

presented by



THE MEGAPHONE OF MAIN STREET:

The Impact of COVID-19

FALL 2020



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All opinions, conclusions, and/or recommendations expressed herein are those of author(s) and do not necessarily reflect the views of the SBA.

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Why this study?

COVID-19 has had a major impact on U.S. small businesses, especially “Main Street” establishments such as restaurants and retail stores. At the onset of the COVID-19 pandemic in February 2020, SCORE began reaching out to small business owners, in order to document the impact of the pandemic, and the resilience of both start-ups and established businessesⁱ.

Recent research shows that although COVID-19 has affected all businesses in a major way, Black and Hispanic business owners have struggled the most. A recent study by the Bureau of Economic Research documents a general decline of 22.0% in active business ownership between February and April 2020, with a greater decrease of 32.0% in active Hispanic business ownership, and almost twice the decrease in active Black business ownership. (41.0%)ⁱⁱ.

This latest installment of The Megaphone of Main Street is the fifth in a data report series that presents a snapshot of the current American small business landscape. This particular report delves into the impact that COVID-19 has had on the current and future state of U.S. small businesses, with a specific look at Black and Hispanic owned businesses, using both qualitative and quantitative data directly from a diverse group of roughly 3,500 small business owners across the nation.

This original research study explores three main impact areas for small business owners affected by COVID-19:

1. Impact on Businesses, Owners and Employees

2. Impact of Resources and Support

3. Impact on Expectations and Outlook

The small businesses included in this research represent many industries and geographical locations, while the small business owners themselves represent diverse demographic backgrounds including age, gender and race/ethnicity.

SCORE conducted this research via an online survey administered to its small business clients in August 2020. All respondents successfully passed screening questions identifying themselves as new or established small business owners, and agreed to reflect on how COVID-19 has had an impact on their business, as well as their outlook for the future of their business.

About SCORE

SCORE is the nation’s largest network of volunteer, expert business mentors, with approximately 10,000 volunteers in more than 260 chapters and 1500 communities nationwide. Since its founding in 1964 as a resource partner of the U.S. Small Business Administration, SCORE has helped more than 11 million current and aspiring entrepreneurs through mentoring, workshops and educational services. In 2019 alone, SCORE volunteers helped to create 29,681 new small businesses and add 67,706, non-owner jobs to the American economy.

In response to COVID-19, SCORE launched the Small Business Resilience Hub to provide free and relevant resources to help small business owners survive and thrive during the pandemic and beyondⁱⁱⁱ.

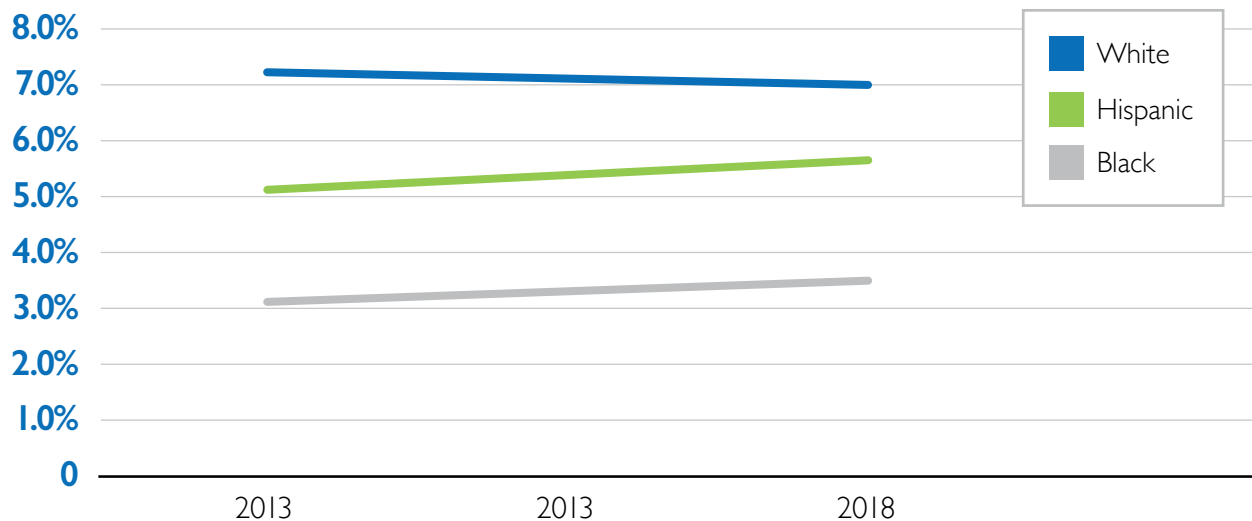
Setting the Stage – Black and Hispanic Owned-Businesses

