

UNIVERSITY OF WASHINGTON
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Washington Minority Small Business Survey July 2009

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BUSINESS AND ECONOMIC DEVELOPMENT CENTER

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Washington Minority Small Business Survey

Executive Summary

Small businesses in Washington State, regardless of the race/ethnicity of the owners, are struggling as a result of the significant financial downturn in the US and globally. Small business owners have laid off employees, seen their revenues fail to meet their expectations, and are struggling to get the financing they need to be successful.

Business owners are more pessimistic about their future growth prospects over the next quarter and year than they were a year ago, but are slightly more optimistic than they were at the end of 2008. This optimism, however, stems from the belief in their company's ability more than in the likelihood of the overall economy to turn around.

The Small Business Confidence Index, which is a forward-looking index aimed at predicting business prospects three months to one year in advance, shows a leveling off of business owners' expectations. There was a six point drop in the Small Business Confidence Index between April 2008 and October/November 2008 with a slight (0.9) increase seen in the overall Confidence Index score in April 2009.

The Recent Performance Index, which looks back over the last quarter and year, showed significant degradation in April 2009 when compared to October/November 2008. There was a three point drop between April 2008 and October/November 2008 and a six point drop between October/November 2008 and April 2009.

Minority Small Business Confidence Index

Small businesses across Washington are substantially more pessimistic about their future prospects now than they were a year ago and only slightly more optimistic than they were six months ago at the start of the economic crisis.

The economic downturn has definitely affected Washington small businesses. The Minority Small Business Confidence Index for April 2009 was 49 (out of 100), which is the same as in November 2008. But this level is significantly lower than the Confidence Index of 55 from April 2008. Caucasian-owned businesses also saw a drop in their Confidence Index from 52.2 in April 2008 to 48.9 in April 2009.

While at the national level there has been discussion of seeing some early positive signs of a turn-around for the economy, small businesses in Washington are not yet seeing those signs in any meaningful way.

The Minority Small Business Confidence Index measures the business confidence and perceptions of the future by small business owners in Washington State with one to 100 employees. The index is based on responses to four questions by 362 representative minority-owned and 130 Caucasian-owned small businesses owners. Confidence index scores below 33 are considered negative; scores between 34 and 50 somewhat pessimistic, between 50 and 66 are considered guardedly optimistic; scores above 67 are positive. The results have a margin of error of + or – 2 points.

**Table 1: Minority Small Business Confidence Index
Response to Specific Performance Indices and Total**

	Asian/Pacific Islander	African American	Latino	Avg. All Minorities	Caucasian	Average of All Groups
Overall supportiveness of business climate	2.96	2.98	3.11	3.02	2.90	2.99
Business conditions in market area	2.76	2.78	2.94	2.83	2.93	2.85
Expected business improvement/decline	3.61	3.62	3.64	3.62	3.58	3.61
Future business prospects	3.28	3.29	3.43	3.33	3.40	3.35
Confidence Index April 2009	47.8	48.2	50.7	48.9	48.9	48.9
Confidence Index October/November 2008	47.4	47.3	51.8	48.9	45.6	48.0
Confidence Index April 2008	54.8	52.7	57.5	55.0	52.2	54.3

The Confidence Index is compiled from a series of questions where business owners are asked to rate their view about the business climate and their firms' prospects in the coming quarter or year. The scale for the question about the overall supportiveness of the business climate ranges from "1" *not at all supportive* to "5" *highly supportive*. When asked about the business conditions in their market area (item two on the following chart) and future business prospects (item four on the following chart), respondents rated these on a range from "1" *very poor* to "5" *very good*. When asked about the expected business improvement or decline (item three on the chart) answers ranged from "1" *declining rapidly* to "5" *improving rapidly*.

The drop in the Confidence Index over the last year is primarily driven by business owners' view of the business conditions in their market area. Business owners remain relatively more optimistic about their firm's capability and potential compared to the overall economy's potential.

