



An urgent economic priority for Massachusetts: Growing minority-owned businesses

Minority-owned Business Development Study

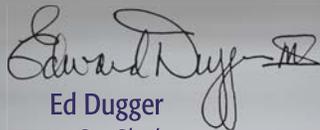
STUDY SPONSORS

Bank of America
Blue Cross Blue Shield
of Massachusetts
The Boston Foundation
The Burroughs Group
Citizens Bank
City of Boston
Deloitte
Ernst & Young
Greater Boston Chamber
of Commerce
John Hancock
KPMG
Liberty Mutual
Massachusetts AFL-CIO
NSTAR
PricewaterhouseCoopers
Sovereign Bank of
New England
United Way of
Massachusetts Bay

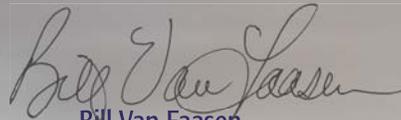
The growth and development of minority-owned companies is an urgent priority for Massachusetts. Vibrant minority-owned businesses are essential for the well-being of inner-city communities and for the overall economic health of our state.

That is why the companies and organizations listed on the cover initiated and funded a study of minority-owned companies in Massachusetts. The results of the study, along with recommendations for change, are reported here. We anticipate that you will share our sense of optimism after reading this document.

If we act with urgency and determination, we can help countless minority-owned firms grow and prosper in the years to come. In the process, we will strengthen the fabric of our communities, send a message of economic inclusion, and invigorate the overall economy of our state.



Ed Dugger
Co-Chair,
The Business Collaborative



Bill Van Faasen
Co-Chair,
The Business Collaborative

Acknowledgements

We want to thank Boston Consulting Group for its financial contribution to this study and for its outstanding support, especially to Rich Holland, Jim Lowry, and Rudy Sahay.

Much appreciation also goes to Donna Stoddard of Babson College and Deanna Fulp of Blue Cross Blue Shield of Massachusetts.

Finally, we would like to acknowledge the many companies, organizations, and government representatives who participated in this project.

A Critical Challenge: Growing Minority-owned Companies

During the past decade, the landscape of economic opportunity for people of color in Massachusetts has clearly improved. Corporations and government have made notable progress in both hiring and promoting minorities.

But there remains a major deficiency in the effort to provide full equality of opportunity across races, cultures, and ethnic groups. The reality is that ethnic and racial minorities in Massachusetts, much like the rest of the country, are dramatically underrepresented when it comes to business ownership and growth.

It is essential that corporations and government relate to the growing minority population not only as employees but also as customers, investors, *and business owners and operators* – all of which will make for robust inclusion of people of color in the economy.

The first step toward solving this problem is to understand it. This study of minority-owned companies in Massachusetts was initiated and funded in order to inform the community and develop a plan of action based on the findings. The results of the study, along with recommendations for improvement, are reported in this document.

The study suggests that significant progress toward growing minority-owned businesses in Massachusetts is achievable in the next three to five years. It also indicates that the most effective way to grow minority-owned firms is to increase commerce between minority-owned companies and major corporations, as well as government.

Many corporate leaders in Massachusetts want to increase the amount of business their companies conduct with minority-owned firms, but the study found that this desire is often not implemented.

In many cases, corporate leaders have the *will* to do business with minority-owned companies but are often unsure of the *way*. In a sense, corporations and minority-owned businesses view each other through similar lenses. Each wants to do business with the other but is uncertain about how best to accomplish this goal.

Historic Study

The group of corporations and organizations listed on the front cover retained Boston Consulting Group, a recognized global consulting firm, and Babson College, a leader in entrepreneurial business education, to conduct the study, analyze the results, and propose solutions. This study was undertaken in order to understand and approach the issues of minority-owned business in a substantive and informed way.

The Boston Consulting Group and Babson College study involved the following:

- In-depth demographic research and analysis;
- Interviews with dozens of minority-owned business owners and corporate leaders;
- Interviews with corporate officials at various levels in an effort to understand corporate practices and programs concerning minority-owned companies;
- Interviews with a variety of government officials;
- A detailed e-mail survey of 89 minority-owned business owners (mailed to over 700 minority-owned businesses).

The findings of the study offer a comprehensive profile of the minority-owned business community in Massachusetts.