Black and Hispanic entrepreneurs have historically been under-represented, but in recent years their growth has outpaced others.

As of 2017, 5.6% (322,076) of all U.S. businesses were Hispanic-owned, and 2.2% (124,004) were Black-owned (2018 Annual Business Survey.) As the U.S. has a Hispanic population of 16.7% and a Black population of nearly 14%, respectively, these two groups are vastly underrepresented among business owners.

Although Black and Hispanic business owners have been historically under-represented in the business sector, these entrepreneurs have demonstrated strong growth, outpacing other groups in recent years.

% Self-employed individuals (2013-2018)
Current population survey, 2019



As seen above, while the growth rate for White entrepreneurs has declined since 2008, the growth rates for both Hispanic and Black entrepreneurs have increased^{iv}. For example, recent studies show Hispanic-owned businesses reported an average revenue growth of 14%, outpacing the growth of the U.S. economy.

Similarly, between 2012 and 2018, Black business owners saw their total annual revenue grow by 23.0% – twice as fast as overall employer-businesses in the U.S., and Black business owners added employees at double the rate of all other U.S. businesses, growing staff by 24.0%, compared to 10.8% of all small businesses during the same time-period.

Minority-owned businesses faced greater challenges going into 2020 with limited financial health.

Even before COVID-19 struck the economy, the Federal Reserve Banks in December 2019 reported that 78% of Black-owned, and 69% of Hispanic-owned businesses reported financial challenges compared to 62% of White-owned businesses^v.

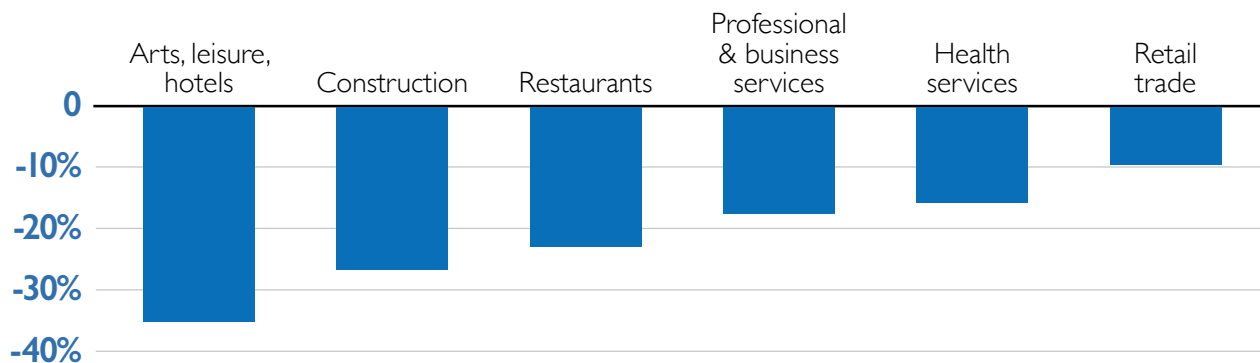
The same report found minority-owned small businesses to be significantly more likely to have limited financial health. This is concerning because, as the Federal Reserve points out, distressed businesses are three times more likely to close after a two-month revenue shock. The COVID-19 pandemic has been exactly that sort of shock.

Minority-owned businesses are concentrated in economic sectors that are among the most impacted by COVID-19.

