino population.



Source: U.S. Census, 2010



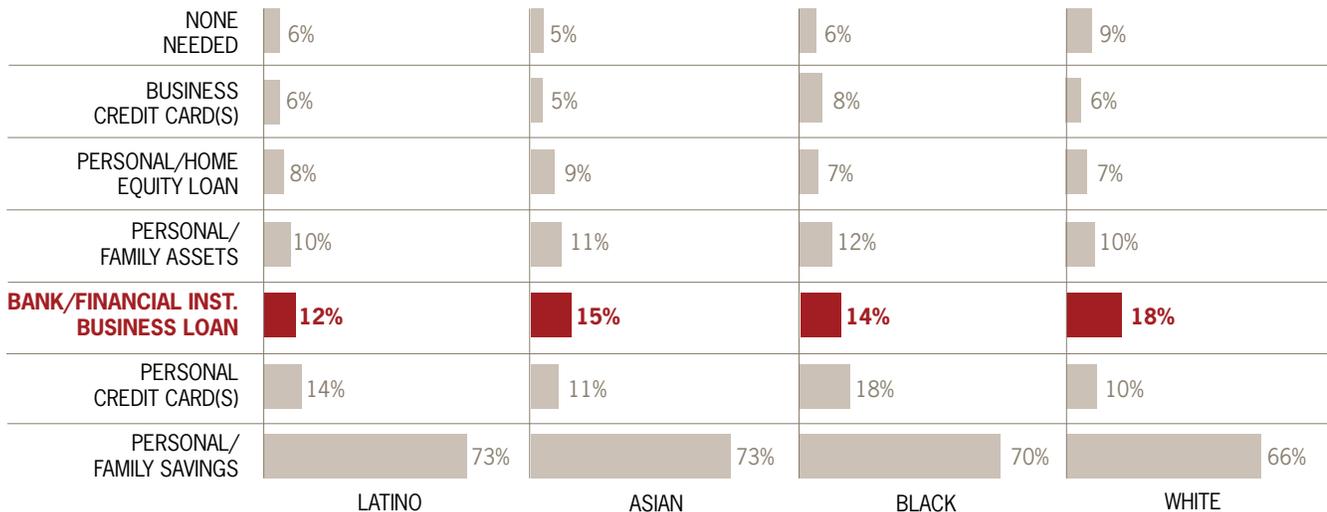
# SECTION IV FUNDING STRATEGIES

**For any business, access to capital is a major predictor of business growth, and, consequently, a lack of access can be a major barrier. Latino entrepreneurs experience funding challenges similar to those of other small business owners and, like other business owners, may rely primarily on personal and family funds for financing.**

## FUNDING USED TO START BUSINESS

More than 70 percent of Latino entrepreneurs use “internal” funds, such as personal savings or loans from family and friends, to start their businesses. This is commensurate with both Asian- and black-owned firms, but substantially higher than for white firms (72.5 percent vs. 65.9 percent). If we combine this with similar disparities in the use of personal credit cards, we see that Latinos bear more personal financial risk in starting their businesses. For employer firms (Figure 8), we see similar trends with internal funding sources across demographic groups. However, Latino employer firms access fewer business loans from banks or financial institutions than all other groups. Among employer firms, only 12 percent of Latino firms secure bank loans, compared to 18.4 percent for white-, 15.3 percent for Asian-, and 14.2 percent for black-owned firms. Among those that attempted to receive growth funding from a financial institution, 6.2 percent of Latino employer firms did not receive the requested funds, compared to 3.1 percent for non-minority-owned firms.

FIGURE 8. FUNDING USED TO START EMPLOYER FIRMS



Grants and Federal Loans = Less than 0.5% across all groups. Source: ASE 2015

## FUNDING USED TO GROW BUSINESS

When it comes to business growth, Latino intragroup comparisons (age, gender, and nativity) show similar numbers of internal funding source usage, regardless of business scale. In contrast, we see more differentiated use of external funding (bank or government loan, seed funding, etc.) when comparing scaled and unscaled firms. This may be attributed to the fact that scaled-firm owners are more highly educated, thus benefitting from an expanded network that lends itself to more external funding opportunities.

Figure 9 shows the types of external funds used among all Latino-owned firms to grow their businesses. A reasonable percentage of all intragroups use hard money, which is typically easier to access and thus may be more attractive to the business owner, despite higher interest rates. Such funding sources are typically easier to access, and thus hard money may be more attractive for the business owner, despite higher interest rates. Secured from private sources, hard money is less regulated than more formal business loans, and interest can range from 12 to 18 percent. In contrast, interest rates for the average bank loan range from 4 to 13 percent.<sup>15</sup>

While firms that experience profit growth are more likely to have received loans from a national bank, Latino businesses have the lowest number of loans from a financial institution among all demographic groups. Relative to other external funding, Latino firms use national bank loans at one of the lowest volumes, second only to government funding. National bank loans and SBA loans have more complex requirements (see the funding barriers subsection on page 19) and regulations. More recently, developments in financial technology (fintech) are disrupting the traditional financial and banking system, specifically in the client-centered and interactive approach of these new technologies. Fintech is largely driven by non-bank entities, including venture and private providers. While not directly captured here, fintech has the potential to redirect Latino firms and their banking needs, especially if complex or lengthy requirements are an issue in accessing funds.

