THE STATE OF HISPANIC-OWNED BUSINESSES IN ILLINOIS: UNTAPPED ECONOMIC & JOB CREATION POTENTIAL DECEMBER 2013









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ABOUT THIS REPORT

This report was sponsored by DePaul University's Driehaus College of Business, the Illinois Hispanic Chamber of Commerce (IHCC) and the Center for Hispanic Entrepreneurship at the IHCC. The report and accompanying survey were directed by Dr. Daniel Heiser, Associate Dean at the DePaul College of Business, and Omar Duque, President and CEO of the IHCC.

A special thanks to Matthew Krause and Esther Quintero Guzman from DePaul University and Roberto Cornelio, Jessica Faus and Kelley Sheehan from the Illinois Hispanic Chamber of Commerce for their work on this report.

In addition to using U.S. Census Bureau data, 102 Illinois Hispanic-owned businesses were surveyed in July and August 2013. The scope of this survey explored:

- Business owner, employee and customer demographics
- Business characteristics
- Training needs
- Ease in doing business with the government and the private sector

The insights and information gained through this study present important implications for public policy, education, economic development and wealth creation in Illinois.

An executive summary precedes the detailed analysis.

EXECUTIVE SUMMARY

Hispanics continue to comprise a larger portion of Illinois' population. Since 1980 the number of Hispanics in Illinois has grown by 228 percent, from 639,885 in 1980 to 2,098,667 in 2012. As a result of this continued growth, the number of Hispanic-owned businesses (HOBs)¹ in Illinois has grown to approximately more than 70,000.

Hispanic-owned businesses have the potential to have a significant economic impact on the Illinois economy. By helping grow both the number of Hispanic-owned businesses and their earnings relative to other Illinois businesses, HOBs could help create hundreds of thousands of jobs, driving down unemployment and generating billions of additional revenue in Illinois.

This report identifies some of the challenges Hispanic business owners face. Understanding these challenges and identifying effective ways to support the growth and success of Hispanic-owned businesses will help Illinois tap into an enormous source of future employment, tax revenue, purchasing power and statewide economic benefits.

PART 1 The Dramatic Growth of Hispanic-Owned Businesses -Background Data from the U.S. Census

Unless otherwise indicated, all data has been gathered from the United States Census Bureau's 2010 general census, the 2012 Illinois population update, and the 2002 and 2007 Surveys of Business Owners (SBO), the two most recent available for review.² The next SBO data set will be available in 2015.

HOBs and the Hispanic Population Represent a Large and Growing Segment of the Economic Environment in Illinois

- Mirroring national trends, the Hispanic population in Illinois increased by 37% between the 2000 and 2010 censuses, compared to 18% among all other population groups combined.
- U.S. Hispanic per capita income was higher than three of the highly coveted BRIC countries (Brazil, India, and China).³
- Between the 2002 and 2007 SBOs, the number of HOBs increased by 43% and total employees on payroll by 28%. The number of all other Illinois businesses increased by only 16% and the total number of employees by 4%.
- Applying that 43% growth rate to HOBs during the period between 2007 and 2012, it is estimated that the number of HOBs in Illinois has grown to more than 70,000.

HOBs in Illinois Lag in All Economic Indicators Despite Growth

- HOBs comprise a small percentage of all companies in Illinois. According to the 2012 Population Update to the 2010 Census, Hispanics comprised 16.3% of the Illinois population, becoming the state's largest minority group. However, HOBs represent only 5% of all companies in Illinois.
- The vast majority of HOBs in Illinois have no employees on their payroll. Only 13% of HOBs had employees on the payroll, compared with 23% of all other businesses.
- HOBs with employees employ 50% less people than other Illinois businesses.
- HOBs earn less on average HOBs earned \$182,747 compared with \$1,370,694 for all other Illinois businesses.
- At the root of trends is education. Nationally, fewer than 20% of Hispanics 25 years and older hold a Bachelor's degree.⁴

PART 2 Results of the DePaul/IHCC Survey

Characteristics of Illinois Hispanic-Owned Businesses

- More than two-thirds of surveyed Illinois HOBs have annual revenues of less than \$1 million.
- HOBs surveyed listed financial challenges as their biggest barrier by a large margin, with marketing, clients and employees being cited frequently as well.
- Reflecting the national data, 53% of these HOBs have between 0-5 employees. Of those with employees, 87% hire a workforce comprised of at least half Hispanics.
- 84% of surveyed businesses have at least a 50% non-Hispanic customer base.
- 82% of the companies surveyed were started by their current owner.
- 49% of the companies were created five or fewer years ago.
- 81% were initially funded with personal savings. As the businesses continued, reliance on personal savings decreased, but was matched by use of credit cards and loans secured through business assets.
- Half of the businesses surveyed have no procurement-related government certifications.

