

# NEXO

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## Latino-Owned Businesses: Patterns on Growth and Exclusion

With the results of the 2007 Economic Census released in the second half of 2010, there has been a flurry of articles published across the country noting the increase in Latino businesses since 2002. From Oregon to Arkansas to New Hampshire and Pennsylvania, across rural communities and urban areas, the nation saw dramatic increases in Latino-owned businesses between 2002 and 2007. This article provides an overview of Latino businesses and the issues they face as they struggle to succeed in today's changing economy.

The recently released data show that nationwide, Latino-owned businesses (non-farm) increased by 44 percent, compared to the 18 percent increase for all businesses. In raw numbers, Latino-owned businesses increased from 1.6 million in 2002, to 2.3 million in 2007, while all businesses increased from 23 million to 27.1 million. Latino businesses were 8.3 percent of all nonfarm businesses and generated \$345 billion in sales/receipts, up by 55.5 percent from 2002. They employed 1.9 million workers with a total payroll of \$54.7 billion, an increase of 26 percent and 49 percent, respectively, since 2002. On average, however, Latino businesses made \$153,000 a year, which is lower than the \$179,000 average for minority-owned businesses, and comprises slightly less than one third of the \$490,000 average made by White-owned businesses.

These data demonstrate the considerable growth and impact of Latino-owned businesses. At the same time, however, Latinos still face significant obstacles both in starting businesses and in operating them. Limited capital and credit access continued to diminish the capacity of Latinos to start and operate their own businesses. Moreover, these obstacles impact the types of businesses Latinos start, leaving the more capital intensive yet profitable options out of their reach.

### Latino-Owned Businesses: National Overview

The Economic Census is carried out by the U.S. Census Bureau every five years (the next one will occur in 2012). Data on Hispanic-owned businesses are collected by the Census Bureau every five years in the Survey of Business Owners (SBO), which is part of the Economic Census and began as the survey of minority-owned businesses in 1969. In 2007, business owners were identified by their tax status as individual proprietors, partnerships, or corporations that reported sales/receipts of \$1,000 or more in 2007. The SBO defines Hispanic-owned businesses as those in which "a Hispanic of any race owns 51 percent or more of the stock or equity of the business."

Overall, persons of Mexican origin owned 45.8 percent (or about 1 million) of the Latino businesses, contributing approximately 45.1 percent of sales/receipts. Other Latinos owned 34.5 percent of Latino businesses, while Cuban Americans owned 11.1 percent, and Puerto Ricans, who accounted for the fewest firms, owned 6.9 percent of all Latino firms. Across the groups, it is estimated that there are only 44,189 Latino firms with sales/receipts of \$1 million and more; they account for 3.1 percent of all firms with sales/receipts at that level. Finally, it is estimated that there are only approximately 2 million Latino sole proprietorships across the country.

A closer look at the data shows that 15.1 percent of Latino-owned firms operate in construction; 14.9 percent are in repair and maintenance, and personal and laundry services; 13.9 percent are in administrative and support, waste management, and remediation services; 10.4 percent are in health care and social assistance; and 8.9 percent are in transportation and warehousing. By comparison, White-owned firms are as follows: 14.7

percent in professional, scientific, and technical services; 13.8 percent in construction; 10.7 percent in repair and maintenance, and personal and laundry services; 10.0 percent in retail trade; and 9.8 percent in real estate, and rental and leasing.

Geographically, California is home to the largest number of Latino businesses (566,567), or 25.1 percent of all Latino-owned businesses in the United States. Latino businesses comprised 16.5 percent of all businesses in California, and it is New Mexico that has the highest percentage in all states (24 percent or 37,155 businesses). Nationally, Florida and Texas had the next highest numbers of firms: 450,185 (19.9 percent) and 447,486 (19.8 percent), respectively.



### Latina-Owned Businesses

Although the 2007 SBO detailed data on women's businesses have not yet been released, the Center for Women's Business Research (CWBR) in McLean, Virginia, has provided estimates based on 2002 figures for Latina-owned businesses in 2006. Accordingly, there were 745,246 Latina-owned (majority or 51 percent owned) firms that generated nearly \$46 billion in sales/receipts. According to the CWBR, these comprised approximately 36.9 percent of the overall number of Latino-owned businesses, but accounted for only about 17 percent of the overall sales/receipts generated and for 16.2 percent of employees in these firms.

In terms of industries, 80 percent of Latina-owned firms are in services (cosmetology, financial, professional, administrative, etc.); 9.2 percent in retail trade; 5.4 percent in non-traditional industries (forestry, mining, construction, manufacturing, etc.); and 4.5 percent in real estate, rental and leasing. While recent growth occurred across all industries, the greatest was in services, where Latina-owned businesses nearly tripled in the previous

decade. It is expected that the 2007 SBO data will provide greater detail on Latina-owned businesses.

