

A photograph of the Los Angeles skyline, featuring several prominent skyscrapers in shades of blue and grey. In the foreground, there are numerous tall palm trees and residential buildings with light-colored roofs. The sky is bright blue with scattered white clouds. The image is partially overlaid by a dark blue semi-transparent rectangle on the left side, which contains the title text.

Los Angeles County Small Business Ecosystem Assessment

Building a more inclusive,
resilient Los Angeles County

FALL 2020

next street **COMMONFUTURE.**

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Executive Summary

Los Angeles County, home to the City of Angels, is a beacon of the California Dream. With its renowned beaches and San Gabriel Mountains, Hollywood, and the Ports of Los Angeles and Long Beach, L.A. County is a hub for internationally recognized entertainment and commerce that foster the region's rich and unique cultures and fuel its economic vitality. However, for many Angelenos, the metro coined the City of Dreams has come to represent a collection of dreams deferred. Across the region, economic opportunity has not been shared equitably among the over ten million county residents, with socioeconomic disparities present by racial and ethnic lines. Addressing these disparities requires solutions that build wealth across all communities in the county, among which are solutions that present equitable avenues to entrepreneurship and business ownership.

Confronted by a long history of discrimination and racism, communities of color face growing segregation, income inequality, and systemic barriers that hinder their ability to build wealth through business ownership. As a result, Black and Latino(a) Americans possess less wealth and fewer business and financial assets compared to their White counterparts.¹ In the L.A. metro area, Black and Latino(a) households report a median net worth of \$30,000 and \$42,500, respectively, compared to an estimated \$355,000 among White households.² Meanwhile, while having higher median incomes than other communities of color, Asian Americans have become the most economically divided racial or ethnic group in the region and across the U.S.^{2,3}

The advent of the COVID-19 pandemic and mounting civil unrest in response to acts of racial injustice have worsened these existing inequities and magnified financial distress among small businesses owned by people of color (POC).⁴ Since the start of the pandemic, Black-, Latino(a)-, and Asian-owned businesses have had higher closure rates than White-owned businesses nationwide.⁵ Over the same time period, POC-owned firms have faced larger cash balance and revenue declines than non-Latino(a), White-owned firms, with the impact of the crisis particularly severe among Black- and Asian-owned businesses.⁶

At this critical moment, this report examines L.A. County's unique historical context and the current state of play of the region's small business communities and supporting ecosystem, with a specific lens on businesses owned by people of color and the COVID-19 response and recovery. This assessment culminates in a set of recommendations and a proposed path forward aimed at narrowing racial gaps across several dimensions – including business ownership, revenue, and employment – across all of L.A. County in the next five years.

1 Source: Aspen Institute, 2015

2 Source: Duke University, The New School, the University of California Los Angeles, 2016

3 Source: Pew Research Center, 2018

4 Note: In this report, 'people of color' refers to demographics outside of non-Latino(a), White populations, with a focus on Black, Latino(a), and Asian populations

5 Source: National Bureau of Economic Research, 2020

6 Source: JPMorgan Chase Institute, 2020

This report highlights the barriers that entrepreneurs and small business owners of color in L.A. County face and the additional support they and those serving these entrepreneurs need to succeed, as gathered from data analysis, interviews, and local stakeholder convenings.

MAJOR TAKEAWAYS INCLUDE:

1 **Disparities in small business ownership and size in L.A. County persist for people of color.**

While Black and Latino(a) residents make up 8% and 49% of the population, respectively, they only own 2% and 11% of all employer small businesses; furthermore, Black-, Asian-, and Latino(a)-owned businesses employ fewer employees and generate less revenue than White-owned businesses.⁷

While Black and Latino(a) residents make up 8% and 49% of the population, respectively, they only own 2% and 11% of all employer small businesses⁷

2 **Industries hardest hit by COVID-19 are overrepresented by Black-, Asian-, Latino(a)-owned businesses.** Black-, Asian-, and Latino(a)-owned businesses in California are overrepresented in deeply and immediately impacted industries such as food services and drink places, performing arts and spectator sports, and personal and laundry services.⁷

3 **There has been a historic unmet demand of \$60 billion in capital for small businesses in L.A. County annually,** with pronounced gaps of traditional and alternative lending in neighborhoods – such as South and Central L.A. – with high concentrations of Black and Latino(a) residents.^{8,9} This unmet demand has been magnified through the COVID-19 crisis, as illustrated through the depletion of the Payment Protection Program's first tranche of funding.



4 **Capital and service providers were overwhelmed by demand in response to COVID-19.** Capital providers, already unable to meet baseline demand in the county, were met with a spike in demand in the wake of COVID-19, with many businesses seeking financing to offset immediate losses. As a result, while approximately 13% of Paycheck Protection Program loans were made in California in the first two tranches of funding, most approved lenders in L.A. County limited lending to existing customers.¹⁰ In parallel, business support organizations (BSOs) struggled to manage higher caseloads and adapt to providing remote business services.

5 **The L.A. County small business ecosystem lacks the coordination needed to best serve the county's small businesses.** There is no central coordinator or resource to help small businesses navigate offerings from business support organizations, capital providers, anchor institutions, philanthropy, and other stakeholders. As a result, small businesses spend valuable time and resources to access the support they need, and ecosystem stakeholders are less effective in working together to support entrepreneurs.

⁷ Source: U.S. Census Survey of Business Owners and Self Employed Persons (2012)

⁸ Note: Unmet demand in 2017; detailed capital demand and supply methodology can be found in the appendix, p. 28

⁹ Sources: Freedom of Information Act (FOIA) to the Small Business Administration; CDFI Fund; PwC / CB Insights MoneyTree Report; U.S. Census County Business Patterns; U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

¹⁰ Source: SBA Paycheck Protection Program Report, 2020



In response to these challenges, the research team identified critical needs in equitable access to capital, customers, and services that were reaffirmed by local stakeholders. There is an opportunity to meet small businesses owned by people of color where they are, provide them with services that have a transformational impact on their businesses, and create wealth and vibrancy in their communities. To do this, the small business ecosystem will need to focus on the following ecosystem pillars:



Ecosystem building and collaboration: Develop networks of business service and capital providers to promote improved outcomes and policies favorable to small business owners of color



Sustainability and resilience: Create and refine services and funds for small businesses to recover from the COVID-19 pandemic, build resilience, and adapt to the “new normal”



Equitable avenues for growth: Create and refine services for small business owners of color to help them better access and leverage growth opportunities and form peer-to-peer networks



Continuum of capital: Increase availability of free, low-cost, and flexible capital to better finance and strengthen businesses and corresponding responsible capital providers

Because of L.A. County’s size, diversity, and representation of businesses owned by people of color, the ecosystem is equipped to incubate several ideas at once and serve as a model for other communities. The collection of leaders gathered throughout this project are committed to significantly narrowing racial gaps in business ownership, revenue, and employment across all 114 neighborhoods across L.A. County within the next five years, with the long-term goal of closing the racial gaps, by focusing on the ecosystem pillars further detailed later in this report.

Introduction and Context

An estimated 68% of revenue generated by local businesses stays within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.¹²

Small businesses are core to the national economy.

In the U.S., roughly 30 million small businesses employ half of the private sector workforce and have created approximately 60% of all new jobs since 1995.¹¹ In communities, small businesses serve as a critical means to build community and individual wealth, with an estimated 68% of revenue generated by local businesses staying within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.¹² Small business families also have an estimated median net worth five times higher than that of families with a head of household working for other employers.¹³

Despite their critical role in communities, small business owners of color face institutional and systemic barriers in accessing capital and customers and encounter services gaps that stifle their businesses' sustainability and growth. Loan denial rates are twice as high for small business owners of color compared to White business owners, while loan sizes are 39% smaller for business owners of color approved for loans.¹⁴ Moreover, while there are many public and private sector supplier diversity programs, business owners of color report that they continue to struggle to access large contracts due to lack of access to networks and marketplace discrimination.¹⁴ Non-native English-speaking entrepreneurs also face barriers in finding culturally and linguistically competent support services; 22% of Asian and Pacific Islander entrepreneurs report not knowing where to find free help in their language.¹⁵

¹¹ Source: Mills, 2016

¹² Source: Civic Economics, 2004

¹³ Source: Federal Reserve, 2006

¹⁴ Source: U.S. Department of Commerce
Minority Business Development Agency, 2010

¹⁵ Source: National CAPACD, 2019

The COVID-19 pandemic has amplified the challenges facing small business owners of color.