Characteristics of Illinois Hispanic Business Owners

- Of the survey respondents, 47% are first generation Hispanic (born outside the U.S.) and 39% are second generation Hispanic (born in the U.S. with at least one parent born outside the U.S.).
- Nearly 75% have a bachelor's degree and more than 25% have obtained a postgraduate degree.
- More than half of the owners have sixteen or more years of experience in their industries and 57% have no intention of leaving the business.

Opinions of Illinois Hispanic Business Owners

- Of the businesses surveyed 70% said they considered their profitability to be average, below average or significantly below average.
- A majority believe that HOBs have less access to government contracting decision-makers (64%) and are unfairly excluded from the process (57%). A slightly larger portion believes the same barriers exist in private sector contracting (59%).
- These employers consider team building and management as one of their greatest training needs.

CONCLUSIONS

Improving Business Opportunities for Hispanic-Owned Businesses and Driving Their Full Economic Potential for Illinois

HOBs have the potential to contribute dramatically to Illinois' economic growth. If the state's HOBs were to take in 16.3% of Illinois business receipts and employ 16.3% of Illinois' workforce – reflecting the 16.3% Hispanic general population – Illinois HOBs would realize an additional \$229,796,144 in annual revenue and would employ 786,853 more Illinois residents.

The results of the U.S. Census Bureau's surveys since 2000, along with the DePaul and IHCC survey of Illinois businesses highlight the need for both policymakers and business leaders to focus on the following four goals for Hispanic-owned businesses in Illinois:

- **Goal 1:** Grow both the number of Hispanic-owned businesses and increase HOB revenue and employment to more closely match other businesses in Illinois.
- Goal 2: Address HOBs' financing and training needs.
- **Goal 3:** Transfer knowledge of HOBs' best practices to as many existing and future Hispanic entrepreneurs as possible.
- Goal 4: Track the growth and progress of the Hispanic business community in Illinois.

While particular strategies to achieve these goals are beyond the scope of this study, this report provides a better understanding of the landscape of Hispanic-owned businesses. The insights and knowledge contained in the report have important implications for public policy, education, economic development and wealth creation in Illinois.

PART 1

The Dramatic Growth of Hispanic-Owned Businesses -Background Data from the U.S. Census

Unless otherwise indicated, all data has been gathered from the United States Census Bureau's 2010 general census, the 2012 Illinois population update, and the 2002 and 2007 Surveys of Business Owners (SBO), the two most recent available for review.⁵ The next SBO data set will be available in 2015.

HOBs and the Hispanic Population Represent a Large and Growing Segment of the Economic Environment in Illinois

Over the past four decades, the Hispanic population has grown significantly in Illinois and across the country. Thus, making every effort to serve this population, both as business leaders and as consumers, will be increasingly vital to the economic health of the state.

Between 2000-2010, the Illinois Hispanic population increased 37%, compared to an 18% increase in all other demographic groups combined. In those ten years, Hispanics for the first time surpassed African Americans to become the largest minority group, comprising 15.8% of the general population. Hispanic population growth is anticipated to increase 167% between 2010-2050, compared with only 42% growth for all other populations.⁶ In 2012, Hispanics comprised 16.3% of the Illinois population.

As reported in the U.S. Census Bureau's SBO data in 2002 and 2007, growth in HOBs was also significant. In 2007, Hispanics owned 2.3 million nonfarm U.S. businesses, an increase of 43.7 percent from 2002. Among non-Hispanic owned businesses, there was only a 14.5% increase in the same time period. Additionally, employment at HOBs grew nationally at a rate of 26% to 1.9 million, compared to .03% growth among all other businesses. In those five years, gross receipts among HOBs grew 8%.

Illinois saw similar patterns from 2002 to 2007. HOBs increased in number by 43% to 56,567, compared with 16% for all others. Applying that 43% growth rate, it is estimated that the number of HOBs in Illinois has grown to more than 70,000. Cook County accounted for approximately 65% of the Illinois HOBs. Employment increased 28% in HOBs while all other Illinois businesses grew 4%. Most striking was the 40% increase in HOB revenue in that five-year span of time. Given national and statewide demographic trends since 2007, one would expect the 2012 U.S. Census data on HOBs to be even more impressive.

