



# The Impact of Diverse Small Businesses in California 2024

**Trends and Insights**



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# Acknowledgments

## Thank You to Our Sponsors



## Project Conveners



The CalAsian Chamber was founded in 2010 to give a voice to the more than 746,000 AAPI-owned businesses in California. Today, CalAsian is the largest statewide ethnic chamber in the state and operates three federal business centers, dozens of programs providing technical and financial assistance to small businesses, and a foundation offering leadership and workforce development programs.

Learn more at [calasiancc.org](http://calasiancc.org)

As California's largest statewide African American chamber organization, the group's mission is to drive economic opportunity and wealth creation for African American businesses, connect, and harness the collective strength of a statewide network of member organizations to elevate the fiscal health of the community.

Learn more at [calaacc.org](http://calaacc.org)

The CHCC, through its network of over 125 local Hispanic chambers and diverse trade associations, represents the interest of over 815,000 Hispanic businesses in California. For over forty years, the CHCC has served as the nation's leading regional Hispanic business organization. The CHCC works to bring the issues and needs of Hispanic-owned businesses to the forefront of the California and national economic agendas.

Learn more at [cahcc.com](http://cahcc.com)

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# Terminology and Definitions

The definition of what constitutes a small business varies depending on the objective or data source. In some cases, revenues are taken into consideration; in others, the number of employees [1]. For the purposes of this study, Beacon Economics defines a small business as an establishment with less than 20 employees.

## Establishment Analysis Definitions

Establishment Size	Number of Employees
Small Business	Less than 20 employees
Medium Business	20 to 99 employees
Large Business	100 employees or more



## Demographic Analysis Definitions

The U.S. Census Bureau’s definitions of race and ethnicity are used throughout this report to determine the minority status of business owners. Note that while there are more Hispanic people than White people in California, this report uses “minority” terminology consistent with the definition of the word in federal datasets and with small business race/ethnicity owner totals within California. It classifies Hispanics as a minority, along with American Indian or Alaska Native, Asian and Pacific Islander (AAPI), and Black/African American.

The term “diverse” refers to any of the racial/ethnic groups that are considered minorities, including Asian, Black/African American, Hispanic, and Native American.

Term	Definition
<b>Race/Ethnicity</b>	Race refers to a social construct that categorizes individuals based on physical characteristics such as skin color, while ethnicity pertains to shared cultural traits, including language, customs, nationality, or heritage.
<b>American Indian or Alaska Native</b>	Non-Hispanic American Indian or Alaska Native
<b>Asian and Pacific Islander (AAPI)</b>	Non-Hispanic Asian, Native Hawaiian, or Other Pacific Islander
<b>Black/African American</b>	Non-Hispanic Black/African American
<b>Hispanic</b>	Any race with Hispanic ethnicity recorded (i.e., Hispanic Black/African American, Hispanic AAPI, Hispanic White, etc.)
<b>White</b>	Non-Hispanic White
<b>Minority Small Business</b>	Nonemployer or employer firm with a non-White owner.
<b>Diverse Small Business</b>	Nonemployer or employer firm with a non-White owner.

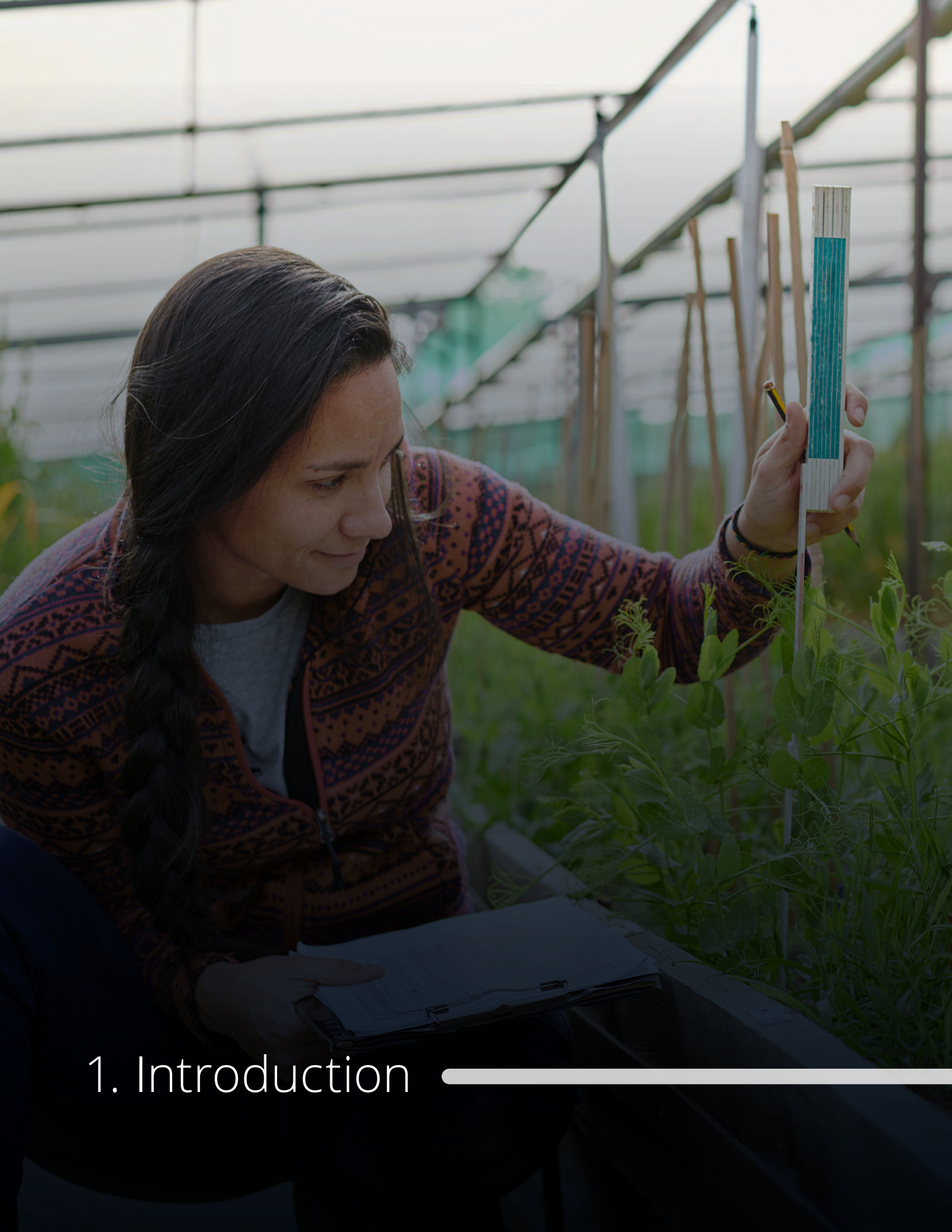
The following list gives definitions of key terms used throughout the report. More information on each term can be found in the report or in the appendix.

## Economic and Fiscal Impact Analysis Definitions

Term	Definition
<b>ABS</b>	Annual Business Survey. Data series that provides information on selected economic and demographic characteristics for businesses and business owners by sex, ethnicity, race, and veteran status. The ABS is conducted jointly by the U.S. Census Bureau and the National Center for Science and Engineering Statistics (NCSES) within the National Science Foundation and replaces the Survey of Business Owners (SBO).
<b>NES-D</b>	Nonemployer Statistics by Demographics series. Data series compiled by the Census Bureau from individual-level administrative records. The NES-D provides information on the demographic characteristics of nonemployer businesses and supplements the Annual Business Survey.
<b>Input-Output (I-O)</b>	A type of applied economic analysis that tracks interdependence among various producing and consuming industries in an economy. I-O measures the relationship between a given set of demands for final goods and services and the inputs required to satisfy those demands
<b>Industry Contribution Analysis (ICA)</b>	Industry Contribution Analysis is a method used to estimate the value of an Industry or group of Industries in a region at their current levels of production.
<b>Direct Effect</b>	The output of goods or services resulting from immediate spending by a firm or industry. These expenditures occur in a variety of categories, including construction equipment, intermediate inputs such as lumber or concrete, labor, professional services, and transportation.
<b>Indirect Effect</b>	The additional output of goods or services generated by supply chain interactions. For example, when a hairdresser spends their earnings on groceries, the grocery store will go to a wholesaler and purchase additional goods, thereby generating an indirect effect.

Term	Definition
<b>Induced Effect</b>	As businesses increase productivity from the direct and indirect effects, payroll expenditures grow through more hiring or increased salaries. As a result, household spending rises. These new personal market transactions, generating additional outputs of goods and/or services, are the induced effect.
<b>Secondary Effect</b>	The sum of indirect and induced effects.
<b>Total Impact</b>	The sum of the direct, indirect, and induced effects.
<b>Employment</b>	The number of jobs supported through spending by a business.
<b>Labor Income</b>	The value of all forms of employment income paid throughout a defined economy during a specified period of time. Labor Income is the sum of employee compensation and proprietor income. Employee compensation is the total remuneration of employees (including wages and salaries, benefits, and payroll taxes) in return for their work. Proprietorship income refers to the earnings generated by individuals from owning and operating their businesses.
<b>Output</b>	The total value of production generated through expenditures, including the value of all intermediate inputs required by a business to produce their goods and services.
<b>Tax Revenue</b>	Money collected to support federal, state, and local governments. This figure encompasses different state and local tax regimes (e.g., taxes specific to Los Angeles County or the City of Los Angeles).
<b>Leakages</b>	Economic activity associated with the modeled event(s) that does not generate additional economic effects in the defined region. For example, spending on imports from a different region or abroad is considered a “leakage” as it does not have an impact on the modeled region.
<b>Multipliers</b>	Multipliers are a measure of an industry’s connection to the wider local economy by way of input purchases, payments of wages and taxes, and other transactions. It is a measure of total effects per direct effect within a region.





## 1. Introduction

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California is home to around 4.1 million businesses, nearly half of which are small businesses owned by racially and ethnically diverse individuals. These 1.9 million Diverse<sup>i</sup>-owned Small Businesses (DSBs) are crucial to the state's economy. But, as our report shows, they face obstacles limiting their potential growth and economic impact. While 2020 was an unprecedented year in

1.9M Diverse-Owned  
Small Businesses  
in California

recent decades, the ongoing challenges faced by California's DSBs transcend the effects of the COVID-19 pandemic.

This is the second report that presents pioneering research focused on the economic, fiscal, and community impact of the state's DSBs. This second report was commissioned by Sempra Energy and Kaiser Permanente. The first report was commissioned by the California Office of Small Business Advocate (CalOSBA). Using datasets from sources like the American Community Survey and the Bureau of Economic Analysis, our research offers a detailed analysis of the health of DSBs in California. We study the economic and fiscal impacts in terms of the direct, indirect, and induced effects that these businesses generate within the state.

We find that despite making up a large part of California's population, DSBs do not contribute a proportionate share to the state's economy. This gap suggests systemic barriers that necessitate tailored investments, technical assistance, and policy responses that can unlock the full potential of these businesses within California's economy.

Our research extends beyond the simple quantification of economic contributions by examining the challenges and opportunities that affect the growth of DSBs. Our findings show that there is significant variation within DSBs, underscoring the need for strategies specifically tailored to the unique needs of these businesses.

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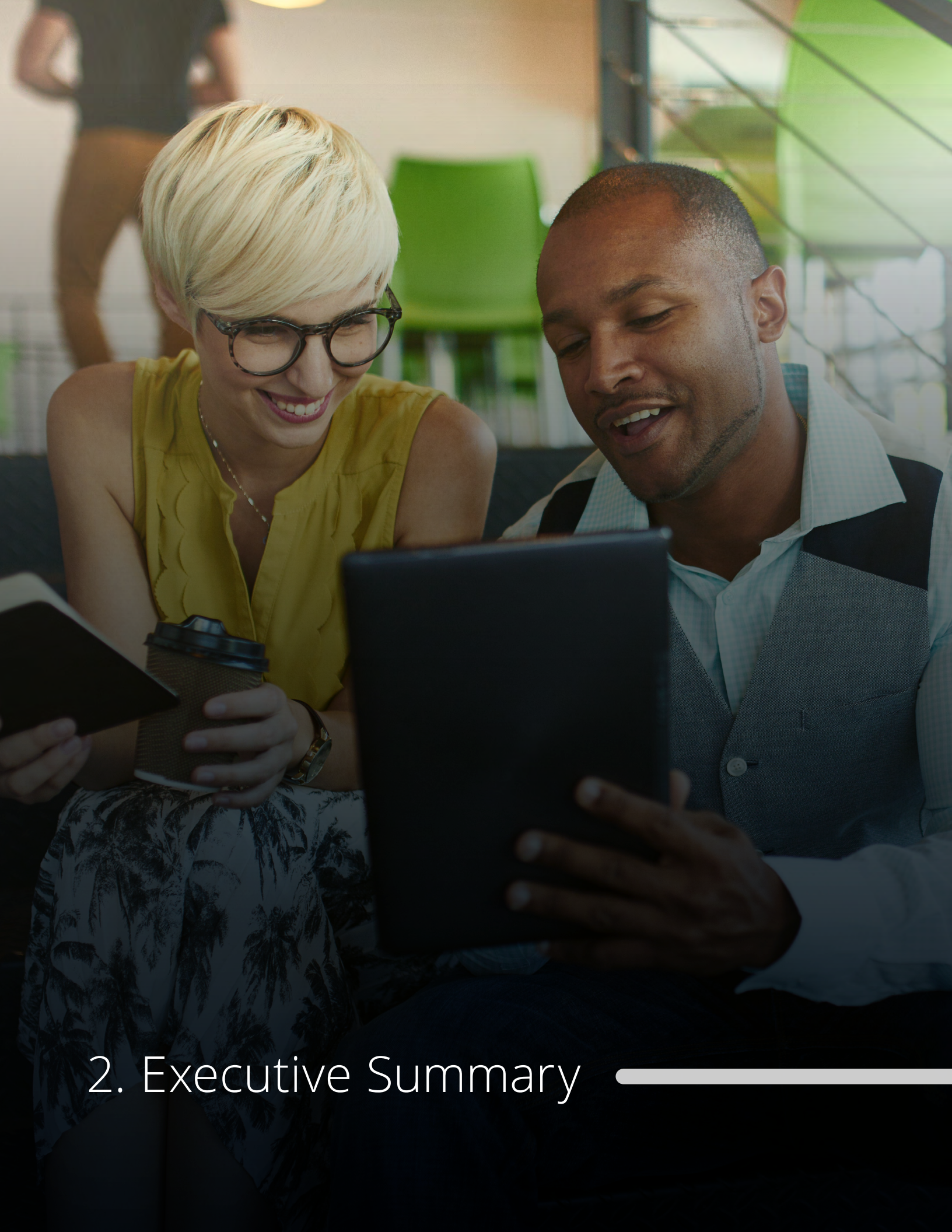
<sup>i</sup> Diverse groups are individuals identifying as other races and ethnicities different than non-Hispanic White (Asian, Black/African American, Hispanic, Native American). Non-diverse is defined as non-Hispanic White.

There is a substantial opportunity for DSBs to expand their market reach by integrating into the government procurement supply chain. This integration has the potential not only to increase their revenues and impact on the economy but also to align with broader strategic objectives. We explore specific challenges and strategies necessary for facilitating this integration and argue that better alignment of state policies with the sectors in which DSBs should enhance their presence could mutually benefit both the state and these businesses. Such alignment would create a synergistic effect that strengthens overall economic development.

“ There is a substantial opportunity for DSBs to expand their market reach by integrating into the government procurement supply chain.

Measurement is a fundamental principle for improvement; without it, developing effective strategies is challenging. This holds especially true for supporting DSBs which require comprehensive data to assess their current state and progress over time to pinpoint their specific needs. This study reconfirms a key finding within the first-year report that a significant data gap exists that impedes the formulation of effective policies and investments to support diverse small businesses. To bridge this gap, California should escalate its efforts in systematic data collection, particularly by conducting direct surveys that explore the specific needs of DSBs. Such an approach would enable policymakers and stakeholders to adapt and refine interventions, thereby better supporting these businesses, fostering their growth, and boosting their contribution to the state's economy. Implementation of a robust system for regular monitoring and feedback would ensure that strategies and investments remain relevant and impactful over time, ultimately enhancing the positive economic, fiscal, and community impacts of DSBs in California.





## 2. Executive Summary

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The promise of California's economic prosperity is intertwined with the success of its minority-owned small businesses. These companies are fundamental to the Golden State's economy, constituting 1.9M, or almost half, of the state's 4.1M businesses. Yet, these companies face long odds. Proportionally, there are fewer minority-led firms in California than in other peer states, and they face formidable barriers to sustainability and growth.

“ [Minority Owned Small Businesses] are fundamental to the Golden State's economy, constituting 1.9M, almost half, of the state's 4.1M businesses

This report builds on pioneering research commissioned by the California Office of Small Business Advocate (CalOSBA) focused on the economic, fiscal, and community impact of minority-owned small businesses (MOSB).<sup>i</sup> This research combines a series of complex datasets to provide the most detailed and in-depth analysis on California MOSB that has been conducted to date. The CalOSBA report, released last year, measured the substantial contribution MOSB's make on the state's economy, calculating their economic and fiscal impact for the first time. This report not only dives deeper into that analysis, but it includes multiple years of data, and takes the research a step further to examine the barriers MOSB face and policies that could support them.

The figures in this report are the most detailed estimates of California's minority-owned small businesses currently available. They are constructed from the American Community Survey, the American Business Survey, the Nonemployer Statistics by Demographics dataset, from the United States Census Bureau, the Bureau of Economic Analysis, and a handful of other data sources. This research was commissioned by the CalAsian Chamber of Commerce, California African American Chamber of Commerce, and the California Hispanic Chambers of Commerce, and was underwritten by Kaiser Permanente and SoCalGas and SDGE.