An estimated 3.3 million businesses (of all sizes) were lost through the first few months of the crisis, representing 22% of all businesses. Businesses owned by people of color faced even higher closure rates, with 41% of Black-owned businesses, 32% of Latino(a)-owned businesses, and 26% of Asian-owned businesses permanently shuttered nationwide.¹⁶ Over the same time period, cash balances of Black-owned firms and revenues of Asian-owned firms declined by over 25% and 60%, respectively, while Latino(a)-owned firms experienced larger cash balance and revenue declines than that of non-Latino(a), White-owned firms.¹⁷ Altogether, this crisis has dramatically exacerbated existing inequities and financial distress among small businesses owned by people of color.

In an effort to develop a more equitable small business environment nationwide, Next Street and Common Future partnered to conduct research and drive a community-centric process to develop solutions for businesses owned by people of color. Next Street is a mission-driven consulting firm revolutionizing how its clients provide capital, customers, and services to small businesses, with national expertise in equitable small business ecosystems.

Common Future is a network of leaders (re)building an economy that includes everyone. Through leadership and field building, capital aggregation and deployment, project incubation, and strategy consulting, Common Future connects and empowers wealth holders and wealth builders who believe in the power of entrepreneurship, business, and asset ownership to restore community wealth. These organizations brought their collective strengths to the work – Next Street’s expertise in small business and data analysis and Common Future’s insights in community building and uplifting voices – to conduct a rigorous analysis, shaped and grounded by local communities. The research and process will span across nine cities and localities across the U.S., including L.A. County, and are centered around community engagement and fostering a network of relationships among local community organizations and leaders to catalyze solutions focused on racial equity and recovery from the COVID-19 pandemic.

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¹⁶ Source: National Bureau of Economic Research, 2020

¹⁷ Source: JPMorgan Chase Institute, 2020

How We Approached the Research

Over the first half of 2020, Next Street and Common Future studied the local economic and social context of L.A. County, the core capital and service needs of local entrepreneurs and small business owners of color, and the gaps present in the small business support ecosystem. The research was then synthesized and shared with a coalition of local stakeholders to inform strategies co-created to address the historical inequities for small businesses owned by people of color, deepened by the COVID-19 crisis. This project balanced quantitative and qualitative data analysis with community engagement to deepen

the network among local businesses, community organizations, and economic development and civic leaders by presenting a common language and set of facts for the ecosystem. Drawing on first-person data collection and engagement with those directly impacted by local conditions and leveraging publicly available datasets, webinars, and virtual events, this work aimed to elevate locally relevant insights that inform a better way forward for L.A. County's small business communities.

KEY FOCUS AREAS AND DEFINITIONS

The research was focused on a specific set of small businesses that met the following definitions:



Defining “Small Business”

This report defines “small businesses” as firms with 50 full-time employees or fewer, including micro-businesses, mom-and-pop businesses, and sole-proprietors or non-employer businesses. For cases in which data on this definition of small business is unavailable, the category of “employer businesses” is used. Employer businesses are defined as businesses with at least one, but fewer than 50 full-time employees.



Defining Geographic Focus

Based on the availability of quantitative data, most of the content in this report defines Los Angeles County at the county level. Broader geographic areas are referenced where county-level data is not available.



Demographic Breakdown

This report specifically focuses on businesses owned by people of color, defined as populations outside of the non-Latino, White population – with a specific focus on Black, Latino(a), and Asian business owners. Census definitions are used for these demographic groups throughout the analysis performed.



RESEARCH ACTIVITIES

This report uses relevant data and insights from several sources, including prior reports, publicly available datasets, and insights from local stakeholders and small businesses. Potential data limitations that should be considered in the context of the overall research findings can be found in Appendix I.

RESEARCH TRACK	ACTIVITIES
Select interviews	Interviewed six local economic development stakeholders, capital and service providers, and business owners to understand their perspectives on the L.A. County small business ecosystem and the needs of local business owners of color. Due to project limitations following the advent of the COVID-19 pandemic, the interview campaign for this report was limited in breadth and size, placing additional emphasis on the literature review and Working Group and Advisory Council input to inform the assessment research and analyses.
Secondary research	Aggregated, analyzed, and synthesized more than 30 different sources, including relevant studies, local strategic plans, surveys, webinars, events, and other analyses to inform the analysis of L.A. County’s historical economic and social context and its small business communities (listed in Appendix).
Small business landscape	Analyzed census and other publicly available data to understand the current small business landscape in L.A. County, including business size, industry, location, and ownership information among people of color.
Business services landscape	Analyzed data collected from a sample of 100 business support organizations, including data on specialization and breadth of services, leadership demographics, and funding.
Capital landscape	Analyzed publicly available data and surveys on the flow of debt and equity capital to measure the current supply of capital available to small businesses in L.A. County and to estimate and forecast small business capital demand before and during the COVID-19 pandemic.
Broad stakeholder engagement	Convened coalitions of over 45 local stakeholders that leveraged their knowledge of the L.A. County small business landscape to provide project and strategic direction and co-create strategies to create a more inclusive small business ecosystem.

KEY STAKEHOLDERS

To ensure that this effort built upon the collective knowledge of individuals throughout the local small business ecosystem, we brought together a variety of stakeholders who informed our approach and findings. A list of all stakeholders can be found in the Acknowledgements section. These include:

- **Project Leads:** Three local small business ecosystem leaders – Everett Sands and Constance Anderson of Lendistry and Tomás Durán of Concerned Capital – who played a critical role in shaping and executing the work. The project leads served as primary points of connection between the research team and communities and worked directly with the research team to support and execute key elements of the research.
- **Working Group:** A group of 14 local stakeholders with expertise in the needs of business owners of color and an understanding of and connections to the local small business ecosystem. The Working Group provided feedback on project direction on a monthly basis and helped draw connections and find synergies across the ecosystem.
- **Advisory Council:** A steering committee of 46 local leaders and small business owners across the small business ecosystem. Members included small business owners, business support organizations, capital providers, government representatives, philanthropic organizations, and anchor institutions. The Advisory Council helped shape the project direction, provided on-the-ground insights, and advocated for the work within their networks.
- **Research Team:** An integrated team of advisors from Next Street and Common Future with collective expertise in community-led, small business development. The research team led the quantitative and qualitative research and project management with the Working Group and Advisory Council and facilitated the workshops across local stakeholder groups.



What We Found

HISTORICAL CONTEXT OF LOS ANGELES COUNTY

L.A. County is home to more than 10 million residents who live within the county's 4,000 square miles and 114 neighborhoods, making it the most populous county in the United States. Among this significant population, racial and ethnic minorities comprise nearly 75% of the region's residents, with Latino(a) residents alone comprising nearly half of all Angelenos. Latino(a) and Asian populations have driven population growth in the region and changes in demographic composition.¹⁸ This growing racial and ethnic diversity has increased most in the suburbs, with populations of people of color increasing most rapidly in the San Gabriel and San Fernando Valleys.

L.A. County has unique assets that support the region's economic vitality, including the relative strength of its Film and Digital Media, Manufacturing, and Trade and Logistics industries. L.A. County is often called the "entertainment capital of the world," with major movie and television studios headquartered in the region that employ nearly half of the U.S. film and digital media workforce. The county is also the largest manufacturing center in the U.S., with more manufacturing jobs than the state of Michigan.¹⁹ The Port of L.A. and the Port of Long Beach handled 40% of all inbound containers for the entire U.S. – making it one of the most active and important international trade hubs.²⁰ The region is also home to globally recognized academic and healthcare institutions that foster the productivity and health of the region's diverse workforce.

In spite of this, the county faces widening income inequality and uneven access to economic opportunity, with both trends manifesting themselves in disparities by race and ethnicity and in the region's residential segregation. Between 1990 and 2012, incomes for the county's highest wage earners grew by 38%, while incomes for the lowest wage workers decreased by 1%.^{18,21} Underlying this trend has been uneven socioeconomic conditions in communities of color that remain segregated from White communities. While overall segregation in the region has decreased since the mid-1990s, Black-White segregation remains high, and Latino-White and Latino-Asian segregation have been growing.¹⁸ This segregation has resulted in differences in relative housing burden and access to transit by race and ethnicity.²² Communities of color face higher housing hardships, with 65% of Black and 63% of Latino(a) residents reporting as housing burdened.¹⁸ Moreover, in a region where residents rely heavily on automobiles for transit, an estimated 18% and 11% of Black and Latino(a) households do not have access to a car, respectively.¹⁸ These underlying inequities have been only heightened amidst recent developments, including the adverse impact of national immigration policies that put undue pressure on the region's undocumented immigrant communities. Approximately 2 million unauthorized immigrants live in California and comprise 9% of the workforce,²³ but were ineligible for federal stimulus payments in March 2020.²⁴

Communities of color disproportionately face challenging socioeconomic conditions in L.A. County, pointing to a need for increased economic opportunity through means like small business ownership.

