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As we work towards rebuilding and reshaping the economy, navigating the lasting effects of the pandemic on Black, indigenous, and people of color (BIPOC) will be critical in this future. All trends point toward continual population growth *and* business growth, therefore, measures to support the BIPOC community will be strategic economic investments for Sonoma County. In the last 12 months, BIPOC-owned businesses in Sonoma County were more likely to experience profits compared to their White business counterparts. Thus, these are viable businesses that are meeting market demands and many have shown resiliency despite exacerbated challenges in accessing capital. This research report, commissioned by Sonoma County Economic Development Board, follows other studies that are evaluating how to allocate funding from the American Rescue Plan Act of 2021 (ARPA) in an informed and data-driven process. For a detailed look at industry sectors and occupations, see Dr. Eyler’s “COVID-19 Impacts on Industries and Organizations” report.

This report advances 3 strategic focuses: (1) the operational impacts of COVID-19 on small businesses in Sonoma County as small businesses are the backbone of local economies; (2) a lens on equity given the disproportionate impact of COVID-19 on BIPOC-owned businesses and the economic gains that follow an equity agenda (Buckman et al., 2021); and (3) the Latinx experience given that over one-quarter of residents in Sonoma County are Latinx – a greater share than the Latinx national population – with this group starting businesses at a faster rate than all other demographic groups.

This report uses data from a survey of business owners administered by the Stanford Latino Entrepreneurship Initiative (SLEI) during the summer of 2021. These data help us unpack the experiences of COVID-19 on small businesses and the ways in which business owners are navigating recovery with the help of relief aid and community organizations. Taken together with national data on small businesses, several recommendations are outlined to optimize resources in support of small businesses and economic development.

Recommendations:

- **Support local and community financial institutions.** Local and community banks were most responsive to the needs of small businesses in Sonoma County throughout the pandemic. Mission-driven banks, like Community Development Financial Institutions (CDFIs) and minority-led banks, proved on a national scale that they are best positioned to deploy capital to the businesses most in need.
- **Support small businesses with continual pandemic relief aid.** Among BIPOC-owned businesses in Sonoma County, 43% rank the pandemic as the number one factor impacting their future growth and they were 6.5 times more likely to report lack of financing as a specific negative impact compared to White-owned businesses. Creative solutions like grant opportunities, stimulus funding, and startup financing encourages new entrepreneurship. Increased financing products can begin to make up the massive revenue decline that 67% of BIPOC-owned businesses and 64% of White-owned businesses experienced, which is greater than national averages.
- **Support business serving organizations.** Business serving organizations like chambers of commerce, both local and ethnic-specific, and nonprofits proved critical throughout the course of the pandemic connecting small business owners to much needed relief aid. Research shows that business owners that participation in business organizations are more likely to come into contact with capital providers and are more likely to experience funding success. It is often the case that individual philanthropy declines during recessions, and yet these organizations play an outsized role in connecting impacted communities to resources.
- **Enhance supplier diversity and procurement programs.** In preparation for an infrastructure plan and other contracting opportunities, efforts at the local level to increase the number of diverse suppliers corresponds to the growth of BIPOC-owned businesses (Orozco et al., 2019).
- **Provide affordable and accessible safety net.** Studies show that employer-provided health insurance is a barrier to entrepreneurship (Fairlie et al., 2011). Financing safety net options can encourage entrepreneurship alongside technical assistance on existing safety net options, like the CalSavers retirement program. The pandemic revealed how health crises are also inextricably tied to economic prospects.

Research has estimated that closing racial inequities in health, education, incarceration, and employment by 2050 would increase the U.S. market GDP growth by 22% and contribute an additional \$8 trillion to the U.S. economy (Buckman et al., 2021; Turner, 2018). This would obliterate the current deficit 2.5 times over. Since 2007, BIPOC-owned businesses have grown in number by 38 percent while White-owned businesses have declined by 3 percent (Orozco & Chapa, 2020). If we consider the most recent economic downturn with the Great Recession, there would have been fewer businesses in 2012 compared to 2007 were it not for BIPOC communities starting businesses. Supporting the growth and scale of BIPOC-owned businesses to generate average revenue of their White-owned businesses would provide a \$1.4 trillion economic opportunity on a national scale (*ibid*).

In Sonoma County, over 20% of all businesses are BIPOC-owned.¹ On average, BIPOC-owned businesses generate \$224K in annual revenue compared to \$364K among White-owned businesses. While part of this revenue gap has to do with industry differentials, BIPOC business owners are starting businesses at a faster rate across virtually all industries (Orozco et al., 2020). If today's BIPOC business owners in Sonoma County were equitably funded as their White counterparts, they could generate an additional \$1.3 billion in annual revenue. It is also important to note that BIPOC-owned firms are just as likely to be employer firms averaging 1.4 people on payroll compared to 1.7 among White-owned businesses.