FIGURE 9. EXTERNAL FUNDING USED BY ALL LATINO FIRMS TO GROW THEIR BUSINESSES

	AGE		GENDER		NATIVITY		REVENUE	
	MILLENNIAL (18-34)	NON-MILL. (35+)	FEMALE	MALE	IMMIGRANT	NATIVE - BORN	<\$1M	\$1M+
<b>ALTERNATIVE</b>								
HARD MONEY	12%	8%	7%	14%	11%	9%	10%	15%
<b>INSTITUTIONAL</b>								
LINE OF CREDIT	12%	12%	10%	14%	7%	13%	11%	22%
LOCAL BANK LOAN	5%	4%	3%	6%	5%	4%	4%	9%
NATIONAL BANK LOAN	1%	1%	1%	2%	2%	1%	1%	4%
GOVERNMENT LOAN	1%	1%	1%	2%	2%	1%	1%	1%
<b>EQUITY FUNDS</b>								
VENTURE CAPITAL	3%	3%	1%	5%	8%	1%	8%	5%
ANGEL INVESTMENT	2%	2%	2%	3%	5%	1%	2%	12%
PRIVATE EQUITY	2%	2%	2%	2%	3%	1%	2%	10%

Source: SLEI Survey of U.S. Latino Business Owners 2017

## PROFILES BY FUNDING TYPE

On the whole, external funding sources are accessed in low numbers by Latino business owners. Not surprisingly, larger, more sophisticated financial lenders, such as private equity firms, banks, and even angel investors fund larger, scaled Latino-owned ventures. With the exception of Latina business owners, virtually all intragroup segments rely upon hard money as a funding source. Despite the high interest rates, hard money may be more desirable to those business owners with fewer options, in part because of the ease of acquisition.

While government-backed loans are used across all intragroup segments, the level of this funding is minimal, and as such, a large percent of Latino business owners across all segments are not using this funding source. Moreover, equity investors of all types tend to prefer immigrant, millennial, and male-owned firms. These groups may be perceived as having high probability of investment success given their representation among scaled firms. Figure 10 depicts the prototypical Latino entrepreneur who receives funding from each source.

FIGURE 10. FUNDING PROFILES BY EXTERNAL FUNDING TYPE

 INSTITUTIONAL	 EQUITY	 ALTERNATIVE
<b>LINES OF CREDIT</b> <ul style="list-style-type: none"> <li>• \$1M+</li> <li>• Immigrant/Native-Born</li> <li>• Male/Female</li> <li>• Non-Millennial</li> </ul>	<b>VENTURE CAPITAL</b> <ul style="list-style-type: none"> <li>• \$1M+</li> <li>• Immigrant</li> <li>• Male</li> <li>• Millennial</li> </ul>	<b>HARD MONEY</b> <ul style="list-style-type: none"> <li>• &lt;\$1M/\$1M+</li> <li>• Immigrant/Native-Born</li> <li>• Male</li> <li>• Millennial/Non-Millennial</li> </ul>
<b>LOCAL/NATIONAL BANK LOANS</b> <ul style="list-style-type: none"> <li>• \$1M+</li> <li>• Immigrant/Native-Born</li> <li>• Male</li> <li>• Millennial/Non-Millennial</li> </ul>	<b>ANGEL INVESTMENTS</b> <ul style="list-style-type: none"> <li>• \$1M+</li> <li>• Immigrant</li> <li>• Male/Female</li> <li>• Millennial/Non-Millennial</li> </ul>	
<b>GOVERNMENT LOANS</b> <ul style="list-style-type: none"> <li>• &lt;\$1M/\$1M+</li> <li>• Immigrant/Native-Born</li> <li>• Male/Female</li> <li>• Millennial/Non-Millennial</li> </ul>	<b>PRIVATE EQUITY</b> <ul style="list-style-type: none"> <li>• \$1M+</li> <li>• Immigrant</li> <li>• Male</li> <li>• Millennial</li> </ul>	

Note: A slash [/] indicates both groups equally likely to receive this funding. Source: SLEI Survey of U.S. Latino Business Owners 2017