### Latino-Owned Businesses in the Midwest

The growth of Latino businesses was most dramatic in the South, especially in Arkansas, Tennessee, North Carolina, and South Carolina, all of which experienced increases greater than 91.5 percent. These were followed by states in the West and the Midwest. For our purposes the Midwest includes twelve states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. Overall, Latino-owned firms increased by approximately 47.1 percent in this region, from 77,870 in 2002 to 114,592 in 2007. By comparison, White-owned businesses in the Midwest increased by only 9.1 percent during the same period. Illinois, which has the greatest number of Latinos in the Midwest (over 2 million in 2010), had the highest number of Latino firms (56,552) in 2007, reflecting an increase of 43 percent from 2002. Despite having the second-largest Latino population (approximately 420,000; behind Illinois) in the Midwest, Michigan had the lowest growth rate in Latino businesses between 2002 and 2007 (9.4 percent).

Illinois, however, was not the Midwestern state with the greatest percentage increase in Latino-owned businesses. Despite fewer numbers of Latino-owned firms, five other states experienced more than a 50 percent increase between 2002 and 2007. Missouri (3,652; 6,177) and South Dakota (355; 595) experienced the greatest percentage increases, 69.1 percent and 67.6 percent, respectively. Latino businesses increased 59.8 percent in Iowa (1,536; 2,455), 56.3 percent in Indiana (5,482; 8,567), and 55.6 percent in Nebraska (1,966; 3,060). The rest of the Midwestern states also experienced significant growth. Latino businesses increased by 50 percent in Wisconsin (3,750; 5,625), 43 percent in Illinois (39,539; 56,552), 36.8 percent in Ohio (7,109; 9,726), 25.8 percent in Minnesota (3,984; 5,011), and 24.3 percent in North Dakota (230; 286).

While the growth in the number of Latino-owned firms in the Midwest is dramatic, the increase in money received by these Latino-owned businesses is even more striking. In 2002, Latino-owned firms in the Midwestern states brought in more than \$15.6 billion. By 2007, that amount had increased by 61.3 percent to nearly \$25.2 billion. Again, Illinois led the group in sheer numbers. Latino-owned businesses in Illinois brought in about \$7.4 billion in 2002. This amount increased by 40 percent to over \$10.3 billion in 2007. However, Minnesota experienced a 248.1 percent increase in sales/receipts by Latino-owned businesses between 2002 and 2007. Latino-owned businesses in South Dakota and Wisconsin increased sales/receipts by 160.4 percent and 140.3 percent, respectively. Indiana experienced a

117.3 percent increase, while the remaining states also experienced significant increases, with the exception of North Dakota, which experienced a 4.9 percent decrease in sales/receipts despite a 24.3 percent increase in the number of firms.



of \$54.6 billion for 1.9 million employees. Thus, employer firms made up about 11 percent of the Latino-owned businesses in 2007, but generated 79.5 percent of the sales/receipts in that year. Average sales/receipts for Latino-owned employer firms were \$1.1 million in 2007, up from an average of \$899,600 in 2002.

In contrast, the 2 million non-employer Latino-owned firms in 2007 accounted for only 20.5 percent of the sales/receipts. Average sales/receipts for these firms were \$35,149 in 2007, up from \$30,875 in 2002. In addition, non-employer Latino firms increased 46.4 percent between 2002 and 2007, compared to the 24.9 percent increase in employer firms.

### **Employer vs. Non-Employer Firms**

Although little known, it is a fact that most businesses in the U.S. do not have any paid employees. In 2007, 78.8 percent of firms in the country and 86.7 percent of minority firms did not have paid employees. At 89 percent, however, the rate for Latino businesses without paid employees is significantly higher than the national rate and higher than the minority rate. Consequently, despite the dramatic growth in numbers and sales/receipts these data show, both across the nation and in the Midwest, the types of firms Latinos are starting still remain predominantly sole or family proprietorships with no paid employees. These firms, while providing income and independence, do not provide the same level of profitability as employer firms. Moreover, ownership of an employer firm suggests a greater economic leadership role in the community at large, as well as better integration into the local and perhaps state and national economy. Thus, the over-representation of non-employer firms among Latino businesses implies continued barriers and challenges despite the patterns of growth observed between 2002 and 2007.

Of the 2.3 million Latino-owned U.S. businesses in 2007, only 249,168 of them had paid employees. This reflects a 24.9 percent increase in employer firms since 2002. Latino-owned employer firms reported \$274.5 billion in sales/receipts in 2007, as well as a total payroll