**Table 2: Minority Small Business Confidence Index
Determining Factors in Decline of the Confidence Index Scores**

	Asian/Pacific Islander	African American	Latino	Avg. All Minority	Caucasian
Overall Supportiveness of Business Climate					
April 2009	2.96	2.98	3.11	3.02	2.90
April 2008	3.21	3.18	3.31	3.23	3.06
Difference	-0.25	-0.20	-0.20	-0.21	-0.16
Business Conditions in the Market Area					
April 2009	2.76	2.78	2.94	2.83	2.93
April 2008	3.21	3.21	3.33	3.27	3.25
Difference	-0.45	-0.43	-0.39	-0.44	-0.32
Expected Business Improvement or Decline					
April 2009	3.61	3.62	3.64	3.62	3.58
April 2008	3.89	3.65	4.00	3.85	3.49
Difference	-0.28	-0.03	-0.36	-0.23	0.09
Future Business Prospects					
April 2009	3.28	3.29	3.43	3.33	3.40
April 2008	3.58	3.44	3.71	3.57	3.58
Difference	-0.30	-0.15	-0.28	-0.24	-0.18

Recent Performance Index

Between October/November 2008 and April 2009, the Recent Performance Index declined to its lowest level since the survey was launched in March 2007 (breaking the record of the October/November 2008 Recent Performance Index). Minority business owners were significantly less positive about firm performance in April 2009 than they were in October/November 2008 and April 2008. The Recent Performance Index declined from October/November 2008 (54 points) to April 2009 (48 points) for minority-owned firms. This index declined as well as for white-owned firms from 56 points to 50 points. These represent similar declines of approximately six points for both minority-owned firms and white-owned firms. Among minority firms, the largest drop in performance was the 7 point decline among African American firms, while Asian/Pacific Islander and Latino firms showed declines of 6 and 5 points, respectively.

The Recent Performance Index focuses on business performance (sales and profits) over the last quarter and year. The Recent Performance Index is derived from responses to four questions. Performance index scores below 33 are considered negative; scores between 34 and 66 are in the moderate range; scores above 67 are positive. Like the Confidence Index, the accuracy of the overall index is + or – 2 points.

The Recent Performance Index is compiled from answers to questions about how well the firm did in the last quarter or year compared with prior expectations. Answers ranged from “1” *very poor* to “5” *very good*.

**Table 3: Recent Performance Index
Response to Specific Performance Indices and Total**

	Asian/Pacific Islander	African American	Latino	All Minorities	Caucasian	Average of All Groups
Last quarter's sales	2.86	2.69	2.90	2.82	2.89	2.83
Last year's sales	3.35	2.91	3.24	3.16	3.26	3.18
Last quarter's profits	2.69	2.61	2.71	2.67	2.77	2.69
Last year's profits	3.08	2.80	3.05	2.98	3.14	3.01
Recent Performance Index April 2009	44.9	43.8	49.4	47.7	50.4	48.2
Recent Performance Index October- November 2008	55.6	50.6	54.3	53.5	55.6	54.0
Recent Performance Index April 2008	56.4	51.5	61.0	56.4	59.3	57.1

The significant decline in the Recent Performance Index is a result of the company's performance in the last quarter compared with expectations rather than the company's performance over the last 12 months. This is understandable given the speed at which the economy declined in the last quarter of 2008.

**Table 4: Recent Performance Index
Determining Factors in Decline of the Recent Performance Index Scores**

	Asian/Pacific Islander	African American	Latino	Avg. All Minority	Caucasian
Last quarter's sales					
April 2009	2.86	2.69	2.90	2.82	2.89
April 2008	3.22	3.27	3.49	3.23	3.39
Difference	-0.36	-0.58	-0.59	-0.41	-0.50
Last year's sales					
April 2009	3.35	2.91	3.24	3.16	3.26
April 2008	3.44	3.27	3.64	3.45	3.29
Difference	-0.09	-0.36	-0.40	-0.29	-0.03
Last quarter's profits					
April 2009	2.69	2.61	2.71	2.67	2.77
April 2008	3.06	2.87	3.18	3.04	3.08
Difference	-0.37	-0.26	-0.47	-0.37	-0.31
Last year's profits					
April 2009	3.08	2.80	3.05	2.98	3.14
April 2008	3.31	3.13	3.45	3.30	3.36
Difference	-0.23	-0.33	-0.40	-0.32	-0.22

Fewer African American business owners reported their previous quarterly sales as being good or very good in April 2009 (19%) compared to the percent characterizing their quarterly sales as good or very good in October/November 2008 (27%). However, the number of African American-owned firms viewing their previous quarterly sales as poor or very poor increased only slightly from 37% in October/November 2008 to 38% in April 2009, a difference that is not statistically significant.

Similarly, fewer Latino-owned firms reported good or very good quarterly sales in April 2009 (34%) compared to October/November 2008 (40%) and more reported poor or very poor sales in April 2009 (36%) than in October/November 2008 (26%).

The proportion of Asian firms reporting good or very good sales during the past three months also decreased from 41% to 27% between October/November 2008 and April 2009, while the proportion of Asian firms reporting poor or very poor sales increased from 23% to 38% over the same period.