¹⁸ Source: PolicyLink, 2017

¹⁹ Source: Los Angeles County Government Economic Development Program, 2020

²⁰ Source: Los Angeles County Economic Development Corporation, 2020

²¹ Note: Low wage earners include households making less than approximately \$36,000, and higher wage earners include households making over approximately \$90,000

²² Note: Housing burden refers to cost-burdened households for which housing costs account for 30% or more of their income

²³ Source: American Immigration Council, 2020

²⁴ Source: Public Policy Institute of California, 2020

SMALL BUSINESS LANDSCAPE

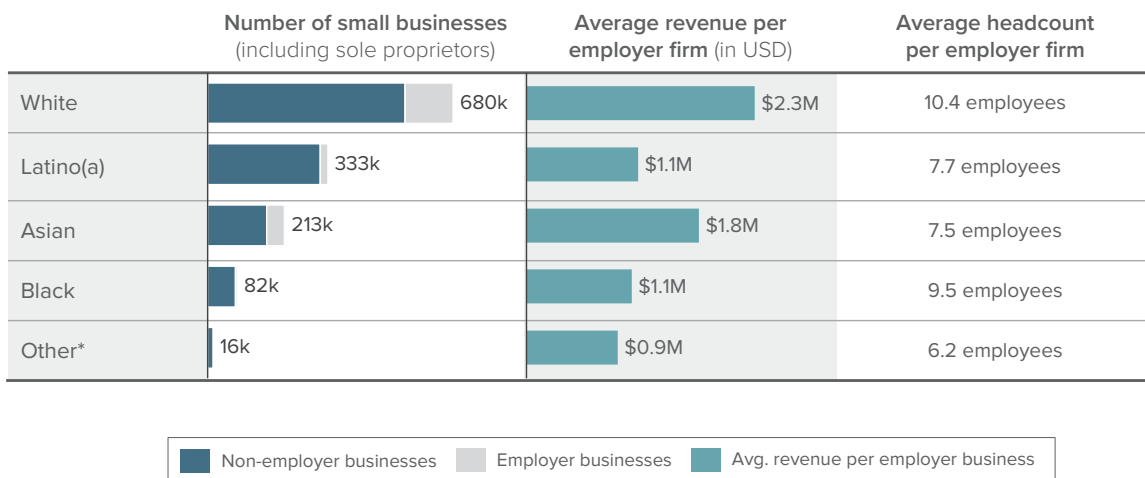
Small businesses are a critical driver of L.A. County’s economy. Yet, the region’s residents of color own disproportionately fewer small businesses than their White counterparts, compounding the inequities described previously in this report.

L.A. County houses a robust small business ecosystem with over 250,000 small employer businesses, representing 93% of all businesses in the region; the county also boasts over 1.1 million non-employer sole proprietorships. These small employer firms and sole proprietorships account for 43% of the local workforce and make up the largest small business economy in the U.S.²⁵

These local small businesses have been historically clustered in leading industries, including Professional Services (13%), Healthcare (12%), Retail Trade (11%), and Wholesale Trade and Accommodation and Food Services (8% respectively). Nearly half of employer small businesses were “micro businesses” that employ between 1 and 4 employees.

While L.A. County has a diverse population, disparities in business ownership have persisted for POC-owned businesses. While Black and Latino(a) residents make up 8% and 49% of the population, they only own 2% and 11% of all businesses, respectively.²⁶ These ownership disparities also have been paired with revenue and employment imbalances, with Black, Latino(a), and Asian-owned businesses historically with less revenue and fewer employees than their White-owned counterparts, as shown in Figure 1.²⁷

Figure 1: Small business ownership, revenue, and employment by race and ethnicity



Note: * Other includes populations of American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau
Source: U.S. Census Survey of Business Owners (2012)

It is important to note that the small business statistics highlighted in this report are a snapshot in time, and that during this COVID-19 pandemic, numerous small businesses have been and will be forced out of operation. The full impact of this crisis on the total number of establishments in the county is still unknown and will not be fully measured in this report.

25 Note: Figures assume sole proprietorships serve as primary form of employment for self-employed individuals

26 Source: U.S. Census American Community Survey, 2016; U.S. Census Survey of Business Owners and Self Employed Persons, 2012

27 Source: U.S. Census Survey of Business Owners and Self Employed Persons, 2012



Impact of the COVID-19 pandemic

The public health measures adopted to reduce the spread of COVID-19, including the city’s and county’s “Safer at Home” Emergency Order in place since March 2020 and throughout the development of this report, have devastated small businesses across the region. During this period, many small businesses were forced to temporarily close or reduce operations, resulting in some incurring significant revenue losses and others unable to withstand the impact of the economic crisis resulting from the pandemic permanently shuttered. In L.A. County, total small business revenue and the number of small businesses open decreased by 18% and 19%, respectively, from January to June 2020.²⁸

To better understand current and emerging needs of small businesses during this pandemic, this analysis focused across three main segments that were adapted from a segmentation developed by the Brookings Institution.²⁹ Industries were grouped across segments based on immediacy and severity of the impact felt by businesses, as shown in Figure2.

Figure 2: COVID-19 risk segmentation by industry

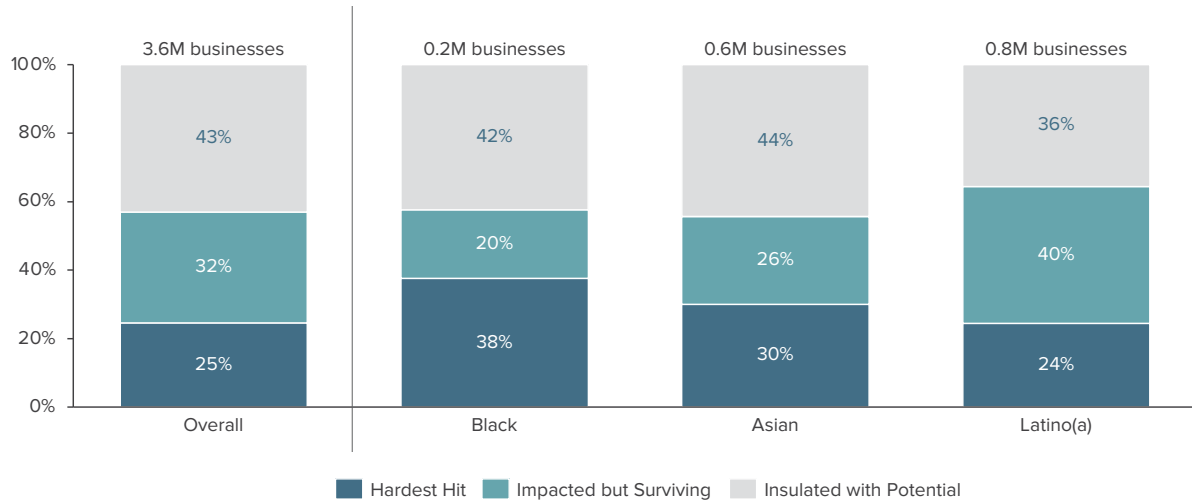
	Hardest Hit “How do I stay in business?”	Impacted but Surviving “How can I pivot or evolve?”	Insulated with Potential “How can I maintain and grow?”
Description	Non-essential businesses that have had to close or significantly adjust operations and face risk of closure	Essential businesses that have lost revenue due to reduced spending from consumers and non-essential businesses	Essential businesses that have been able to continue operations and supply critical goods and services
% of small businesses in L.A. County (2016)	26%	30%	44%
Key industries	<ul style="list-style-type: none"> ● Food service & drink places ● Performing arts & spectator sports ● Personal & laundry stores ● Clothing & accessory stores ● Health & personal care stores 	<ul style="list-style-type: none"> ● Real estate ● Merchant wholesalers ● Admin. & support services ● Specialty trade contractors ● Motion picture & sound recording industries 	<ul style="list-style-type: none"> ● Prof. & technical services ● Food and beverage stores ● Repair & maintenance ● Membership associations ● Credit intermediation & related activities

²⁸ Source: Opportunity Insights, 2020

²⁹ Source: Brookings Institution, 2020

Using historical surveys of owner demographics in California, Black- and Asian-owned businesses operated more in the Hardest Hit industries, while Latino(a) owners operated more in the Impacted but Surviving industry segment, as shown in Figure 3.³⁰ Accordingly, this indicates that the region’s small businesses owned by people of color have been disproportionately represented in the most affected industries. POC-owned businesses have long been concentrated in industries such as leisure, hospitality, and retail due to lower education and capital barriers to entry.³¹ The COVID-19 pandemic has compounded many entrenched barriers in accessing capital, customers, and services existent prior to the crisis that have kept these businesses from sustainability and growth.