<sup>i</sup>“The State of Diverse of Businesses in California.” <https://calosba.ca.gov/about/publications/>



One finding that repeatedly emerged from the data was the fact that there are large differences within the MOSB population, and that different policy solutions will apply to each of these groups in a different way. Thus, it is important to take into account the nuances within MOSB groups. For example, 87% of MOSB are “nonemployer” firms, meaning that only the owner works for the company. These firms face very different circumstances than small “employer firms,” who employ less than 20 people, especially as it relates to being approved for loans and gaining access to capital.

“ If California's minority-owned small businesses were their own state, their economies would be larger than Oregon and South Carolina.

There are also significant differences based on what industry the MOSB is in. Firms offering Professional Services face very different challenges than those in Construction or Healthcare. Asian-owned firms are more likely to be in Professional Services, whereas Hispanic-owned firms are more likely to be in Construction. This report provides details on these sub-groups so that policy makers can craft more targeted technical assistance and multifaceted policy approaches.



# Economic Impact

Regardless of their differences, all MOSBs play an important role in the California economy, and this report provides an update on their economic and fiscal impact. Using newly released data and improved econometric modeling methods, Beacon Economics is now able to produce a more accurate and detailed economic impact analysis than in the past. We have found that these firms contribute even more than initially reported. Minority-owned small businesses in California contributed \$443 billion in 2019 to the California economy, and \$414 billion in 2020. This is roughly 8% of the state's total output. Moreover, these businesses support 3.6 million jobs each year, equivalent to 15% of total state employment. Their "value added," an economic term measuring their contribution to gross domestic product (GDP), was \$252 billion in 2020, larger than the economy of 23 other US States. If California's minority-owned small businesses were their own state, their economies would be larger than Oregon and South Carolina.

## California Minority-Owned Small Businesses, Total Impacts by Type

	Impact Type	Jobs Supported Annually (000s)	Labor Income Supported (\$ Millions)	Value Added Supported (\$ Millions)	Total Economic Output Contribution (\$ Millions)
2019	Direct	2,596	102,001	144,180	228,644
	Indirect	403	32,999	55,994	92,798
	Induced	651	43,326	75,911	122,027
	<b>TOTAL</b>	<b>3,650</b>	<b>178,326</b>	<b>276,085</b>	<b>443,470</b>
2020	Direct	2,628	95,826	131,267	218,260
	Indirect	383	33,425	53,931	88,035
	Induced	570	40,630	67,666	108,060
	<b>TOTAL</b>	<b>3,581</b>	<b>169,881</b>	<b>252,864</b>	<b>414,355</b>

Source: Bureau of Economic Analysis and IMPLAN. Analysis by Beacon Economics.

Due to the impacts of COVID-19, the total economic output impact of MOSBs decreased by 6.6% from 2019 to 2020, and the total employment contribution decreased by 1.9%. Data shows that small businesses are more likely to be in sectors heavily impacted by the pandemic, such as transportation, accommodation, and food services. However, it is worth noting that the number of MOSB stayed the same across these years, while non-minority-owned small businesses decreased by 6%.

### California Business Overview by Race/Ethnicity

Racial/Ethnic Group	Number of Establishments (000s)	
	Year 2019	Year 2020
Asian	742	722
Black/African American	198	197
Hispanic	932	960
Native	25	24
<b>TOTAL MINORITY</b>	<b>1,898</b>	<b>1,903</b>

Source: U.S. Census Bureau American Business Survey and Nonemployer Statistics by Demographics. Analysis by Beacon Economics



# Fiscal Impacts

MOSB have significant positive fiscal impacts at the federal, state, and local level. In total, minority firms generated \$24.5 billion in tax revenue across state and local governments in 2020, and \$25.8 billion in federal tax revenues. Of this total fiscal impact, 74% is attributed to income tax and social insurance tax contributions.

## California Minority-Owned Small Businesses, Total Fiscal Impacts by Tax Type, 2020

Tax Type	State & Local (\$ Millions)	Federal (\$ Millions)	Total (\$ Millions)
Income Tax	5,751	16,819	22,570
Social Insurance Tax	550	14,284	14,834
Sales Tax	7,856	0	7,856
Property Tax	7,416	0	7,416
Corporate Profits Tax	841	2,064	2,904
Other	2,071	-7,410	-5,338
<b>TOTAL</b>	<b>24,485</b>	<b>25,756</b>	<b>50,242</b>

Source: Bureau of Economic Analysis and IMPLAN. Analysis by Beacon Economics.

The total fiscal impact of MOSB decreased by 19% from 2019 to 2020.

## California Minority-Owned Small Businesses, Total Fiscal Impacts by Impact Type

Year	State & Local (\$ Millions)	Federal (\$ Millions)	Total (\$ Millions)
2019	26,695	35,412	62,108
2020	24,485	25,756	50,242

Source: Bureau of Economic Analysis and IMPLAN. Analysis by Beacon Economics.

# MOSB Barriers and Policies

MOSBs remain a source of untapped potential for California. Supporting their growth would translate into significant new job, business, and tax growth across the state. However, our analysis shows MOSBs are having a difficult time scaling and growing when compared to other US states. For instance, California has fewer minority-owned small businesses relative to its population than Florida, New York or Texas.

To help these firms, decision-makers in Sacramento should start measuring them in a systematic way. There is no official metric measuring the health or status of MOSBs, and there is very little data on them in general. Beacon Economics used five different datasets to assemble a basic picture of how minority firms are performing, but even our modeling capabilities are limited because of the coarseness of the data, or its absence. More detailed data collection would enable researchers and policy makers to better understand how MOSBs are fairing today, and what government and private-sector assistance providers can do to help.

## Total Minority-Owned Small Businesses by Industry



Source: U.S. Census Bureau. Analysis by Beacon Economics.



Second, policies and interventions should be targeted based on industry and whether companies have paid employees or not. Examples of these interventions include mentorship programs, incubators, and engaging with local universities or industry leaders. As the previous chart illustrates, MOSBs are spread across a variety of industries..

Third, the fact that the government is a large purchaser of products and services can be leveraged to support MOSB sustainability and growth. This report includes an analysis of government procurement patterns showing which industries governments buy from and compares this to industries where MOSBs are concentrated. Programs that streamline the government procurement process overall and reduce barriers to MOSB participation would benefit government and local firms.

There are currently many programs to help small businesses, such as the California Office of Small Business Advocate, the federal Minority Business Development Agency (MBDA) and Small Business Development Centers (SBDCs), and business and trade organizations to support minority-owned businesses. Additionally, California offers programs to facilitate capital access for minority-owned businesses, such as the Minority-Owned Business Loans. These are all helpful in different ways. However, without systematic measurement of the status of MOSBs through a frequent data collection program, policy makers will find it difficult to use data and evidence to craft effective investments and assistance programs and modify them over time in light of new facts. This is perhaps the first step California should take to support minority-owned small businesses in order to improve their already considerable economic, fiscal, and community contributions across California.







### 3. Methodology

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# Input-Output Model Methodology

To understand the impact or contribution of diverse small businesses in California, Beacon Economics used an economic modeling technique called input-output analysis (I-O), a type of applied economic analysis that tracks the interdependence of various producing and consuming industries in an economy.<sup>i</sup> I-O measures the relationship between a given set of demands for final goods and services and the inputs required to satisfy those demands. In other words, the model relies on complex buy-sell relationships between industries, households, and government in the economy and outlines how money spent ripples through the economy.

Several types of input data were collected on California's small businesses. Ultimately, four variables of interest were selected to model. These included the number of small businesses by race and ethnicity, annual payroll, annual revenue/sales receipts, and employment. The data for each variable was further subdivided by industry sectors, defined using the two-digit level North American Industrial Classification System (NAICS). The NAICS system is a two- through six-digit<sup>ii</sup> hierarchical classification system that groups business activity together with successive levels of detail.

Beacon Economics then used state-of-the-art I-O modeling software provided by Impact Analysis for Planning (IMPLAN) [2]. Establishment, payroll, revenue, and employment data for each region and by each race and ethnicity were inputted into the model.

IMPLAN has been a standard tool used by academic and professional economists for decades. The methods used to produce IMPLAN's economic dataset and economic impact estimates have been widely published in both professional publications and peer-reviewed academic journals. Many of these methods are considered best practices in a wide variety of applied economic fields.

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i The data used in this report is from 2019 and 2020, the most recent available. The impact data has been modeled using the IMPLAN system models.

ii For more information on the NAICS classification system see: <https://www.census.gov/naics/#q2>

IMPLAN generates economic and fiscal impacts at various geographic levels using different information sources to build the complex input-output matrix. These sources include the U.S. Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), U.S. Bureau of Economic Analysis (BEA), U.S. Census Bureau's American Community Survey (ACS), and various other socioeconomic indicators (commuting patterns, household spending etc.) to provide an accurate assessment of economic and fiscal impacts.

The central concept is a "ripple effect," or "multiplier effect," in which every dollar spent has a direct impact and subsequent secondary impacts, which can entail indirect effects, induced effects, or both.

- a) Direct effect is the output of goods or services resulting from immediate spending. For example, if a local minority-owned small business hires a carpenter to install a window frame, the upfront cost of employing the carpenter's services is the direct effect, which helps keep the carpenter in business.
- b) An indirect effect is the additional output of goods or services generated by business-to-business interaction with suppliers of direct purchases and suppliers of the suppliers. For example, employing a carpenter supports businesses down the carpenter's supply chain, such as the power tool industry and the suppliers of raw materials needed to build power tools.
- c) The induced effect is the additional output of goods and/or services resulting from household spending. For example, the carpenter spends income on goods and services, such as groceries, housing, recreation, and personal shopping.

The indirect and induced effects are also known as "ripple" or "SAM<sup>iii</sup> multiplier" effects, as initial direct expenditures generate sequential rounds of spending in the economy. The sum of the direct, indirect, and induced effects is the total impact or contribution.

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iii Social Accounting Matrix



Regarding the economic indicators analyzed, traditional impact analyses generally prioritize economic output, value added, employment, and labor income as described in detail below:

**Economic Output:** The aggregate value of production generated by an event, including the value of intermediate inputs, materials, utilities, and other production inputs.

**Value Added:** The difference between economic output and the cost of intermediate inputs. This is equivalent to the impact of the event on gross domestic product (GDP).

**Employment:** The number of full-time, part-time, or seasonal/temporary jobs supported by an event. Jobs supported include both jobs generated by the event in question and existing jobs that have been expanded in scope.

**Labor Income:** The value of all employment income paid, which can include fringe benefits such as health care, retirement, etc.





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# Data Collection and Analysis Methodology

Lack of high-quality, reliable data for minority-owned businesses is a persistent problem, and even more so on regional and sub-regional levels. Although many jurisdictions collect data on small businesses, it is often incomplete, non-comparable, or otherwise limited in scope. [3] Further exacerbating the issue are well-meaning privacy protection measures that result in a significant amount of data being suppressed.

To obtain an accurate picture of small businesses in California, Beacon Economics chose to use distinct high-quality data series as the foundational data for this study, just as it did in the first report in this series. This report marks the second delivery.



## Annual Business Survey (ABS)

The first dataset is the Annual Business Survey (ABS) [4], a comprehensive tool that provides detailed estimates of employer firms classified by sex, ethnicity, race, and veteran status. In addition, the ABS offers a **broad range of business-specific information**, including data on the geographic distribution of businesses, industry classifications based on the two-digit 2017 North American Industry Classification System (NAICS) code, duration of business operation, sales and receipts, and the number of employees. This dataset provides a mostly comprehensive view of the landscape of employer businesses in California.

## Nonemployer Statistics by Demographics series (NES-D)

The second foundational dataset is the Nonemployer Statistics by Demographics series (NES-D) [5] developed by the U.S. Census Bureau. This dataset offers **detailed insight into the demographic makeup of nonemployer businesses** in the United States. It goes beyond the information provided by the historical Survey of Business Owners (SBO) and the ABS by incorporating data specifically for nonemployer businesses. The NES-D achieves this by leveraging individual-level administrative records, which allow for the assignment of demographic characteristics to the sphere of nonemployer businesses. These characteristics include sex, ethnicity, race, veteran status, owner age, place of birth, and U.S. citizenship. Significantly, this dataset also allows for annual examination at detailed geographic and industry levels, receipt-size class, and legal form of organization.

The most recent data available for both datasets is from 2020. This report uses this 2020 data and compares it with the results from 2019 used in the first diverse small business report.

The data was collected, combined, and cross-tabulated by industry and demographics at the California/state level.

It is important to note that the **cross-tabulated data may not (and often does not) add up to the exact total or sub-group total**. These discrepancies can occur because some individuals belong to more than one race/ethnic group. Additionally, due to persistent data suppression, even at the state level, Beacon Economics employed statistical modeling to estimate the suppressed data required to achieve the objectives of this study.

The American Community Survey (ACS) One-Year Public Use Microdata Sample (PUMS)<sup>iv</sup> was utilized to conduct the demographic analysis of self-employed individuals. The PUMS data, derived from the ACS, offers detailed person and housing unit records, enabling the creation of user-defined estimates and insights into various contexts.

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iv The American Community Survey (ACS) Public Use Microdata Sample (PUMS) files are a set of untabulated records about individual people or housing units. <https://www.census.gov/programs-surveys/acs/microdata/access.html>

This report series relies on the most recent, reliable, and detailed data available on business ownership by race, industry, and region across the primary data sources used. Small business ownership data is only available from a handful of sources, all of which were used to drive this research:

- a). **The U.S. Census Annual Business Survey (ABS)** dataset offers detailed estimates of employer firm counts by sex, ethnicity, race, business size, and veteran status across industries.
- b). **The U.S. Census Nonemployer Business Survey Data (NES-D)** dataset offers detailed estimates of nonemployer firms across the same categories (this is a subset of the broader ABS).
- c). **The American Community Survey (ACS) Public Use Microdata Sample (PUMS)** dataset, which has person-level flags for race/ethnicity and worker type, with self-employed business ownership (split into unincorporated and incorporated) flags and race/ethnicity flags

In Beacon Economics' view, these are the most reputable and reliable datasets available that can be broadly used to estimate and build further estimates of business ownership across the key study variables: race/ethnicity, region, business size, and industry.

Beacon Economics used data from 2020 to conduct the analysis presented in this report. At the time of writing, the comprehensive ABS dataset was available for the years 2018, 2019, 2020, and 2021, while only topline (but not detailed) 2020 NES-D data was accessible. Beacon Economics imputed more detailed 2020 nonemployer NES-D data estimates by leveraging the topline 2020 NES-D figures along with more detailed figures from previous years.

Using the 2020 data year provides a necessary follow-up to the initial report, which used 2019 data, which was the most current available at the time of its release. Additionally, this data year enables an early exploration of the impacts of COVID-19 on diverse small businesses.



## 4. The State of Diverse Small Businesses in California

In 2020, California's small businesses faced daunting challenges due to the COVID-19 pandemic, which differentially affected the state's various racial/ethnic groups. This section examines the landscape of small business ownership, highlighting significant demographic trends over time, including the impact of the pandemic on various racial/ethnic groups. The state's unique demographic composition – where diverse<sup>v</sup> racial/ethnic groups compose a significant portion of the population – stands in contrast to the demographic composition of business ownership. This discrepancy highlights the need for targeted support to enable California's DSBs to achieve their full economic potential.

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<sup>v</sup> Diverse groups are those identifying as races and ethnicities other than non-Hispanic White (Asian, Black/African American, Hispanic, Native American). Non-diverse is defined as non-Hispanic White.



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# Economic Landscape in California

California is home to approximately 4.1 million businesses with a significant majority being non-employer firms, predominantly sole proprietors.<sup>vi</sup> Nonemployer-sole proprietors firms represent 71% of all business entities in the state and account for 15% of total employment, highlighting the role of these business owners within the workforce. Despite their numbers, nonemployer firms contribute just 3% to the state's total revenues. This underscores the limited scale of their revenue generation and operational capacities, reflecting the challenges faced by businesses with no paid employees other than the owner.

In contrast, small employer firms<sup>vii</sup>, defined as businesses with fewer than 20 paid employees, represent less than one-in-five businesses in the state. At around 679,000 entities, small employer firms constitute 17% of the total firms in California. These businesses play an important role in the state's economy, supporting 2.6 million jobs or 14% of total employment in California. On average, individual firms employ around three to four workers and collectively generate approximately \$500 billion in revenues, representing 14% of the state's total revenues. Together, nonemployer and small employer firms make up 98% of all business establishments in the state, emphasizing their fundamental role in California's business ecosystem.

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vi Nonemployer firms are those with no paid employees other than the owner.

vii Small businesses, as defined for the purposes of this study, refer to both small employer firms (less than 20 employees) and nonemployer firms (sole proprietor firms with no paid employees other than the owner).

The table below shows the composition of the four different business types in California, specifying the number of firms that fall into each type (and the share of total firms they represent), the number of people employed in each business type (and the share of total employment they represent), and the revenues generated by each business type (and the share of total revenues they represent).

## Composition of Business Types in California

	Number of Firms (000s)	% of Total Firms	Employment (Millions)	Share of CA Employment from small employer firms	Revenues (Billions)	% of Total Revenues
<b>Nonemployer Firms/Sole Proprietors<sup>1</sup></b>	2,935	71%	2.9	15%	\$103	3%
<b>Other Nonemployer Firms<sup>2</sup></b>	413	10%	0.9	5%	\$ 65	2%
<b>Small Employer Firms<sup>3</sup></b>	679	17%	2.6	14%	\$511	14%
<b>Medium and Large Employer Firms</b>	84	2%	12.6	66%	\$ 3,086	82%
<b>Total</b>	4,112	100%	19.1	100%	\$ 3,764	100%

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2020.