The past year served as an awakening as our nation grappled with the effects of the pandemic and a history of racial injustice that is inextricably tied to economics. Legacies of discrimination in lending practices through redlining has stalled intergenerational wealth among BIPOC communities and this capital is often leveraged to build additional assets like businesses. Studies also show implicit biases in small business lending practices with Black business owners experiencing unequal treatment at the point of initial loan request (Bone et al., 2019). After controlling for business performance measures like revenue, industry, profitability and credit scores, the odds of loan approval from national banks for Latinx business owners are 60% lower than their White counterparts (Orozco et al., 2020). The playing field is not yet level.

¹ Authors calculations using 2012 U.S. Census Bureau's Survey of Business Owners and growth projections.

The definition of an entrepreneur is someone who organizes and operates a business and takes on greater than normal financial risk in order to do so. On average, business owners are more highly educated than the general population, thus, there is much self-selection whereby the most driven individuals are starting businesses. Immigrants also have a greater propensity to start businesses than U.S. native born so the entrepreneurial spirit is imbued with resilience (Pekkala Kerr & Kerr, 2018). Supporting small businesses, including BIPOC owned businesses, is not a social policy but prudent economic development and investment strategy. For example, in the finance industry, among those managing assets for institutional investors (e.g., pensions, endowments, foundations, etc.) research has shown that BIPOC-owned investment firms have equal if not outsized returns (Lerner et al., 2019; Manson et al., 2016).

As it relates to the pandemic, the Small Business Administration (SBA) released data from the 5.16 million Paycheck Protection Program (PPP) borrowers and the 4,837 unique institutions that participated as lenders in the PPP (Howell et al., 2020). Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) played an outsized role in providing PPP funds to BIPOC-owned businesses. Latinx-owned businesses were more likely to obtain funding from a CDFI compared to most small, medium and large banks and among both Black and Latinx-owned businesses, fintech also played a critical role (Howell et al., 2020). Federal stimulus funding also coincided with increased business registrations (Bui, 2021). These macro-level lessons can be applied to localized contexts.

In order to explore the impacts of the pandemic on small businesses in Sonoma County, in what follows, this report will detail findings from a survey administered by the Stanford Latino Entrepreneurship Initiative.

This report considers data from a survey of business owners administered by the Stanford Latino Entrepreneurship Initiative (SLEI). In the summer months of 2021, SLEI administered the business owner survey to small businesses in Sonoma County alongside several organizations that disseminated the survey widely (see Appendix A for list of organizations). Extra efforts were made to over-sample on BIPOC business owners; they make up 45% of the sample. Among BIPOC-owned businesses, 81% are Latinx-owned but this group will be collectively referred to as BIPOC. **Figures 1-3** represent the sample distribution by race and ethnicity and other characteristics. For comparative macro-level trends, data are presented in relation to national trends leveraging the SLEI nationally representative survey of 15,000 business owners across White (n=7,500) and Latinx-owned businesses (n=7,500). See Appendix B for additional survey methodology.

Figure 1. Sonoma County Business Owner Sample Characteristics

Race/Ethnicity	Percent
White (non-Latino)	55%
Latino	37%
Black	2%
Asian	1%
Multi-racial / Other	5%

Source: Sonoma County Survey of Business Owners, 2021 (N=95).