Figure 3: COVID-19 risk segmentation breakdown of California-based businesses, by race and ethnicity



Source: Brookings Institution; Moody’s Corporation; US Census Bureau, County Business Patterns (2016)



³⁰ Source: U.S. Census County Business Patterns, 2017

³¹ Source: U.S. Census Bureau Center for Economic Studies, 2013

CAPITAL SUPPORT LANDSCAPE

The L.A. County small business capital landscape is characterized by a significant shortage of capital to meet small business needs and disproportionately low rates of traditional lending in neighborhoods with high concentrations of Black and Latino(a) residents. To understand the dynamics of the capital support landscape in L.A. County, the research team examined the capital demand and supply for small businesses within the region.

Debt and equity capital demand in L.A. County declined between 2016 and 2019, as illustrated in Figure 4. This decline was, in part, driven by small business tax relief resulting from the 2017 Tax Relief Bill and by declining trust in traditional financial institutions among some demographic groups.^{32,33} Over this period of time, demand dropped most significantly for Black small business owners.

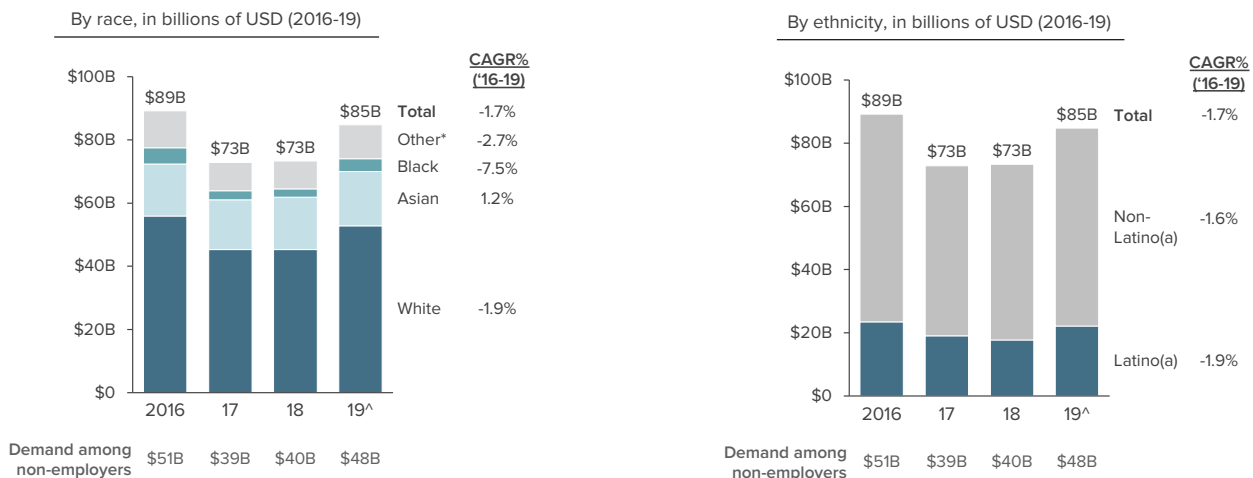
Concurrently, small business capital supply in L.A. County increased steadily in the years prior to the pandemic, driven by growth of the region’s supply of equity capital. From 2012 to 2017, total capital supply grew by 5.9% per annum (p.a.) to an estimated \$13 billion, with equity and debt capital growing by 7.9% p.a. and 5.2% p.a., respectively. Of the debt capital supplied, L.A. County has had robust SBA and Community Development Financial Institution (CDFI) lending compared

to other large localities, such as New York City. To service the over 250,000 small employer businesses and 1.1 million sole proprietors in the region, traditional, non-CDFI lenders made \$1.7 billion in SBA loans in 2017, while CDFIs made an additional \$87 million in SBA and non-SBA lending.³⁴

In 2017, there was an estimated \$60 billion gap between small business capital supply and demand.³⁵

In spite of this mature capital landscape – with demand decreasing and supply increasing in recent years – capital supply has not met the significant demands in the region. In 2017, there was an estimated \$60 billion gap between small business capital supply and demand.³⁵ Moreover, of the total capital supplied, there has been a “missing middle” in capital available for small businesses seeking to scale. Debt capital in L.A. County has been historically concentrated in microloans under \$100,000 and larger sized loans above \$250,000, with a gap for small businesses seeking mid-sized loans between \$100,000 and \$250,000.³⁶ Equity investments in L.A. County also were concentrated by value in deals Series B and above, creating challenges for businesses seeking growth capital to scale their business.³⁷

Figure 4: Estimated small business capital demand in Los Angeles



Note: * Other includes populations of American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau
Source: U.S. Census County Business Patterns, U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

32 Source: Pepperdine Private Capital Markets Project, 2018

33 Source: Federal Reserve Small Business Credit Survey - Report on Minority Businesses, 2016-2018

34 Note: SBA Lending includes SBA lending, excluding SBA loans made by CDFIs, and CDFI Lending includes all lending by CDFI Fund recipients

35 Note: the gap in capital demand and supply based on estimated capital demand and supply figures in 2017. Detailed capital demand and supply methodology can be found in the appendix, p. 28

36 Sources: Aggregate statistics sourced from Freedom of Information Act (FOIA) data to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report

37 Note: Series B funding aligns to a company’s expansion stage – while there is no standard funding threshold for Series B funding, an analysis over 38 Series B deals in June 2020 indicated the median Series B median was \$26 million; Source: Fundz Database, 2020



When examining small business owners' ability to access capital geographically, there were disproportionately low rates of lending in neighborhoods with high concentrations of Black and Latino(a) residents, as evidenced in Figure 5. This is most pronounced in Central and South L.A., where there were low volumes of historical bank lending in those neighborhoods compared to the rest of the county; CDFI lending has filled some gaps in those neighborhoods, but significant unmet demand remains.

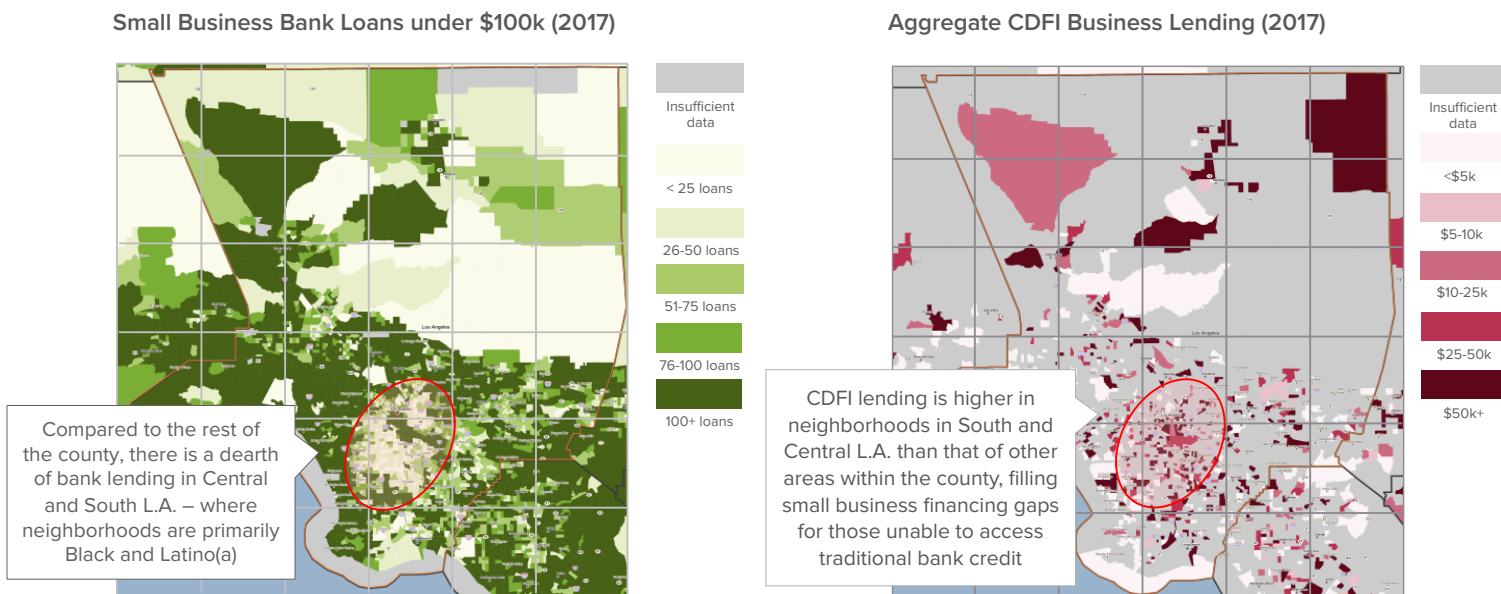
At the start of the COVID-19 pandemic, demand for capital surged in the immediate term. Many businesses sought emergency financing from federal, state, and local sources, including loans made available by the Paycheck Protection Program (PPP) of the U.S. CARES Act. As of early May 2020, approximately 13% of the first and second tranches of PPP funding were deployed in California.³⁸

After analyzing local PPP lenders – from banks to CDFIs – the research team found that only a quarter of L.A. County lenders offered PPP loans to new borrowers, with nearly all national

banks restricting PPP lending exclusively to existing customers. On the state and local levels, public and private emergency funds with varying geographic scope have also been launched, all with significantly lower capitalization than that of Federal SBA programs.