<sup>1</sup> Businesses with no paid employees other than the owner

<sup>2</sup> Firm with paid employees

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# Overview of Diverse Small Businesses in California

The diversity of California's populace is one of the state's most valuable assets. Diverse groups comprise approximately 60% of the state's total population, significantly higher than the national average of 37%. However, we find that this rich demographic mix is not reflected in the racial/ethnic makeup of California's small business owners.

“ The diversity of California's populace is one of the state's most valuable assets.

There are 1.9 million small businesses with diverse ownership in California, employing over 2.6 million people. The number of DSBs remained stable in 2020, as compared to a 6% decrease in non-diverse small businesses during that time. Yet, DSBs represent 53% of all the small businesses in California, and the number of people they employ represents 47% of all small business employees.

Overall, ownership rates among these groups do not reflect their representation in the population. For example, Hispanics represent about 40% of California's population but own 960,000 firms, making up 27% of the state's small businesses and contributing 22% to employment within this segment. Conversely, Asians constitute about 15% of the population but own 20% of all small businesses (722,000 firms) and contribute 22% to employment. Black or African American business ownership aligns closely with both their share of California's population and small business ownership standing at 5% (197,000 businesses), contributing 4% to total employment.

It is important to recognize that the broad Asian American and Pacific Islander (AAPI) category encompasses substantial internal diversity, including a wide range of subpopulations differentiated by ethnicity, language, nationality, and cultural background. This diversity within the AAPI category includes over 20 major ethnic groups, each with distinct languages, cultural practices, and countries of origin. However, this aggregation often masks disparities in areas such as education, poverty levels, and homeownership. For instance, Southeast Asians typically experience worse socio-economic outcomes compared to AAPIs as a whole. [16] More detailed data is needed to fully understand and address these distinctions.

## Diverse Small Businesses in California

	Number of Firms (000s)	% of Total Firms	Employment (000s)	% of Total Employment
<b>Asian</b>	722	20%	1,193	22%
<b>Hispanic</b>	960	27%	1,186	21%
<b>Native</b>	24	1%	28	1%
<b>Black/African American</b>	197	5%	222	4%
<b>White</b>	1,689	47%	2,745	50%
<b>Other</b>	23	1%	163	3%
<b>Total Small Businesses</b>	3,614	100%	5,535	100%

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2020.

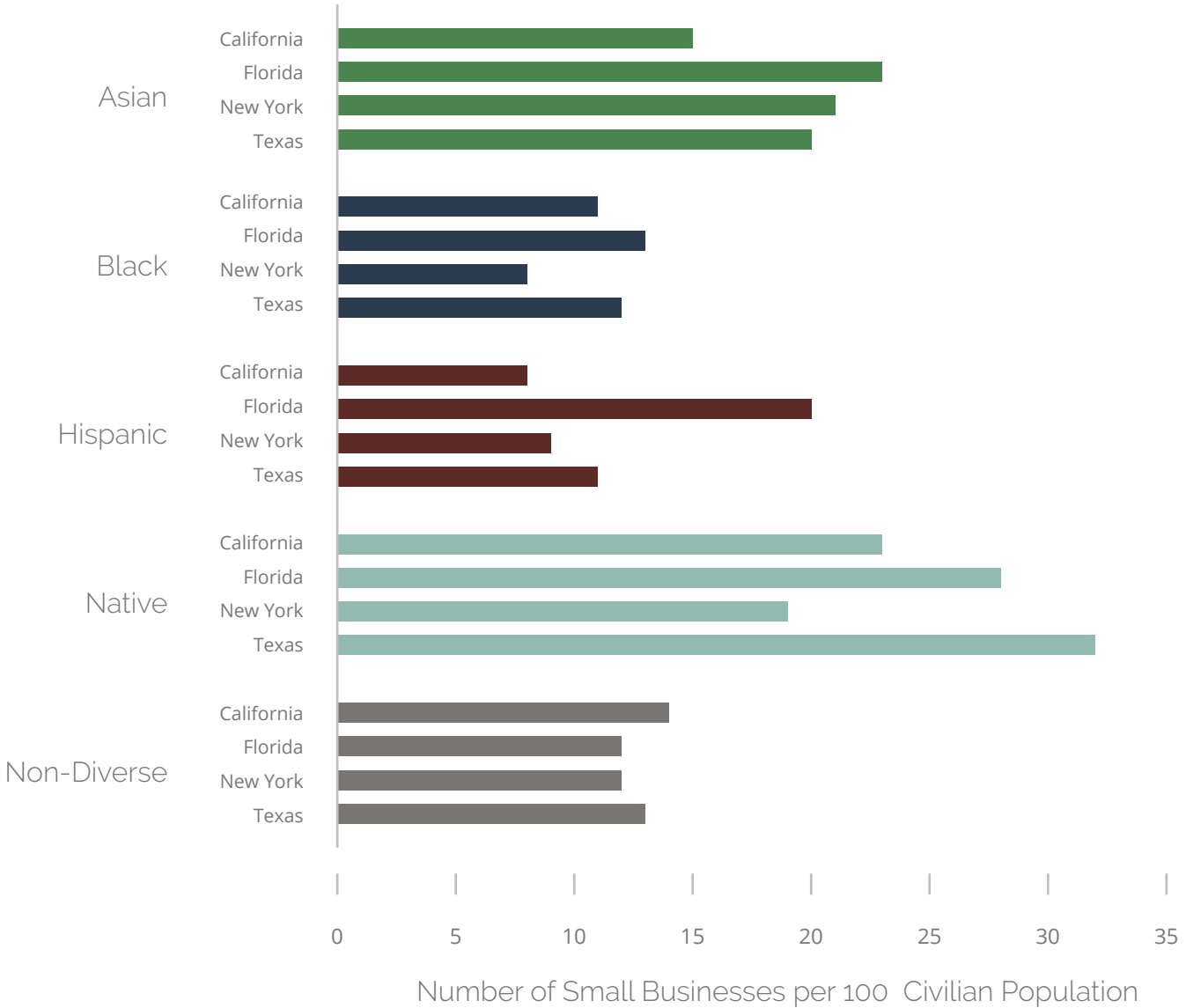
A better idea of the disparities between racial/ethnic groups can be gained by examining the number of small businesses owned per 100 civilian population<sup>viii</sup> of each racial/ethnic group. Asian entrepreneurs lead with an average of 15 businesses per 100 people, demonstrating a strong entrepreneurial presence. In contrast, Hispanic entrepreneurs face more substantial challenges, with the lowest business density of just eight businesses per 100 people. Black entrepreneurs maintain a moderate presence with 11 businesses per 100 people. The discrepancy between population composition and business ownership suggests an important opportunity for harnessing the full entrepreneurial potential of California's diverse population.

When compared to states like Texas and Florida, it becomes evident that the business operating environment in California poses greater challenges for minority entrepreneurs. For example, Hispanic entrepreneurs in Florida are twice as likely to own a business as their counterparts in California. In general, Asian, Black, Hispanic, and Native entrepreneurs are more likely to own a small business in Florida or Texas than in California. This underscores the fact that some states provide a more supportive environment for minority entrepreneurs than others.

viii **Civilian Population:** U.S. residents who are not in active-duty military service, aged 16 years or older.

This data suggests there is a need for the State of California to adopt targeted interventions to reduce these disparities and enhance the business opportunities available to all demographic groups in order to fully realize the state’s entrepreneurial capacity.

Diverse Small Businesses Across Top US States



Source: U.S. Census Bureau’s American Business Survey (ABS) and National Economic Survey Data (NESD), 2020. These figures are the estimations of the number of small businesses owned per 100 civilian population.



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# Revenue Disparities Among Diverse Small Businesses

At 1.9 million, DSBs represent a sizable share of small businesses in California. **Although they make up 53% of all small businesses in the state, DSBs account for only 37% of total revenues generated by small businesses.** This disparity between diverse and non-diverse businesses demands closer examination.

To understand the underlying causes of these revenue disparities, Beacon Economics analyzed the role of racial/ethnic differences and the role of the structural characteristics of DSBs, distinguishing between employer and nonemployer firms. To do so, we estimated the weighted average of revenues per employee for each type of business, deeming the owner an employee in nonemployer firms.

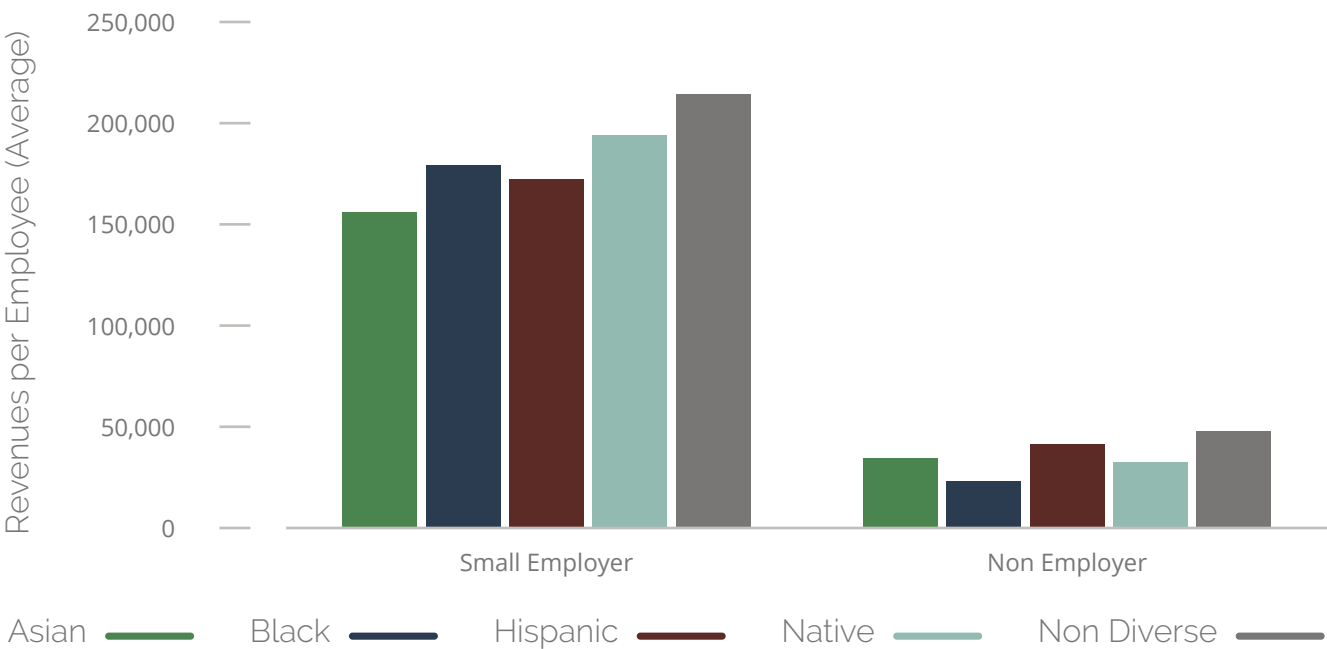
The findings reveal a significant difference in revenue generation capabilities. [6] On average, small employer firms produce revenues per employee that are four to five times higher than those of nonemployer firms. This can largely be attributed to the ability of employer firms to harness economies of scale. Firms with employees are in a better position to reduce fixed costs per unit produced and optimize output, thus achieving greater productivity and expanding their capacity to generate revenue. [6]



Our analysis demonstrates that while racial and ethnic factors partially contribute to variations in business performance, the structure of the business – specifically, whether it has employees – plays a more significant role in influencing a firm’s economic performance. Employer firms, with their enhanced operational capacities, are better positioned to penetrate wider markets and maximize revenue potential.

These insights illustrate the importance of targeted interventions that enable diverse-owned non-employer businesses to transition to employer-based models. Such strategies would not only bridge the existing revenue gap but also bolster the overall economic contributions of diverse-owned businesses in California.

California Diverse Small Businesses, Revenue Capacity Disparities



Source: US Census Data. Analysis by Beacon Economics.

In addition to structural differences between employer and nonemployer firms, another crucial element contributing to revenue disparities is the sector in which diverse small businesses operate. Different industry sectors have inherently different capacities for revenue generation. For instance, businesses in professional and technology-related sectors typically have a higher revenue-generating capacity than those in the transportation sector. Understanding these sectoral patterns is essential as they significantly influence the economic outcomes of diverse small businesses.

Before delving deeper into these industrial patterns, it is important to explore the demographic profiles of the business owners. By examining the age, gender, and ethnic backgrounds of these entrepreneurs, we can better understand the forces driving their sectoral choices and how these factors contribute to the broader economic picture.

The next section details these demographic characteristics, providing insights into the diversity that defines California's entrepreneurial spirit and how it impacts economic activities across various sectors.

Since comprehensive data specific to small business owners are scarce, insights from self-employed individuals from the American Community Survey (ACS) are valuable. These individuals often represent the owners of their businesses and provide a direct line to the underlying factors influencing business operations and sector choices.

This report, unlike the one published last year, delves deeper into these demographic characteristics to offer a more granular view of how diverse entrepreneurs navigate the complexities of business ownership across different sectors.



## 5. Demographic Insights Among Diverse Small Businesses

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The landscape of small business ownership among diverse groups in California reveals insightful trends about spatial distribution, age, immigration, education, and gender. An analysis of geographic, demographic, and educational characteristics provides an even more nuanced understanding of the opportunities and challenges faced by these entrepreneurs.



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# Spatial Distribution of Diverse Self-Employment in California

This section explores the geographic distribution of self-employed individuals from diverse racial and ethnic backgrounds across California. The map on the next page illustrates how the state's demographic diversity in self-employment varies significantly from region to region, reflecting broader socio-economic patterns.

The southern part of the state, including populous counties like Los Angeles and San Diego, has a higher concentration of self-employed individuals from diverse backgrounds (around 90% in some counties). This high concentration likely reflects the historically large, multicultural populations of these urban areas.

Conversely, counties stretching from the coast to the inland areas of Northern California, including regions like the northern part of the Central Valley and rural northern counties, exhibit a lower percentage of self-employed individuals from diverse backgrounds. The percentages in some of these areas are closer to 10%, which may be due to a smaller number of diverse groups or less economic activity from diverse entrepreneurs.

Central coast counties and some inland counties display a moderate percentage of self-employed individuals from diverse backgrounds. While these areas have a significant presence of diverse self-employed populations, their percentages are not as high as those in the southernmost counties but are significantly better than those in the northernmost parts of California.

The disparity between different parts of the state makes clear the need for localized strategies at a local or regional scale that consider the unique demographic and economic characteristics of each area.<sup>ix</sup>

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ix Further insights into the geographical distribution by race/ethnic group are detailed in the first 2023 report, The State of Diverse Business in California., available online at: <https://calosba.ca.gov/about/publications/>.

# Diverse Racial/Ethnic Share of All Self-Employment in California



Source: US Census Data, 2022.

Share of Self-Employed Individuals from Diverse Racial/Ethnic Backgrounds



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# Demographic Factors Shaping Diverse Small Business Ownership

Beacon Economics' analysis indicates notable age-related patterns among self-employed individuals compared to their W-2 counterparts, as shown in the table below. For all racial/ethnic groups, at least 50% of self-employed individuals are aged 45 or older. This suggests that experience matters when it comes to running a small business. Older entrepreneurs often bring experience, industry knowledge, and connections which can be crucial to successfully navigating the complexities of business management and market penetration.

A substantial share of self-employed Asian and Hispanic workers are foreign-born. Data shows that 75% of self-employed Asians and 55% of Hispanics were born outside the United States. This may reflect systemic barriers to the traditional labor market for Asians and Hispanics, pushing immigrants toward entrepreneurship as an alternative to working for others. Moreover, the entrepreneurial inclination among immigrants could also be driven by a combination of necessity, tradition, and opportunity, highlighting a robust entrepreneurial spirit.



Gender distribution reveals disparities as well. While women approach parity with men in W-2 employment across all groups, they lag in entrepreneurship. This is especially true for Black and Hispanic women, who are notably underrepresented in these areas. Black women comprise 35% of self-employed Black workers in California while self-employed Hispanic women comprise 32% of self-employed Hispanic workers in the state. Challenges such as limited access to funding, potential gender biases in the business community or the dual burden of managing business and family responsibilities may contribute to these disparities. However, Asian women exhibit a greater inclination towards entrepreneurialism, making up 41% of the state's self-employed Asian workers, possibly indicating cultural or community support mechanisms that encourage female entrepreneurship.

The analysis also reveals educational disparities. Fewer self-employed individuals hold a bachelor's degree than their W-2 counterparts, and this is especially true for Hispanic and Asian workers. For Black Americans, the share of workers with a bachelor's degree is the same for self-employed and W-2 groups.

Although higher education typically facilitates better business management skills, access to capital, and broader networking opportunities, technological advancements and online resources have democratized access to necessary business knowledge. Even so, individuals with higher education are often better equipped to navigate complex business sectors that require specialized knowledge, such as technology-related industries and professional services.

The industry or sector choices made by entrepreneurs play a key role in determining the economic outcomes of diverse small businesses. Individuals with higher educational levels often select high-revenue sectors like Professional, Scientific, and Technical Services, which possess higher barriers to entry due to the specialized knowledge required for business success. These sectors not only provide greater income potential but also demand a higher level of expertise and knowledge which can be a barrier for those without advanced education.

In contrast, sectors such as Transportation, Food Service, or Support Services require less specialized knowledge, making them more accessible to a broader range of entrepreneurs. The tradeoff is that these sectors typically generate lower revenue. This variance in sector choice significantly impacts not only the income potential but also the growth dynamics and resilience of businesses, especially when economic conditions are constantly changing.



