

MINORITY BUSINESS OWNERSHIP

IN INLAND SOUTHERN CALIFORNIA: CHANGES AND TRENDS

HISPANIC-OWNED



EXECUTIVE SUMMARY

Business formation in the United States dropped significantly between 2007 and 2012 as the nation's economy faced the worst economic downturn since the Great Depression and its aftereffects. Despite the severity of the recession, the number of new Hispanic-owned businesses in Inland Southern California increased sharply – representing a stronger performance than other businesses by a large margin.

From 2007 to 2012, the number of Hispanic-owned businesses in Inland Southern California increased 50.6%, comprising 36.9% of all businesses in the region by the end of the period. Growth in the number of local Hispanic-owned businesses dwarfed growth in total businesses in the region (8.0%), state (5.0%), and nation (3.4%). ISC also strongly outpaced growth in Hispanic-owned businesses at the state (43.9%) and national (46.3%) level.

Revenues generated at Hispanic-owned businesses in Inland Southern California also increased from 2007 to 2012, (5.8%). However, this lagged revenue growth among all businesses in the region (9.1%) over the period, and also lagged revenue growth at Hispanic-owned businesses at the state and national level. A potential reason for the revenue disparities is that a majority of Hispanic-owned businesses in Inland Southern California were formed within the last five years, making them relatively young, small enterprises.

Among minority-owned businesses in the region, Hispanic-owned businesses ranked third in terms of average annual business revenue. Asian-owned and women-owned businesses generated, on average, more revenues, while Black-owned and other race/ethnicity-owned businesses, on average, generated less revenues per firm than Hispanic-owned businesses.

Although their numbers and revenues are increasing, Hispanic-owned businesses in Inland Southern California have not experienced the same employment growth as other businesses; from 2007 to 2012 hiring declined by 9.6% at Hispanic-owned businesses in the region. Their counterparts at the state and national level trended strongly in the other direction, increasing hiring by 12.7% in California and 22.1% in the United States. This growth also stands in contrast to all businesses where, like Hispanic businesses in the inland region, employment declined from 2007 to 2012 (Inland Southern California -5.6%, California -5.4%, and the United States -1.0%).

Even though minority-owned businesses are maturing and expanding, disparities in the total share of ownership, revenues, and employment endure. In 2012 in Inland Southern California, Hispanic-owned businesses comprised 36.9% of all businesses, but only generated 9.2% of the region's total revenues and only employed 10.3% of the region's employed population. These differentials may be lower when a minority group is dominant within a specific industry. However, this is not the case at local Hispanic-owned businesses. In 2012, 59.2% of businesses in the Administrative Services industry in Inland Southern California were Hispanic-owned. However, Hispanic-owned businesses only generated 14.2% of the industry's total revenues in the region and only employed 5.5% of the industry's local workers.

Hispanic-owned businesses in Inland Southern California have made large advances in their numbers and outcomes. The most recent U.S. Census data indicates that these businesses continue to face challenges, however, and in particular, need to capture more profits and increase hiring. As Hispanic-owned businesses mature, disparities in ownership, revenues, and employment should begin to shrink. And with the local and national economies enjoying healthier times, the moment is opportune for these businesses to focus on boosting their overall growth and market share.

INTRODUCTION

In order to gain a better understanding of minority business ownership in Inland Southern California, the UC Riverside Center for Economic Forecasting and Development at the School of Business Administration undertook a unique analysis of 2007 and 2012 data from the U.S. Census Bureau's Survey of Business Owners. This data is only provided every 5 years and the 2012 numbers were just released in December 2015, revealing the most current detailed snapshot available of the nation's business owners.

The new data has revealed some unexpected trends in minority business ownership in Inland Southern California and provided an updated look at the makeup of business owners in one of California's fastest growing regions. Because the analysis compares 2007 data to 2012 data, the results specifically illustrate what has happened to minority business ownership through the years of the recession and its aftermath.