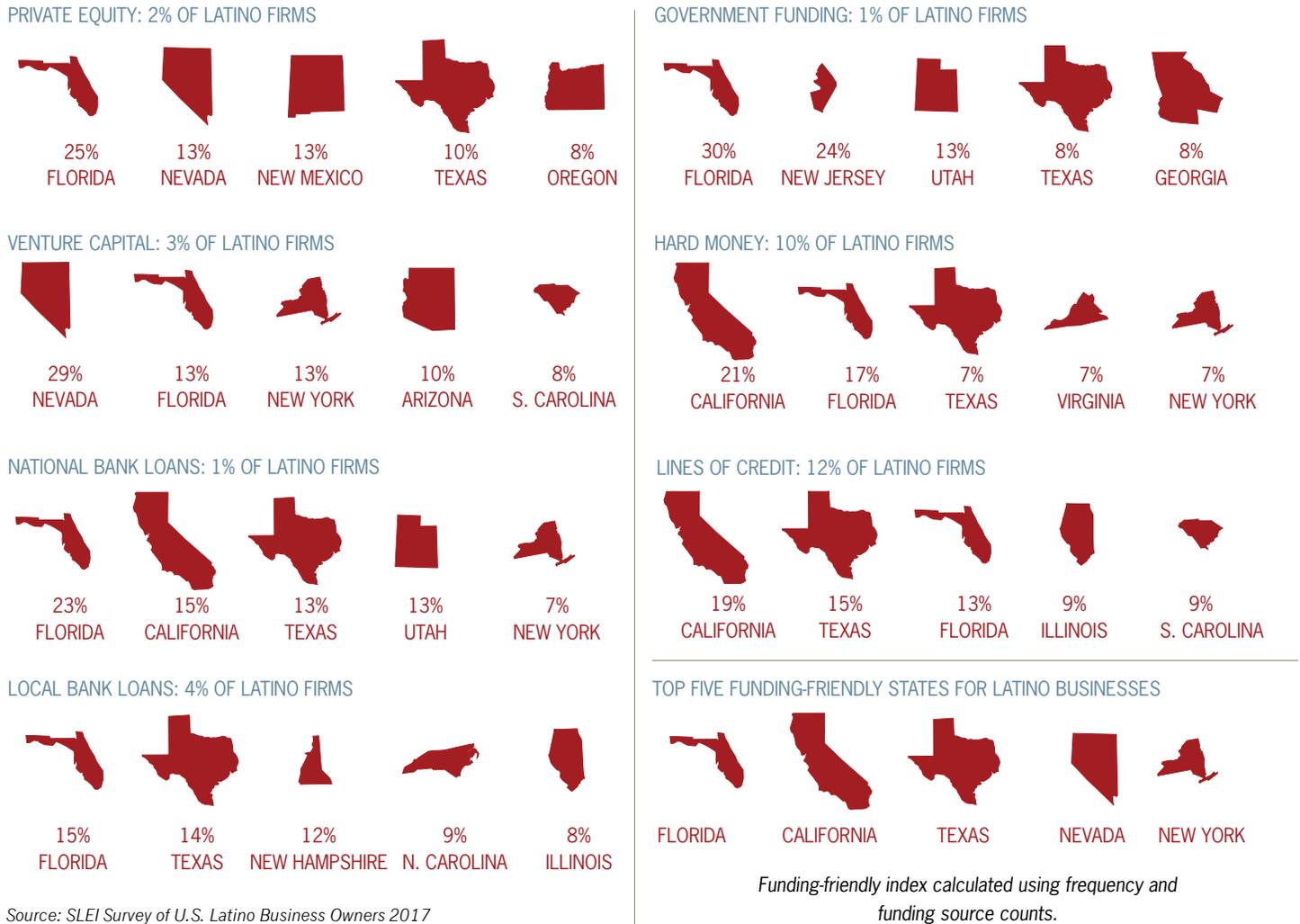
## FUNDING ACCESS BY REGION

Across the United States, the top five states with the largest numbers of Latino-owned firms are California (24 percent), Texas (15 percent), Florida (15 percent), New York (5 percent), and Illinois (4 percent). Surprisingly, these states do not necessarily correlate with the states that provide the most external funding sources for Latino businesses. As the president of the National Venture Capital Association contends, there is a misperception that entrepreneurs must live in Silicon Valley, New York, or Boston to attract the venture investment needed to successfully grow their businesses.<sup>16</sup> According to the Kauffman Foundation, states with the highest levels in growth of entrepreneurship include Virginia, Georgia, Maryland, Massachusetts, and Texas.

Texas shows high rates of funding for Latino entrepreneurs in all external funding categories except venture capital. Florida also appears to have well-funded Latino businesses, as it is in the top five in all seven categories.

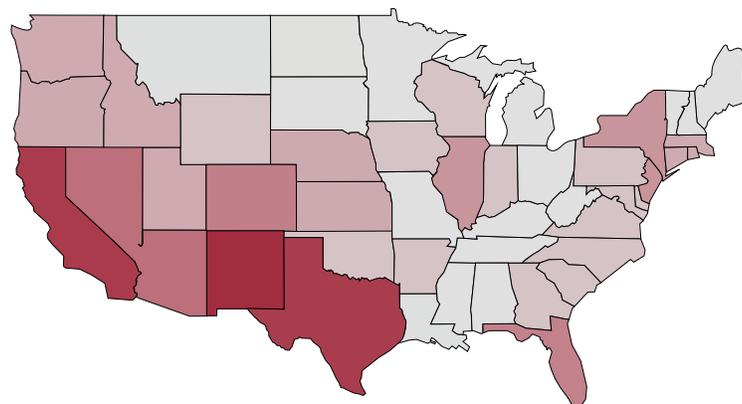
In contrast, despite the dominant size of both Latino populations and Latino businesses in California, the state appears to be underrepresented in several categories of external funding. Surprisingly, Nevada appears as a top-five funding-friendly state through its frequency and high funding source counts. That is, although Nevada was not in the top five in all funding categories, in aggregate it performs well in overall funding for Latino-owned firms.

**FIGURE 11: THE TOP FIVE STATES PROVIDING EXTERNAL FUNDING SOURCES FOR LATINO-OWNED FIRMS TO GROW THEIR BUSINESSES**



**POPULATION OF LATINOS IN THE UNITED STATES**

States with dense Latino populations are not necessarily the ones funding Latino firms