Using more recent information, the 2013 Hispanic Business 500 directory lists the largest U.S. Hispanic-owned enterprises, where they are located, and how much they have earned. The following are the top 10 Illinois companies in this list, ranked by revenue.⁷

Rank	Company	2012 Revenue (in millions)	Number of Employees
14	Group O Inc.	\$560.00	1,544
87	United Building Maintenance Inc.	\$71.08	1,800
93	Cardenas Marketing Network	\$66.40	50
212	Primera Engineers Ltd.	\$20.23	150
213	MZI Group Inc.	\$20.20	75
227	Cristina Foods Inc.	\$18.18	34
229	Time Definite Services Inc.	\$18.01	157
238	Steve's Equipment Service Inc.	\$17.67	35
244	Montenegro Paper Ltd.	\$17.00	6
250	Ebco Inc.	\$16.00	35

In the same report, the following Illinois companies ranked among the Top 100 fastest growing Hispanic companies in the U.S. between 2008-2010.⁸

Rank	Company	2012 Revenue (in millions)	Annual Growth Rate
19	United Building Maintenance Inc.	\$71.08	33.54%
23	CivCon Services Inc.	\$4.78	31.66%
29	Montenegro Paper	\$17.00	26.21%
46	EBCO, Inc.	\$16.00	18.92%
61	Monterrey Security	\$13.20	13.69%
91	Primera Engineers Ltd.	\$20.23	7.67%
95	Group O Inc.	\$560.00	6.76%

HOBs in Illinois Lag in All Economic Indicators Despite Growth

While the growth of Illinois HOBs is impressive, the economic indicators of these businesses still lag far behind those of non-HOBs. Measuring impact by number of employees and annual revenue, HOBs have a long way to go to reach their full potential. Once they do, Illinois and all residents will benefit.

Only 13% of Illinois HOBs have employees on their payroll, while 23% of all others do. Of these companies, HOBs employ 10 people on average, while others average 21. Even more striking is the difference in average annual revenue. Illinois HOBs bring in \$182,742, merely 13% of the \$1,370,694 averaged by other Illinois companies. In addition, HOBs only comprised 5% of all companies in the state, while total population share was 16.3% in 2012.

If gross receipts and paid employment figures reflected population share, Illinois HOBs would realize an additional \$229,796,144 in annual revenue and would employ 786,853 more Illinois residents.

Across all racial groups, greater educational attainment is correlated to improved employment outcomes. While great strides have been made in higher education enrollment among the Hispanic population, more support is required in earlier school years and in terms of college enrollment.

Universities, like corporations, have found the value of a diverse population reflective of society. DePaul University, for example, has made a diverse student body and workforce part of its core mission; in fact, the most recent incoming freshman class consisted of 17% Hispanics.⁹ Nevertheless, at a national level, less than 20% of Latinos 25 years and older hold a bachelor's degree.¹⁰ While college enrollment among Hispanic high school graduates has increased to impressive levels – reportedly exceeding the proportion of white student enrollment – many factors contribute to an underrepresentation of college graduates.¹¹ Among these is a disproportionate high school dropout rate and, among those that do enroll in college, a smaller representation of those completing 4-year, full-time programs.

PART 2

RESULTS OF THE DEPAUL/IHCC SURVEY

With the three-year delay in the release of U.S. Census SBO data, comparing independent survey results in a timely manner becomes impossible. However, the general characteristics and trends among Illinois HOBs found in this survey contain correlations with the data available from the 2007 SBO.

Surveys were distributed among local businesses within the Illinois Hispanic Chamber of Commerce database. One could expect, therefore, that numerous smaller, less established businesses may be underrepresented in the results as lesser established businesses may tend to have no formal connection with organizations such as the IHCC.

Characteristics of Illinois Hispanic-Owned Businesses Most businesses are small, young, and funded by personal savings

One of the most important features revealed in the survey is that most Illinois Hispanic firms are small both in financial and human scales. As demonstrated in Figure 1, more than two-thirds of surveyed Illinois HOBs have annual revenue of less than \$1 million and nearly one-third brought in less than \$100,000. Only 10% have reached \$5 million in yearly sales.

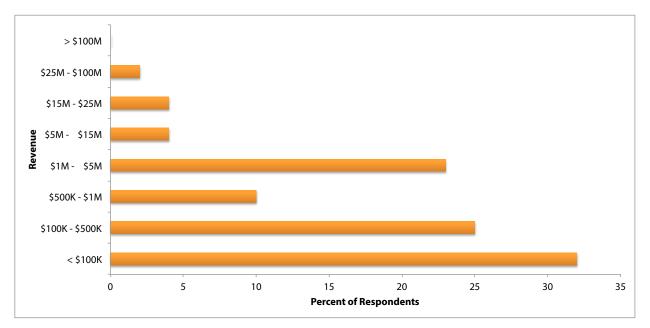


Figure 1 Annual gross revenue

Furthermore, 53% of respondents reported five or fewer employees on the payroll. Merely 6% have more than 100 employees.