This emergency funding dynamic has made it difficult for businesses owned by people of color to access funding successfully, as lenders have prioritized existing and larger borrowers with access to more support and resources. Only 49% of PPP loans were awarded to businesses with loan sizes less than \$25,000 in L.A. County, with larger loans overrepresenting loans made in the county by value.³⁹

Figure 5: Bank and CDFI lending in L.A. County by census tract



38 Source: SBA Paycheck Protection Program Report, 2020
 39 Source: SBA Paycheck Protection Program Loan Level Data, 2020

Figure 5 Source: CRA and CDFI Fund data for Los Angeles County (2017), accessed through PolicyMap

In this crisis, while some small businesses in L.A. County have adapted to position themselves for growth, most small businesses have tried to offset lost revenue, creating short-term increased demand for emergency funding but long-term reduced demand for traditional financing. Many businesses were largely unprepared to weather a disruption in business lasting more than a few weeks – prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.⁴⁰ By mid-April 2020, median small business cash balances fell 12.7% from the onset of the pandemic.⁴¹ As such, the initial influx in demand was driven by businesses desperate for financing in the immediate wake of the pandemic. Thereafter, it is expected that there will be a subsequent decrease in capital demand driven by fewer small businesses able to take on additional debt or seeking investment capital given expectations that fundraising will be more difficult due to tighter underwriting and investment policies.

In numeric terms, the research team forecasted an initial surge of capital demand peaking at \$27-31 billion in the second quarter of 2020, with demand decreasing through a ‘recovery’ period between \$10-16 billion through the end of this calendar year. Subsequently, a ‘post-recovery’ period with stabilized and flattening demand is expected, rising slowly each quarter to an estimated \$13-23 billion by the end of 2021.⁴²

With the research team’s forecast, it was important to note that small business capital demand can serve as a proxy of the small business ecosystem’s health, with higher longer-term demand for traditional financing correlated with a more robust ecosystem. To ensure that capital demand reaches levels prior to the COVID-19 crisis, an integrated small business ecosystem response among capital and service providers should serve as a method to promote the overall health of small businesses and the supporting ecosystem and accelerate recovery.

Prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.⁴⁰



40 Source: JPMC Institute, 2019

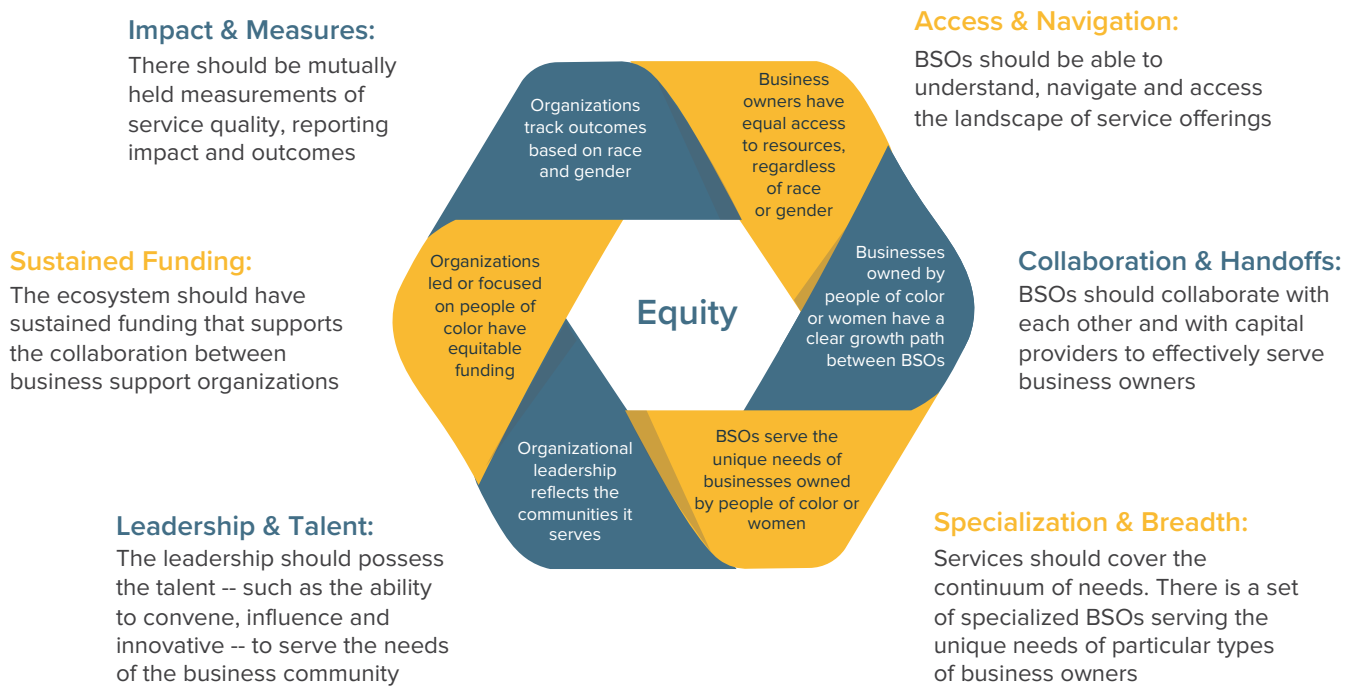
41 Source: JPMC Institute, 2020

42 Note: Detailed capital demand and supply methodology can be found in the appendix, p. 28

BUSINESS SERVICES LANDSCAPE

The L.A. County business support organization (BSO) landscape lacks a centralized coordinator, primarily serves startup businesses, and is inequitable in funding for BSOs led by people of color. To assess the BSO landscape, the research team analyzed a sample of 100 service providers based in L.A. County, examining the critical elements of the BSO systems across the following areas depicted in Figure 6.

Figure 6: Critical elements in the local business services landscape



Access and Navigation

The business service organizations studied in this assessment were located in 40 different zip codes but concentrated within the Los Angeles city limits. Examining BSO locations by residential race and ethnicity, 38% of BSOs were located in primarily White zip codes, 31% in multi-racial zip codes, 20% in Latino(a) zip codes, and 7% in Black zip codes. Services were also largely inclusive of foreign-born business owners, with multi-lingual offerings available.

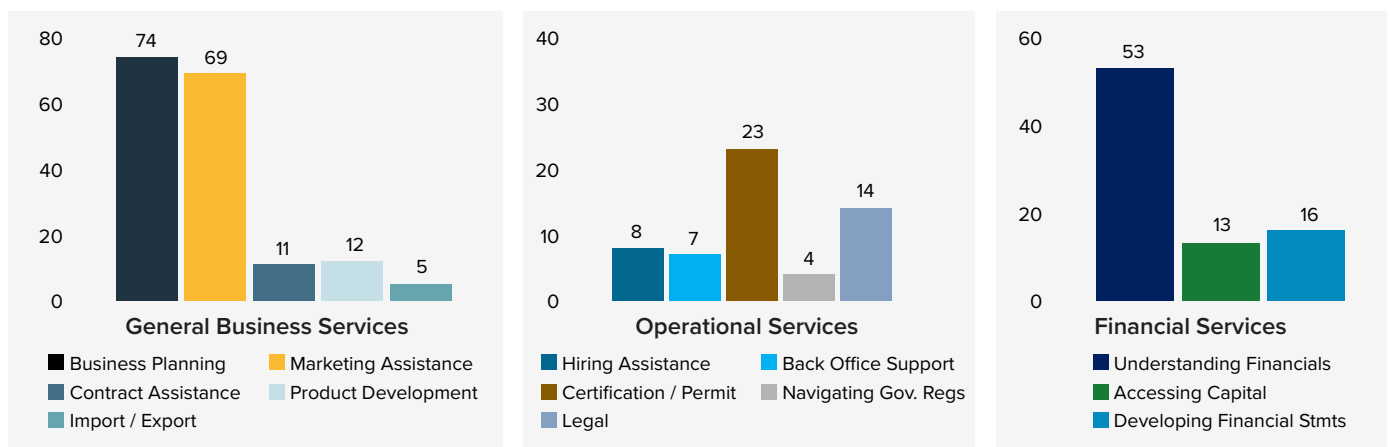
Research further indicated that to expand access, BSOs could also leverage the vast and strong presence of community-based organizations across the county to reach newer businesses that were less likely to know how to navigate resources.