As public health officials instituted social distancing to reduce exposure to the virus in March 2020, businesses across America were forced to shut down or limit services in some capacity. As a result, some of the hardest-hit sectors that reported business losses were accommodation (hotels and leisure down 35%) and food services (restaurants down 22%). Additional hard-hit sectors include construction (down 27%), professional and business services (down 18%), and health services (down 16%). These are many of the same sectors with the highest concentration of Hispanic and Black business owners^{vi}.

The top sectors for Hispanic business owners	The top sectors for Black business owners
<ul style="list-style-type: none">• Construction• Accommodation and food services• Professional, scientific, and technical services	<ul style="list-style-type: none">• Healthcare and social services• Professional, scientific, and technical services• Administrative support• Waste management and remediation• Retail trade

Business Losses by Sector



Key Findings

PART 1: Impact of COVID-19 on Businesses, Owners, and Employees

Business Growth and Profitability:

- COVID-19 has impacted profitability for all businesses; but even more so for Black- and Hispanic-owned business. The percentage of Black owners reporting profitable businesses decreased to 26.5%, down from 40% in 2019. Among Hispanic business owners, it decreased to 29.2%, down from 51.2% in 2019.

Owners and Employees:

- COVID-19 and other health concerns affect Black and Hispanic business owners far more than White business owners. Black business owners are 90.7% more likely and Hispanic business owners are 42.4% more likely than White business owners to have a direct relationship (family, staff, or themselves) with someone diagnosed with COVID-19.
- Childcare is a significant unmet need. Hispanic business owners (21.4%) are two-and-a-half times more likely than their White counterparts (8.8%) to have business impacted due to lack of childcare. Likewise, 16.8% of Black owners cited childcare issues as impacting their business operations.

Employment:

- Most businesses had to cut employees, but minority owners remain optimistic about hiring in the future. 73.6% of all businesses had to lay off, furlough, or reduce employee hours/pay due to COVID-19, but twice as many Black business owners (37.6%) expect to hire contractors within the next six months compared to White owners (18.8%). 28.2% of Hispanic business owners expect to hire contractors. In one year, 46% of Black business owners and 37.8% of Hispanic business owners (versus 26.1% of White owners) expect to hire contractors.

PART 2: Impact of Resources and Support

- Racial disparities are measurable among recipients of federal loans. Black and Hispanic business owners are more likely to apply for federal loans, but far less likely to receive funds. White business owners were three times more likely to get Payroll Protection Program (PPP) loans; three times more likely to get Economic Injury Disaster Loans (EIDL); and four times more likely to get other Small Business Administration (SBA) loans than Black business owners.
- Black and Hispanic business owners struggle with credit. They are twice as likely as White business owners to seek delays for existing loan payments, expanded lines of credit, and to request improved payment terms.
- Hispanic business owners had trouble securing investors. While Hispanic business owners (28.4%) sought funding from new investors three times more than their White counterparts (9.6%), they received much less funding (0.0%). White business owners received funds 13.3% of the time. Black business owners received funds 6.4% of the time.

- Personal funds have kept all businesses afloat. Since March 2020, most business owners (75.3%) used personal funds to keep their businesses from closing. Half (46%) downsized operations (hours, staff, etc.); some took on additional personal debt (HELOC, etc.) 14.6%, and loans from friends or family (13.1%).
- Most business owners (66.0%) agreed that stimulus checks to individuals were the most helpful government program.

PART 3: Business Owner Expectations and Outlook

- COVID-19 caused businesses to make significant changes in their operations. Most businesses (70.8%) had to change their operations to include things like personal protective equipment, new safety protocols, and telework since March 2020.
- Optimism for future growth persists. More than half of all business owners (55.2%) feel somewhat or very optimistic about growth in the next 12 months.
- Minority business owners are more optimistic about the next year than White business owners. Twice as many Black business owners (36.1%) and about one-and-one-half times as many Hispanic owners (26.9%) feel very optimistic about the next year, compared to 18.7% of White business owners.