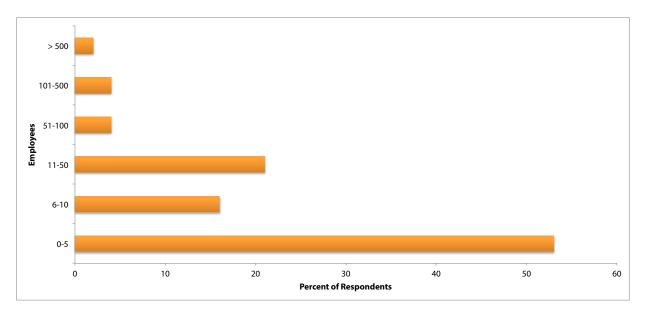


Figure 2 Number of employees

While this data reflects national small business trends, the ages of Illinois HOBs are noteworthy. Slightly less than half of the surveyed businesses are less than six years old and more than two-thirds have been in existence for ten years or fewer.

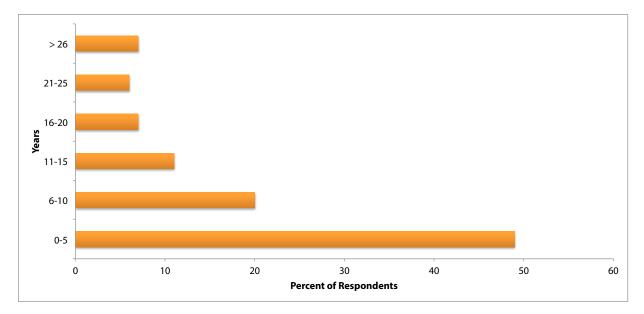


Figure 3 Age of business

Of those surveyed, 82% were start-ups (started by current owner) and 81% were funded initially with personal savings.

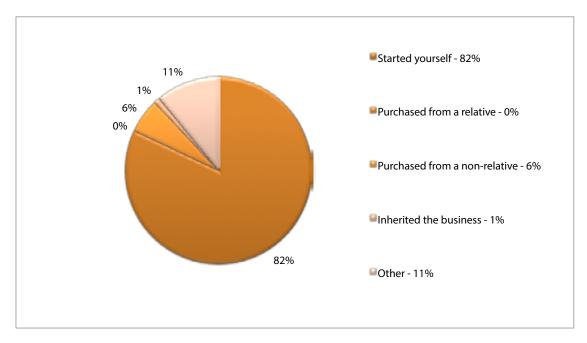


Figure 4 Means of acquiring business

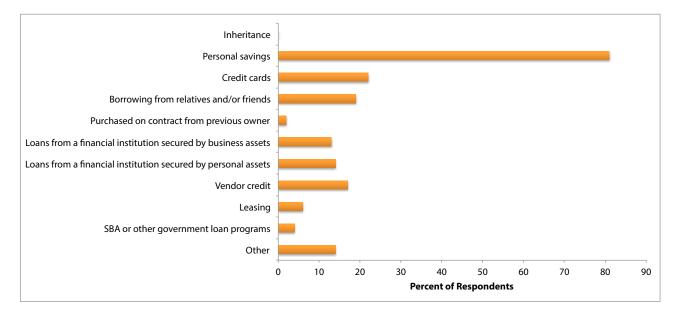


Figure 5 Funding source used to start business

As business continued, reliance on personal savings decreased on average, but was matched only by use of credit cards and loans secured by business assets.

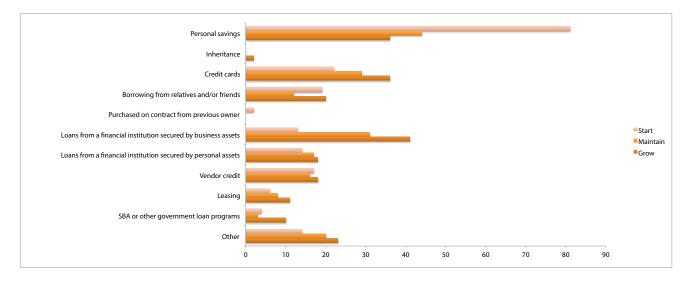
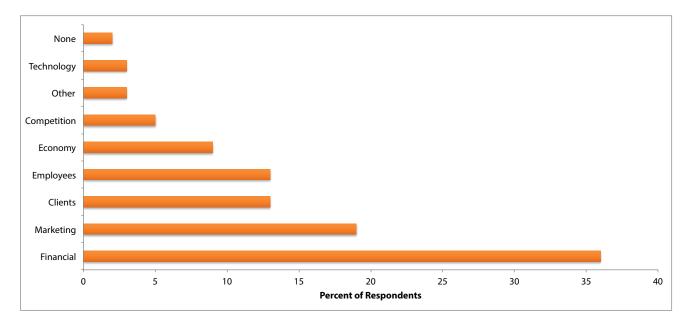


Figure 6 Funding sources at various business stages

It is not surprising then to learn that more than one-third of those surveyed find financial and financing challenges to be the greatest of any other considerations, including managing employees (human resources), marketing and others.