The Center for Economic Forecasting and Development is releasing a series of three reports based on the new data, each of which examines different aspects of business ownership in Inland Southern California. This particular report looks at Hispanic-owned businesses in the region and reveals for the first time that they bucked a strong local and national trend – and kept on growing throughout the economic downturn. The other two reports in the series examine what has happened with women-owned businesses and with other race-owned businesses, which include black-owned and Asian-owned businesses.

The reports are numbers-based and intended to provide an accurate picture of minority business ownership and performance. They do not identify or promote specific policy prescriptions but should be used by public leaders to understand the current state of business ownership and to help inform economic development and other strategies.

ABOUT THE DATA

The U.S. Census Bureau's Survey of Business Owners data is disaggregated by Industry, Gender, Ethnicity, and Race for the United States, Metropolitan Statistical Areas/Metropolitan Districts (MSA/MD), Counties, and Places. For this report, ownership was broken down and analyzed by Industry and Gender for the United States, California, and the Riverside-San Bernardino-Ontario MSA. Businesses included in the Survey are those classified as individual proprietorships, partnerships, or any type of corporation, with annual receipts of \$1,000 or more. The industries are coded according to the North American Industry Classification System (NAICS). Hispanic-owned businesses are defined as businesses in which Hispanics own 51% or more of the equity, interest, or stock. Data points will occasionally be missing because estimates did not meet publication standards and were thus withheld.

In conducting the analysis for this report, the Center for Economic Forecasting and Development included "all firms classifiable by gender, ethnicity, race, and veteran status" and excluded all "publicly held and other firms not classifiable by gender, ethnicity, race, and veteran status." In the report, "Total Firms" refers to all classifiable firms. Shorthand is used for certain names in the report. "Inland Southern California" is shortened to "ISC" and "Hispanic-owned businesses" is shortened to "HOBs."

The terms concentration and distribution are used in the report to express calculations. Concentration is a minority item divided by the total item in a certain area. The following example illustrates: 2012 employment at HOBs in ISC divided by 2012 employment at all firms in ISC is 10.3%. Employment at HOBs in California divided by employment at all firms in California is 37.8%. Statewide, employment is thus more heavily concentrated among HOBs than it is in ISC. Distribution is the number of minority-owned businesses in a certain industry divided by the total number of minority-owned businesses in a certain area. For example, the 2012 number of Construction HOBs in ISC divided by the total number of HOBs in the region is 11.4%. That same year, the number of Other Services HOBs in ISC divided by the total number of HOBs in ISC was 18.9%. HOBs are thus more heavily distributed in the Other Services industry than in the Construction industry.



KEY FINDINGS

Hispanic business ownership in Inland Southern California (ISC) is growing faster and is more concentrated than it is in the state or in the nation. Additionally, Hispanic owned businesses (HOBs) in the region are outpacing growth among total businesses across all three locations.

From 2007 to 2012, the share of HOBs in ISC converged closer to the share of Hispanics employed in the region.

HOBs in ISC, as well as in the state and nation, tend to generate less revenue and have smaller staffs.

HOBs are heavily distributed both in ISC's flagship industry, Logistics and Distribution, and in the region's growing industries such as Administrative Services and Healthcare.

Hispanic ownership of businesses in the Administrative Services industry is growing faster and is more concentrated in ISC than it is in the state or the nation. However, employment and revenues at these firms has been declining.

OVERVIEW: HISPANIC-OWNED BUSINESSES

IN INLAND SOUTHERN-CALIFORNIA

Hispanic business ownership in Inland Southern California (ISC) has grown swiftly and today better reflects the proportion of Hispanics employed in the region. At the same time, revenues and hiring at Hispanic Owned Businesses (HOBs) has grown at a milder pace—even declining in some industries—indicating that HOBs are earning less revenue and have smaller staffs than other businesses.