Minority-owned Business: Summary of Study Findings

Minority-owned companies are becoming an increasingly significant part of the Massachusetts economic and social landscape. As a result of shifting demographics, the minority-owned business community will represent a critical component for overall economic development for many years to come. The study found that minority-owned companies are:

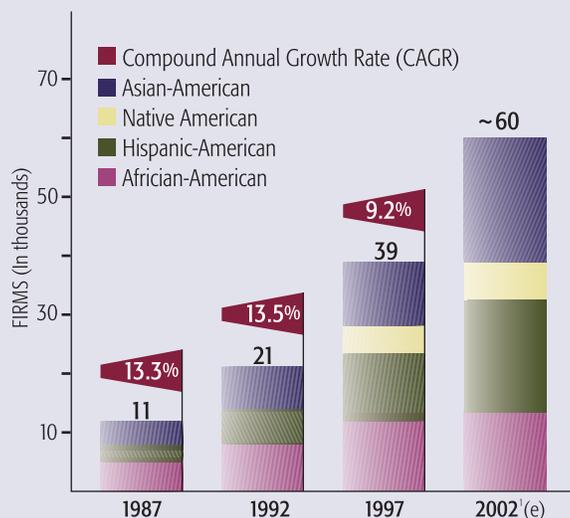
- Growing rapidly in number
- Underrepresented in the Massachusetts economy
- Located predominantly in urban areas
- Concentrated in service sectors
- Emerging in promising sectors
- Smaller in size than other businesses
- In many instances, capable of serving corporate and government customers

Growing Rapidly

Nationwide, minority-owned companies have made significant strides in the past ten years. Based on the last economic census (1997), the number of minority-owned companies in the United States grew by an average of 6% per year between 1992 and 1997. Massachusetts-based businesses grew by an impressive 13.5% over the same period. From 1997-2002, the study estimates that minority-owned firms in Massachusetts surpassed the growth of all businesses, growing at a rate of 9.2%, which is five times the 1.8% growth rate of all firms during the same five years.

The study also estimates that there were approximately 60,000 minority-owned companies in Massachusetts in 2002. It is a very diverse community, with Hispanics emerging as the largest sector of business owners (34% of all minority-owned businesses), followed closely by Asian-Americans (30%) and African-Americans (26%). Native-Americans represent approximately 10% of all minority-owned firms in the state.

Massachusetts minority-owned businesses have grown by 9.3% per year, 5 times faster than all businesses



1: Estimated valued based on US Census data - 1997

Underrepresented

While this dramatic growth is encouraging, there is still a long way to go. The study estimates that as of 2002, ethnic minorities comprised 18.4% of the state's population, yet owned just 10.4% of the businesses. The gap is closing, but not uniformly across all ethnic groups. The study estimates that African-Americans are 6.6% of the population and own 2.7% of the businesses, while Hispanics are 7.2% of the population and own 3.5% of the businesses. Asian-Americans, who comprise 4.2% of the population, own 3.1% of the businesses and are making the most improvement in closing the gap.

Disparity forecast - 2002²

	% of Population	% of Business	Difference
African-American	6.6	2.7	-3.9
Hispanic-American	7.2	3.5	-3.7
Native-American	0.4	1.1	+0.7 ³
Asian-American	4.2	3.1	-1.1
Overall	18.4	10.4	-8.0

2: Forecast based on US census data for Businesses 1997 + BCG Forecast: 2002 Population Estimates - US Census

3: Forecast for Native-American firms has high margin for error +/- 20% due to small base and inaccuracies in 1997 Census data

Predominantly Urban

Approximately 88% of all minority-owned firms are concentrated in five major metropolitan areas – Boston, Springfield, Lawrence, Worcester, and Lowell. *Boston represents the largest geographic area for minority-owned companies in the state, at nearly 65% of the total.* Different locations throughout the state have varied ethnic compositions. For the minority-owned business community in Springfield (9% of all minority-owned businesses in Massachusetts), approximately 72% are either African-American- or Hispanic-owned. In Lowell,

75% are Hispanic and Asian owned (Lowell represents only 4% of the minority-owned enterprises in Massachusetts). The Lawrence minority-owned business community (5%) is almost 40% Hispanic, and in Worcester, over 33% of these businesses are owned by Native Americans.

Additionally, there is significant representation of minority-owned firms in inner-city communities. In Boston, for example, over 60% of all minority-owned firms have inner-city zip codes.