Employees are mostly Hispanic; customers are not.



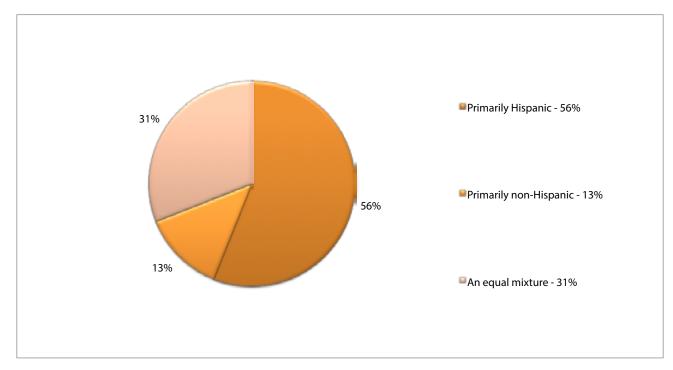


Figure 8 Employee demographics

The customer base, however, is at least half non-Hispanic for 84% of the companies.

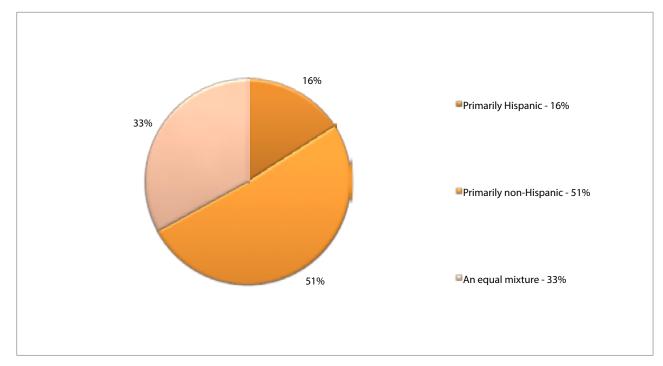


Figure 9 Customer demographics

Many Illinois HOBs have not pursued or achieved vital procurement certifications while doing a good portion of their business with government entities.

Nearly half of Illinois HOBs surveyed hold none of the following four major government procurement-related certifications.

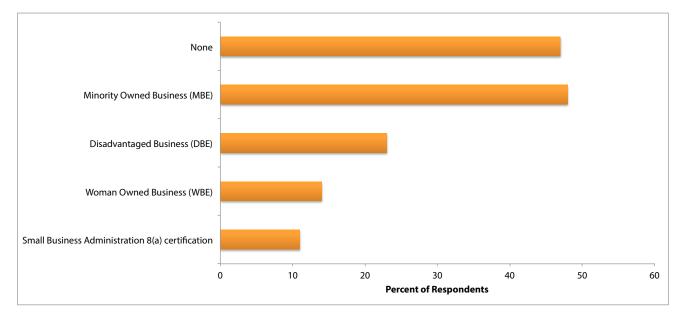
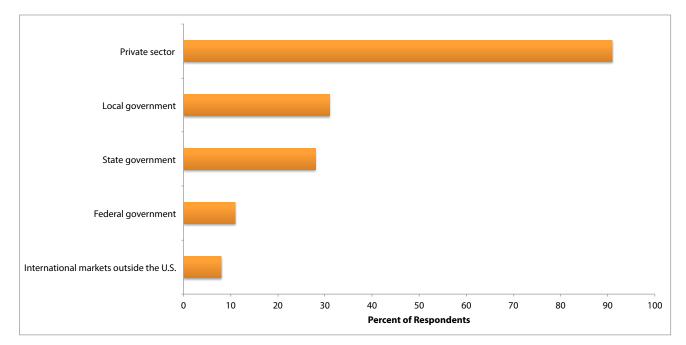


Figure 10 Procurement-related government certifications held

More than 90% of Illinois HOBs have done business with the private sector and 70% have contracted with various levels of the government.





Characteristics of Illinois Hispanic Business Owners

Of the survey respondents, nearly half are first generation Americans (born outside the U.S.) and 39% are second generation (born in the U.S. with at least one parent born outside the U.S.).