*“Please help childcare centers!!! We help the economy go up.
We are important too!!!” – Black business owner*

Impact of COVID-19 on Businesses, Owners and Employees

Highlights

Business Growth and Profitability:

- COVID-19 has impacted profitability for all businesses; but even more so for Black- and Hispanic-owned business. The percentage of Black owners reporting profitable businesses decreased to 26.5%, down from 40% in 2019. Among Hispanic business owners, it decreased to 29.2%, down from 51.2% in 2019.

Owners and Employees:

- COVID-19 and other health concerns directly impact Black and Hispanic business owners at a much higher rate. Black business owners are 90.7% more likely and Hispanic business owners are 42.4% more likely than White business owners to have a direct relationship (family, staff, or themselves) with someone infected by COVID-19, citing a large impact on their business.
- Childcare is a significant unmet need. Hispanic business owners (21.4%) are more likely than their White counterparts (8.8%) to cite lack of childcare as having a significant impact on business operations. Similarly, 16.8% of Black owners reported lack of childcare as having a major impact.

Employment:

- Most businesses had to cut employees, but minority owners are the most optimistic about hiring in the near future. Many businesses had to lay off (11.7%) , furlough (25.3%), or reduce employee hours/pay (31.1%) due to COVID-19, but twice as many Black business owners (37.6%) expect to hire contractors within the next six months compared to White owners (18.8%). 28.2% of Hispanic business owners expect to hire contractors in the next six months.

“I thought I was finally ready to take my business to new and higher levels, but once COVID hit: all down-hill.”

COVID-19 has cut profits for all businesses; especially Black and Hispanic-owned business.

COVID-19 has had a major impact on small businesses, hampering growth and profitability. Losses have been especially dramatic for Black and Hispanic business owners. Black and Hispanic businesses came into the COVID-19 crisis at a financial disadvantage. White business owners were almost twice as likely as Black business owners to say they were profitable and growing at the end of 2019, and 37% more likely to be profitable and growing than Hispanic business owners.

The Federal Reserve Bank's Small Business Credit Survey validates these findings, with similar data highlighting the lower financial reserves of Black and Hispanic business owners^{vii}.

When asked how businesses would describe their growth and profitability at the end of 2019 vs. now, SCORE learned that most businesses experienced severe losses. Before the pandemic, 32.0% of all businesses were profitable and growing; today, only 12.2% are. This decline is worse for minority business owners. While 20.3% of Black business owners were profitable and growing in 2019, that number decreased to 8.8% today. Hispanic business owners decreased further, from 27.4% at the end of 2019, to only 6.7% today.

How would you describe your business at the end of 2019? Now?

		All	White	Black	Hispanic
Profitable and growing	2019	32%	37.5%	20.3%	27.4%
	Today	12.2%	14.7%	8.8%	6.7%
Profitable and steady	2019	18.0%	19.6%	13.9%	14.2%
	Today	12.1%	13.7%	9.3%	13.3%
Profitable but contracting	2019	5.1%	3.9%	5.8%	9.6%
	Today	9.2%	9.2%	8.4%	9.2%
Break even	2019	19.6%	18.9%	21.8%	18.8%
	Today	17.7%	18.3%	17.2%	17.9%
Not-profitable	2019	25.3%	20.2%	38.2%	29.9%
	Today	48.7%	44.1%	56.3%	52.8%

Across the board, half of all businesses (48.7%) are now operating at a loss. While 55.1% of owners described their businesses as profitable before the pandemic, that number has decreased to only 33.5% today.

Even more minority-owned businesses are unprofitable. The number of unprofitable Black businesses jumped from 38.2% at the end of 2019 to 56.3% after COVID-19 hit. Likewise, there are more Hispanic businesses operating at a loss today (52.8%) compared to pre-COVID (29.9%).

Cash reserves on hand are shrinking for all business owners.

The average small business owner, regardless of race, had about four months of cash reserves on hand prior to March 2020. After the shutdown, most small business owners lost one month (or 25%) of these reserves. White business owners reduced their level of cash reserves to 3.7 months (down -.8 months); Black business owners reduced to 2.7 months of cash reserves (down -1 month); and Hispanic business owners faced the largest decrease to 2.9 months (down -1.1 months).