Specialization and Breadth

As shown in Figure 7, the BSOs studied for this assessment were more likely to offer certain services like business planning, certification, and marketing support over other types of services. While this concentration of services is supportive of the county's business start-up communities, there are opportunities for the existing landscape of BSOs to expand their portfolio of services to support small businesses to navigate the unique local dynamics in the county.

Figure 7: Concentration of business service categories in L.A. County

Number of Business Service Organizations surveyed (n = 100)



Across the region, few BSOs studied offer space alternatives or makerspaces for their clients to mitigate the negative impact of rising commercial rents and low vacancy rates on the county's small businesses. BSOs also lacked industry-specific services in industries like import and export logistics that have fueled the region's economy, limiting the potential among some small businesses seeking to take advantage of the county's growing economic opportunities. Moreover, in a county with growing racial and ethnic diversity, few BSOs have dedicated programming designed to foster social networks among business owners of color, restricting potential connections among entrepreneurs and informal business mentors among the county's communities of color.

The historical focus among BSOs in the county may have limited the ecosystem's response to the COVID-19 pandemic. Among the organizations surveyed, few BSOs in L.A. County reported having services that support businesses in developing financial statements, managing state, county, and city government regulations, and securing procurement opportunities. Without well-developed services around navigating evolving government protocols to reopen responsibly, developing the necessary financial statements and documentation to secure emergency financing, and assisting with contract negotiations with more stable anchor clients, many small businesses in L.A. County were left under-supported to weather their growing needs in response to the pandemic.

Leadership and Talent

BSO leadership that reflects the experiences, perspectives, and demographics of its surrounding communities is key to ensuring alignment with the needs and expectations of diverse stakeholders. Among the 100 BSOs sampled, a significant number of the leaders of government sponsored organizations are women or people of color which could provide leadership lessons around talent and development for a next generation of ecosystem leaders.

Sustained Funding

Among surveyed BSOs, leadership of BSOs in the county largely matched the proportion of people of color in L.A. County, as shown in Figure 8. However, BSOs that were White-led tended to be larger and better funded. Nearly a third of White-led BSOs generated revenues over \$1 million, compared to only 22% of POC-led BSOs. This mirrored national trends. Nonprofit leaders of color more often face additional hurdles around compensation and funding compared to their White leader counterparts – for example, a third of White nonprofit leaders felt they lacked relationships with funding sources, compared to half of nonprofit leaders of color.⁴³

L.A. County’s BSOs were primarily funded through grants (42%), federal funding (15%), and membership (20%). However, while BSOs primarily served their local communities, only a handful of BSOs were funded by local government entities (9%).

Figure 8: Distribution of business service organizations by demographic and size

	People of Color	Women		Revenue \$1M+	Revenue \$500k+
% of population	49%	49%	White-led BSOs	34%	61%
% of businesses	31%	11%	POC-led BSOs	22%	47%
			Male-led BSOs	32%	48%
% of BSO CEOs	52%	49%	Female-led BSOs	18%	42%

Collaboration and Support

There is no clear “quarterback” for the L.A. County BSO ecosystem that coordinates service providers, costing businesses time and money trying to identify the right service providers and the corresponding services for their business. A “quarterback” should be a central convener and navigator that serves small businesses in the county. While the Los Angeles County Economic Development Corporation and L.A. Chamber of Commerce collate resource guides that span across different local stakeholders and efforts, there is no central database to help business owners navigate technical assistance resources, particularly those that are industry-specific, or connect to relevant portals or opportunities. Furthermore, given L.A. County’s large geography and diverse population, there is a need for both centralized coordination and localized, coordinated networks that can refer small businesses to culturally competent services

Coordination between the capital and services landscape is also critical to promote small business outcomes. Businesses engaged in this assessment reported that they felt supported by their technical assistance providers when developing new business and strategic plans, but ultimately could not execute upon their strategic goals because they could not find funding to help them do so. There is a need among capital providers and BSOs in L.A. County to form more integrated referral partnerships to prepare small businesses to take on and secure affordable debt and equity capital.

Impact and Measures

The right set of mutually held measures of service quality that report impact and outcomes help BSOs hold one another accountable and make for a more efficient ecosystem. However, in L.A. County, few BSOs regularly produce an annual report or publicly report their impact. This made it difficult to measure their effectiveness, gauge whether there were shared metrics and goals across ecosystem players, or map what was successful in growing small businesses.

43 Source: Building Movement, 2019

GAPS IN THE ECOSYSTEM

From the research and insights from local stakeholders, it is clear that L.A. County's small businesses owned by people of color face significant barriers in accessing capital, customers, and services. Extensive quantitative and qualitative research surfaced almost 50 challenges impeding the success of small businesses owned by people of color. The research team worked with 13 local leaders of the small business ecosystem in the Working Group and 46 leaders in the Advisory Council, representing a broad cross-section of the region's small business ecosystem, to refine the long list of gaps into a shorter list of priority focus areas. Through two initial workshop sessions, the groups discussed and further developed the gaps analysis and then completed a survey to prioritize the final 14 high-priority gaps (see Figure 9). Afterward, the groups came together in two additional working sessions to brainstorm strategies to address those gaps – drawing on the region's assets and unique dynamics of the existing L.A. County small business ecosystem.

Local leaders aligned on the most significant challenges facing business owners of color, including accessing capital due to a lack of existing relationships with banks, absence of traditional lenders in local communities of color, and fewer avenues to tap funding from family and friends due to lower overall wealth profiles. At the same time, small business owners of color face challenges in accessing customers and markets with fewer existing business networks to reach new clients and a lack of familiarity to leverage digital marketing and e-commerce. These small business owners need tailored technical assistance to start-up, survive, sustain, or scale despite the barriers they face, and a more coordinated business support landscape to ease access to the services they need.

The COVID-19 pandemic further entrenched these institutional barriers and disproportionately affected POC-owned businesses. In particular, this crisis exposed the greater need for more dedicated financing and products for business owners of color, the need to build capacity in e-commerce and digital marketing, and the need for racial and cultural sensitivity programs for BSO staff.

Figure 9: Prioritized small business ecosystem gaps

<p style="text-align: center;">Access to Capital</p> <p style="text-align: center;">Financing for small businesses to start, survive, sustain, or scale</p>
<ol style="list-style-type: none">1. Few small business grant programs dedicated to people of color2. Few equity funds for entrepreneurs of color3. Few lending options with flexible underwriting and collateral requirements4. Limited public, philanthropic, and corporate sector support for CDFIs and other responsible lenders5. Need for capital products that are accessible and suitable for undocumented small business owners
<p style="text-align: center;">Access to Customers and Markets</p> <p style="text-align: center;">Avenues for small businesses to reach customers and maintain and grow revenue</p>
<ol style="list-style-type: none">1. Need to build capacity among small businesses to market and reach new customers2. Greater access to shared and/or affordable commercial spaces3. Need to continue developing ecommerce channels for and capabilities among small businesses
<p style="text-align: center;">Access to Services</p> <p style="text-align: center;">Technical assistance support for small businesses to start, survive, sustain, or scale</p>
<ol style="list-style-type: none">1. No clear “quarterback” coordinating across the ecosystem2. Increased capacity building for BSOs led by people of color to market services and reach adequate scale3. Need for racial and cultural sensitivity training programs for business counselors and advisors4. Need for training to diversify revenue streams and establish new business models5. Need for services for financial planning and management and fundraising6. Support for COVID-19 financing and navigating COVID-19 funding

Emerging Solutions

This research culminated in a set of ecosystem strategies designed to move L.A. County towards a shared vision of creating a more equitable small business environment that narrows the racial wealth gap in the region. The research team worked with the Working Group and Advisory Council through an iterative and collaborative process to advance a robust collection of solutions to address the priority ecosystem gaps. Throughout the solutions design process, the Working Group and Advisory Council developed strategies that recognize and harness the county's size, diversity, and existing assets. Strategies were designed to address root causes and create the enabling infrastructure to respond to the prioritized gaps. The strategies were informed by a mix of local stakeholder input and national best practices for place-based small business ecosystems.