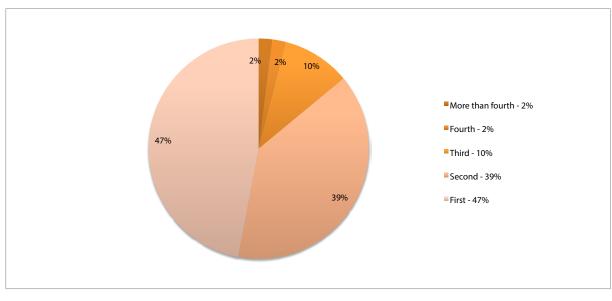
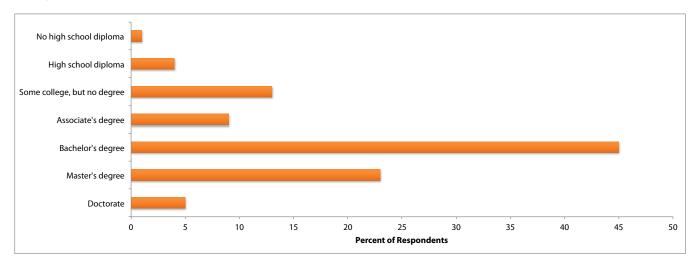


Figure 12 Generation of business owners



Nearly 75% have a bachelor's degree and more than 25% have obtained a post-graduate degree.

Figure 13 Level of education achieved by business owners

More than half of the owners have sixteen or more years of experience in their industries and 57% have no intention of leaving the business.

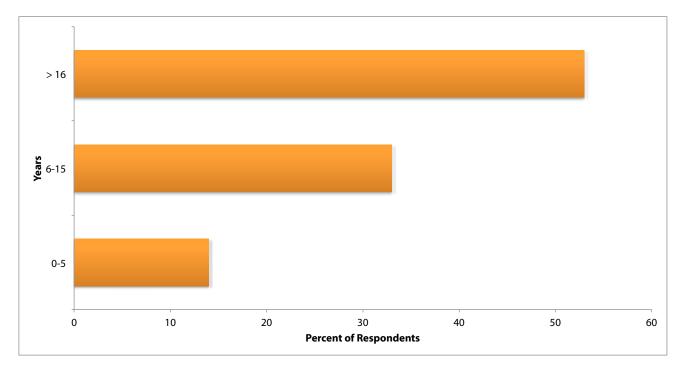


Figure 14a Years of experience in current industry

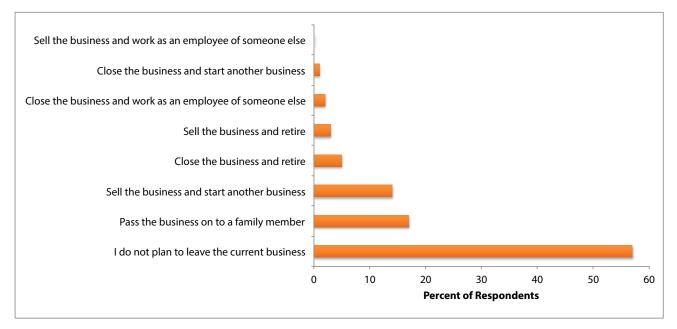


Figure 14b Plans to leave the business

Opinions of Illinois Hispanic Business Owners

In their responses to the survey, HOB owners expressed a gloomier self-assessment of their business' profitability than one would expect.

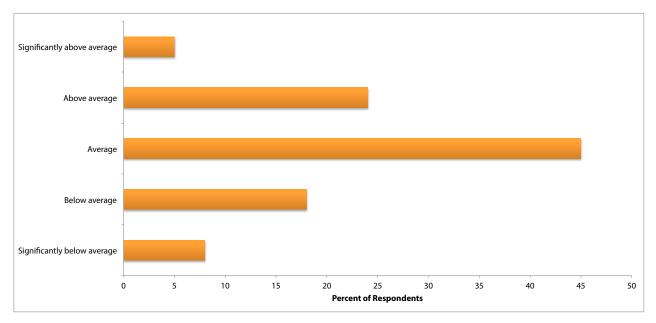


Figure 15 Business owner perceptions of profitability

Less than one-third of those surveyed believe that capital availability is not a problem for their business. Nearly one-half felt that the inability to expand their business offerings was the most significant effect of these financing challenges.

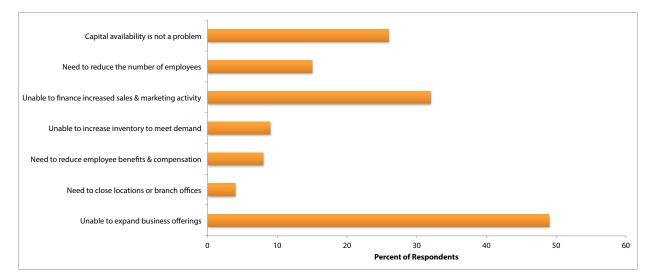


Figure 16 Greatest impact of financing challenges on business operations

A majority believe HOBs have less access to government contracting decision-makers and are unfairly excluded from the process.