## Characteristics Among Self-Employed Individuals and W-2 Employees in California

	Share of Foreign-Born <sup>1</sup>		Share Under 45 Years Old <sup>2</sup>		Share with Bachelor <sup>3</sup>		Share of Female <sup>4</sup>	
	W-2	Self	W-2	Self	W-2	Self	W-2	Self
<b>Asian</b>	67%	75%	59%	39%	67%	57%	49%	41%
<b>Black</b>	10%	10%	59%	48%	38%	38%	49%	36%
<b>Hispanic</b>	38%	55%	68%	50%	21%	17%	44%	32%
<b>White</b>	10%	15%	55%	33%	55%	56%	47%	38%
<b>Total</b>	31%	36%	61%	40%	43%	43%	46%	37%

Source: US Census Data. American Community Survey. Analysis by Beacon Economics.

<sup>1</sup> Percentage of individuals in each category (W-2 or self-employed) born in a foreign country.

<sup>2</sup> Percentage of individuals in each category (W-2 or self-employed) under 45 years old.

<sup>3</sup> Percentage of individuals in each category (W-2 or self-employed) with bachelor's degree.

<sup>4</sup> Percentage of females in each category (W-2 or self-employed).

This analysis underscores the importance of developing nuanced policies and targeted support systems that address the specific needs and barriers facing the wide range of diverse business owners in California. By tailoring interventions to the unique challenges of different demographic groups, the state can foster a more inclusive and thriving entrepreneurial environment.

Having examined the diverse demographic profiles of small business owners across California, we now focus on understanding the substantial economic impacts these entrepreneurs have on the state's economy. The demographic characteristics of these business owners not only influence their personal and business decision-making but also significantly contribute to their economic influence. We will assess how these diverse groups contribute to job creation and revenue generation as well as enhance economic growth overall.

The following section will quantify these contributions, highlighting the significant role that diverse small businesses play in California's dynamic economy. This analysis sets the stage for a later discussion on sectoral patterns where we take a closer look at how specific industries benefit from or challenge the entrepreneurial activities of diverse groups.





## 6. Economic Impact Assessment of Diverse Small Businesses

This section provides updates on the contributions DSBs make to California's economy, incorporating the latest economic and fiscal impact data released last year. Employing advanced data and refined modeling techniques, Beacon Economics has now updated and improved the precision of its economic impact analysis for diverse small businesses.



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# Economic Impact: Diverse Small Businesses

California's small firms are renowned for their strong community ties and reliance on local supply chains. These firms generate significant multiplier effects that enhance the state's economic activity and contribute to the health and vitality of local communities. This means that the current output of DSBs reverberates more strongly through the state economy, generating larger indirect and induced impacts compared to an economy with a smaller multiplier.



In 2020, DSBs in California generated \$414 billion in annual output, or around 8% of total state output, with direct effects accounting for 4% of this figure. These firms also supported over 3.6 million jobs annually, accounting for 15% of total state employment. The total value added supported by DSBs, also referred to as gross domestic product (GDP), amounted to nearly **\$253 billion**, more than the total economic output of 23 other U.S. states. If California's diverse small businesses constituted their own state, their economy<sup>x</sup> would surpass those of Oregon and South Carolina.

From 2019 to 2020, the total economic output impact of these businesses declined by 6.6%, and the overall employment contribution decreased by 1.9%. This downturn was largely due to the economic repercussions of the pandemic, which particularly affected sectors like Transportation, Accommodation, and Food Services, all of which have a higher concentration of DSBs.

## California Diverse Small Businesses, Total Impacts by Impact Type

		Employment (000s)	Labor Income (\$ Millions)	Value Added (\$ Millions)	Output (\$Millions)
2019	Direct	2,596	\$102,001	\$144,180	\$228,644
	Indirect	403	\$32,999	\$55,994	\$92,798
	Induced	651	\$43,326	\$75,911	\$122,027
	<b>TOTAL</b>	<b>3,650</b>	<b>\$178,326</b>	<b>\$276,085</b>	<b>\$443,469</b>
2020	Direct	2,628	\$95,826	\$131,267	\$218,260
	Indirect	383	\$33,425	\$53,931	\$88,035
	Induced	570	\$40,629	\$67,666	\$108,060
	<b>TOTAL</b>	<b>3,581</b>	<b>\$169,880</b>	<b>\$252,864</b>	<b>\$414,355</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2020. Implan Impact Model.

x Including indirect and induced effects.

“ The sectors showing the greatest total effects on economic output include Real Estate and Rental and Leasing, Health Care and Social Assistance, Professional, Scientific and Technical Services, Transportation and Warehousing, and Accommodation and Food Services.

The total economic impacts of DSBs encompass the cumulative effects across all sectors of the economy. These impacts differ by sector and are influenced by several factors including production levels, the extent of local procurement within the state's supply chains (indirect effects), and the expenditure of earned income within the local economy (induced effects). Stronger linkages with the state economy typically correlate with greater overall impacts.

Sectors with higher direct impacts on the economy often have substantial revenues and employment levels. When considering indirect and induced impacts, these effects can vary, largely depending on the sector's multiplier capacity. This variance is grounded in the economic interactions previously described.

As such, we analyze the sectoral impact on total employment and total economic output, drawing comparisons between 2019 and 2020. Despite a modest decline in contributions from 2019, it is important to recognize the resilience demonstrated by these firms amid the severe economic and social disruptions caused by COVID-19. The sectors showing the greatest total effects on economic output include Real Estate and Rental and Leasing, Health Care and Social Assistance, Professional, Scientific and Technical Services, Transportation and Warehousing, and Accommodation and Food Services.

In terms of employment impacts, Health Care and Social Assistance, Transportation and Warehousing, Administrative and Support Services, Professional Services, and Retail Trade stand out for their job-supporting capacity in the state.

## California Diverse Small Businesses, Total Impacts by Industry, 2020

Industry (SCIAN)	Total Employment Contribution (000s)		Total Economic Output Contribution (Millions \$)	
	2019	2020	2019	2020
Real Estate and Rental and Leasing	179	184	\$54,590	\$48,283
Health Care and Social Assistance	430	434	\$48,729	\$44,009
Professional, Scientific and Technical Services	360	367	\$47,621	\$43,564
Transportation and Warehousing	401	428	\$39,522	\$36,533
Accommodation and Food Services	372	334	\$36,595	\$30,697
Finance and Insurance	126	124	\$28,861	\$28,363
Retail Trade	345	316	\$28,082	\$27,327
Wholesale Trade	121	116	\$20,039	\$25,642
Construction	203	211	\$24,408	\$25,373
Administrative and Support Services	362	369	\$24,203	\$23,882
Manufacturing	83	79	\$22,754	\$21,847
Information	50	47	\$18,911	\$18,682
Other Services (except Public Administration)	381	359	\$23,715	\$15,817
Management	25	24	\$6,732	\$6,773
Arts, Entertainment, and Recreation	107	96	\$6,584	\$6,461
Government	13	13	\$3,726	\$3,668
Educational Services	77	65	\$3,990	\$3,376
Utilities	2	3	\$2,780	\$2,604
Agriculture, Forestry, Fishing and Hunting	12	11	\$1,129	\$1,108
Mining	1	1	\$500	\$345
<b>TOTAL</b>	<b>3650</b>	<b>3581</b>	<b>\$443,471</b>	<b>\$414,354</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

Despite facing their own unique challenges, DSBs significantly bolster employment and generate substantial economic output. They account for nearly 45% of all small business employment in the state after considering the broader economic indirect and induced impacts. However, DSBs contribute roughly 38% to total labor income, economic output, and fiscal impacts. This discrepancy primarily arises because many DSBs operate as nonemployer entities in sectors traditionally characterized by lower entry barriers, yet possess more limited revenue potential, as previously noted.

## “ DSBs significantly bolster employment and generate substantial economic output.

California’s DSBs also contribute substantially to fiscal revenues at the federal, state, and local levels. Annually, DSBs generate roughly \$24.5 billion in tax revenues for state and local governments, largely through sales, property, and income taxes. These figures are sustained by the broader economic activities that these businesses stimulate. Additionally, DSBs in California contribute approximately \$25.8 billion to federal tax revenues , predominantly from income and social insurance taxes, which represent 74% of their total fiscal impact.

The fiscal year 2020 saw a notable downturn in fiscal tax contributions from DSBs – a 19% decrease from the previous year. This reduction appears more pronounced than the overall economic downturn caused by the COVID-19 pandemic. The significant decline in tax revenues could have been influenced by various factors, including DSB concentration in business sectors more sensitive to economic disruptions, reduced business earnings, potential adjustments in tax policies, or relief measures designed to support businesses during the economic crisis. This underscores the complex relationship between DSB sector concentration, business performance, fiscal policy adjustments, and their combined impact on tax contributions.



## California Diverse Small Businesses, Total Impacts by Impact Type and Region

Year	Tax Type	State & Local (\$ Millions)	Federal (\$ Millions)	Total (\$ Millions)
2019	Income Tax	6,446	16,996	23,441
	Social Insurance	556	14,500	15,056
	Sales Tax	8,920		8,920
	Property Tax	7,575		7,575
	Other	2,104	1,475	3,579
	Corporate Profits Tax	1,095	2,442	3,536
	<b>TOTAL</b>	<b>26,695</b>	<b>35,412</b>	<b>62,108</b>
2020	Income Tax	5,751	16,819	22,570
	Social Insurance	550	14,284	14,834
	Sales Tax	7,856		7,856
	Property Tax	7,416		7,416
	Corporate Profits Tax	841	2,064	2,904
	Other	2,071	-7,410	-5,338
	<b>TOTAL</b>	<b>24,485</b>	<b>25,756</b>	<b>50,242</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

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# Race/Ethnic Group Focus: Economic Impacts Assessment

Subdivided by race and ethnic group, this section details the economic and fiscal impacts generated by diverse small businesses in California. Each group's individual impact on the state's economy enhances our understanding of the diverse entrepreneurial landscape.

Reviewing the contributions by specific racial/ethnic groups, we find that Black/African American and Hispanic-owned businesses demonstrated remarkable resilience to the economic disruptions caused by the COVID-19 pandemic. These groups maintained or slightly increased their economic performance from 2019 to 2020. In contrast, contributions from Asian- and White-owned businesses saw a slight decline over the same period.



## California Diverse Small Businesses, Total Impacts by Race/Ethnic Group

		Employment (000s)	Labor Income (\$, Millions)	Output (\$, Millions)	Fiscal Impacts (\$, Millions)
2019	Asian	1,797	\$93,846	\$251,597	\$34,846
	Black/African American	269	\$10,843	\$21,865	\$3,347
	Hispanic	1,548	\$72,029	\$166,751	\$23,420
	Native American (American Indian or Alaska Native)	37	\$1,609	\$3,257	\$494
	White	4,593	\$287,089	\$722,542	\$100,441
	<b>Total Minority Impacts</b>	<b>3,650</b>	<b>\$178,326</b>	<b>\$443,470</b>	<b>\$62,108</b>
	<b>Total Small Businesses Impacts</b>	<b>8,244</b>	<b>\$465,415</b>	<b>\$1,166,012</b>	<b>\$162,549</b>
2020	Asian	1,682	\$84,509	\$218,320	\$27,060
	Black/African American	276	\$10,857	\$21,467	\$2,894
	Hispanic	1,587	\$72,896	\$171,060	\$19,857
	Native American (American Indian or Alaska Native)	36	\$1,618	\$3,508	\$431
	White	4,298	\$272,630	\$696,577	\$81,974
	<b>Total Minority Impacts</b>	<b>3,581</b>	<b>\$169,881</b>	<b>\$414,355</b>	<b>\$50,242</b>
	<b>Total Small Businesses Impacts</b>	<b>7,879</b>	<b>\$442,510</b>	<b>\$1,110,932</b>	<b>\$132,215</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

# Economic Impacts: Asian-Owned Small Businesses

Asian-owned small businesses make a substantial contribution to California's economy with approximately 721,600 firms employing 1.19 million workers, including the owners of nonemployer firms. These businesses extend their impact through indirect and induced business linkages within the state, supporting 1.68 million jobs. They support the state's economy with \$130.89 billion in GDP (represented as value added) and a total economic output of \$218.32 billion annually.

Asian-owned small businesses also contribute substantial tax revenues, generating roughly \$15 billion annually in state and local tax revenues and \$12 billion in federal tax revenues. These overall contributions from Asian-owned firms are crucial to fostering economic growth and job opportunities in local communities and enhancing California's broader fiscal framework.

During the COVID-19 pandemic, the economic contributions of Asian-owned small businesses in California declined significantly, with a 13% reduction in GDP and total output from 2019 to 2020. This decline was notably more severe than those seen across all diverse small businesses, highlighting the heightened vulnerability of Asian businesses during the economic crisis.



## Asian-Owned Small Businesses, Total Economic Impacts by Impact Type, California

		Employment (000s)	Labor Income (\$, Millions)	Value Added (\$, Millions)	Output (\$, Millions)
2019	Direct	1,220	\$51,711	\$78,113	\$133,061
	Indirect	234	\$19,287	\$32,833	\$54,150
	Induced	343	\$22,848	\$40,054	\$64,387
	<b>TOTAL</b>	<b>1,797</b>	<b>\$93,846</b>	<b>\$150,999</b>	<b>\$251,597</b>
2020	Direct	1,193	\$46,215	\$68,051	\$117,105
	Indirect	205	\$18,061	\$29,137	\$47,396
	Induced	284	\$20,234	\$33,701	\$53,820
	<b>TOTAL</b>	<b>1,682</b>	<b>\$84,509</b>	<b>\$130,888</b>	<b>\$218,320</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

721,600

firms

1.69M

employment impact

\$130.89B

GDP contribution

## Asian-Owned Small Businesses, Total Fiscal Impacts by Tax Type, California

Year	Fiscal Impact Type	State & Local (\$ Millions)	Federal (\$ Millions)	Total (\$ Millions)
2019	Corporate Profits Tax	\$634	\$1,414	\$2,048
	Income Tax	\$3,356	\$8,792	\$12,149
	Other	\$1,264	\$897	\$2,161
	Property Tax	\$4,598		\$4,598
	Sales Tax	\$5,427		\$5,427
	Social Insurance	\$331	\$8,133	\$8,464
	<b>Total</b>	<b>\$15,610</b>	<b>\$19,237</b>	<b>\$34,846</b>
2020	Corporate Profits Tax	\$457	\$1,122	\$1,580
	Income Tax	\$2,824	\$8,210	\$11,034
	Other	\$1,355	-\$4,968	-\$3,613
	Property Tax	\$4,950		\$4,950
	Sales Tax	\$5,267		\$5,267
	Social Insurance	\$307	\$7,534	\$7,841
	<b>Total</b>	<b>\$15,161</b>	<b>\$11,899</b>	<b>\$27,060</b>

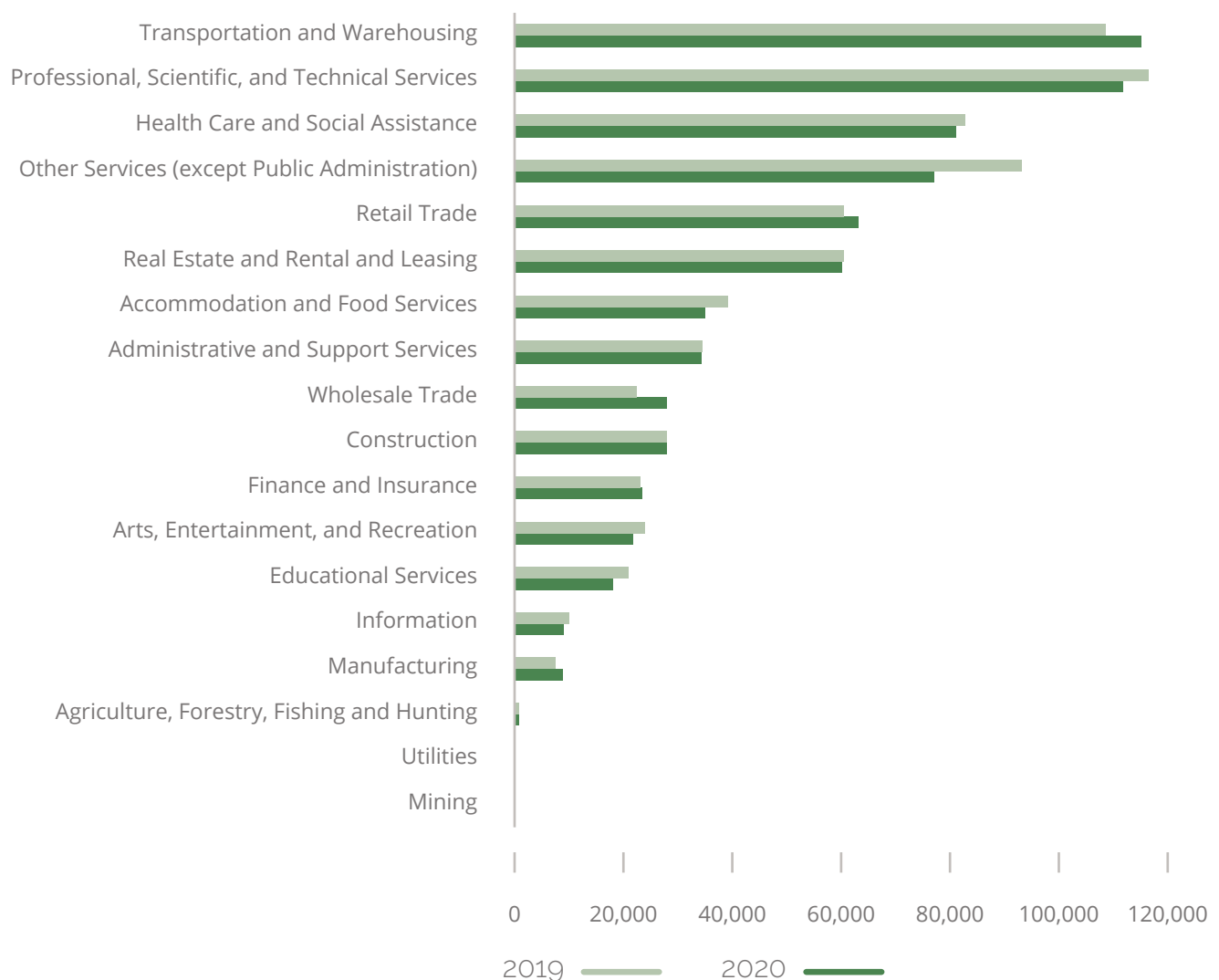
Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

The total economic impact of Asian small business owners is influenced by the number of businesses they own, the sectors in which they operate, their linkages to other firms, and their ability to scale and generate revenue.