Figure 2. Industry Distribution

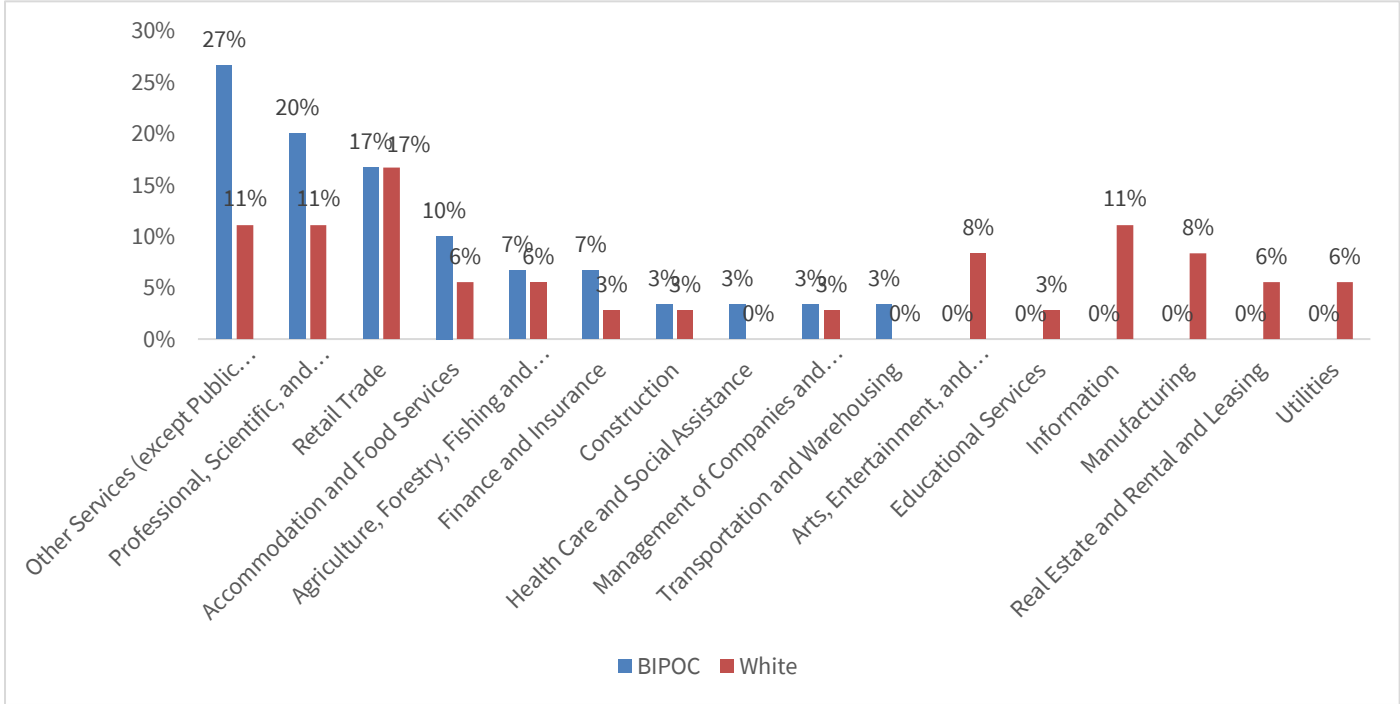