Concentration in Service Sectors

Ninety percent of all minority-owned firms are concentrated in 17 Standard Industrial Classification Codes. Minority-owned firms have a significant presence in the service industry – business, personal, health, social, engineering, accounting, and related (42%) – as well as retail (11%) and construction (7%). It is encouraging that minority-owned firms are growing in such areas as business services, engineering, accounting, research, construction, and transportation (motor freight, transportation services, and passenger transport). Most, if not all, of these higher growth sectors provide important services for the corporate community. Although some of the sectors have an underrepresentation of minority-owned companies (accounting, engineering, and construction, for

88% of all minority-owned businesses (MBEs) are concentrated in five major metropolitan statistical areas

65% of all minority-owned businesses are in Boston

Numbers calculated per 1000

Geography	African-American	Hispanics	Asian/Pacific Islanders	Native Americans	All MBEs	% of total MBEs by city
Boston	11.7	12.0	13.3	2.6	39.6	65.0%
Springfield	1.7	2.2	1.0	0.5	5.4	9.0%
Lawrence	0.7	1.3	0.7	0.6	3.3	5.5%
Worcester	0.4	0.5	0.9	0.9	2.7	4.5%
Lowell	0.3	0.8	1.0	0.3	2.4	4.0%
Total 5	14.8	16.8	16.9	4.9	53.4	88.0%
Total All	15.5	20.4	18.3	6.4	60.5	100.0%

Source: 1997 Economic Census; BCG analysis

example), the overall numbers are significant enough to provide government and major corporations with opportunities to work with qualified suppliers.

Growth Sectors Emerging

Minority-owned companies are emerging in many new and promising sectors. These companies tend to be larger firms with strong capabilities.

- **Information Technology** (distribution, software, and related services) has experienced explosive growth in the last decade. Although the growth rate has slowed recently, these firms represent approximately 20% of the largest minority-owned enterprises in the state.
- **Graphic design and printing** have undergone consolidation, which has created several large firms with capabilities in design, layout, printing, desktop publishing, and high-tech document production. Once an area of small copy and printing services with limited design or color capabilities, minority-owned enterprises have been developing strong technical competence in this sector.
- **Real estate** has been driven by growth in major urban communities, especially in the Boston area. Numerous minority-owned enterprises have been created or have diversified into real estate development, project management, property management, and supporting services.
- **Temporary staffing** has experienced dramatic growth, fueled by the outsourcing phenomenon and the need for contract information technology resources. Several very large minority-owned companies now have regional and national capabilities in office support, engineering, financial, technical, and information technology. This sector is expected to continue its rapid growth.
- **Manufacturing** has traditionally been a difficult sector for minority growth, due to lack of capital and opportunities. However, minority-owned firms are rapidly building capabilities, ranging from tool and die companies to larger, more sophisticated engineered products.
- The **financial services** sector has been the domain of insurance brokers, a few banks, and very small minority-owned firms. Recent industry expansion has created minority-owned enterprises in such areas as underwriting, trading, financial capital strategy development, merger and acquisition support, and other leading-edge financial services. This sector is still in the early stages of creating larger, more significant businesses, but the trends are very positive.

Additionally, the capabilities of minority-owned businesses are improving in such areas as marketing, mailing and expediting services, and accounting. *Many of the larger minority-owned businesses in the state can support the needs of major corporations and government today. Others can play a role in the future with some support and development assistance.*

Smaller in Size

The average minority-owned company has two-thirds fewer employees and one-fifth the revenue of the average firm in Massachusetts. The 25 largest minority-owned business enterprises in the state have revenues of slightly over \$1 billion (with a mean revenue of \$41 million). In comparison, the top 25 companies (both public and privately held) represent over \$117 billion in revenues (with a mean revenue of \$2.6 billion).

Of the estimated 60,000 minority-owned businesses in Massachusetts, approximately 10,000 have employees. The remaining businesses are small,

Majority of minority-owned businesses are small, but a cadre of potential suppliers for corporate and government exist



one-person operations. The businesses that do not provide personal services, retail, or other direct consumer-related services represent approximately 60% (6,000) of those 10,000 businesses. The study identified approximately 1,600 certified minority-owned companies. This working sample represents about 25% of the estimated suppliers in Massachusetts that currently have, or could develop, the capability to support corporate and government needs.

Many are Capable

Although the number of minority-owned businesses is growing rapidly, they still lag in scale and representation in the overall Massachusetts economy. Due to a large cadre of minority-owned businesses in the service sector, and the emergence of manufacturing and technology-based businesses, this business community is poised to take advantage of significantly larger opportunities from corporate and government programs, particularly in the large urban areas.

Performance Gap

Despite the significant growth in the number of minority-owned businesses in Massachusetts during the past decade, three-quarters of minority-owned business owners surveyed believe that

things have not changed or have gotten worse over the past decade (only 27% said things have improved).