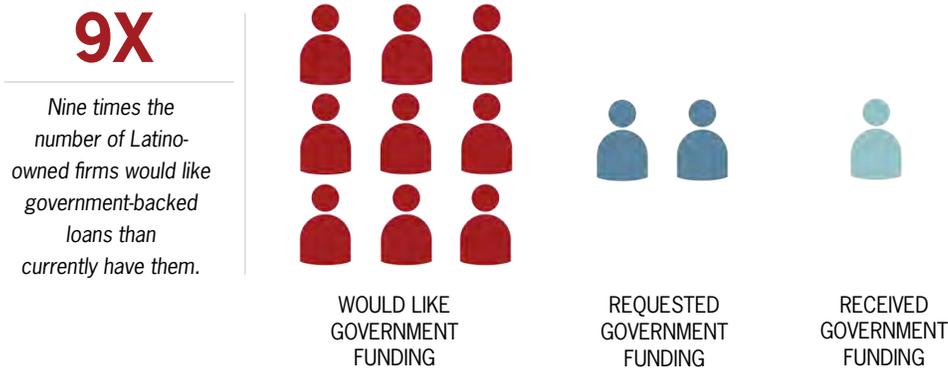


Source: U.S. Census, 2010

## FUNDING GAP IN GOVERNMENT-BACKED LOANS

Latino-owned firms have the lowest numbers of business loans from federal, state, and local governments, or government-guaranteed business loans from financial institutions. When our survey respondents were asked if they would like to have a government-backed loan, we found that nine times the number of Latino firms would like government loans than currently have them. This represents the largest funding gap among all desired funding types. As another measure of government engagement, the U.S. government does business with Latino firms at lower rates than black-owned firms, at 12.8 percent and 27.7 percent, respectively.

FIGURE 12. GOVERNMENT FUNDING AMONG LATINO-OWNED FIRMS



Source: SLEI Survey of U.S. Latino Business Owners 2017

While it appears that government-backed funding of Latino businesses is lacking, Latino entrepreneurs may bear a portion of the responsibility for this reality. Government funding from the SBA may not be effectively reaching Latino business owners, but quite often Latino business owners are under-prepared in accessing government or financial institution funding because they have not created the necessary materials, such as business plans, cash flow projections, balance sheets, or market analyses, to secure funds from these entities.

Additionally, many Latino business owners find themselves in a “Catch-22” situation, where financial institutions require assets to secure a loan, but if one is starting a business, these are difficult to have in advance. Consequently, the most common external funding among Latinos is credit cards, used at higher volumes than by all other demographic groups, at 12 percent. Hard money is the second most commonly used, with 10 percent of firms surveyed reporting use of this funding.

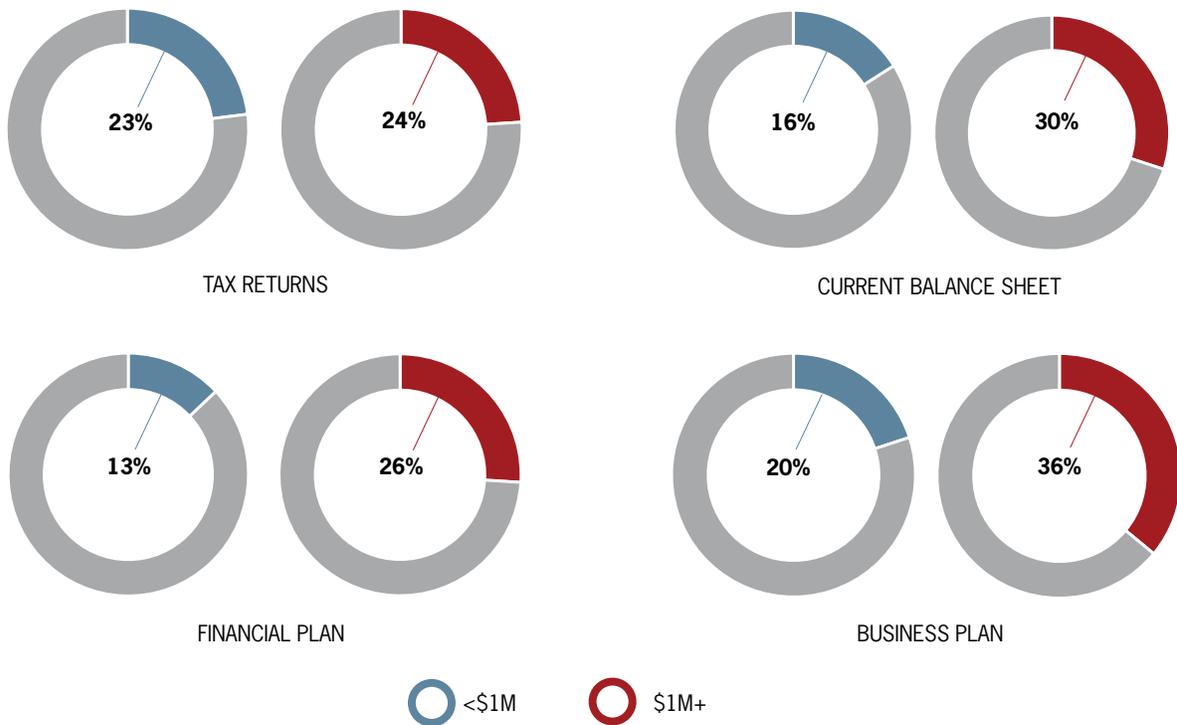
“I heard about the SBA and how easy it was supposed to be to get funding. I then realized if you haven’t been in business for more than five years, you have to provide a full application. You have to give them everything about you, your business, your personal credit. The SBA will secure the loan for the bank, but you have to go through the bank’s requirements before you get the SBA loan . . . They wouldn’t approve us because we didn’t have assets, but my asset was my company, and the company’s asset was revenue. We were growing, but we weren’t making a lot of money. I wasn’t focused on being hugely profitable, I was focused on growing my business. And so, they wouldn’t give us a loan.” — *Latino Software Company Owner, SLEI-Ed Alum*

## FUNDING BARRIERS

### Lack of Preparedness

For many Latino entrepreneurs, lack of preparedness may be impeding access to many types of external funding, especially from government and financial institutions. Figure 13 shows the under-preparedness among scaled and unscaled firms in accessing external funds. Overall, scaled firms have more of the required documentation and funding materials on hand compared to unscaled firms. Still, among scaled firms, the number of businesses with any given material hardly surpasses one-third. That means that about two out of every three scaled firms do not have a business or financial plan, current balance sheet, or other materials needed to access external funding.