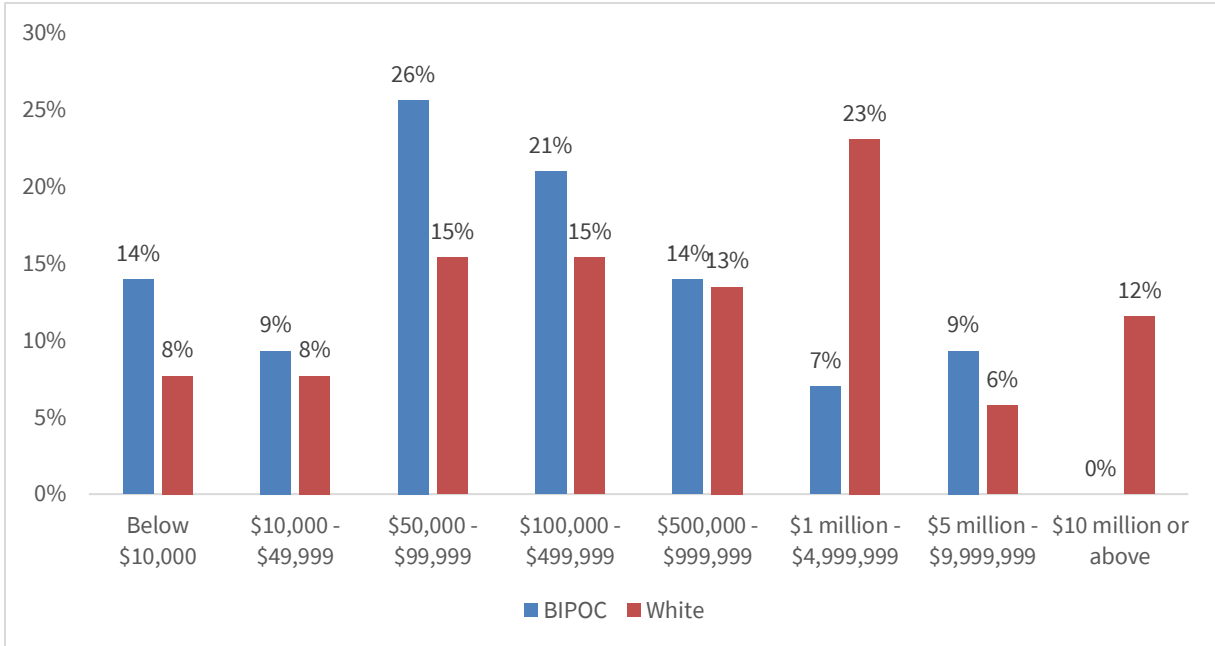
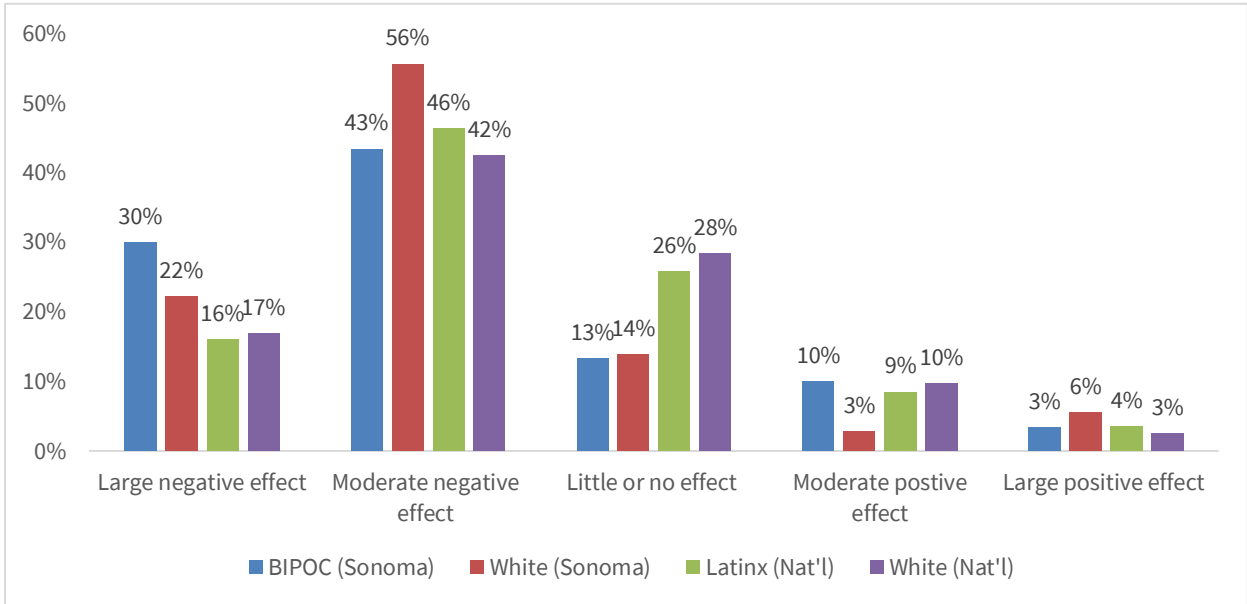