Hispanic business ownership is growing faster in ISC than it is in the state or nation. The number of HOBs in ISC increased by half (50.6%) to 122,200 firms from 2007 to 2012, while HOBs in the state grew 43.9% and in the nation grew 46.3%. Overall, growth in the number of HOBs significantly outstripped growth in total businesses regionally and at the state and national level. From 2007 to 2012, the total number of firms modestly increased 8.0% in ISC, 5.0% in California, and 3.4% in the United States, compared to double-digit growth for HOBs in each location.

Hispanic business ownership is also more concentrated in ISC than it is in the state or nation, reflecting the high concentration of Hispanics in ISC's population. In the latest numbers HOBs made up 36.9% of all businesses in the region compared to 23.4% of all state businesses and 12.2% of all U.S. businesses. **Equally impressive, the share of HOBs is converging closer to the share of total Hispanics employed.** In 2012, Hispanics comprised 46.2% of the employed workforce in ISC, 35.3% in California, and 15.5% in the United States. Hispanics have been entering the workforce for decades; now, Hispanic business ownership is catching up.

SUMMARY OF HISPANIC-OWNED BUSINESSES

IN INLAND SOUTHERN-CALIFORNIA, 2012

Inland Southern California		
Number of Firms	2012 (000s)	5 Yr. Chg. (%)
Hispanic-Owned	122.2	50.6
All Firms	330.9	8.0
Hispanic-Owned (%)	36.9	10.5
Employment	2012 (000s)	5 Yr. Chg. (%)
Hispanic-Owned	57.2	-9.6
All Firms	554	-5.6
Hispanic-Owned (%)	10.3	-0.5
Average Employees	2012	5 Yr. Chg. (%)
Hispanic-Owned	0.5	-40.0
All Firms	1.7	-12.6
Revenues	2012 (\$M)	5 Yr. Chg. (%)
Hispanic-Owned	11,050.3	5.8
All Firms	120,483	9.1
Hispanic-Owned (%)	9.2	-0.3
Average Revenues	2012 (\$000s)	5 Yr. Chg. (%)
Hispanic-Owned	90.4	-29.7
All Firms	364.1	1.0

Source: U.S. Census and UCR SoBA

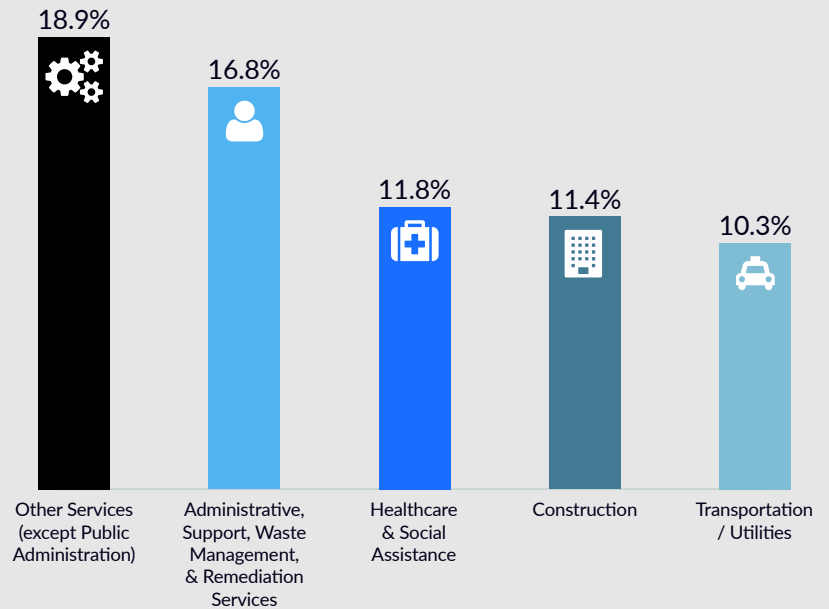
While the number and share of HOBs in ISC took off over the period, the revenues generated and employees hired at these firms lagged relative to the state and nation. This is due in part to the fact that HOBs tend to be newer and therefore smaller by nearly all measures.