Between 2019 and 2020, the total number of Asian small businesses decreased by 3% to 721,600. Asian-owned firms are more predominant in sectors such as Transportation and Warehousing, Professional, Scientific and Technical Services, and Health Care and Social Assistance.

Simultaneously, there was a slight shift in the distribution of Asian-owned businesses across various sectors. Notably, the number of Transportation and Warehousing, Retail Trade, and Real Estate firms increased. Conversely, the number of firms in Professional, Scientific and Technical Services, Health Care and Social Assistance, and Other Services declined. These shifts, although minor, underscore the business challenges imposed by COVID-19 on specific sectors known for their high revenue-generating potential.

### Total Asian-Owned Small Businesses by Industry, California



Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020.

# Economic Impacts: Black/ African American-Owned Small Businesses

California's 197,000 Black/African American-owned small businesses contribute significantly to the state's economy, especially given their population size and proportion of business ownership. These businesses directly employ approximately 222,000 people, including the owners of nonemployer firms. Including all economic linkages (direct, indirect, and induced effects), these businesses support nearly \$15 billion in GDP (represented as value added) and \$21 billion in annual economic output.

In terms of tax contribution, Black/African American-owned small businesses contribute significantly to public finances, generating \$1.1 billion in state and local tax revenues and \$1.7 billion in federal tax revenues.

Black/African American-owned small businesses showed a high level of resilience to the COVID-19 pandemic. These firms experienced only a 2% reduction in total output from 2019 to 2020 – a less severe decline than California's DSBs overall.



## Black/African American-Owned Small Businesses, Total Economic Impacts by Impact Type, California

		Employment (000s)	Labor Income (\$, Millions)	Value Added (\$, Millions)	Output (\$, Millions)
2019	Direct	211	\$6,711	\$8,472	\$10,274
	Indirect	19	\$1,496	\$2,532	\$4,171
	Induced	40	\$2,636	\$4,616	\$7,420
	<b>TOTAL</b>	<b>269</b>	<b>\$10,843</b>	<b>\$15,620</b>	<b>\$21,865</b>
2020	Direct	222	\$6,723	\$8,091	\$10,544
	Indirect	18	\$1,542	\$2,489	\$4,031
	Induced	36	\$2,592	\$4,316	\$6,892
	<b>TOTAL</b>	<b>276</b>	<b>\$10,857</b>	<b>\$14,896</b>	<b>\$21,467</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

197,000

small businesses

276,000

total employment

\$14.90B

GDP contribution

## Black/African American-Owned Small Businesses, Total Fiscal Impacts by Tax Type, California

Year	Fiscal Impact Type	State & Local (\$ Millions)	Federal (\$ Millions)	Total (\$ Millions)
2019	Corporate Profits Tax	\$55	\$123	\$178
	Income Tax	\$399	\$1,063	\$1,462
	Other	\$95	\$64	\$159
	Property Tax	\$331		\$331
	Sales Tax	\$388		\$388
	Social Insurance	\$28	\$802	\$829
	<b>Total</b>	<b>\$1,296</b>	<b>\$2,051</b>	<b>\$3,347</b>
2020	Corporate Profits Tax	\$42	\$103	\$145
	Income Tax	\$373	\$1,097	\$1,470
	Other	\$86	-\$291	-\$205
	Property Tax	\$295		\$295
	Sales Tax	\$309		\$309
	Social Insurance	\$30	\$851	\$881
	<b>Total</b>	<b>\$1,134</b>	<b>\$1,760</b>	<b>\$2,894</b>

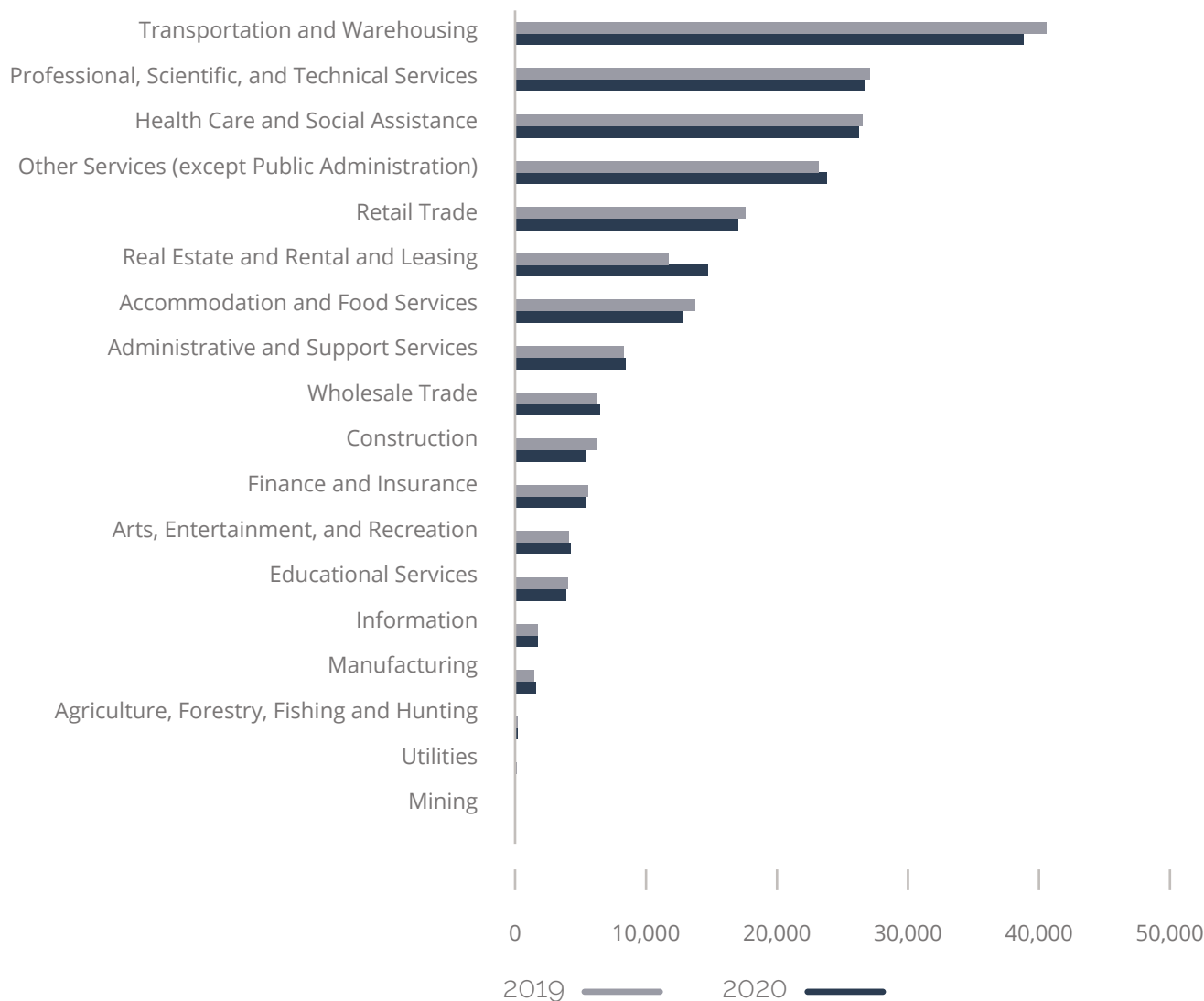
Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

The economic impact of Black/African American-owned small businesses is influenced by the number of businesses they own, their sectoral distribution, and their growth potential. Between 2019 and 2020, the total number of Black/African American-owned small businesses remained stable at approximately 197,000, with no significant shifts in their sector distribution across the economy.

The data shows that Black/African American-owned small businesses are predominant in sectors such as Transportation and Warehousing, Other Services, Health Care and Social Assistance, Professional, Scientific and Technical Services, and Arts, Entertainment and Recreation.

Detailed analysis shows that between 2019 and 2020 there was an increase in the number of Black/African American-owned small businesses in the Professional, Scientific and Technical Services and Retail Trade sectors. Conversely, Transportation and Warehousing, Other Services, Health Care, and Administrative and Support Services saw a slight decline.

Total Black/African American-Owned Small Businesses by Industry, California



Source: U.S. Census Bureau’s American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020.

# Economic Impacts: Hispanic-Owned Small Businesses

Hispanic-owned small businesses represent roughly half of all DSBs in California (959,600 firms) and contribute greatly to California's economy. These businesses collectively employ nearly 1.19 million workers, including owners of nonemployer firms, and support roughly 1.59 million jobs statewide when considering direct, indirect, and induced economic effects. These firms contribute approximately \$105 billion in GDP (represented as value added) and \$171 billion in total economic output each year.

Additionally, Hispanic-owned businesses generate over \$8 billion annually in state and local tax revenues and nearly \$12 billion in federal tax revenues. These contributions highlight the indispensable role that Hispanic-owned small businesses play in providing jobs and economic opportunity in California.

Hispanic-owned small businesses showed a high level of resilience to the COVID-19 pandemic with only a 3% reduction in their contribution to total output between 2019 and 2020. This modest downturn is notably less severe than the broader economic impacts affecting the state's DSBs overall, highlighting the adaptability of Hispanic-owned small businesses.



## Hispanic-Owned Small Businesses, Total Economic Impacts by Impact Type, California

		Employment (000s)	Labor Income (\$, Millions)	Value Added (\$, Millions)	Output (\$, Millions)
2019	Direct	1,137	\$42,579	\$56,314	\$83,762
	Indirect	149	\$11,998	\$20,261	\$33,867
	Induced	262	\$17,451	\$30,558	\$49,122
	<b>TOTAL</b>	<b>1,548</b>	<b>\$72,029</b>	<b>\$107,133</b>	<b>\$166,751</b>
2020	Direct	1,186	\$41,918	\$53,875	\$88,832
	Indirect	157	\$13,562	\$21,879	\$35,909
	Induced	244	\$17,417	\$29,005	\$46,319
	<b>TOTAL</b>	<b>1,587</b>	<b>\$72,896</b>	<b>\$104,759</b>	<b>\$171,060</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

959,600

firms

1.59M

total employment

\$104.76B

GDP contribution

## Hispanic-Owned Small Businesses, Total Fiscal Impacts by Tax Type, California

Year	Fiscal Impact Type	State & Local (\$ Millions)	Federal (\$ Millions)	Total(\$ Millions)
2019	Corporate Profits Tax	\$397	\$886	\$1,283
	Income Tax	\$2,630	\$6,981	\$9,612
	Other	\$731	\$504	\$1,235
	Property Tax	\$2,596		\$2,596
	Sales Tax	\$3,048		\$3,048
	Social Insurance	\$194	\$5,452	\$5,646
	<b>Total</b>	<b>\$9,597</b>	<b>\$13,824</b>	<b>\$23,420</b>
2020	Corporate Profits Tax	\$334	\$819	\$1,153
	Income Tax	\$2,498	\$7,347	\$9,845
	Other	\$618	-\$2,110	-\$1,492
	Property Tax	\$2,130		\$2,130
	Sales Tax	\$2,237		\$2,237
	Social Insurance	\$209	\$5,775	\$5,983
	<b>Total</b>	<b>\$8,025</b>	<b>\$11,831</b>	<b>\$19,857</b>

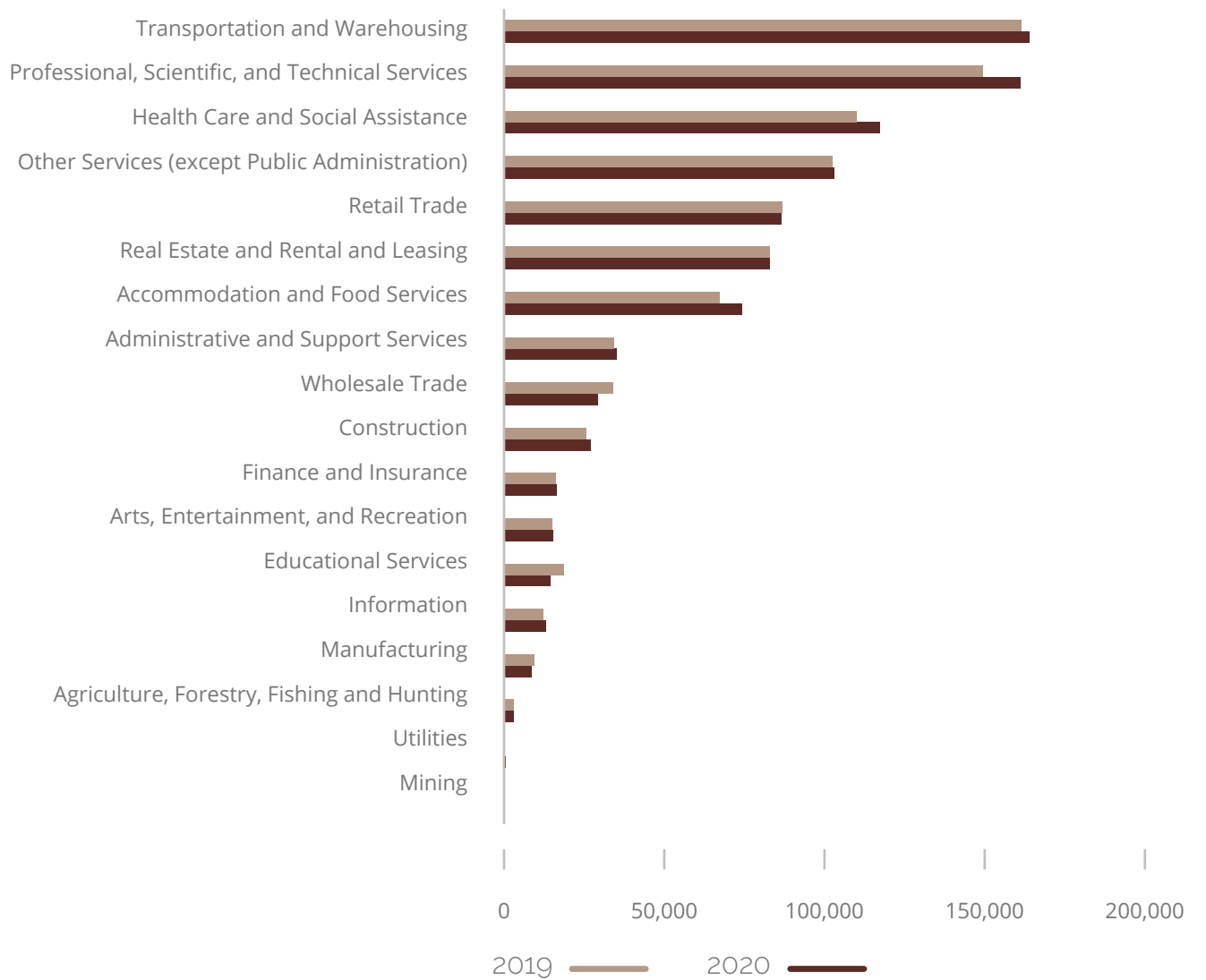
Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

The economic impact of Hispanic-owned small businesses is influenced by the number of businesses owned, their sectoral distribution, and their growth potential. Between 2019 and 2020, the total number of Hispanic-owned small businesses increased by 2.5%, reaching nearly 950,600.

Hispanic-owned small businesses are predominant in sectors such as Administrative and Support Services, Transportation and Warehousing, Construction, Other Services, and Professional, Scientific and Technical Services.

Our analysis shows that between 2019 and 2020, the number of Hispanic-owned small businesses either increased or remained the same in most sectors. Conversely, Hispanic-owned firms in the Educational Services and Arts, Entertainment and Recreation sectors saw a slight decline.

Total Hispanic-Owned Small Businesses by Industry, California



Source: U.S. Census Bureau’s American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020.

# Economic Impacts: Native American-Owned Small Businesses

Native-owned small businesses, while fewer in number at 24,100 firms, demonstrate strong economic linkages. They contribute over \$2.3 billion in annual GDP (represented as value added) and support approximately 36,000 jobs across the state's economy. In terms of their tax contribution, Native American-owned small businesses generate approximately \$431 million in state, local, and federal tax revenues.