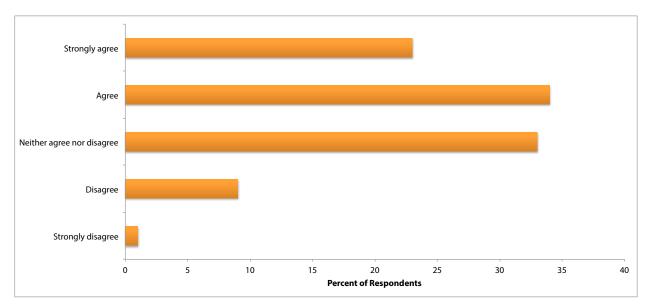


Figure 17 Hispanic business owners are unfairly excluded from government contracting opportunities

A slightly larger portion believes the same barriers exist in private sector contracting opportunities.

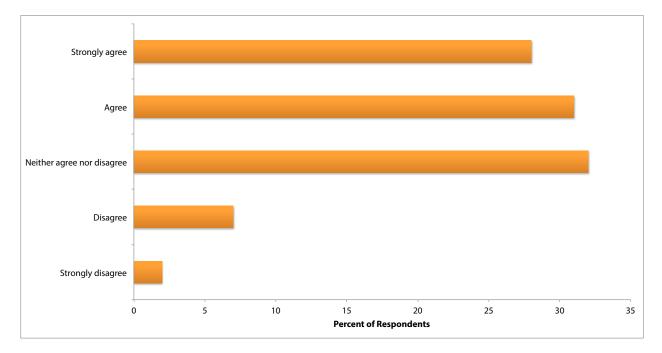


Figure 18 Hispanic business owners are unfairly excluded from private sector contracting opportunities

While roughly 20% of Illinois Hispanic businesses and owners do not belong to a business association of any kind, networking and training were the predominant ways in which such associations were viewed by owners as being most helpful.

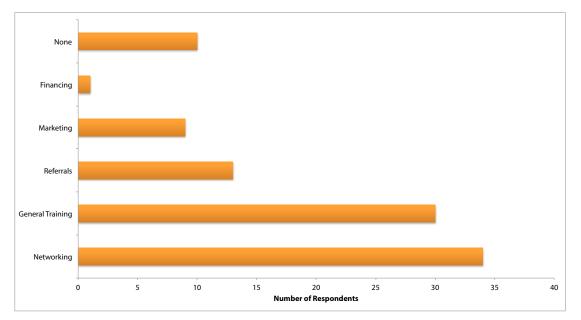


Figure 19 How business associations could be most helpful

In considering their greatest training needs, surveyed businesses consider team building and management as one of the greatest – more frequently than any other cited.

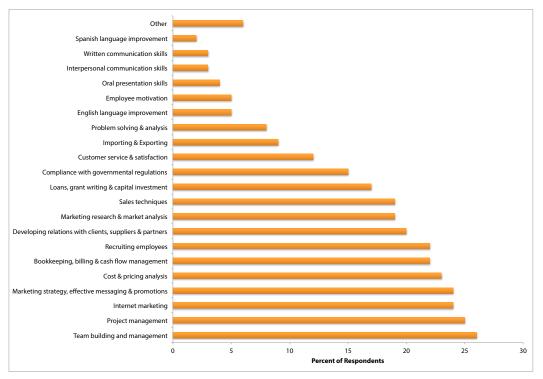


Figure 20 Greatest training needs

CONCLUSION

IMPROVING BUSINESS OPPORTUNITIES FOR HISPANIC-OWNED BUSINESSES AND REALIZING THEIR FULL ECONOMIC POTENTIAL FOR ILLINOIS

HOBs have the potential to contribute dramatically to Illinois' economic growth. Currently Hispanics comprise 16.3% of the Illinois population. Yet HOBs only comprise five percent of all companies in Illinois. If the state's HOBs were to take in 16.3% of Illinois business receipts and employ 16.3% of Illinois' workforce, reflecting the 16.3% Hispanic general population, Illinois HOBs would realize an additional \$240,123,001,201 in annual revenue and would employ 786,853 more Illinois residents.

In addition to representing only five percent of all Illinois companies, HOBs are smaller – both in terms of revenue and in the number of employees on the payroll. If existing HOBs were to grow revenues and earn what the average of all other Illinois firms earn, collectively HOBs would increase revenues by more than \$67 billion and employ 200,000 more Illinois residents.

If Hispanic-owned businesses grow, Illinois benefits. The economic benefits are highlighted here, but this type of growth and economic empowerment has much greater implications for the future of Illinois and the future of our country.