FIGURE 13. PREPARED MATERIALS TO SECURE EXTERNAL FUNDING



Source: SLEI Survey of U.S. Latino Business Owners 2017

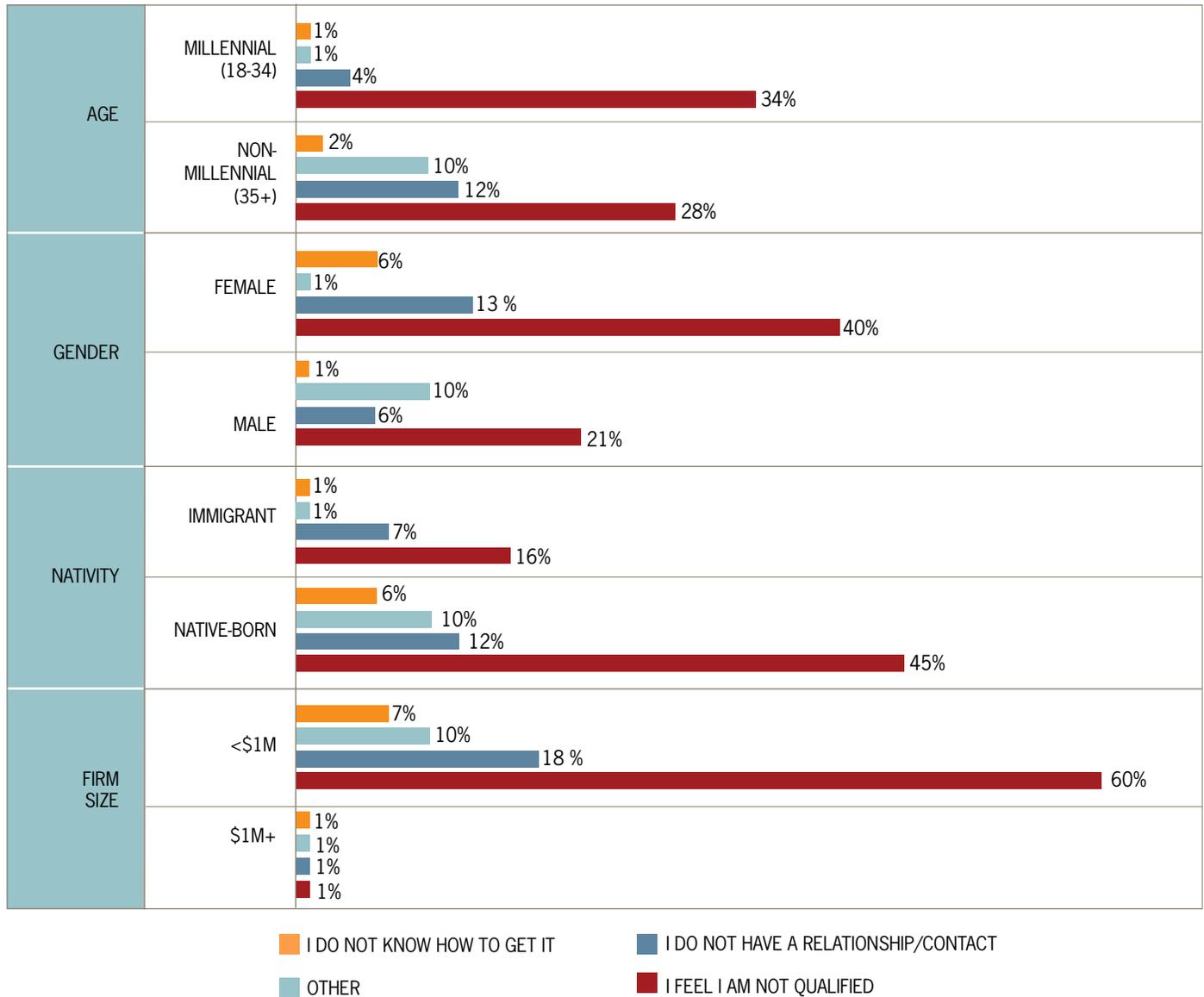
### Behavioral/Psychological Barriers

Among the entrepreneurs who have actively sought funding, many recount their experiences with banks, oftentimes coupled with loan denials. Even in instances where there are good credit history and available assets, interview data reveal many Latino business owners are uneasy about putting up their personal collateral to secure the loan.

Separate from being under-prepared in accessing these funds, not all entrepreneurs desire external funding and thus do not attempt to access it. When considering funding barriers, we limit our analysis to those who would like to access additional funding. Barriers vary by funding type, but for national loans, the primary barrier appears to be not feeling qualified (Figure 14). This tends to hold across all intragroup comparisons. For angel funding, there is a sense of not having a relationship or contact, or understanding how to secure this funding.

Gender also plays a role in accessing external funding. In our survey, Latinas report feeling they are not as qualified as men to access funding from financial institutions, even when holding firm size constant. A similar self-doubt about qualifications is found among women who think they are not qualified to run for office, even when having comparable educational, occupational, and professional success relative to men.<sup>17</sup> Although Latinas are leading the way as their share of Latino-owned firms has been increasing, they may face a funding ceiling if these funding barriers go unchecked.