Revenues generated by HOBs in ISC are more concentrated, but are growing more slowly than revenues at HOBs in California and the United States. Revenues at HOBs in ISC grew 5.8% to \$11 billion from 2007 to 2012, making up 9.2% of total business revenues in the region. At the same time, revenues generated by HOBs increased 23.1% in California, comprising 6.5% of the state's business revenues, and increased 35.1% in the United States, forming 4.0% of the nation's total business revenues. **Furthermore, across all three geographic areas total business revenues are growing faster than revenues at ISC HOBs.** From 2007 to 2012, revenues generated by all businesses increased 9.1% in ISC, 8.2% in California, and 9.3% in the United States, compared to the 5.8% revenue growth at ISC HOBs. Notably, revenue growth among HOBs in the state and nation significantly outstripped revenue growth among total businesses in each location.

Employment at HOBs in ISC is more concentrated but is growing more slowly than employment at HOBs in the state and nation. From 2007 to 2012, hiring at HOBs in ISC declined 9.6% to 57,200 employees, making up 10.3% of all employees in the region. Meanwhile, hiring at HOBs in California grew 12.7%, accounting for 8.0% of all employees in the state, while employment at HOBs in the nation increased 22.1%, forming 4.2% of all employees in the United States. **It should be noted that employment growth at HOBs is outpacing total employment growth in California and the nation, but not in ISC.** From 2007 to 2012, total employment declined 5.6% in ISC, 5.4% in California, and 1.0% in the United States.

THE DISTRIBUTION OF HISPANIC-OWNED BUSINESSES

HAS REMAINED LARGELY THE SAME DURING THE POST-RECESSION YEARS. IN THE LATEST DATA, HOBs ARE STILL LARGELY DISTRIBUTED IN THE FOLLOWING INDUSTRIES:



ISC HOBs are distributed across the region's flagship industry, Logistics and Distributions, and its growing industries.

The Other Services industry is the only one in which the share of HOBs significantly increased in ISC, growing from 15.0% to 18.9% between 2007 and 2012. At the other end of the spectrum, the share of ISC HOBs in the Financial Activities and the Transportation/Utilities industries shrank dramatically. In 2007, ISC HOBs made up 9.5% of the region's Financial Activities industry and 12.3% of the Transportation/Utilities industry but accounted for only 6.6% and 10.3% of these industries, respectively, by 2012.

DISTRIBUTION OF HISPANIC-OWNED BUSINESSES IN INLAND SOUTHERN-CALIFORNIA, 2012

Industry	Share of Industry Total (%)	5 Year Change (%)
Other Services	18.9	3.9
Admin Services	16.8	1.2
Health Care	11.8	0.2
Construction	11.4	-1.3
Transportation/Utilities	10.3	-2.0
Retail trade	8.4	-0.8
Financial Activities	6.6	-2.9
Prof., Schi., Tech.	6.3	0.9
Leisure and Hospitality	4.2	0.2
Manufacturing	1.9	0.4
Wholesale trade	1.5	0.0
Education	0.9	0.9
Information	0.7	0.2
Natural Resources	0.3	0.0
Total	100	0.0

Source: U.S Census and UCR SoBA



MIND THE GAP: OWNERSHIP, REVENUES, AND EMPLOYEES

In most cases HOBs generate fewer revenues and have smaller staffs compared to other businesses. As mentioned earlier, in the latest numbers, HOBs comprised 36.9% of all businesses in ISC but only generated 9.2% of the region's total revenues. Additionally, only 10.3% of the region's employed population worked at an HOB. **These disproportions are not unique to ISC** and also appear in state and national statistics:

HOBs comprise 23.4% of all California businesses but only generate 6.5% of total state revenues and hire 8.0% of the state's employed workforce.

HOBs make up 12.2% of all U.S. businesses but only generate 4.0% of total national revenues and employ 4.2% of the nation's employed population.