The Hispanic population in Illinois is growing at a faster rate than any other group. One out of every five school children in Illinois are Hispanic and Hispanics comprise one out of every three new births in our state. The Census Bureau projects that by 2050, one-third of the U.S. population will be Hispanic.

Nonetheless, according to Census figures, U.S. Hispanic households still earn a full one-third less than non-Hispanic white families and still lag significantly in educational attainment.

By investing in and promoting the growth of Hispanic-owned businesses, Illinois will not only benefit from the untapped potential of this business sector, but also has the opportunity to realize greater educational success and build wealth within a community that will drive both population and economic growth into the future.

This report outlines the significant (and untapped) economic potential of Hispanic-owned businesses in Illinois. The potential economic benefits are too significant to ignore. This report as well as the results of the U.S. Census Bureau's surveys since 2000, highlight the critical need for both policymakers and business leaders to focus on the following four goals for Hispanic-owned businesses in Illinois:

- **Goal 1:** Grow both the number of Hispanic-owned businesses and increase HOB revenue and employment to more closely match other businesses in Illinois.
- Goal 2: Address HOBs' financing and training needs.
- **Goal 3:** Transfer knowledge of HOBs' best practices to as many existing and future Hispanic entrepreneurs as possible.
- Goal 4: Track the growth and progress of the Hispanic business community in Illinois.

REFERENCES

- ¹ The United States Census Bureau defines Hispanic-owned businesses as firms in which Hispanics own 51 percent or more of the stock or equity of the business.
- ² http://www.census.gov/econ/sbo/getsof.html?07hispanic, http://quickfacts.census.gov/qfd/states/17000. html and http://www.census.gov/prod/cen2010/briefs/c2010br-04.pdf
- ³ Goldman Sachs Global Economics, Commodities & Strategy Research: BRICS Monthly Issue 11/06, June 24, 2011.
- ⁴ http://www.businessweek.com/news/2012-11-14/hispanic-workers-lack-education-as-numbers-grow-in-u-dot-s-dot
- ⁵ http://www.census.gov/econ/sbo/getsof.html?07hispanic and http://www.census.gov/prod/cen2010/ briefs/c2010br-04.pdf
- ⁶ http://es.nielsen.com/site/documents/State_of_Hispanic_Consumer_Report_4-16-FINAL.pdf
- ⁷ http://www.hispanicbusiness.com/research/500/list.asp?page=1&listyear=2013
- ⁸ http://www.hispanicbusiness.com/research/100fastestgrowing/list.asp?page=1&PublishYear=2013
- ⁹ http://www.depaul.edu/emm/facts/
- ¹⁰ http://www.businessweek.com/news/2012-11-14/hispanic-workers-lack-education-as-numbers-grow-in-u-¹² dot-s-dot
- ¹¹ http://www.pewhispanic.org/2013/05/09/hispanic-high-school-graduates-pass-whites-in-rate-of-collegeenrollment/

ABOUT THE IHCC

The Illinois Hispanic Chamber of Commerce (IHCC) is the leading Hispanic business, networking, advocacy and development organization in Illinois. Founded in 1990 as the Mexican American Chamber of Commerce of Illinois, IHCC is now the largest community of Hispanic business owners in Illinois and the Midwest. IHCC works with business owners, providing unique and strategic one-on-one services designed to help businesses succeed, grow and create jobs for a stronger economy.

IHCC actively engages in policy issues at the local, state and federal levels on matters that affect the business community. IHCC is a leading advocate for Hispanic businesses in both the public and private sectors. IHCC also regularly hosts networking and public policy events that bring together Hispanic business owners and Hispanic professionals.

IHCC is committed to helping Hispanic-owned businesses grow by ensuring they have tools and resources necessary to succeed. IHCC's service delivery model is rooted in the ability to provide one-on-one technical assistance to business owners. IHCC is currently funded to manage the following technical assistance programs:

- US Department of Transportation Small Business Transportation Resource Center
- US Department of Commerce Minority Business Development Agency Minority Business Center .
- Illinois Small Business Development Center .
- Illinois Procurement Technical Assistance Center ٠
- Illinois Department of Human Services Substance-Free Workplace .
- **Construction Coaching for Growth** •
- IHCC's Signature Coaching for Growth (C4G) •

IHCC is also proud to serve the Hispanic and at-large community through The Center for Hispanic Entrepreneurship at the IHCC Foundation. The Center offers the following unique programs and services to provide business, economic development and entrepreneurial educational programs:

- ENTERpreneur: An innovative program that seeks to activate the talent and natural entrepreneurial . inclination of Hispanic youth to build the next generation of Hispanic business leaders.
- Technical Assistance: One-on-one business development counseling and educational workshops.
- Research: Coordinate research projects to better understand the growth and specific needs of the Hispanic business community.