Finally, more Caucasian owners also reported poor or very poor quarterly sales in April 2009 than October/November 2008 (33% versus 23%) and fewer reported quarterly sales as good or very good in April 2009 compared to October/November 2008 (30% versus 50%).

Access to Credit

The proportion of Washington's minority firms reporting unmet financial needs increased 21% between October/November 2008 and April 2009, from 19% to 23%. The largest increase was for Latino firms which reported an increase of 50% of firms that had unmet financial needs followed by Asian firms at 13%. The proportion of African American firms reporting unmet financing needs increased by 7%. African American firms also reported the largest proportion of firms with unmet financing needs at 30%, followed by Latino firms at 21%, and Asian/Pacific Islander at 18%. Eighteen percent of white firms reported unmet financing needs, an increase of 13%. Nationally, 8% of small businesses report unmet financing needs, an increase of 33% above the national average of 6% reported in October/November 2008.

Table 5: Credit Needs Met/Unmet

	Asian/Pacific Islander	African American	Latino	Avg. All Minorities	White	Avg. All Groups	NFIB National Survey
April 2009							
Credit Needs Met	29%	12%	25%	22%	25%	23%	30%
Credit Needs Not Met	18%	30%	21%	23%	18%	22%	8%
No Desire to Borrow	53%	58%	54%	55%	57%	55%	62%
October/November 2008							
Credit Needs Met	32%	12%	35%	26%	24%	26%	31%
Credit Needs Not Met	16%	28%	14%	19%	16%	18%	6%
No Desire to Borrow	52%	60%	51%	55%	61%	56%	63%
% Change in Proportion of Firms Reporting Unmet Financial Needs							
	+13%	+7%	+50%	+21%	+13%	+21%	+33%

Nationally, there was no significant change in the proportion of firms who had "no desire to borrow," which decreased to 62% in April 2009 from 63% in October/November 2008. Likewise, there was a relatively small change between October/November 2008 and April 2009 overall and in each group of small firms in Washington with no desire to borrow. The percentage of Washington's firms in April 2009 reporting no desire to borrow, 55%, is lower than the national survey at 62%. This same relative relationship existed in October/November 2008. A lower proportion of firms with no desire to borrow can be an indication of a lower proportion of firms with non-growth opportunities, consistent with weak economic conditions.

¹ Data from the National Federation of Independent Business' Small Business Economic Trends report. The data in this report is a copyright of the NFIB Research Foundation.

Employment

As small businesses look forward, they are anticipating hiring more employees during the rest of this year. There was a significant increase in the number of firms that were laying off employees in the first quarter of 2009 compared to October/November 2008. More than 25% of minority-owned businesses and more than 26% of white-owned businesses laid off employees. The net number of firms planning to increase employment in the next three months was higher at the start of the second quarter of 2009 than in the fourth quarter of 2008.

While some small businesses did hire new employees, there were a smaller percentage of firms hiring new employees than at any time in the last two years.

In April 2009, the net percentage of firms that were increasing the number of their employees (i.e. percentage of firms increasing employment minus the percentage of firms decreasing employment) was negative and lower than in October/November 2008 for each minority group except African American firms, and for white firms. This is consistent with national trends for small firms based upon the NFIB national small business survey. The largest net negative percentage employment change is for Latino firms, at -19%. However, each group of minority firms and white firms reported a lower negative employment change compared to the national average of 25%. This implies that even though the employment of Washington small businesses has declined along with national trends, the decline is less than for small businesses nationwide.

Table 6: Employment in the Previous Three Months

Percentage of Firms Who's Number of Employees Increased/Decreased/Stayed the Same
(During previous three months)

	Asian/Pacific Islander	African American	Latino	Avg. All Minorities	White	NFIB National Survey, ²
Increased	9%	10%	9.8%	9.5%	9.3%	
Decreased	22%	24%	28.4%	25.2%	26.2%	
Stayed the Same	69%	66%	61.8%	65.3%	64.5%	
Percent Increase Minus Decrease April 2009	-13%	-14%	-18.6%	-15.7%	-16.9%	-25%
Percent Increase Minus Decrease October/ November 2008	-7.6%	-15.4%	-7.2%	-10.1%	-3.1%	-8%
Percent Increase Minus Decrease April 2008	-3.2%	-12.9%	-4.8%	-6.9%	-8.9%	-9%

² Data from the National Federation of Independent Business' Small Business Economic Trends report that was released in November 2008 from data collected in October 2008. The data in this report is a copyright of the NFIB Research Foundation.