FIGURE 14. BARRIERS TO NATIONAL BANK LOANS ACROSS LATINO ENTREPRENEUR PROFILES



Source: SLEI Survey of U.S. Latino Business Owners 2017

“Many Latino entrepreneurs start their company by bootstrapping or self-financing, and some continue this even as their companies grow. One SLEI-Ed alum describes the continued path of self-financing as “the most stable and the most realistic.” There is also a sense of control. As one SLEI-Ed alum entrepreneur explains, “We don’t have VCs behind us making us change everything—we have complete control of our company.”

**AN IMPORTANT BARRIER TO FUNDRAISING IS THE ACTUAL ASK FOR MONEY,<sup>A</sup> EVEN IN PROGRESSIVE ROUNDS OF FUNDING.**

“It’s a skillset, and not my best talent.” — SLEI-Ed Alum

“It’s because of how I grew up. My parents taught us to be resourceful. You don’t ask for money. You need to find innovative ways of supporting yourself and work hard. Asking for money has always been hard for me.” — SLEI-Ed Alum

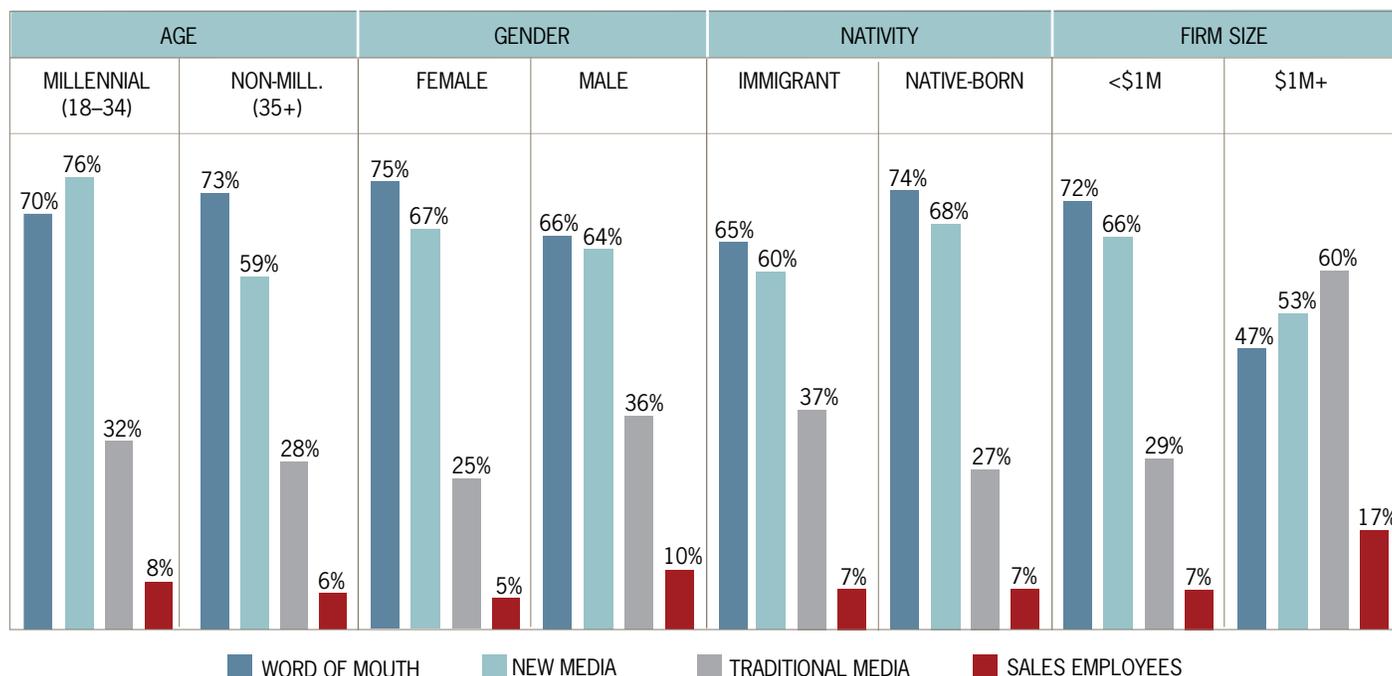
<sup>A</sup> We note that while these types of stories are indicative of what is holding back many Latino entrepreneurs, we do not have data to compare these experiences to other groups.

# SECTION V STRATEGIES FOR SUCCESS

**Marketing is a persistent challenge for Latino business owners. Since 2015, SLEI has been tracking the challenges to growth among Latino-owned firms. While the economy and finances have consistently been top challenges, marketing is also a concern for both scaled and unscaled firms, at 39 percent and 33 percent, respectively.**

Word-of-mouth marketing is the dominant strategy across the board for Latino-owned firms. Social media is a close second, preferred by 64 percent of millennials. Other research shows no notable differences in social media usage by racial or ethnic group.<sup>18</sup> Here, we find social media as a prevalent strategy, casting doubt about the digital divide in the Latino population and among Latino entrepreneurs. In fact, across most segments of the Latino business owners surveyed, new media marketing, such as social, email, and online, is outpacing traditional media, such as print, broadcast, and billboards. Millennials are more likely to use new media while scaled firms are most likely to use traditional methods, such as print ads or person-to-person sales.