These solutions are organized under four key strategic pillars and recommended to address the broad set of capital, customer, and service needs among small businesses owners of color within L.A. County:



ECOSYSTEM BUILDING AND COLLABORATION

Develop networks of business service and capital providers to promote improved outcomes and policies favorable to small business owners of color.

County wide collaboration*

Establish and sustain interdisciplinary coordinating bodies and communities of practice with equitable representation from across the county

Entrepreneurial-driven coalitions+

Build collective action among small business owners and entrepreneurs of color to co-develop solutions to address ecosystem-wide issues

Hyper-localized, integrated provider networks*

Foster localized networks of capital providers, service providers, and anchor institutions that coordinate capital, customers, and services to small businesses

Advocacy and policy platform*

Identify and promote policy and legislative positions that support the county's equitable small business priorities

* The strategies were informed by a mix of local stakeholder input | + National best practices for place-based small business ecosystems



SUSTAINABILITY AND RESILIENCE

Create and refine services and funds for small businesses to recover from the COVID-19 pandemic, build resilience, and adapt to the “new normal.”

Resiliency building services and tools*:

Create programming and tools to support small businesses recover from or responsibly exit as a result of COVID-19 and build resiliency against future crises

Recovery and resilience funding+:

Establish new and capitalize existing funds of grants and flexible debt products to support small business reopening and recovery in COVID-19 environment

Digital small business services hub+:

Create a single platform for small business owners of color to find relevant, high-quality resources, learn, and network

Capacity building for service providers*:

Provide funding and technical assistance to business service organizations to support greater demands for culturally competent services in COVID-19 and beyond



EQUITABLE AVENUES FOR GROWTH

Create and refine services for small business owners of color to help them better access and leverage growth opportunities and form peer-to-peer networks.

Growth-oriented business services+:

Reconfigure BSO offerings on marketing, fundraising, and back office operations to tailor support for businesses through their various stages of growth

Equitable marketplace competition*:

Reimagine existing MWBE certification and supplier diversity programs to promote more equitable procurement opportunities

Access to accelerator and investor networks+:

Expand opportunities for growth-oriented entrepreneurs of color to access incubators / accelerators and connect with growth capital investors and corresponding networks

Peer-to-peer business networks*:

Establish new and expand existing programs that foster peer-to-peer networks among small business owners of color



CONTINUUM OF CAPITAL

Increase availability of free and low-cost, flexible capital to better finance and strengthen businesses and corresponding responsible capital providers.

Streamlined access to capital+:

Establish new mechanisms to streamline borrower experiences and improve access to available capital

Partnerships across the continuum+:

Cultivate formal and informal forums among debt and equity providers to engage and form partnerships

Capital and services integration*:

Connect capital providers with networks of financial navigation service providers to help businesses access the appropriate capital products

Expanding pools of flexible capital*:

Foster enhanced partnerships between mission-driven capital providers and philanthropic, bank, and public investors to expand pools of flexible debt, equity, and grant capital for underserved markets

* The strategies were informed by a mix of local stakeholder input | + National best practices for place-based small business ecosystems

Envisioning 'Hyper-localized, Integrated Provider Networks'



The Need

L.A. County's size, density, and diversity lend itself to a robust but disconnected small business ecosystem. While county-wide collaboration is needed, L.A. County's vast geographic footprint requires that community or neighborhood-level networks of ecosystem stakeholders also coordinate to break down silos at the hyper-local level to foster deep connections in communities.

The Solution

To foster greater connectivity across the county, ecosystem stakeholders can establish and scale local coordinating bodies to mobilize and align the county's large constellation of service providers, capital providers, anchor institutions, and civic leaders around neighborhood- or community-specific initiatives. Through these hyper-localized networks, L.A. County can bring together new and existing nodes of collaboration in communities to deliver holistic business services and streamline county-wide collaboration to ensure localized best practices are elevated and scaled across the ecosystem.

An Example Model

The East Harlem Community Alliance (EHCA) in New York offers a model for hyper-localized, integrated provider networks. EHCA is a consortium of nonprofits, businesses, and government agencies working to enhance the vitality of East Harlem. EHCA launched its 'Buy Local East Harlem' program to connect local anchors with local businesses, offering participating businesses relationship building with anchors, capacity building support, and connections with capital providers.

Envisioning 'Expanding Pools of Flexible Capital'

The Need

Across the county, entrepreneurs and small business owners of color have historically struggled to access flexible capital to start, sustain, and scale their businesses. While the county houses a robust ecosystem of community financial institutions (including CDFIs, CDCs, and minority depository institutions) that serve these small businesses with more flexible terms, these financial institutions are regulated by minimal prudent standards and themselves lack access and mechanisms to expand their existing pools of balance sheet capital.

COVID-19 has only intensified the divide between small businesses and financial institutions that has contributed to the inequitable access to capital in the county. Since the advent of the pandemic, small business demand for flexible, no- or low-cost capital has significantly increased, as detailed earlier in this report. Counteracting this market dynamic, community financial institutions have needed to adapt their product portfolios and face increased delinquencies and defaults on existing loans, stretching their capacity to meet small business demands for affordability and flexibility needed in this critical moment.



The Solution

To expand pools of flexible capital, community financial institutions in L.A. County can apply a multi-pronged approach by partnering with philanthropic and bank institutions and establishing advocacy platforms for public policy reforms that expand access to pools of public capital and reduce restrictions on regulated liquidity ratios. Through philanthropic and bank funding partnerships, community financial institutions in the county can look to pool efforts to sell loans to institutional investors collectively through joint investment vehicles. If funded and designed appropriately, these investment vehicles can promote efficient connections between local capital providers and prospective investors and increase the total supply of capital for entrepreneurs and small business owners of color in the county.

An Example Model

The Kauffman Foundation's Kansas City Microfinance Portfolio serves as an example of capital aggregation that can be adopted among L.A. County's capital providers. This initiative was a microfinance pilot program to help Kansas City microlenders sell loans to larger commercial banks and capitalize their loan pool funds for lending. In this model framework, microlenders originate loans that are then packaged to large lenders who purchase the loans and provide liquidity and greater amounts of capital. This effort bridges the gap between small capital vehicles and large institutional investors.

Conclusion and Call to Action

The time to act is now.

As part of a broader national initiative across the nine cities and localities, the L.A. County small business ecosystem is at a crossroads with the opportunity to lead, learn from, and coordinate with other cities to build a more equitable small business ecosystem across the U.S.

The research team recommends immediate action on the strategies articulated in this report, starting with the steps below to fulfill the vision of closing racial gaps in business ownership, revenue, and number of employees across L.A. County:

1 Organize a coalition of funders.
Bring together funders to resource the next two phases of work – planning and implementation – and coordinate an immediate infusion of local funding to curtail further closures of small businesses owned by people of color.

2 Convene local stakeholders.
Continue gathering people involved in this work and include others to foster collaboration, allow grassroots solutions to emerge, and develop implementation plans that are driven by and represent the needs of small businesses and the organizations that support them.

3 Use the research findings.
Use this report to educate others, attract funding, amplify the needs of small businesses, and promote business-friendly policy changes.



Acknowledgements

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county's small business owners. We greatly appreciate their engagement and commitment to this work.

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Los Angeles County Small Business Ecosystem Advisory Council

Members denoted in bold were also members of the Working Group

Alicia Culbertson, Stare Fashion

Angela Gibson-Shaw, Greater L.A. African American Chamber

Anita Dharapuram, BBVA Compass

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Brian Williams, Urban League of Los Angeles

Chancee Martorell, Thai Community Development Center

Claudia Shah, SBDC East L.A. Initiative

Constance Anderson, The Center by Lendistry

Effie Turnbull Sanders, South L.A. Transit Empowerment Zone

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Janice Graham, Entrepreneur's Insurance Services

Joe Rouzan, Vermont Slauson EDC

Jonathan Lawson, Lawson Brothers LLC

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Joyce Sloss, SCA Strategic Partnerships

Kecia Washington, L.A. Department of Water and Power

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Kimberly Kelly-Rolfe, USC Marshall School of Business

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Michael Ocasio, OC Small Business Development Council

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Quentin Strode, OmniWorks

Quincy Smith, Olympic Security, Inc.

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Robert Park, City of L.A. Mayor's Office of Economic Development

Robert Villarreal, CDC Small Business Finance

Ron Fong, Asian Pacific Islander Small Business Program

Rudy Espinoza, Inclusive Action for the City

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Sarah Bowles, JPMorgan Chase & Co.

Simeon Stewart, Palazzo Concessions

Stacy Cumberbatch, Quake Capital

Terri L. Billups, U.S. Small Business Administration

Todd Hitomi, LACI's Founders Business Accelerator

Tomas Duran, Conscious Capital

Vera Moore, JPMorgan Chase & Co.