Figure 3. Revenue Distribution



It is clear that the COVID-19 pandemic impacted small businesses across the board. **Figure 4** shows that 3 out of every 4 businesses in Sonoma County experienced moderate or large negative effects. In the aggregate, the impact appears indiscriminate.

Figure 4. Overall Impact of COVID-19 on Businesses



However, as specific negative impacts are considered, BIPOC-owned businesses experienced large impacts on a few critical fronts as shown in **Figure 5**. First, compared to national trends, a greater share of businesses in Sonoma County report revenue decline with BIPOC-owned businesses experiencing the greatest impact. BIPOC-owned businesses have also experienced increased costs at a higher rate relative to all other comparative groups. Of great import, BIPOC-owned businesses were 6 ½ times more likely to experience lack of financing, a persistent challenge exacerbated by the pandemic. Layoffs were also more common among BIPOC-owned businesses.

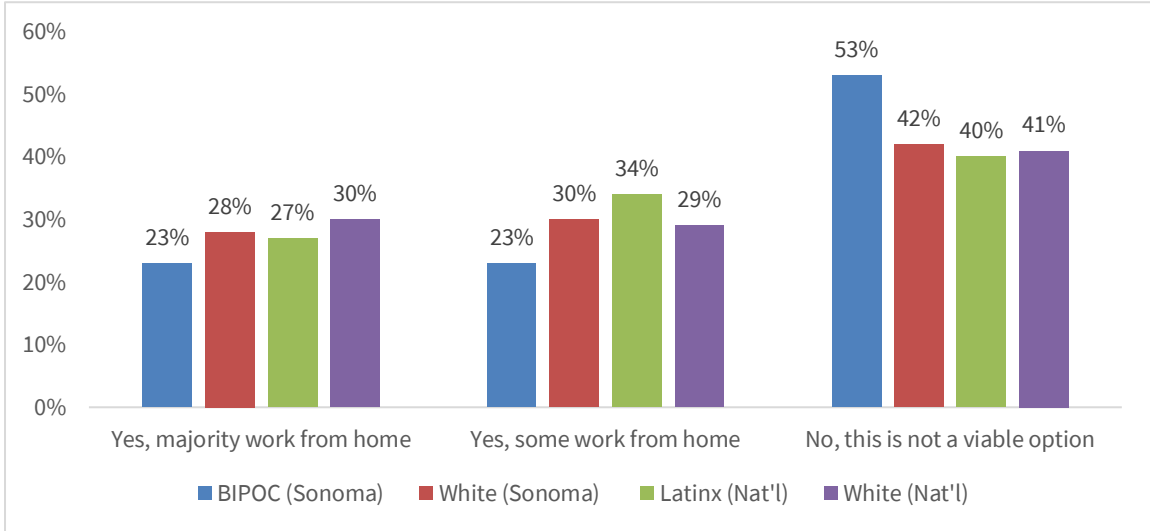
Figure 5. Specific Negative Impacts Due to COVID-19

	BIPOC (Sonoma)	White (Sonoma)	Latinx (Nat'l)	White (Nat'l)
Revenue decline	67%	64%	44%	47%
Increased costs	47%	44%	31%	30%
Decreased client engagement	37%	39%	18%	23%
Project delay	30%	14%	23%	22%
Loss in networking opportunities	30%	44%	13%	15%
Temporary business closure (not likely to be permanent)	30%	33%	27%	23%
Decreased productivity	23%	31%	22%	23%
Unstable and risky business environment	20%	28%	14%	15%
Decline in local inflows / sales	20%	19%	16%	19%
Lack of financing	20%	3%	16%	11%
Supply chain shortfall	17%	28%	16%	18%
Decline in employee morale	17%	22%	20%	19%
Late/ no payments received	13%	14%	16%	16%
Layoffs	13%	8%	14%	11%
None	7%	8%	10%	12%
Missed scheduled loan payments	7%	0%	7%	4%
Missed payments such as rent, utilities, and payroll	7%	6%	7%	7%
Temporary business closure which is likely to be permanent	3%	3%	8%	6%
Decline in international inflows / sales	0%	6%	4%	3%

Source: SLEI Survey of U.S. Business Owners, 2021 (N=15,000) and Sonoma County Survey of Business Owners, 2021 (N=95).

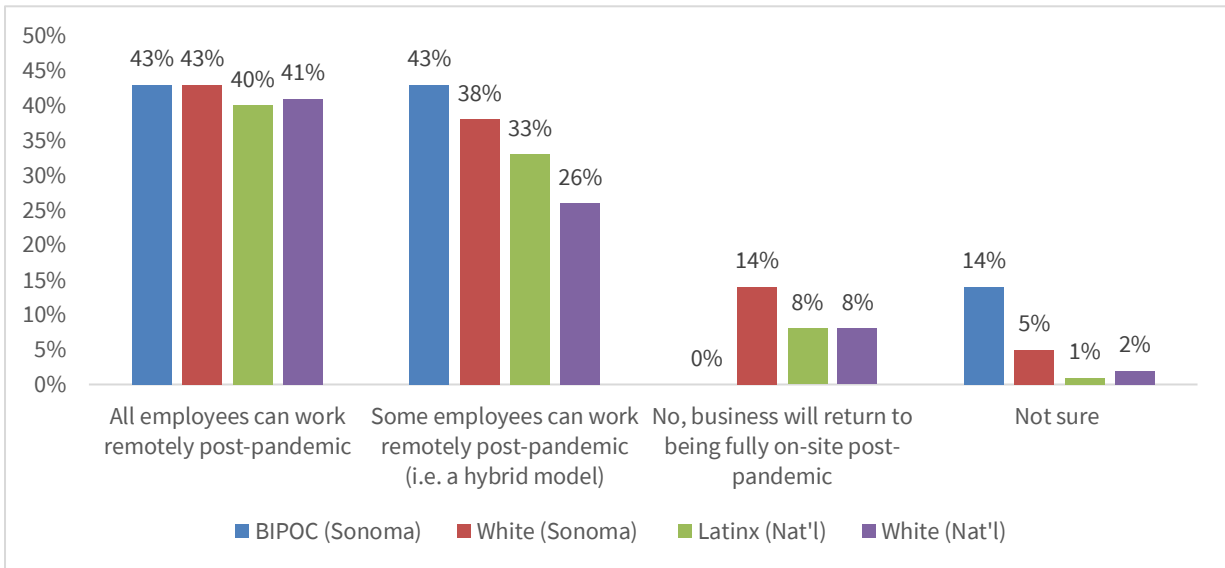
The pandemic changed how we think about our work environments with a need to conduct work remotely among those not considered essential businesses. While some remote work was an option for nearly half of all businesses, 53% of BIPOC-owned businesses report this is not a viable option (**Figure 6**). This is due to the overrepresentation of BIPOC-owned businesses in the service industry.