These disparities are not restricted to one industry, but rather appear across almost every sector. The gaps are most apparent in the Transportation/Utilities, Construction, Administrative Services, Manufacturing, and Healthcare industries. In these industries, in 2012, the shares of revenues and employees ranged from one-half to less than one-tenth of the share of HOBs.

LARGEST DIVERGENCES

IN HISPANIC-OWNED BUSINESSES IN INLAND SOUTHERN CALIFORNIA, 2012

Industry	Businesses (%)	Share of Revenues (%)	Employment (%)
Admin Services	59.2	14.2	5.5
Transportation / Utilities	61.6	30.3	17.6
Health Care	41.4	11.5	10.1
Construction	41.5	13.5	16.0
Manufacturing	32.2	5.8	8.3

Source: U.S Census and UCR SoBA

Discrepancies are the least pronounced in the Professional, Scientific, & Technical Services, Leisure & Hospitality, Financial Activities, and Wholesale Trade sectors. In these industries, in 2012, the shares of revenues and employees ranged from one-half to less than one-fifth of the share of HOBs.

SMALLEST DIVERGENCES

IN HISPANIC-OWNED BUSINESSES IN INLAND SOUTHERN CALIFORNIA, 2012

Industry	Businesses (%)	Share of Revenues (%)	Employment (%)
Prof., Sci., Tech.	21.1	11.8	9.9
Leisure and Hospitality	25.6	11.7	12.3
Financial Activities	21.5	10.3	3.9
Wholesale Trade	19.4	2.9	2.9

Source: U.S Census and UCR SoBA

Many HOBs in ISC were formed in recent years and are still in their early development phases. The employment and revenue gaps identified may be linked to the fact that they are newer, smaller enterprises. As these companies mature and become bigger and more profitable, the gaps could narrow.



ADMINISTRATIVE BUSINESSES: A LARGE AND GROWING PRESENCE

Hispanics have been opening firms in the Administrative industry at a rapid pace in ISC. Yet, revenue and employment growth at these businesses is not as rapid, causing the discrepancies between ownership, revenues, and employment to widen.

HOBs in the Administrative industry in ISC are growing faster and are more concentrated than they are in the state and the nation. ISC HOBs in the Administrative industry increased 62.1% to 20,500 firms from 2007 to 2012, making up 59.2% of all Administrative businesses in ISC. Meanwhile, HOBs in the Administrative industry rose 50.6% in the state, comprising 49.1% of all California's Administrative businesses, and increased 68.4% in the nation, forming 23.0% of all U.S. Administrative businesses. **Moreover, HOBs in the Administrative industry are growing faster than the industry as a whole.** From 2007 to 2012, the total number of Administrative firms rose 17.1% in ISC, 11.2% in California, and 9.7% in the United States, compared to growth of fifty percent or more for Administrative HOBs in each location.

While the number of Administrative HOBs has grown rapidly in ISC, revenues and employment growth at these establishments has been moving in the opposite direction.

Revenues generated by Administrative HOBs in ISC are less concentrated and growing more slowly than the state and national levels. From 2007 to 2012, revenues generated by ISC HOBs in the Administrative industry declined 4.7% to \$636.8 million, accounting for 14.2% of all revenues generated by Administrative industry business in the region. At the same time, revenues generated by Administrative HOBs rose 14.3% in the state, accounting for 12.4% of revenues generated by all Administrative business in California. Similarly, Administrative HOBs increased 33.8% in the nation, making up 6.4% of revenues generated by all U.S. Administrative business. **Across all three geographies, total revenues generated by Administrative businesses outstrip revenues generated by ISC Administrative HOBs.** From 2007 to 2012, revenues from all Administrative businesses increased 3.0% in ISC, 8.7% in California, and