About the Research Team

The core research team would also like to acknowledge the contributions from Next Street and Common Future, who partnered together to produce this report and underlying research.

They also acknowledge DRA Resources whom led the research of the business services landscape

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Unless otherwise specifically stated, the views and opinions expressed in the report are solely those of Next Street and Common Future and do not necessarily reflect the views and opinions of JPMorgan Chase & Co. or its affiliates.

Appendix

APPENDIX 1: DATA ANALYSES AND POTENTIAL LIMITATIONS

Small Business Landscape

The quantitative analysis combined data from several national, publicly available sources. Multiple data sources originate from the U.S. Census, but pose some minor inconsistencies in the data between sources.

Four primary data sources were used to analyze the small business landscapes.

- U.S. Census Survey of Business Owners and Self-Employed Persons (SBO), 2012 data (latest available, business owner demographics / business characteristics by 2-digit NAICS code)
- U.S. Census American Community Survey (ACS) Public Use Microdata Sample (PUMS), 2018 5-year data set (workforce data by 2-6 digit NAICS code)
- U.S. Census Longitudinal Employer-Household Dynamics (LEHD) Quarterly Workforce Indicators (QWI), 2017 data (provides business data by 2-6 digit NAICS code)
- U.S. Census County Business Patterns (CBP), 2011-2016 data (latest available, provides business data by 2-6 digit NAICS code)

The most recent publicly available data consistently available from all datasets is from 2016 (apart from SBO); given this disparity in year that data was collected, it is possible that the data does not accurately represent current business dynamics.

Capital Landscape

Capital Supply Methodology

Four primary data sources were used to analyze the small business and capital landscapes.

- Federal Financial Institution Institutions Examination Council (FFIEC) Community Reinvestment Act (CRA) report data made available from the Freedom of Information Act, 2008-2017 data
- Small Business Administration 504 and 7(a) lending databases made available from the Freedom of Information Act, 2008-2017 data
- CDFI Fund Program Awardee Data Release, 2008-2017 data
- PwC and CB Insights MoneyTree Report, Series A or Series B or Series C or Series D or Growth Equity or Seed / Angel or Convertible Note or Other, 2008-2017 data

The data provided in this report is representative, but not necessarily comprehensive, of the capital providers located and operating in L.A. County. There are some limitations and considerations that should accompany any analysis of this capital landscape dataset:

- FFIEC CRA data does not fully represent bank loans to small businesses, as only banks above a certain asset threshold are required to report CRA loans. Banks are also required report all loans under \$1 million to businesses, indicating that some loans may actually be to businesses with more than 50 employees
- CDFI Fund data underrepresents loans to small business because not all CDFIs in L.A. County report full loan data. As a result, the research team adjusted the data to estimate CDFI loans by scaling up estimates in this report to increase accuracy
- Equity data publicly available from the PwC and CB Insights MoneyTree Report is aggregated across the Los Angeles-Long Beach-Anaheim metropolitan area, which may overrepresent equity deals made specifically to businesses located in L.A. County

Capital Demand Methodology

The research team used a bottoms-up methodology that to directly estimate the historical demand for financing from small businesses across demographic groups in the L.A. County, as shown in Figure 10.

Applying this methodology to forecast capital demand in 2020 and 2021, the research team made key assumptions to three forecast scenarios that measure the degree of impact the COVID-19 pandemic and resulting economic recession, shown in Figure 11.

Figure 10: Methodology to estimate historical small business capital demand

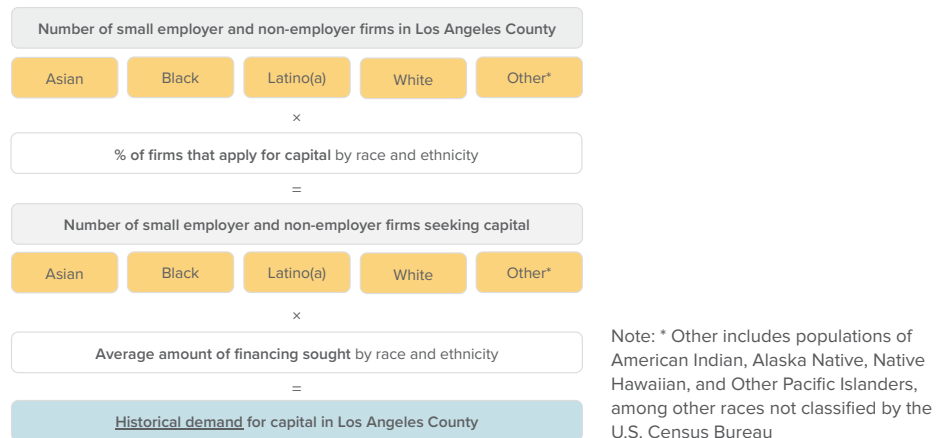


Figure 11: Forecast assumptions for small business capital demand

	Number of small businesses	% of firms that apply for capital	Avg. amount of financing sought
Base case Expected scenario with assumptions that analysts deems most likely to occur	Net growth in employer and non-employer firms equal to median growth rates during financial crisis (2007-10) ⁴⁴	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys ⁴⁵ From 20Q4-21Q4, proportion seeking financing assumed to decline due to lower revenue expectations ⁴⁶	Amount sought to decline relative to lower expected revenue, assuming a direct relationship between revenue and capital demand ⁴⁷
Optimistic forecast Scenario based on a moderately severe recession due to C-19	Net growth in employer and non-employer firms equal to growth rates during the latter years of the financial crisis (2008-10) ⁴⁴	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys ⁴⁵ From 20Q4-21Q4, proportion seeking financing assumed to decline due to moderate revenue expectations ⁴⁶	Amount sought to decline relative to moderate expected revenue, assuming a direct relationship between revenue and capital demand ⁴⁷
Pessimistic forecast Scenario where C-19 recession results in conditions seen at the height of Great Recession	Net growth in employer and non-employer firms equal to growth rates at the height of the financial crisis (2007-09) ⁴⁴	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys ⁴⁵ From 20Q4-21Q4, proportion seeking financing assumed to decline due to significantly lower revenue expectations ⁴⁶	Amount sought to decline relative to significantly lower expected revenue, assuming a direct relationship between revenue and capital demand ⁴⁷

⁴⁴ Note: Estimated based on historical data sourced from U.S. County Business Patterns and Non-Employer Statistics

⁴⁵ Source: Goldman Sachs 10,000 Small Businesses, 2020

⁴⁶ Note: Based on a logistic regression model assessing the relationship between the percentage seeking financing and the aggregate small business debt-to-income ratio

⁴⁷ Note: Revenue decline expectations are based on the relative levels compared to estimated 2019 revenues, with expectations ranging from 25% to 90% of 2019 levels

Four primary data sources were used to estimate historical and estimated small business capital demand.

- U.S. Census County Business Patterns (CBP), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Nonemployer Statistics (NES), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Annual Survey of Entrepreneurs (ASE), 2016 data (latest available, business owner demographics / business characteristics by 2-digit NAICS code)
- Federal Reserve Small Business Credit Survey, 2016-2019 survey results (latest available, provides data on capital demand trends by demographics / business characteristics)

The data sourced to estimate capital demand in this report provides a directional representation of capital demand but may not precisely account for capital demand among all small businesses operating in L.A. County.

There are some limitations in the datasets used to estimate capital demand that require additional considerations and assumptions:

- U.S. Census County Business Patterns and Nonemployer Statistics data is available up to 2016. To estimate the baseline number of small employer and non-employer firms following 2016, the research team scaled the total firms reported in 2016 by the annualized growth rate from 2014 to 2016
- U.S. Census Annual Survey of Entrepreneurs data is available up to 2016. To estimate the business ownership demographic breakdown by race and ethnicity across the historical and forecast period, the research team assumed that the breakdown remains fixed at 2016-levels.
- The Federal Reserve Small Business Credit Survey measured capital demand among small businesses across the U.S. As a result, the small business capital demand dynamics measured in the annual surveys may not fully represent the small business sentiments in L.A. County.

APPENDIX 2: SOURCES AND FULL WORKS REFERENCED

Interviews

Director of Community Development, City of Rosemead

Consultant, SBDC Small Business Development Center

Director of Microlending and Small Business Lending Sales, Opportunity Fund

Community Development Officer, Opportunity Fund

Independent photography business (Small Business Owner)

Independent boutique business (Small Business Owner)

Webinars

Entrepreneurship Advantage: Convening, April 2020

Los Angeles Economic Development Corporation: COVID-19 Economic Implications Briefings, April 2020

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