Figure 6. Remote Options for Employees



Among those businesses who have employees who were able to work remotely during the pandemic, **Figure 7** captures how these businesses are thinking about the future of work post-pandemic. The trends are largely tracking with national sentiment on working from home with 43% of BIPOC and 43% of White-owned businesses in Sonoma County who have engaged in remote work indicating they will continue to do so.

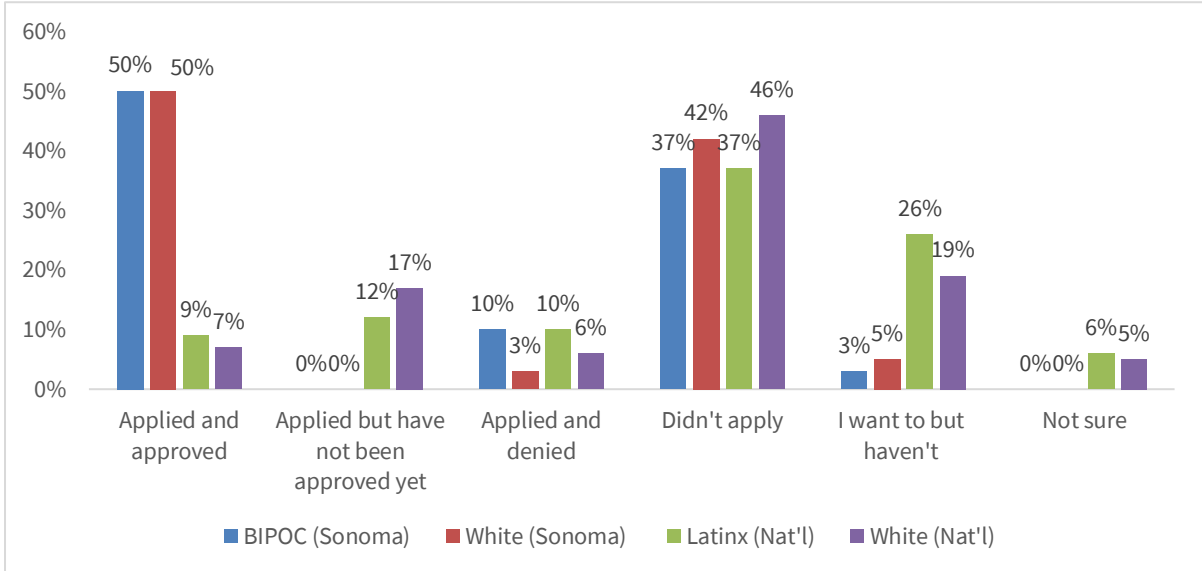
Figure 7. Remote work Post-Pandemic Among Businesses that Implemented WFH During Pandemic



As it relates to the federal pandemic relief for small businesses dispersed through the Paycheck Protection Program (PPP), the findings seem to suggest a strong network of

business support in Sonoma County given that 50% of BIPOC-owned businesses and 50% of White-owned businesses surveyed applied for and successfully received funding (**Figure 8**). However, BIPOC-owned businesses report greater challenges in applying for and securing the PPP. Among those interested, 21% of BIPOC-owned businesses report a lack of response from a banking provider, compared to 14% among White-owned businesses. Additionally, over one-quarter of BIPOC-owned businesses report a lack of guidance on how to apply. A smaller subset of businesses (11% and 5%) also report technical challenges with submitting the application and for some BIPOC-owned businesses, a language barrier.