## Native American-Owned Small Businesses, Total Economic Impacts by Impact Type, California

		Employment (000s)	Labor Income (\$, Millions)	Value Added (\$, Millions)	Output (\$, Millions)
2019	Direct	28	\$1,000	\$1,281	\$1,548
	Indirect	3	\$218	\$368	\$610
	Induced	6	\$391	\$684	\$1,099
	<b>TOTAL</b>	<b>37</b>	<b>\$1,609</b>	<b>\$2,333</b>	<b>\$3,257</b>
2020	Direct	28	\$970	\$1,250	\$1,780
	Indirect	3	\$261	\$426	\$699
	Induced	5	\$387	\$645	\$1,029
	<b>TOTAL</b>	<b>36</b>	<b>\$1,618</b>	<b>\$2,320</b>	<b>\$3,508</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

## Native American-Owned Small Businesses, Total Fiscal Impacts by Tax Type, California

Year	Fiscal Impact Type	State & Local (\$ Millions)	Federal (\$ Millions)	Total(\$ Millions)
2019	Corporate Profits Tax	\$8	\$19	\$27
	Income Tax	\$60	\$159	\$219
	Other	\$14	\$10	\$24
	Property Tax	\$49		\$49
	Sales Tax	\$58		\$58
	Social Insurance	\$4	\$113	\$117
	<b>Total</b>	<b>\$193</b>	<b>\$301</b>	<b>\$494</b>
2020	Corporate Profits Tax	\$7	\$18	\$26
	Income Tax	\$56	\$165	\$221
	Other	\$12	-\$41	-\$29
	Property Tax	\$41		\$41
	Sales Tax	\$43		\$43
	Social Insurance	\$4	\$124	\$128
	<b>Total</b>	<b>\$165</b>	<b>\$266</b>	<b>\$431</b>

Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020. Implan Impact Model.

Data shows that Native American-owned small businesses primarily operate in Professional, Scientific and Technical Services, Transportation and Warehousing, Other Services, Construction, and Health Care and Social Assistance. Their distribution across these sectors remained largely unchanged between 2019 and 2020.

24,100

firms

36,000

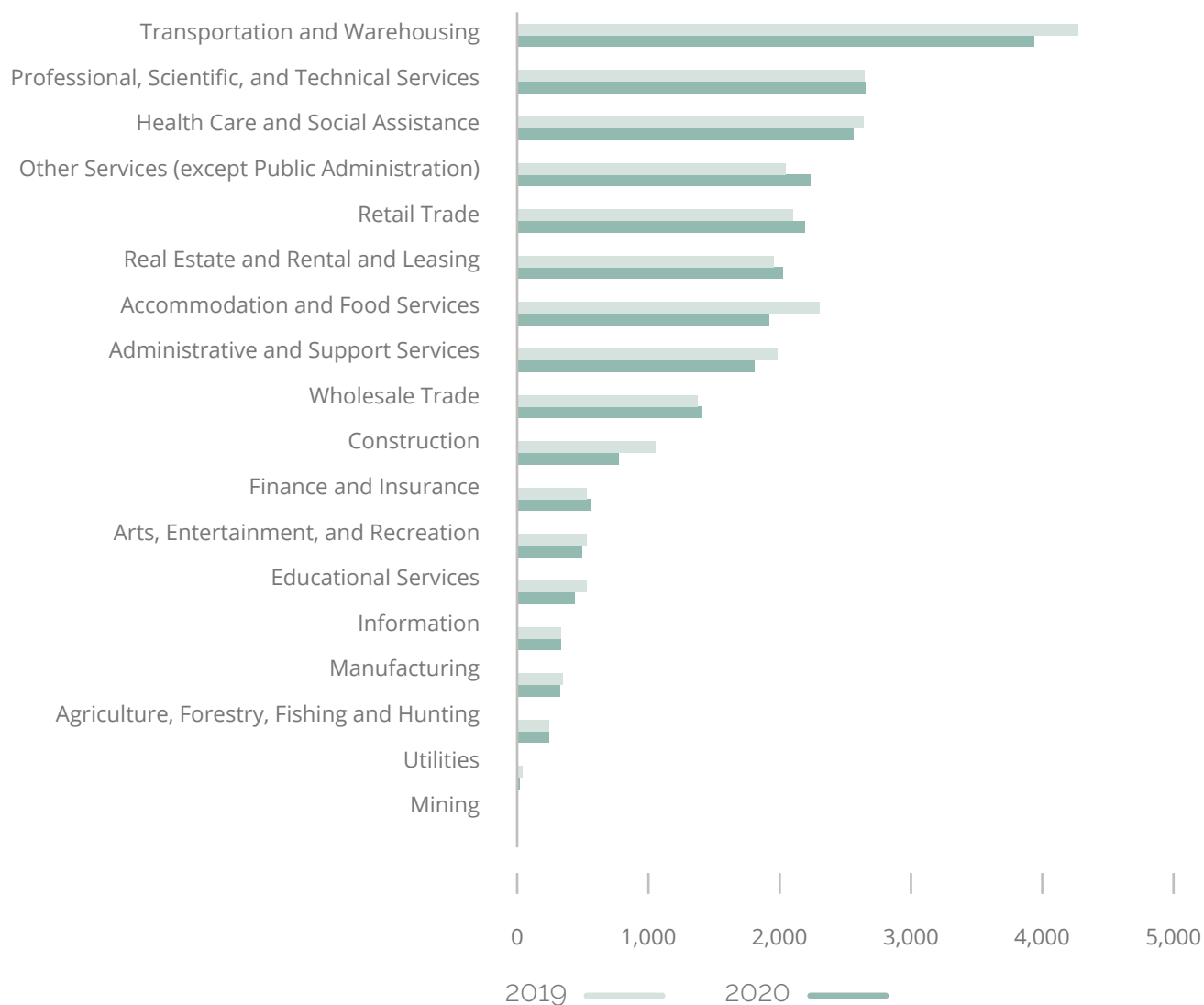
workers

\$2.32B

GDP contribution



## Total Native American-Owned Small Businesses by Industry, California



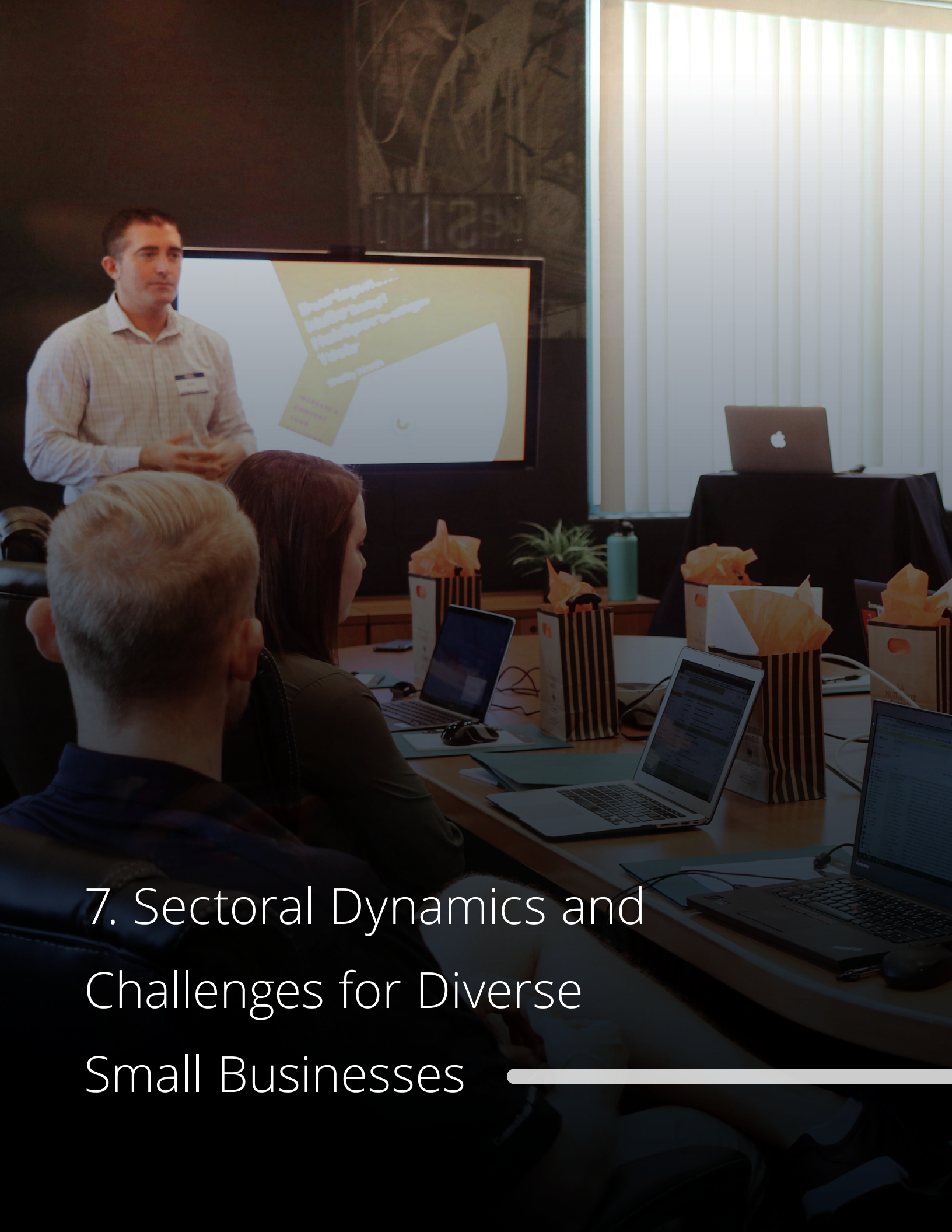
Source: U.S. Census Bureau's American Business Survey (ABS) and National Economic Survey Data (NESD), 2019 and 2020.

While Native American-owned small businesses support fewer jobs and contribute less in absolute terms than other DSBs, their impact is notable given their smaller populations and business sizes. They show strong economic linkages and a high multiplier effect, underscoring their entrepreneurial potential and the vital role played by Native American-owned small businesses in the state economy.

Overall, racial/ethnic groups make significant contributions to California's economy. White-owned businesses lead in absolute contributions, while Asian-, Hispanic-, Black-, and Native American-owned small businesses each demonstrate unique strengths and sector contributions. This analysis underscores the importance of fostering an inclusive business environment that supports the distinct needs of the state's diverse entrepreneurs and business owners so that they can continue to drive job creation, investment, and economic growth that has made California the world's fifth-largest economy.

With a comprehensive understanding of the economic impacts that DSBs have on California's economy, we next explore the sectoral dynamics that define these contributions.

The following section explores the unique challenges and opportunities within these sectors, emphasizing how different industries can influence the success and scalability of DSBs. By analyzing these sectoral patterns, we aim to identify strategic interventions that could more effectively support these businesses and maximize their entrepreneurial potential.



## 7. Sectoral Dynamics and Challenges for Diverse Small Businesses

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# Industry Trends Among Diverse Small Businesses

This analysis compares the current state of small businesses with those documented in the 2023 report.<sup>xi</sup> In most sectors, the total number of small businesses owned by diverse racial/ethnic groups declined between 2019 and 2020 due largely to the impacts of the COVID-19 pandemic. The sectors most affected included Other Services, Professional, Scientific and Technical Services, as well as Arts, Entertainment and Recreation, which experienced reductions in the total number of diverse small firms. In contrast, the number of DSBs in Transportation and Warehousing, and Retail Trade saw positive growth of more than 4% over the same period.

In addition to a growing number of DSBs, the Transportation and Warehousing sector in California showed robust engagement from diverse entrepreneurs, with a diversity ownership rate exceeding 70% in 2020. This means that 70% of all small businesses in the California Transportation and Warehousing sector are owned by individuals from minority racial/ethnic groups. Similarly, the Administrative, Support Services, and Accommodation and Food Services sectors also demonstrated strong diversity in ownership, each maintaining a rate of over 65%.

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xi The State of Diverse of Businesses in California. <https://calosba.ca.gov/about/publications/>

In contrast, lower participation of DSBs in sectors such as Arts, Entertainment and Recreation, Professional, Scientific and Technical Services, and Information, suggest potential barriers to entry for diverse owners. These industries, characterized by their need for specialized knowledge, training, and substantial capital investment, may require enhanced financial support, business consulting and technical assistance to overcome lower levels of diverse business participation and ownership. For example, less than 37% of Professional, Scientific and Technical Services businesses are diversely owned. The Information sector has an even lower share of DSB participation at just over 34%.

## Sectoral Trends, California Diverse Small Businesses

Industry (NAICS)	Small Businesses (000s)			% Owned by Diverse Owners
	2019	2020	Δ%	
Professional, Scientific and Technical Services	641	614	-4.2%	37.3%
Transportation and Warehousing	436	457	4.9%	70.8%
Other Services	373	346	-7.1%	61.5%
Health Care	344	337	-2.0%	58.5%
Administrative, Support Services	323	317	-2.0%	68.2%
Construction	299	300	0.2%	51.9%
Retail Trade	283	294	4.1%	52.8%
Real Estate	216	216	0.1%	46.3%
Arts, Entertainment and Recreation	240	205	-14.6%	34.8%
Accommodation and Food Services	107	104	-3.3%	66.8%
Finance and Insurance	100	98	-2.1%	46.2%
Educational Services	116	96	-16.7%	43.2%
Wholesale Trade	86	78	-8.9%	53.5%
Information	74	66	-11.1%	34.2%
Manufacturing	63	61	-3.4%	43.8%
Agriculture, Forestry, Fishing and Hunting	14	13	-9.6%	32.2%

Source: US Census. Analysis by Beacon Economics. Based on two-digit NAICS codes

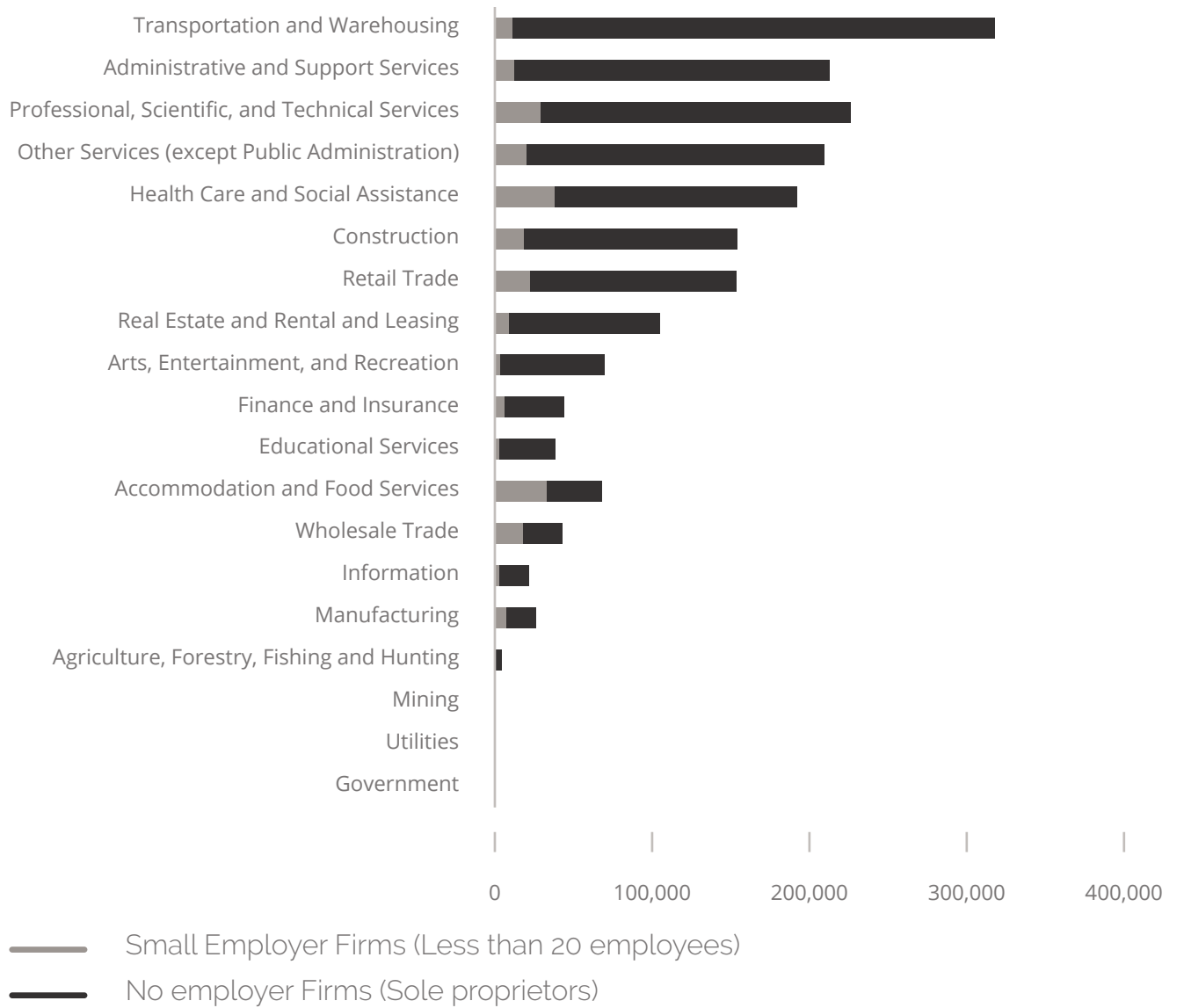


An in-depth exploration of sectoral patterns for DSBs is essential to understanding how sector participation and choice influence revenue potential and economic outcomes. This exploration not only helps to identify areas where targeted support can lower barriers to entry to maximize DSB participation, growth, and equity, but also assists decision-makers in crafting policies that align with the unique needs of diverse small businesses.

DSBs participate in all sectors of the economy but are predominant within Transportation and Warehousing, Professional, Scientific and Technical Services, Administrative and Support Services, Other Services (except Public Administration), Health Care, Retail Trade, and Construction. Roughly 80% of all DSBs operate within these sectors, each with its own unique business and operational characteristics that must be considered when designing interventions to improve economic outcomes.

It is evident from all sectors that the majority of DSBs are nonemployer firms, a pattern also found among small businesses in general. In the next section, we will analyze these nonemployer business shares to identify potential gaps and trends.