**FIGURE 15: PREFERRED MARKETING METHODS ACROSS LATINO ENTREPRENEURS**



Source: SLEI Survey of U.S. Latino Business Owners 2017

## LATINO FIRMS ARE INTERNATIONAL IN REACH

Latino-owned firms are not solely local in nature. Instead, a significant portion of them are regional, national, and international in their reach. As highlighted in the 2016 SOLE report, Latino businesses are located all over the United States, with more than three-quarters in non-Latino neighborhoods, serving mostly non-Latino customers. Additionally, among all employer firms, Latino businesses are also international in reach above and beyond other groups. Among all employer firms, Latino businesses have the highest rate of clientele outside the United States. (4.5 percent vs. 4 percent of Asian-, 2 percent of white-, and 1.9 percent of black-owned firms). Among all Latino firms surveyed, 9 percent have international clients and 28 percent span the United States (see Figure 16).

The top industries among U.S. Latino-owned firms with international reach include “other services” (38 percent), professional and business services (24 percent), and leisure and hospitality (13 percent). Construction, a top industry among scaled firms, is more localized in nature. According to the Bureau of Labor Statistics, the “other services” industry captures a wide range of activities such as equipment and machinery, advocacy, and personal care services, and is the most prominent international industry among U.S. Latino firms.

FIGURE 16. DISTRIBUTION OF U.S. LATINO-OWNED BUSINESSES’ CLIENTS/CUSTOMERS



Source: SLEI Survey of U.S. Latino Business Owners 2017

## INFORMATION FOR GROWING BUSINESSES

Interpersonal relationships are key in the business world. As we reported in our 2015 annual report, research from experts in entrepreneurship cite mentorship as a key factor for entrepreneurial success. In a survey of alumni of the Stanford SLEI-Ed program, those alumni with scaled firms report using people-centered approaches—such as relying upon mentors—as their first step in seeking guidance or information.

The second most common method of information gathering is self-directed searches on the internet or in books and magazines. Latino entrepreneurs also tap into the resources provided by trade associations, Hispanic chambers of commerce, and other organizations.

FIGURE 17: INFORMATION GATHERING BY LATINO ENTREPRENEURS



Source: SLEI Survey of U.S. Latino Business Owners 2017



# SECTION VI CONCLUSION

**This third annual State of Latino Entrepreneurship Report describes findings from the SLEI 2017 Survey of U.S. Latino Business Owners. Latino entrepreneurs in the United States continue to show promise in scaling and overall growth. We highlight four important findings:**

1. National banks are minimally funding Latino-owned businesses relative to other funding types, such as venture capital, angel funding, or private equity financing, and to other demographic groups. We find that the Small Business Administration is also underserving Latino firms.
2. Latinas are leading the way in growth as the number of Latina-owned firms has grown by 87 percent in recent years.
3. Millennial immigrants who came to the United States as children own 86 percent of scaled, immigrant-owned firms.
4. Many Latino-owned businesses are international in reach, with the highest rate of business clients and customers outside the United States relative to all other demographic groups.

It is important to note the larger context in which these timely findings are situated. Latino entrepreneurship is growing while catching up—Latino-owned firms make up 12 percent of all U.S. firms, but Latinos represent 17.6 percent of the total U.S. population. An important factor is the relatively lower levels of wealth coupled with the funding barriers facing Latino entrepreneurs. In contrast, the Asian community has higher levels of wealth and is seeing greater success in entrepreneurial outcomes. In a study on U.S. black-, Asian-, and white-owned businesses, minority entrepreneurship researchers Robert Fairlie and Alicia Robb find that a high level of startup capital is the most important factor contributing to the success of Asian-owned businesses compared to the other groups.<sup>19</sup>

Another important factor to consider is that nearly half of U.S.-born Latinos are younger than 18. As shown in this report, we find great promise amongst Latino millennials in scaling their businesses. A Harvard poll finds that Latino and black millennials show twice as much interest as white millennials in starting their own businesses.<sup>20</sup> As the younger Latino population comes of age, they may carry this entrepreneurship fervor forward.



# APPENDIX A

## GLOSSARY

### DACA-COMPARABLE GROUP

Immigrants under 31 years of age as of June 15, 2012, who came to the United States before their 16th birthday. Does not imply DACA-eligible or granted status.

### EMPLOYER FIRM

A firm that has employee(s) on payroll. These firms are poised to have the greatest impact on the economy and job creation compared to nonemployer firms.

### NONEMPLOYER FIRM

Firms with no paid employees, annual business receipts of \$1,000 or more (\$1 or more in construction industry), and subject to federal income taxes. These firms make up three-quarters of all U.S. businesses but account for only about 3 percent of business receipts, according to the SBA.

### EXTERNAL FUNDING

Funding used to start or grow a business that comes from sources outside of the business owner's personal network. This includes loans from financial institutions and government, venture capital, and angel investments.

### INTERNAL FUNDING

Funding used to start or grow a business that comes directly from the business owner's personal savings, family, and/or friends. This includes personal loans and credit cards.

### HARD MONEY

External funding secured from private individuals at higher interest rates, typically ranging from 8 to 18 percent.

### PROFIT-GROWTH

A self-reported survey measure of profit growth in the last 12 months, as opposed to break-even or profit-loss.

### GROWTH IN NUMBER

A measure that captures growth of the number of new business starts.

### MILLENNIAL

Adult 18-34 years of age.

### NON-MILLENNIAL

Adult 35 years or older.

### NETWORKED

Engagement with formal business institutions, such as general or Hispanic chambers of commerce, trade associations, and advisory boards.

### SCALED FIRM

A firm that is generating at least \$1 million in annual revenue.

### UNSCALED FIRM

A firm that is not generating \$1 million in annual revenue.