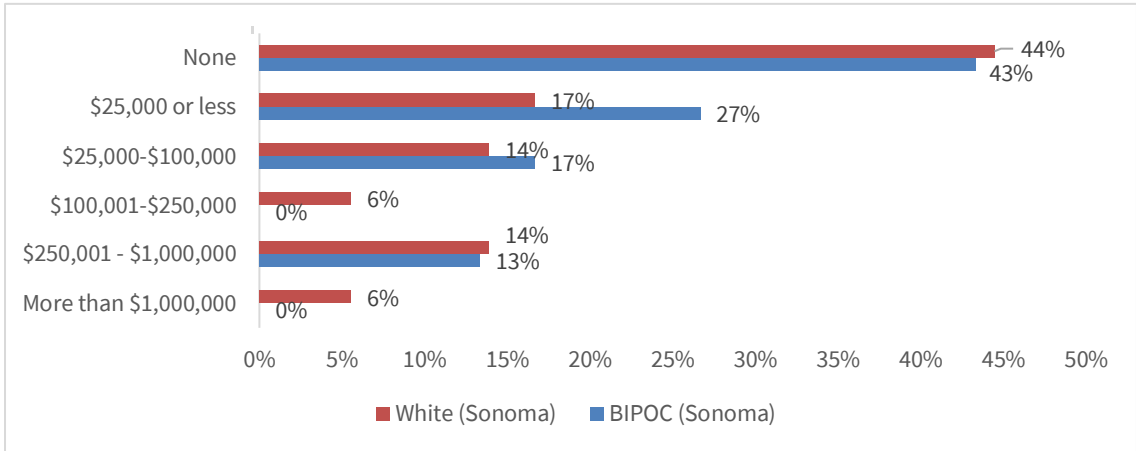
Figure 8. Paycheck Protection Program



The most active lending institutions supporting small businesses in Sonoma County with the PPP were regional/local banks and credit unions accounting for nearly all PPP loans among those surveyed. Among White-owned businesses surveyed that obtained PPP, 53% obtained funding from Exchange Bank. Among BIPOC-owned businesses that obtained PPP, 29% received funding from Exchange Bank and 29% received funding from Umpqua Bank.

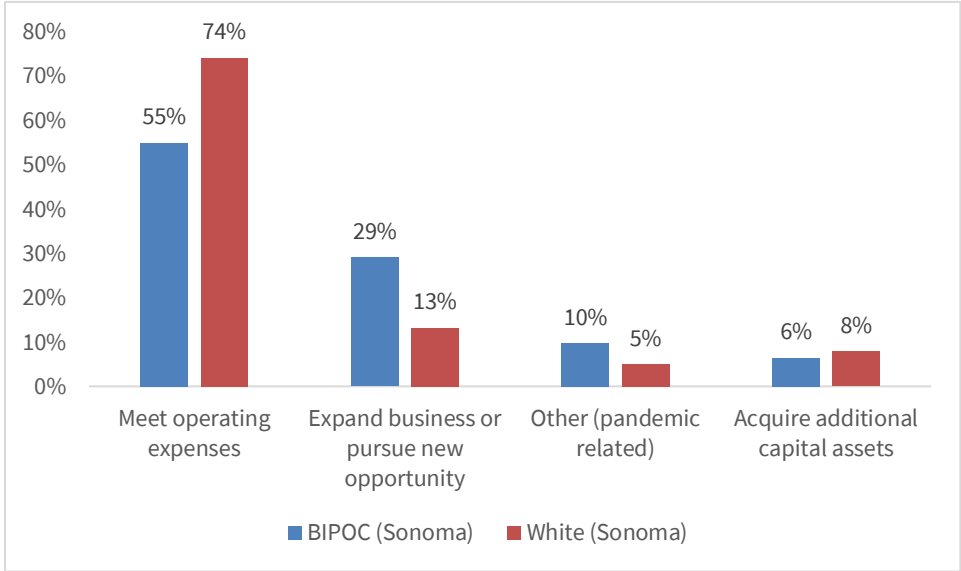
Business debt is common among small businesses in Sonoma County with 57% of BIPOC-owned businesses and 56% of White-owned carrying some level of outstanding business debt as shown in **Figure 9**. By virtue of business size, White-owned businesses carry slightly larger debts than BIPOC-owned businesses.

Figure 9. Outstanding Business Debt



The most common reason for businesses seeking funding is to meet operating expenses as shown in **Figure 10**. Interestingly, a greater share of White-owned businesses report needing to meet operating expenses, 74%, compared to 55% among BIPOC-owned businesses. BIPOC-owned businesses were more than twice as likely to report seeking financing to expand their business or pursue new opportunities, 29% compared to 13%.

Figure 10. Reasons for Applying for Funding



It is important to note that despite the reported challenges of the pandemic, BIPOC-owned businesses were more likely to be profitable in the past 12 months compared to White-owned business, 47% and 36% respectively. This bucks national trends as shown **Figure 11**.