Although not included in either the Recent Performance Index or the Minority Small Business Confidence Index, expected and recent past changes in employment of small firms can be an important indicator of economic conditions, as well as a gauge in the trajectory of employment coming from the minority and small business sector. Tables 6 (previous page) and 7 (below) report the recent employment changes for the small businesses that were surveyed and the expected changes in employment over the next three months (May – July 2009).

The net number of firms planning to increase employment in the next three months is higher in April 2009 than in October/November 2008 for each group of minority firms and for white firms (Table 7). This trend is counter to the national trend of small firms, which indicates a net reduction in small firms expecting to increase employment. This indicates a positive impact on the Washington State economy of minority and small businesses over the near term. The impact of Washington State small businesses on statewide employment is expected to be more positive than that of small businesses nationally on the overall US economy.

Table 7: Expected Employment Change in Next Three Months
 Percentage of Firms Expecting Number of Employees to Increase/Decrease/Stay the Same
 (During the next three months)

	Asian/Pacific Islander	African American	Latino	Avg. All Minorities	Caucasian	NFIB National Survey ³
Increase	20.6%	35.4%	30.9%	28.5%	27.2%	
Decrease	16.5%	5.2%	12.4%	9.9%	5.8%	
Expect to Stay the Same	62.9%	59.4%	56.7%	61.6%	67%	
Percent Increase Minus Decrease April 2009	4.1%	30.2%	18.5%	18.6%	22%	-5%
Percent Increase Minus Decrease October/ November 2008	1.5%	18.5%	8.9%	9.6%	3.1%	0%
Percent Increase Minus Decrease April 2008	23.0%	36.7%	39.3%	33.0%	14.6%	5%

³ Data from the National Federation of Independent Business' Small Business Economic Trends, various issues. The Small Business Economic Trends report is a copyright of the NFIB Research Foundation.

Most Important Problems for Small Businesses in Washington State

Across the board, the decline in sales was the most significant challenge faced by Washington's small businesses in the first quarter of 2009. The top three challenges for minority-owned businesses were weak sales, taxes, and big business competition. The top three for white small business owners were weak sales, taxes and employee quality of costs. Thus minority and white small businesses owners see the need to grow revenue and pay business taxes as the top two issues challenging them in the current environment.

Table 8: Most Significant Challenges Facing Businesses

	Asian/Pacific Islander	African American	Latino	Avg. All Minorities	Caucasian	Avg. All Groups
Weak Sales	33.7%	28.3%	23.3%	28.4%	36.2%	30.4%
Taxes	18.4%	11.1%	20.4%	16.6%	15.2%	16.3%
Employee Quality of Costs	6.1%	4.0%	8.7%	6.3%	8.6%	6.9%
Insurance	6.1%	2.0%	5.8%	4.7%	6.7%	5.2%
Big Business Competition	13.3%	12.1%	7.8%	11.1%	3.8%	9.2%
Inflation	7.1%	11.1%	11.7%	10.0%	5.7%	8.9%
Credit Availability or Interest Rates	5.1%	9.1%	6.8%	7.0%	5.7%	6.7%
Regulations/Red Tape	3.1%	12.1%	5.8%	7.0%	7.6%	7.2%
Other	2.0%	4.0%	2.9%	3.0%	1.9%	2.7%
The Economy in General	3.1%	2.0%	1.9%	2.3%	4.8%	2.9%
All of the Above	0.0%	1.0%	0.0%	0.3%	0.0%	0.3%
None of the Above	2.0%	3.0%	4.9%	3.3%	3.8%	3.4%

Firm Size

African American- and Latino-owned businesses tend to be smaller in both revenue and number of employees than are Asian/Pacific Islander- and Caucasian-owned small businesses in Washington. Slightly more than 10% of African American-owned firms and slightly more than 12% of Latino-owned firms have revenues of more than \$1 million while more than 19% of Caucasian- and 21% of Asian/Pacific Islander-owned firms have revenues of \$1 million or more.