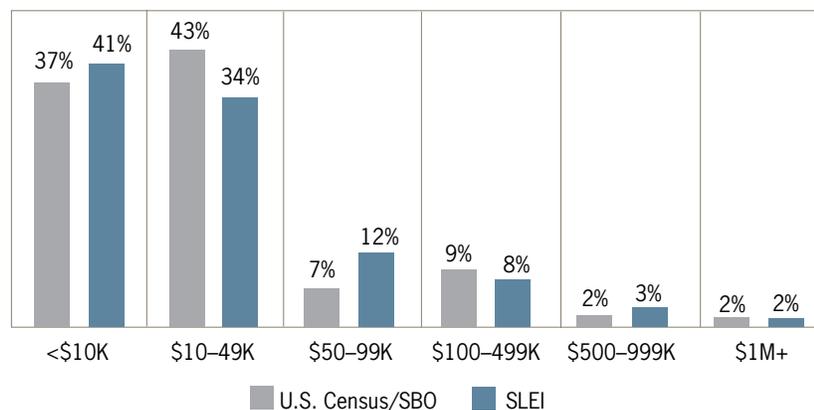


# APPENDIX B METHODOLOGY

This report is based on the national 2017 Stanford Survey of U.S. Latino Business Owners, administered online through Qualtrics. Respondents are current business owners who self-identify as Latino. We obtained sample sizes of 1,664 in 2015, 4,910 in 2016, and 5,026 in 2017. In 2016 and 2017, the majority of responses were collected using the Qualtrics platform. In 2015, the majority of responses were obtained through a phone survey. In 2017 nearly 3 percent of all responses were collected from a Spanish-language questionnaire and less than 5 percent of responses were collected through internal outreach efforts, such as Hispanic chambers of commerce, social media, or previous survey respondents.

In addition to the 2017 survey, we supplement our data with the 2012 U.S. Census Bureau's Survey of Business Owners (SBO) and 2015 Annual Survey of Entrepreneurs (ASE). Overall, our survey respondents are generally representative of Latino business owners at large, in terms of industry, geography, and age of business. Although the survey slightly under-samples owners of smaller firms, we adjust for this by weighting to population targets estimated from U.S. Census data (Figure 18). At the time of this report, the 2017 SBO data had not been collected and so we rely on the latest release, the 2012 data. Additionally, the most recent ASE data at the time of this report are from 2015.

**FIGURE 18: 2017 STANFORD SURVEY OF U.S. LATINO BUSINESS OWNERS COMPARED TO 2012 U.S. CENSUS BUREAU SURVEY OF BUSINESS OWNERS**



For this report, we weight by revenues, industry, region, and number of employees (as reported in SBO 2007 and 2012), to more closely match the population of Latino-owned firms in the United States. Many of the calculations in the report account for firm industry and age by using fixed effects—holding industry and age constant—to ensure that differences in firm-level characteristics cannot explain other differences we observe.

We compare our 2017 survey to 2015 and 2016 surveys by applying time-consistent weighting and a statistical technique known as “raking,” which uses iterative post-stratification weights to match the marginal distributions of each survey sample to known population margins. We stratify based upon industry, region, and firm size (in terms of both employees and revenue). We then compare the group of businesses in each stratum to the comparable population of businesses in the nation.

Lastly, this report shares anecdotes gathered through 30 in-depth, qualitative interviews with alumni of the SLEI-Education program. Interview participants were selected through a randomized stratified subset of alumni, sampling for range across industries, gender, and geographic location.



# APPENDIX C

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# ABOUT US

**Stanford Graduate School of Business (GSB) has established itself as a global leader in management education through educational programs designed to develop insightful principled global leaders. Stanford GSB supports faculty research, curriculum development, and interaction among academic disciplines.**

## **STANFORD LATINO ENTREPRENEURSHIP INITIATIVE**

Stanford Latino Entrepreneurship Initiative (SLEI) is a research and education collaboration between Stanford University and the Latino Business Action Network (LBAN), a 501(c)(3) not-for-profit organization located in Palo Alto, CA. SLEI is housed at the Stanford Graduate School of Business.

### **SLEI RESEARCH PROGRAM**

SLEI explores and expands our knowledge of the Latino entrepreneurship segment in the U.S. economy through research, knowledge dissemination, and facilitated collaboration. The initiative aims to:

- Grow the current database of more than 1.3 million U.S. Latino-owned companies and survey a panel of more than 5,000 independent companies
- Advance knowledge and discourse by disseminating the results of research findings

## **SLEI-EDUCATION SCALING PROGRAM**

Stanford Latino Entrepreneurship Initiative-Education Scaling program at LBAN is an investment in Latino business owners who generate more than \$1 million in annual revenue or have raised at least \$500,000 of external funding. This immersive program, facilitated by GSB Executive Education, provides business owners with education, enhanced networks, personal mentorship, and a better understanding of how to access capital to scale their businesses. The program has more than 350 alumni from 25 states and Puerto Rico who collectively generate over \$1.2 billion in annual revenue.

## **LATINO BUSINESS ACTION NETWORK**

This survey was made possible in part thanks to the support for LBAN from principal partners 21st Century Fox and Wells Fargo Bank, John Arrillaga, Pitch Johnson, and the Chavez Family Foundation. LBAN, led by CEO Mark Madrid, works to make America stronger by empowering Latino entrepreneurs to grow large businesses through entrepreneurship research, education, and networks. LBAN's goal is to double the number of \$10 million, \$100 million, and \$1 billion Latino-owned businesses by 2025. To learn more, visit [www.lban.us](http://www.lban.us).



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