Figure 11. Business Profitability in Sonoma County and Nationally, 2020-2021



There are many challenges that are impacting the future growth of businesses. Businesses were asked to select their top three challenges and aggregate responses are depicted in **Figure 12.**

Figure 12. Top Challenges Facing Businesses in Sonoma County

	BIPOC (Sonoma)	White (Sonoma)
COVID-19 pandemic	43%	25%
General economy	37%	39%
Clients / Customers	27%	28%
Taxes / Government regulations	23%	31%
Getting needed financing	20%	11%
Employees	20%	31%
Marketing	13%	11%
Access to Health Care	10%	6%
Access to needed training / knowledge	7%	3%
Political climate	7%	17%

Technology	7%	6%
Immigration policies	7%	0%
None of the above	7%	3%
Other*	7%	6%
Competition	3%	17%
Access to Child Care	3%	8%
Digital brand presence	0%	8%

*Note: The “other” category provided a write-in text box with responses including retirement and unemployment benefits.

This report highlights several strategic avenues for allocating funds based on the existing gaps and future growth directions of small businesses in Sonoma County. As a persistent challenge, there is a market need for equitable financing options and creative financing solutions. Providing access to capital equitably can generate an additional \$1.3 billion in annual revenue among BIPOC-owned businesses that have unmet financing needs. The top five avenues to support small businesses in Sonoma County are reiterated below:

1. **Support local and community financial institutions.** Local and community banks were most responsive to the needs of small businesses in Sonoma County throughout the pandemic.
2. **Support small businesses with continual pandemic relief aid.** The effect of the pandemic on small businesses will linger. An infusion of creative financing including grant and stimulus opportunities will encourage new entrepreneurship and make up for revenue losses.
3. **Support business serving organizations.** Business serving organizations are critical to the business ecosystem and will continue to provide training and support programming. These are also places where small business owners convene for networking opportunities.
4. **Enhance supplier diversity and procurement programs.** Business that have opportunities to enhance their product market access by providing goods and services to government have a greater likelihood of continual growth.
5. **Provide affordable and accessible safety net.** Financing safety net options can encourage entrepreneurship alongside technical assistance on existing safety net options.

A. List of Organizations that Supported Dissemination of the Survey

- City of Santa Rosa
- CRESER Capital Fund
- Los Cien
- Luther Burbank Center for the Arts
- Santa Rosa Metro Chamber
- Sonoma County Alliance
- Sonoma County Economic Development Board
- The Press Democrat
- United Way Wine Country
- Watzalab

Special thanks to Lisa Carreño, Socorro Shiels, Marcos Suarez, and Herman Hernandez for leading organizing efforts around survey dissemination.

B. Survey Methodology

The survey instrument is an online questionnaire administered through the Qualtrics platform that takes 10-15 minutes to complete. The national survey has been administered since 2015 on an annual basis and is adaptive to capture the changing business environment. The survey is available in English and Spanish. Among Latinx business owners, 20% completed the survey in Spanish. The sample consists of 95 business owners from Sonoma County and is compared to the national survey of 7,500 White business owners and 7,500 Latinx business owners. To more closely match the population of Latino- and White-owned firms in the United States, we adjust for sample differences by weighting to estimates from 2018 U.S. census data on employer businesses matched by revenue, number of employees, industry, and region. We use a statistical technique known as “raking,” which uses iterative post-stratification weights to match the marginal distributions of each survey sample to known population margins. We stratify based upon industry, region, and firm size (in terms of both employees and revenue). We then compare the group of businesses in each stratum to the comparable population of businesses in the nation.

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Experience

Marlene Orozco is the Chief Executive Officer of Stratified Insights, LLC, a research consulting firm. She is a mixed-methods researcher by training with over 250 hours of in-depth interview experience and quantitative expertise in big data. As a public scholar, Dr. Orozco's research has been featured in hundreds of media outlets including Bloomberg, MarketWatch, Forbes, NBC News, CNN en Español, and Univision, among others. Dr. Orozco is the lead editor and co-author of an academic volume, *Advancing U.S. Latino Entrepreneurship*, has written academic publications in peer-reviewed journals like *Small Business Economics*, *Social Science Quarterly* and *Qualitative Sociology*, and authored several industry reports and research briefs.



She has been awarded 40 Under 40, Top Young Professionals by Silicon Valley Business Journal and presented the Stanford Community Impact Award by the Stanford Alumni Association. Dr. Orozco also serves on advisory committees for the Latina Wealth Project (UnidosUS), the California Latino Economic Institute, the Randall Lewis Center for Entrepreneurship, CRESER Capital Fund, and Los Cien.

Education

Marlene Orozco received her BA with honors in Sociology from Stanford, a Master's in Education Policy and Management from the Harvard Graduate School of Education, and a PhD in Sociology at Stanford with a focus on entrepreneurship. Dr. Orozco also has a California Multiple Subjects Teaching Credential, having previously served as an elementary school teacher.