Table 9: Distribution of Firms by Race/Ethnicity and Annual Revenue

	Asian/Pacific Islander	African American	Latino	Caucasian
Less than \$10,000	0.0%	2.6%	4.0%	0.0%
\$10-49,999	11.6%	27.6%	4.0%	9.2%
\$50-99,999	8.7%	15.8%	9.5%	11.5%
\$100-149,999	8.7%	7.9%	8.1%	2.3%
\$150-499,999	17.4%	17.1%	35.1%	25.3%
\$500-999,999	23.2%	10.5%	17.6%	19.5%
\$1,000,000-4,999,999	15.9%	5.3%	8.1%	10.3%
\$5,000,000-9,999,999	1.4%	3.9%	4.1%	1.1%
\$10,000,000 and more	4.3%	1.3%	0.0%	8.0%
Less than \$1 million	69.6%	81.5%	78.3%	67.8%
\$1 million and more	21.6%	10.5%	12.2%	19.4%

In terms of number of full-time employees, 69% of African American-owned firms, 56.3% of Latino-owned firms, 52.4% of Caucasian-owned firms, and 52% of Asian/Pacific Islander-owned firms have fewer than three employees.

Table 10: Distribution of Firms by Race/Ethnicity and Number of Full-Time Employees

	Asian/Pacific Islander	African American	Latino	Caucasian
None	12.0%	17.0%	21.4%	20.6%
One Employee	22.0%	35.0%	25.2%	18.7%
Two Employees	18.0%	17.0%	9.7%	13.1%
Three to Five Employees	18.0%	15.0%	18.4%	13.1%
Six to 10 Employees	10.0%	7.0%	12.6%	16.8%
11 to 20 Employees	14.0%	6.0%	9.7%	11.2%
21 to 100 Employees	6.0%	3.0%	2.9%	5.6%
Fewer than 3 Employees	52.0%	69.0%	56.3%	52.4%
3 Employees or More	48.0%	31.0%	43.6%	46.7%

About The Washington Minority Small Business Survey

The Business and Economic Development Center (BEDC) at the University of Washington's Michael G. Foster School of Business publishes the semi-annual Washington Minority Small Business Survey to provide business leaders and policy makers with critical and timely information about the state of minority-owned businesses in Washington.

Author

The research for this report was conducted by William D. Bradford, Ph.D., the Endowed Professor of Business and Economic Development and a Finance Professor at the Foster School of Business. He was assisted in the research design by Vandra Huber, Ph.D., Professor of Management, and Richard Yalch, Ph.D., Professor of Marketing. The report was written by Professor Bradford with assistance from Michael Verchot, the Director of the Business and Economic Development Center.

Survey Methodology

The BEDC retained Northwest Research Group to assist with data collection for this project. Data collection services provided by a professional marketing and survey research firm enhance the reliability of the data collected. In addition, this ensured the confidentiality of highly sensitive respondent information. Data for this survey was collected in April and May 2009. A total of 110 Asian/Pacific Islander, 100 African American, 103 Latino, and 107 Caucasian business owners were randomly surveyed from a data set of all minority businesses in the state of Washington who are listed with Dun & Bradstreet, plus other lists of minority businesses.

Survey participants self-identified themselves by their ethnicities. Survey data was primarily collected via telephone interviews. Calls averaged 8.21 minutes with a standard deviation of 2.80 minutes. One interview was completed in Spanish. Efforts were made to ensure the sample was representative of all geographic areas.

For the Washington Minority Small Business Survey, a mixed mode data collection methodology was utilized. Initial contact with business owners was conducted via telephone and survey respondents were given the option to continue over the phone or participate in the survey online at their own convenience. For telephone respondents, interviewers then read the questionnaire and entered the data directly into a data file. Interviewers keyed data for closed-response questions directly. Interviewers typed in verbatim responses to questions with an "other" category. For the online participants, NWRG obtained e-mail addresses via telephone and sent an e-mail invitation and a unique survey link to the web-based survey to those respondents. If the respondent chose to start the survey and needed to continue it at a later time, the customized link automatically restarted where the respondent left off.

Sample Disposition

- Effective Study Incidence = 65.45%

(Qualified Respondents / [Qualified Respondents + Unqualified Respondents])

- Response Rate = 18.8%

Completed Interviews / ([Complete Interviews + Partial Interviews] + [Refusal + Non Contact + Other] + estimate [Unknown Businesses + Unknown Other])

- Cooperation Rate = 65.4%

Complete Interview / ([Complete Interview + Partial Interview] + Refusal)

Funding

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University of Washington Business and Economic Development Center

Since 1995, the Business and Economic Development Center has engaged students in learning experiences that bolster the competitiveness of hundreds of minority-owned, women-owned, and other small businesses. This work has led to the creation of nearly 1,000 jobs and the addition of more than \$60 million in new revenues. The BEDC has assembled the largest group of faculty who research issues of diversity in business in the nation.

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