Total Diverse Small Businesses by Industry, California



Source: US Census. Analysis by Beacon Economics. Based on two-digit NAICS codes

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# Growth and Scale-up Potential in Diverse Small Businesses

As noted in the previous section, most small firms are nonemployer entities. Comparing the proportion of nonemployer firms across diverse and non-diverse small businesses shows that nonemployer firms are more predominant among DSBs. Consequently, DSBs tend, on average, to operate with fewer employees than their non-diverse counterparts. Only 10% of DSBs qualify as employer firms in key sectors – a figure significantly lower than the 22% observed in non-diverse businesses within the same sectors. This disparity suggests that DSBs often specialize in sectors with a notably lower proportion of employer firms compared to small firms in general.

Transportation and Warehousing – the most predominant sector among DSBs – exhibits constrained growth potential, characterized by a small share of employer firms (4% among diverse small firms<sup>xii</sup> versus 6% among non-diverse small firms<sup>xiii</sup>). The Transportation and Warehousing sector also shows significant underrepresentation of medium-sized, diverse-owned businesses (firms with 20 to 99 employees), emphasizing structural barriers that impede growth.

Further examination of the ratio of nonemployer to employer firms across industries reveals significant disparities. When compared to small business industry averages, employer firms make up a lower proportion of diverse-owned businesses in nearly all sectors except Accommodation and Food Services. This underlines the challenges and barriers that DSBs face in scaling up and maintaining sustained growth in certain sectors.

The prevalence of nonemployer firms among DSBs significantly restricts their growth and revenue producing capacity, highlighting the critical need for financial and technical support to facilitate

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xii This share represents the proportion of diverse small employer firms relative to the total number of diverse small firms.

xiii This share represents the proportion of non-diverse small employer firms relative to the total number of non-diverse small firms.

their transition to employee-based business models. Transitioning to employer status not only enhances growth potential and economic impact but also opens up opportunities to enter broader markets, such as government procurement, which generally requires businesses to have a certain scale, capacity, and formal employment structure.

## Industry Distribution and Concentration Patterns of Diverse Small Businesses, California

	Share of DSBs (% of Total)	Ratio Employer <sup>1</sup> / Non- Employer Firms <sup>2</sup>		Ratio Diverse-owned: Medium / Small Employer <sup>3</sup>	LQ Medium Businesses: Diverse Owned / All Businesses <sup>4</sup>
		Diverse- Owned Small Businesses	All Small Businesses		
Transportation and Warehousing	17%	4%	5%	6%	1.24
Professional, Scientific, Technical Services	12%	13%	21%	4%	0.57
Administrative, Support Services	11%	6%	12%	8%	0.92
Other Services	11%	11%	14%	0%	-
Health Care	10%	24%	33%	5%	1.21
Construction	8%	14%	29%	6%	0.62
Retail Trade	8%	18%	26%	0%	-
Real Estate	4%	13%	21%	0%	-
Arts, Entertainment and Recreation	4%	6%	12%	0%	3.08
Accommodation and Food Services	4%	93%	91%	19%	1.68
Finance and Insurance	2%	18%	34%	0%	-
Wholesale Trade	2%	80%	88%	6%	0.85
Educational Services	2%	8%	8%	0%	-
Manufacturing	1%	41%	68%	16%	0.71
Information	1%	16%	30%	2%	0.28

Source: US Census Data. Analysis by Beacon Economics. See notes on the following page.

The ratio was obtained by dividing the number of small employer firms by the number of nonemployer firms, expressed as a percentage (%).

1. Employer Firms: Firms with paid employees
2. Nonemployer Firms: Businesses with no paid employees other than the owner
3. Ratio obtained by dividing the number of diverse medium-sized firms (firms with 20 – 99 employees) by the number of diverse small employer firms, expressed as a percentage (%).
4. The Location Quotient (LQ) measures the concentration of a particular industry within a specific area compared to a reference area. In this case, the LQ compares the structural share of diverse-owned mid-size businesses with all mid-size businesses (both diverse-owned and non-diverse-owned). When the LQ is 0, it means that there are no diverse-owned medium-sized businesses disclosed in the source data.

Location Quotient (LQ) analysis measures the concentration of diverse-owned medium-sized businesses compared to the overall mid-size business structure. This analysis reveals a strong specialization in diverse medium-sized businesses within business sectors such as Accommodation and Food Services. Conversely, LQ analysis shows that diverse-owned mid-size businesses are notably underrepresented in sectors such as Information, Professional Services, Manufacturing, and Construction.

These findings suggest potential areas to foster industry diversity through sector-specific support mechanisms for other sectors predominantly composed of diverse small businesses. Such mechanisms would ideally facilitate the transition of small businesses first to employer status and subsequently scaling to medium size. This shift in scale and capacity is crucial because it enhances firms' resilience to external shocks and expands growth and economic impact capacity.

Implementing such support not only aids diverse businesses but also strengthens the broader economy by enhancing stability and revenue-generating ability. These finance-, investment- and policy-driven interventions are essential for cultivating a more diverse and resilient business ecosystem, enabling DSBs to contribute more substantially to economic growth statewide and in their local communities.



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# Racial and Ethnic Diversity in Small Business Ownership

When stressing the need for targeted sectoral interventions, it is important to explore the racial and ethnic composition of business ownership within the sectors. The following analysis details the distribution of diverse small business ownership by race/ethnicity, highlighting variations in industry participation among these groups, which significantly influence their growth potential and economic impact. Understanding where different groups stand in the economy helps identify the unique challenges and opportunities each group faces, which is crucial for designing effective interventions.

“ Understanding where different groups stand in the economy helps identify the unique challenges and opportunities each group faces, which is crucial for designing effective interventions.

Asian small businesses have a strong presence in sectors such as Transportation and Warehousing, Professional, Scientific and Technical Services, Health Care, and Other Services, with a higher proportion of employer firms than other minority groups. This indicates a better integration into sectors suitable for scaling their operations. The higher rate of employer firms among Asian-owned businesses in these sectors suggests a stronger foundation for growth and expansion, reflecting robust economic engagement.

Black-owned small businesses predominantly operate in the Transportation and Warehousing, Other Services, Health Care, Professional, Scientific and Technical Services, and Arts, Entertainment and Recreation sectors. Notably, while offering substantial growth opportunities, Health Care and Professional Services have less than 10% of Black-owned businesses as employer firms. This low proportion of Black-owned employer firms in high revenue sectors suggests significant barriers to scaling these businesses, underscoring the need for targeted support to facilitate expansion and enhance economic contributions.

Hispanic-owned small businesses are mostly found in sectors such as Administrative and Support Services, Transportation and Warehousing, Construction, and Other Services (particularly, Administrative and Support Services, as well as Transportation and Warehousing). As noted previously, these business sectors typically have lower barriers to entry and, as a result, attract a large number of entrepreneurs seeking economic opportunities. However, these sectors often have limited revenue growth potential mainly due to intense market competition and commoditization that drives down profit margins.



## Diverse Small Businesses, Shares by Race/Ethnicity in California's 10 Largest Industries


Industry (NAICS)	Small Business (000s)	Share %				
		Asian	Black	Hispanic	Native	White
<b>Professional, Scientific and Technical Services</b>	614	18.4%	3.9%	14.3%	0.6%	62.7%
<b>Transportation and Warehousing</b>	457	25.6%	8.6%	35.9%	0.6%	29.2%
<b>Other Services</b>	346	22.6%	7.9%	30.2%	0.8%	38.5%
<b>Health Care</b>	337	24.7%	8.0%	25.2%	0.7%	41.5%
<b>Administrative, Support Services</b>	317	11.0%	4.1%	52.5%	0.6%	31.8%
<b>Construction</b>	300	9.4%	2.2%	39.5%	0.8%	48.1%
<b>Retail Trade</b>	294	21.6%	5.0%	25.4%	0.7%	47.3%
<b>Real Estate</b>	216	26.5%	3.7%	15.5%	0.6%	53.7%
<b>Entertainment and Recreation</b>	205	10.8%	8.5%	14.5%	1.0%	65.2%
<b>Accommodation and Food Services</b>	104	34.4%	5.3%	26.6%	0.4%	33.2%

Source: US Census Data. Analysis by Beacon Economics.

Our analysis provides empirical evidence of key differences among diverse small businesses, revealing varying racial/ethnic participation rates across industry sectors and differing business structures between employer and nonemployer firms. These disparities often have multiple roots, such as financial, technical, and human capital barriers to business ownership which influence the distribution of diverse-owned small businesses in industries known for higher revenue potential.

It is essential to further explore the opportunities and challenges encountered by diverse small businesses, particularly in scaling up and accessing broader markets, including government procurement.





## 8. Opportunities, Challenges, and Strategies for Diverse Small Businesses

Since the onset of the COVID-19 pandemic in early 2020, there has been a nationwide surge in entrepreneurship, particularly among minority groups [7]. This trend underscores the critical role DSBs play in enhancing state and local economies. These businesses not only provide essential goods and services but also generate employment opportunities and significant tax revenues that contribute greatly to community and economic vitality. However, data shows that diverse small firms fall short of their revenue generation and employment potential when compared to their non-diverse counterparts, which further illustrates the presence of systemic barriers [6,8].

Government procurement offers a significant opportunity for DSBs to access broader markets and scale operations. However, it is essential to conduct a deeper analysis to ascertain whether DSBs possess the necessary capabilities to fully capitalize on these opportunities.

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# Government Procurement as an Opportunity

On January 30, 2024, California Controller Malia M. Cohen implemented a new procurement policy. This policy includes a 25% participation target for small, including micro, and diverse-owned businesses in all procurements conducted by her office. Through this directive, broader goals of enhancing economic inclusivity are supported, and substantial opportunities for DSBs in government contracting are created. [9]

As shown in the table below, a comprehensive analysis of local government demand<sup>xiv</sup> for goods and services in California reveals that a significant portion (approximately 80%) of this demand is focused on purchases from key sectors: Professional, Scientific and Technical Services, Construction, Manufacturing, Information, and Administrative and Support Services. By strategically aligning DSBs' capabilities with the goods and services purchased by the government, there is an opportunity to adopt demand-driven (pull-style)<sup>xv</sup> strategies and, in turn, to amplify their economic impact and enhance the contributions of DSBs to the state's economy.

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xiv Local Government Demand is the value of goods and services produced and sold in California to the Government Institutions (state, local and federal government institutions).

xv Pull-style strategies are business approaches that respond directly to customer demands. Unlike push-style strategies, which involve producing goods and then pushing them to the market, pull-style strategies wait for the actual demand to emerge before initiating production.



## Local Demand/Spending (\$) by Government in California's Economy

Industry (NAICS)	State/Local Government (\$, Millions)	Federal Government (\$, Millions)	Grand Total (\$, Millions)
Professional, Scientific and Technical Services	\$32,138	\$46,066	\$78,204
Construction	\$56,046	\$6,001	\$62,047
Manufacturing	\$23,651	\$4,579	\$28,230
Information	\$17,809	\$7,976	\$25,785
Administrative/Support Services	\$19,255	\$3,837	\$23,092
Wholesale Trade	\$13,384	\$3,720	\$17,105
Real Estate and Rental and Leasing	\$13,729	\$500	\$14,228
Transportation and Warehousing	\$6,968	\$2,118	\$9,086
Other Services	\$4,307	\$605	\$4,911
Educational Services	\$3,776	\$414	\$4,190
Utilities	\$3,760	\$325	\$4,085
Accommodation and Food Services	\$3,587	\$402	\$3,988
Finance and Insurance	\$2,041	\$1,795	\$3,836
Health Care and Social Assistance	\$1,632	\$115	\$1,747
Agriculture, Forestry, Fishing and Hunting	\$1,415	\$1	\$1,416
Arts, Entertainment and Recreation	\$515	\$331	\$846
Retail Trade	\$84	\$5	\$88
Mining, Quarrying, Oil-Gas Extraction	\$56	\$7	\$62
Management of Companies	\$0	\$0	\$0

Source: Implan Social Accounts, Government Local Commodity Demand, California, 2022

One way to assess whether DSBs can meet government demand is by analyzing their current revenues, particularly in those sectors that are most solicited through government procurement. Revenue figures indicating the sales volume of these businesses can provide insights into the supply capacity of DSBs to fulfill local government demand.

Unfortunately, this analysis is limited by the fact that the current data is only available at an aggregated industry level. As such, any inherent heterogeneity within industries, such as the different goods and services they produce, is not accessible. The different types of goods and services within each industry can have different prices, so differences in revenues can be attributed to variations in production capacity or the types of goods and services produced. Furthermore, the types of goods and services the government demands from a given industry sector may not necessarily align with those offered by DSBs. A more complete analysis would require detailed business survey data that would illuminate the degree to which there is alignment between government demand and DSB supply.

We also distinguish between the revenues of employer and nonemployer DSBs. Firms with employees typically have a more robust operational structure which, in turn, is better suited to meet government demands due to their larger scale and easier access to the working capital needed for government contracts. Nonemployer firms, on the other hand, would likely need to transition to employer status to acquire the necessary structure and operational capacity to participate effectively in government procurement.

According to our analysis, the capacity of DSBs to meet government procurement demands varies across sectors. The figures in the table reflect the capacity of each type of business in terms of the ratio of their revenues to local government demand. These figures do not reflect the shares sold by each type of business to the government, but instead, the proportion of government demand they could meet if the government was their sole customer. For example, the total revenues of DSBs in the Professional, Scientific and Technical Services sector currently represent 20% of the government demand within this sector. This does not mean that DSBs are currently meeting 20% of government demand in this sector. Instead, the figure suggests that DSBs have the capacity to meet a fifth of government demand in this sector.

This revenue asymmetry between DSBs and non-diverse small businesses is particularly pronounced in sectors that require specialized knowledge, such as Information and Professional, Scientific and Technical Services. Here, the revenues of DSBs are three to five times lower than those of non-diverse small businesses. Asian-owned businesses, however, show a better capability to access the government market in these sectors.

The Administrative and Support Services sector is in a better position, with revenues suggesting that DSBs in this sector could potentially meet over 40% of local government demand. This sector also exhibits a narrower gap between the revenues of diverse and non-diverse small businesses, indicating a promising opportunity (assuming alignment with the specific goods and services demanded by the government). Within this sector, Hispanic-owned small businesses are especially well-positioned. Although the Construction and Manufacturing sectors present viable opportunities for DSBs to engage in government procurement, a more detailed analysis based on business survey data is necessary to determine whether these businesses can meet all the required qualifications and standards. Moreover, survey data could prove valuable in uncovering the specific types of goods and services provided within these sectors by DSBs, as well as the barriers and challenges they must overcome in providing these products and services.

## Capacity of Diverse Small Businesses to Meet Local Government Demand by Industry

Industry (NAICS)	Local Government Demand (\$, Millions)	Ratio: Employer Revenues / Local Government Demand (%)				
		Asian	Black	Hispanic	Diverse SB	Non-Diverse SB
<b>54 - Professional, Scientific and Technical Services</b>	\$78,204	12%	1%	7%	20%	66%
<b>23 - Construction</b>	\$62,047	7%	1%	12%	28%	82%
<b>31-33 - Manufacturing</b>	\$28,230	14%	0%	10%	27%	75%
<b>51 - Information</b>	\$25,785	7%	1%	1%	10%	50%
<b>56 - Administrative and Support Services</b>	\$23,092	10%	1%	12%	43%	65%

Source: Implan Social Accounts, Government Local Commodity Demand, California, 2022 and US Census Data. Analysis by Beacon Economics.

Note: The figures in the table reflect the capacity of each type of business in terms of the ratio of their revenues to the local government demand. These figures do not reflect the shares sold by each type of business to the government, but instead, the proportion of government demand they could meet if they were to substitute all their customers with the government as their sole customer.

Given the gaps in revenue between diverse and non-diverse small businesses, it is clear that DSBs require additional support to effectively capitalize on the opportunities in the government marketplace. This support is crucial not only for assisting employer firms in growing and securing government contracts but also for aiding nonemployer firms in transitioning to employer status. Such a transition would provide the structural foundation necessary to meet the stringent requirements of government procurement.

To gain further insight into the opportunities and challenges faced by DSBs in accessing the government procurement market, we analyze government procurement data available from the U.S. Small Business Administration (SBA) [10]. This dataset includes national federal contracting information, which is disaggregated by race/ethnicity and business size. Although the SBA categorizes small firms as those with fewer than 500 employees, the relevance of this threshold can still be contextualized for DSBs. Considering that approximately 90% of all firms operate with fewer than 20 employees, it remains relevant to use this data to assess the capacity of DSBs to enter the government procurement market. This approach allows us to accurately gauge the challenges faced by DSBs, which typically operate on a scale significantly smaller than the SBA’s broad classification.

Our analysis of the federal contracting data underscores a significant disparity in the distribution of federal contracting dollars. Currently, while 27% of federal government contracting dollars are allocated to small businesses, only 6.6% of the contracts reach businesses owned by Asian, Hispanic, or Black entrepreneurs. This contrasts starkly with the 20.5% captured by other small businesses (such as those that are White-owned), indicating that minority-owned businesses receive nearly three times less in federal contracts than other small businesses.

### Federal Contracting by Race and Business Size

	Total Dollars (\$, Millions)	% of Total
Asian Small Business	\$20,483	3.25%
Black/African American Small Business	\$10,166	1.61%
Hispanic Small Business	\$10,897	1.73%
Other Small Business	\$128,833	20.45%
Not a Small Business	\$459,611	72.96%

Source: U.S. Small Business Administration, 2023.