In part, this reflects the frustration of entrepreneurs who feel that breaking through to doing business with major corporations is confusing and difficult. The findings indicate that there are many companies where the desire of the corporate leadership to do business with minority-owned firms is not well communicated to people within the corporations who make day-to-day procurement and contracting decisions. The result is a yawning gap between the actual and the potential amount of commerce between corporations and minority-owned firms.

What causes this gap? The study found that participation by minority-owned firms in corporate purchasing activity is inhibited by two major factors:

- The purchasing trend to cut costs and consolidate suppliers.
- There are few corporate practices in place to increase business with minority-owned companies. Only 20% of the major Massachusetts corporations have formal programs, and many companies do not track or monitor expenditures with minority-owned businesses.

Recommendations

The Boston Consulting Group and Babson College study concludes with recommendations for improvement, which will fundamentally improve the standing of minority-owned businesses in Massachusetts.

In the short term, the study urges more corporations to go beyond rhetoric and good intentions and make a serious and active commitment to doing business with minority-owned firms. Although much work needs to be done to significantly increase the capacity of minority-owned firms, there are several thousand minority-owned firms capable of serving corporate customers today.

The study proposes two long-term recommendations:

1. A New Approach – *Supplier Development*

Corporations should take an active role in helping minority-owned companies attain size and scale as well as build capacity so that they may successfully compete for corporate business.

The actual objective must become the adoption of a new business strategy known as *supplier development*.

Supplier development is active, where procurement is passive. It requires a concerted effort on the part of corporations at several levels. It is a collaborative effort with minority-owned businesses to help them build the strengths needed to become effective suppliers of goods and services to large companies.

The practice of supplier development goes far beyond giving a minority-owned firm an opportunity to participate in the bidding process. It means working closely with such companies to ensure that they have the information, the understanding, and the tools required to be effective when competing for and fulfilling opportunities.

Supplier development might mean making arrangements within a contract for expedited payment in a case where prompt payment has a significant positive cash flow impact on a small company. It might mean structuring an opportunity in a phased manner to allow the minority-owned company to build capacity to fulfill a larger contract.

A corporation that refers strong minority-owned suppliers to other firms also promotes supplier development.

There are other examples. Corporate executives mentoring a minority-owned company on important business issues are practicing supplier development. Academic and community-based organizations and government can also play a critical role in mentoring and providing technical assistance.

Making Supplier Development a Reality

The most urgent need is for a strong and forward-looking commitment from CEOs to actively promote supplier development for minority-owned businesses.

The study found that a significantly more determined approach is required to bring about meaningful change and that corporations and government must work together in an integrated, collaborative way to accelerate progress in growing minority-owned businesses in the community.

“Quality and cost” traditionally guide corporate purchasing decisions. However, if any real progress is to be made in the development of minority-owned companies, “quality, cost, and commitment to minority-owned business development” must become the new guiding principles.

There are specific recommendations within the Boston Consulting Group and Babson College study for enhancing the connection between corporations and minority-owned firms. For example, the study proposes:

- Establishing a best practice exchange, whereby executives from one company would visit another corporation to learn how it develops minority-owned companies as strong, effective business partners.
- Organizing “Advocate Forums” to establish a dialogue among minority-owned business advocates to help them identify opportunities and strengthen the supplier development process.
- Developing an information system that will enable corporations to share information on best practices and supplier capability.
- Enhancing senior management commitment to, and involvement in, supplier development.

2. A Call to Action – A Collaborative Approach

The corporate community must collaborate to advance this issue. Mobilizing a sweeping corporate commitment across the state demands a new effort at collaboration – one never before attempted in an organized, sustained fashion.

The study calls for the creation of an initiative designed to accomplish three things:

1. Define a clear vision of supplier development for corporations throughout the state.
2. Provide a forum for developing ideas, programs, and collaborations that will further minority-owned business development.
3. Create a networking and support environment to help minority-owned firms grow and develop.

This initiative should be established and initially funded for a three-year period, with a focus to provide leadership and direction and to implement programs aimed at growing minority-owned businesses.

The study made it clear that widespread supplier development will only happen when there is broad involvement and leadership from the very top. The initiative, as proposed in the study, will demonstrate the serious commitment by corporate, government, and foundation leaders to forge economic inclusion. It will address the emerging and critical need to change the commercial landscape so that minority-owned firms are healthy, robust participants in Massachusetts’ economic community.

The study suggests that significant progress toward growing minority-owned businesses in Massachusetts is achievable in the next three to five years. The most urgent need is for a strong and forward-looking commitment.