9.7% in the United States, compared to declining revenues at ISC HOBs. **Moreover, the gap between ownership share and revenue share for ISC HOBs (59.2% vs. 14.2%) is worsening as the revenue share contracted 1.2 percentage points from 2007 to 2012.**

Employment at Administrative HOBs in ISC is less concentrated and is growing more slowly than employment at Administrative HOBs in the state and nation. From 2007 to 2012, the number of employees working at Administrative HOBs in ISC plunged 55.6% to 3,900, making up 5.5% of all employed Administrative industry workers in the region. At the same time, the number of employees working at Administrative HOBs in California rose 21.1%, accounting for 10.7% of all employees in the industry statewide. Nationally, the number of employees working at Administrative HOBs increased 24.3%, making up 5.4% of all industry employees in the United States. Employment growth in the Administrative industry has suffered overall. From 2007 to 2012, total employment at Administrative businesses decreased 10.3% in ISC, 4.1% in California, and 4.6% in the United States. **Among ISC HOBs, the disparity between ownership share and employee share became more pronounced as the employee share shrunk 5.6 percentage points from 2007 to 2012.** Existing Administrative HOBs in ISC may have to consider adjusting their business strategies and/or investing more in development in order to turn the trends in revenues and employment around.

CONCENTRATION OF HISPANIC-OWNED BUSINESSES

IN INLAND SOUTHERN CALIFORNIA, 2012

Industry	Share of Total in Region (%)	5 Year Change (%)
Transportation / Utilities	61.6	11.0
Admin Services	59.2	16.4
Other Services	42.0	12.6
Construction	41.5	12.3
Health Care	41.4	11.9
Retail trade	32.7	9.2
Manufacturing	32.2	15.3
Leisure and Hospitality	25.6	6.6
Information	25.0	10.2
Natural Resources	23.1	7.1
Financial Activities	21.5	2.4
Prof., Sci., Tech.	21.1	8.4
Education	20.0	20.0
Wholesale trade	19.4	6.0
Total	36.9	10.5

Source: U.S Census and UCR SoBA

HISPANIC-OWNED ADMIN SERVICES BUSINESSES

IN INLAND SOUTHERN CALIFORNIA, 2012

Number of Firms	2012 (000s)	5 Year Change (%)
Hispanic-Owned	20.5	62.1
All Firms	34.6	17.1
Hispanic-Owned (%)	59.2	16.4
Employment	2012 (000s)	5 Year Change (%)
Hispanic-Owned	3.9	-55.6
All Firms	70.9	-10.3
Hispanic-Owned (%)	5.5	-5.6
Average Employees	2012	5 Year Change (%)
Hispanic-Owned	0.2	-72.6
All Firms	2.0	-23.4
Revenues	2012 (\$M)	5 Year Change (%)
Hispanic-Owned	636.8	-4.7
All Firms	4,478.5	3.0
Hispanic-Owned (%)	14.2	-1.2
Average Revenues	2012 (\$000s)	5 Year Change (%)
Hispanic-Owned	31.1	-41.2
All Firms	129.4	-12.0

Source: U.S Census and UCR SoBA

CONCLUSION

Ownership and revenues at HOBs in ISC, California, and the United States all trended upwards throughout one of the toughest economic periods in U.S. history. However, employment among HOBs in ISC declined. Revenue growth at HOBs in the region also lagged their counterparts at the state and national level. Now that the economy has improved, HOBs should see gains in the number of businesses, employment, and revenues. In general, existing HOBs should become larger and more profitable, narrowing gaps in revenue and employment as they mature. In particular, HOBs in the Administrative industry will likely narrow gaps that exist between ownership, revenues, and employment.



UNIVERSITY OF CALIFORNIA
UCRIVERSIDE | School of Business
Administration
Center for Economic
Forecasting and Development

☎ 951-827-2792
🌐 soba.ucr.edu/cefd
📍 900 University Ave.
Anderson Hall 0162
Riverside, CA 92521

Questions or Comments?
Please email cefd@ucr.edu