This discrepancy in federal contracting dollars won by minority businesses not only highlights the barriers faced by minorities in accessing federal contracts but also raises questions about the effectiveness of policies aimed at promoting diverse economic participation within federal procurement. Asian-owned small businesses secure 3.25% of total federal contracting dollars, followed by Hispanic- and Black-owned small businesses, which receive only 1.73% and 1.61%, respectively. This scenario reveals a troubling trend: minority-owned small businesses navigate a considerably more challenging landscape, receiving vastly lower portions of federal spending compared to their non-minority counterparts within the same sectors. Addressing the causes of this gap is essential not only for the growth of these businesses but also for ensuring open access and equity in federal procurement practices.

Beyond the competitive arena of government procurement, minority-owned small businesses face significant obstacles in scaling their operations. As we transition to the next subsection, we will delve deeper into the financial hurdles faced by minority small businesses, exploring how limited access to capital impedes their ability to grow and compete effectively. This examination will not only shed light on the capital constraints but also suggest pathways to enhance financial accessibility, aiming to level the playing field for these enterprises in the broader economy.



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# Challenges and Barriers Faced by Diverse Small Businesses

DSBs currently have a significant economic impact on California's economy. This impact could be increased through access to larger markets, including government procurement. However, DSBs in California encounter pronounced challenges that hinder their ability to scale and grow.

**Push vs. Pull Strategies:** Our analysis shows there to be a notable misalignment between push-style strategies (i.e., those that currently support DSB growth via products "pushed" through their supply) and the required pull-style strategies (those that allow DSBs to grow based on products being "pulled" by market demand). This misalignment is particularly apparent in the concentration of diverse small-employer businesses and diverse medium-sized businesses within the Accommodation and Food Services sector, where push-style strategies are frequently employed. Furthermore, an analysis of success stories from the Small Business Development Centers indicates that an important proportion of these success cases among diverse-owned businesses also belong to the Accommodation and Food Services sector. Pull-style strategies, in contrast, would allow DSBs to grow in the direction of demand, including demand from the government.

**Procurement Application Process:** To further support the inclusion of DSBs in the government supply chain through procurement, it is necessary to implement mechanisms that aid DSB owners in navigating the complex application and certification process. Part of this support includes aiding small businesses in meeting all the requirements placed on them by local, state and federal governments in order to compete for and win public contracts.

**Entrepreneurial Challenges:** Comparative analysis reveals that these businesses face greater scaling hurdles in California than do their counterparts in states like Florida and Texas. These hurdles can often be attributed to higher barriers to entry that affect diverse entrepreneurs disproportionately, resulting in a lower density of entrepreneurship per capita. Factors that could contribute to these barriers in California include stringent regulatory and capital requirements, higher costs of doing business (such as taxes and real estate expenses), and a more competitive market environment.

**Prevalence and Impact of Nonemployer DSBs:** Predominantly smaller in size and characterized by a higher proportion of nonemployer firms, DSBs in California tend to generate lower revenues compared to non-diverse businesses. This discrepancy is partially explained by difficulties in opening a new business or transitioning from nonemployer to employer status, especially in sectors where barriers to entry, including financial-, technical-, and human capital-related, are substantial.

**Financial Resources:** Financial constraints are a primary barrier for DSBs, particularly in capital-intensive industries such as Manufacturing, as they require significant investments in physical assets, including machinery and equipment. According to the latest Small Business Credit Survey, diverse business owners often find themselves in a more precarious financial situation than other entrepreneurs. Moreover, DSBs often encounter more barriers to securing funding from financial institutions than their White counterparts. Indeed, these businesses typically face lower approval rates for loans and credit lines, a disparity that becomes more pronounced for smaller firms. Additionally, as the size of a firm decreases in terms of its revenue, the likelihood of securing approval for financial applications also tends to diminish [11–13]. Since DSBs are generally smaller, their small scale limits their capacity to obtain financial approval, and without this, DSBs face greater challenges for sustainability and growth. Addressing this disparity is crucial to leveling the playing field and empowering DSBs to grow and participate more effectively in an increasingly competitive marketplace.

**Structural Barriers:** Several barriers to entry are structural and may require considerable time to overcome. One prominent challenge is the lower level of educational attainment amongst Brown and Black populations who are the state’s future entrepreneurs as well as workers, and the lack of access to education and specialized training opportunities in historically underserved communities. Addressing these educational disparities is essential for empowering all entrepreneurs to compete effectively in all industries, especially those that require specialized knowledge and training.

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# Strategies for Enhancing DSBs Opportunities

## **Tailored Support for Diverse Small Businesses:**

Numerous programs exist to aid small businesses, including the California Office of Small Business Advocate, the federal Minority Business Development Agency (MBDA), Small Business Development Centers (SBDCs), and various business and trade organizations that support diverse-owned enterprises. These organizations implement strategies that promote financial assistance, such as grants and loans. They also offer educational programs and workshops for diverse small businesses, in addition to providing networking opportunities.

Our research shows it is crucial that these efforts are tailored to meet the unique needs of diverse small businesses and align them to meet the current and future demands of the market, including the demand of government institutions. By formulating very specific and tailored strategies, these organizations can support the scaling and growth of DSBs, especially in key sectors that offer high revenue potential and significant government demand, such as Manufacturing, Information, Construction, and Professional, Scientific and Technical Services.

## **Comprehensive Capital Access Programs for Scaling:**

Several initiatives are in place to increase capital access for socially and economically disadvantaged businesses. [14] However, to truly maximize their effectiveness, these initiatives need to be integrated into a comprehensive scaling and growth strategy. This strategy should encompass coaching on administrative and finance management at different stages of business maturity, bonding education programs, connections to surety bond programs, referrals to various capital providers and lenders, or, ideally, a direct partnership with an insurance firm to facilitate contract finance and bonding. [15]

### **Empowering Minority Women Entrepreneurs:**

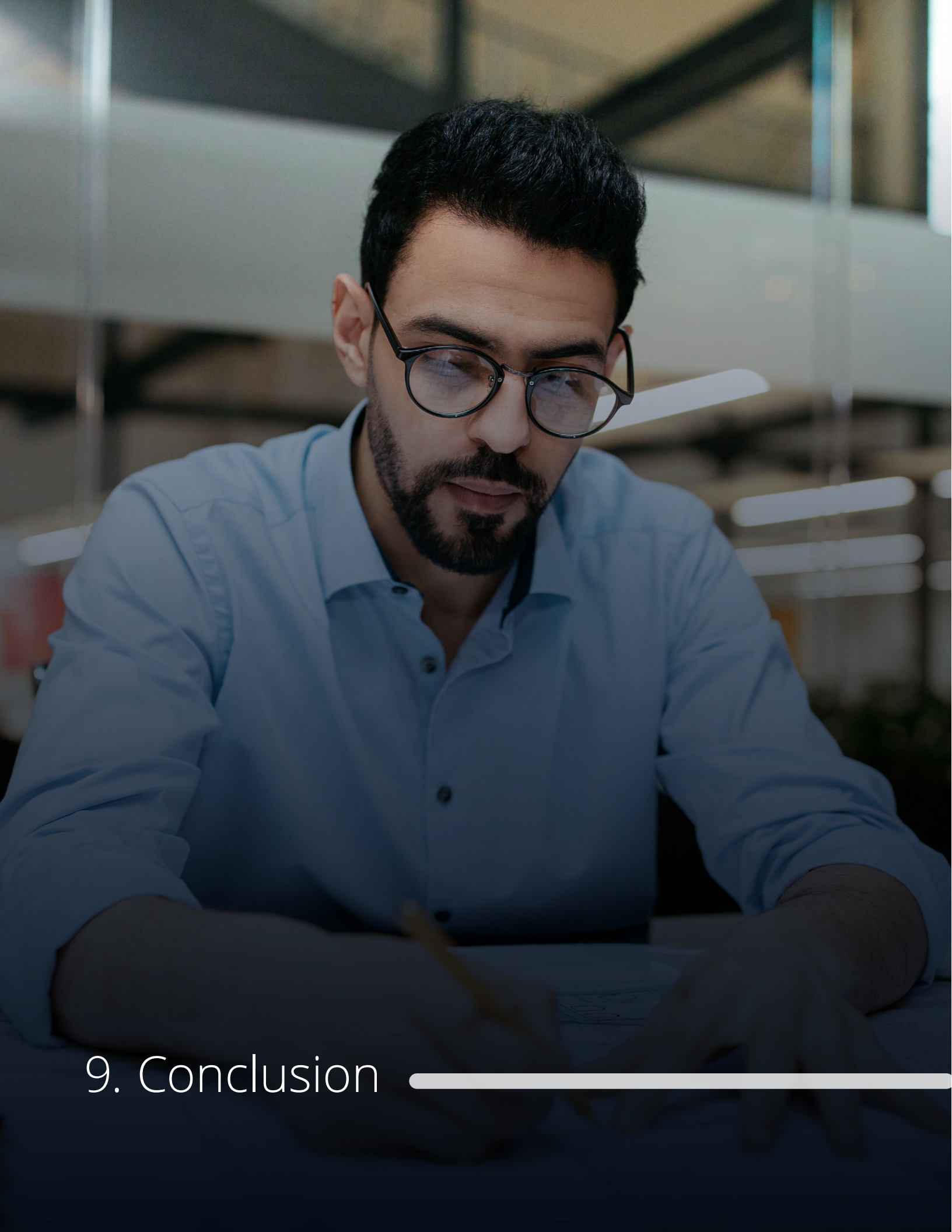
Another strategy to boost new small business activity is to increase the promotion of entrepreneurship among minority women. Leveraging the full potential of female entrepreneurs addresses gender equity and stimulates broader economic growth and innovation. Different perspectives and life experiences brought to bear on a business problem often lead to enhanced creativity and more effective solutions.

### **Data-Driven Strategy Development:**

It is a fundamental principle that improvement is difficult to achieve without data and measurement. Thus, to develop tailored and successful strategies to assist DSBs, there is a pressing need for data that not only allows us to assess the current state of performance of these businesses but also identifies specific needs to formulate effective strategies and policies.

For this research, Beacon Economics currently utilizes five different datasets and employs various models to analyze the performance of minority firms. However, our capabilities are limited by the coarseness or absence of detailed data. Improving systematic data collection in California, particularly through direct surveys that explore the specific needs of DSBs, is a crucial step toward better understanding and supporting these businesses. This approach would allow policymakers and stakeholders to adapt and refine interventions, thereby providing better support for these businesses, fostering their growth, and enhancing their contribution to the state's economy. Implementing mechanisms for regular monitoring and feedback will ensure that strategies stay relevant and effective over time, ultimately increasing the economic impact of DSBs in California.





## 9. Conclusion

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Our research demonstrates that diverse small businesses in California are substantial contributors to the state's tax base and California's short- and long-term economic resilience and growth. As this report shows, DSBs constitute an untapped reservoir of growth potential that, if supported with tailored policies and investments combined with effective data-driven strategies, enhanced job creation, business development, investment and greater tax revenues would result.

“ Small businesses in California are substantial contributors to the state's tax base and California's short- and long-term economic resilience and growth.

A critical finding of our analysis is that DSBs encounter systemic challenges in terms of **capital access (financial and human), higher barriers to entry in high revenue sectors, and, most importantly, their ability to scale up.** Despite facing these systemic challenges, DSBs exhibit a remarkable entrepreneurial vigor that is essential to California's economic health and diversity.

Decision-makers must adopt policies and investments that go beyond a one-size-fits-all approach to optimize the impact of diverse small businesses. The interventions should be specifically tailored to meet the specific and nuanced needs of these businesses, taking into account the unique challenges and opportunities presented by different industries and the markets they serve. Such an approach will foster industry diversity by encouraging the growth of employer businesses in sectors where DSBs are underrepresented, including Information, Professional Services, Manufacturing, and Construction.

“ Decision-makers must adopt policies and investments that go beyond a one-size-fits-all approach to optimize the impact of diverse small businesses.

Key strategies to enhance this support include improving access to financing tailored to the needs of DSBs, offering targeted mentorship and training programs, and ensuring that DSBs have opportunities to access broader markets, including securing government procurement contracts. These measures are crucial for leveling the playing field and enabling DSBs to thrive in a competitive economy.

Furthermore, enhancing data collection, particularly through direct surveys, would allow a better understanding of the barriers to growth and the specific needs and contributions of diverse small businesses. This will enable policymakers and business leaders to make informed decisions that support the growth of these businesses.

“ Ultimately, supporting California's diverse small businesses is as much about building a more equitable and resilient economy as it is about fostering economic growth.

Ultimately, supporting California's diverse small businesses is as much about building a more equitable and resilient economy as it is about fostering economic growth. By recognizing and leveraging the unique strengths and contributions of DSBs, California can ensure that its economic future is as diverse and dynamic as its people. This strategic focus will not only benefit these business owners but will also enhance the overall well-being of all Californians.



# 10. Appendix

## I. Overview of Core Data Sources

i. Data availability and gaps exist for both the Annual Business Survey (Company Summary) and the Nonemployer Statistics by Demographics (NES-D) for a variety of reasons. Below are common situations in which data has been suppressed or is unavailable. Data availability increases with the size of the geographic unit, with fewer omissions occurring at each successive geographic level.

a. Regulatory: In accordance with federal law governing census reports (Title 13 of the United States Code), no data are published that would disclose the operations of an individual establishment or business. However, data are included in higher-level totals.

b. Estimation Quality: In some cases, the estimates do not meet publication standards because of high sampling variability, poor response quality, or other concerns about the estimate quality.

For more information on data series methodology, please see the U.S. Census Bureau: <https://www.census.gov/programs-surveys/abs/technical-documentation/NESDmethodology.html> and <https://www.census.gov/programs-surveys/abs/technical-documentation/methodology.html>.

ii. Statistical techniques and modeling were employed to estimate suppressed data, enabling a thorough assessment of the impact and sectoral analysis.

## II. Expanded Definitions

Some terms may have multiple definitions depending on where the terms are used. Terminology source is indicated by the parenthesis.

**American Community Survey (ACS)** is the premier source for detailed population and housing information about the United States. It helps local officials, community leaders, and businesses understand the changes taking place in their communities.

**American Indian or Alaska Native** is a person who has origins in any of the original peoples of North and South America (including Central America) and maintains tribal affiliation or community attachment.

**Annual Business Survey (ABS)** is a data series that provides information on selected economic and demographic characteristics for businesses and business owners by sex, ethnicity, race, and veteran status. The ABS is conducted jointly by the U.S. Census Bureau and the National Center for Science and Engineering Statistics (NCSES) within the National Science Foundation and replaces the Survey of Business Owners (SBO).

**Black/African American** is a person having origins in any of the Black racial groups of Africa.

**Civilian Population** refers to U.S. residents aged 16 years or older who are not in active-duty military service.

**Direct Effects** are the set of expenditures applied to the I-O multipliers for impact analysis. They are one or more production changes or expenditures made by producers/consumers because of an activity or policy. Direct effects can be positive or negative.

**Employer Firms** (core data) are those firms with payroll at any time during the survey year.

**Ethnicity** is strictly used to define whether a business owner is Hispanic or non-Hispanic.

**Hispanic** is a person of Cuban, Mexican, Puerto Rican, Cuban, South or Central American, or other Spanish culture or origin, regardless of race.

**Indirect Effects** are the additional output of goods or services generated by supply chain interactions. In other words, they result from business-to-business transactions.

**Induced Effects** stem from household spending on labor income, after the deduction of taxes, savings, and commuter income. For example, an employee of a small business spends their disposable income on housing, dining out, and entertainment.

**Input-Output** is a type of applied economic analysis that tracks the interdependence among various producing and consuming industries in an economy. It measures the relationship between a given set of demands for final goods and services, and the inputs required to satisfy those demands.

**Local Government Demand** is the value of goods and services produced and sold in California to the government (state, local, and federal).

**Labor Income** is the value of all forms of employment income paid for all types of impacts, including health care benefits, bonuses, etc.

**Leakages** are economic activities associated with the modeled event(s) that do not generate additional effects in the defined region. Leakages occur by way of taxes, savings, profits, imports, and commuting.

**Multipliers** are a measure of an industry's connection to the wider local economy by way of input purchases, payments of wages and taxes, and other transactions. It is a measure of total Effects per Direct Effect within a region.

**Non-Hispanic** is a person *not* of Cuban, Mexican, Puerto Rican, Cuban, South or Central American, or other Spanish culture or origin, regardless of race.

**Nonemployer Statistics** by Demographics (NES-D) series. Data series compiled by the Census Bureau from individual-level administrative records. The NES-D provides information on the demographic characteristics of nonemployer businesses and supplements the Annual Business Survey.



**Nonemployer Firms** are those firms with no employment at any point during the survey year. Nonemployer firms are typically sole proprietorships, partnerships, single-member LLCs, and S Corporations.

**North American Industry Classification System (NAICS)** is the standard used by federal statistical agencies in classifying business establishments.

**Public Use Microdata Areas (PUMAs)** are non-overlapping, statistical geographic areas that partition each state or equivalent entity into geographic areas containing no fewer than 100,000 people each.

**Public-Use Microdata Samples (PUMS)** are data files gathered from the ACS. PUMS files are a set of records from individual people or housing units, with disclosure protection enabled so that individuals or housing units cannot be identified.

**Race** generally reflects a social definition of race recognized in the United States and is not an attempt to define race biologically, anthropologically, or genetically. In addition, it is recognized that the categories of race items include racial and national origin or sociocultural groups.

**Tax Revenue** is defined as money collected to support federal, state, and local governments. This figure accounts for different state and local tax regimes.

**Total Impact** is defined as the sum of the direct, indirect, and induced effects.

**White** is a person having origins in any of the original peoples of Europe, the Middle East, or North Africa.

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# About Beacon Economics

Founded in 2006, Beacon Economics, an LLC and certified Small Business Enterprise with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis they need to understand the significance of on-the-ground realities and to make informed business and policy decisions.

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# The Impact of Diverse Small Businesses in California 2024

## Trends and Insights