This reduction in cash reserves makes it challenging for any business owner to survive through a potential second wave of the COVID-19 pandemic, or another future disruption.

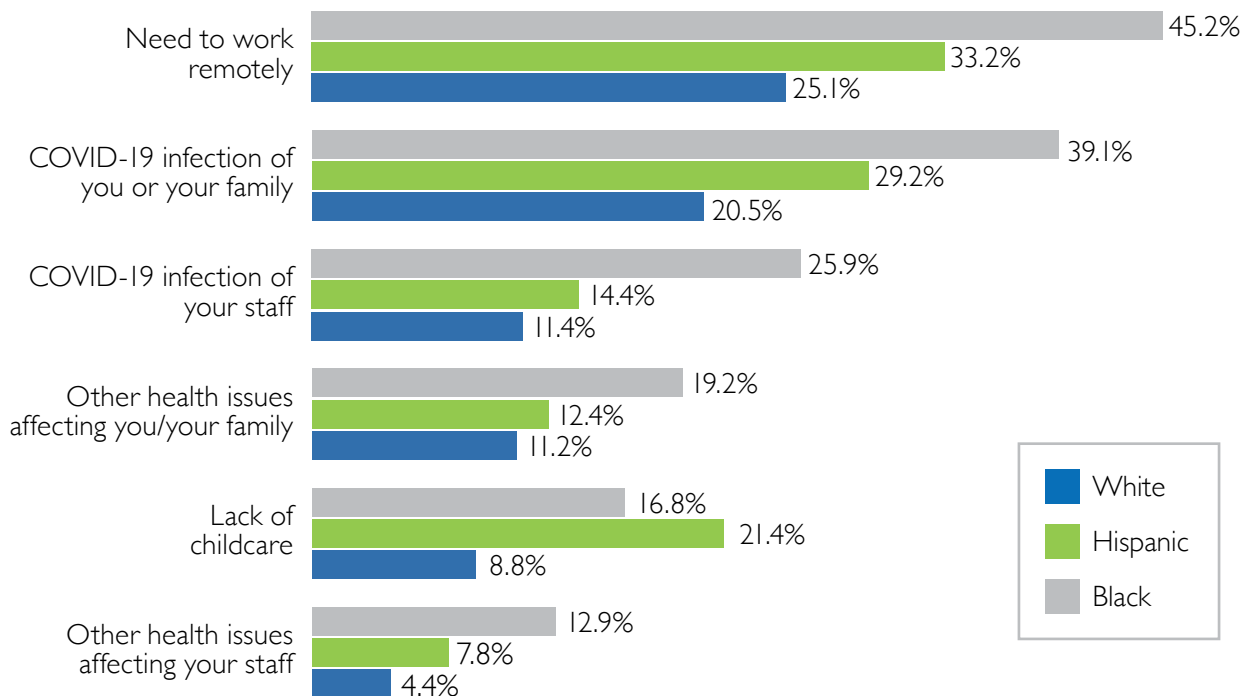
Prior to March 15, 2020, what were your cash reserves (number of months of cash on hand for operations)? Today?

	Pre-COVID	Today	Difference
White	4.5	3.7	-0.8
Black	3.7	2.7	-1.0
Hispanic	4.0	2.9	-1.1

Black and Hispanic business owners are twice as likely to report that COVID-19 and other health conditions have directly impacted family and staff, therefore directly impacting business.

National data shows that Black and Hispanic people are disproportionately affected by the COVID-19 pandemic as well as underlying health conditions, like obesity and heart disease^{viii, ix}. This research asked how health effects have directly impacted minority small businesses.

How much impact have the following changes had on your business since Mar. 15, 2020?



Black business owners are 90.7% more likely and Hispanic business owners are 42.4% more likely than White business owners to have a direct relationship (family, staff, or themselves) with someone diagnosed with COVID-19. In turn, when we asked business owners how much health issues (other than COVID-19) have impacted their business, Black business owners consistently reported a greater level of impact, often at twice the rate of other races.

Childcare is a significant unmet need for minority business owners.

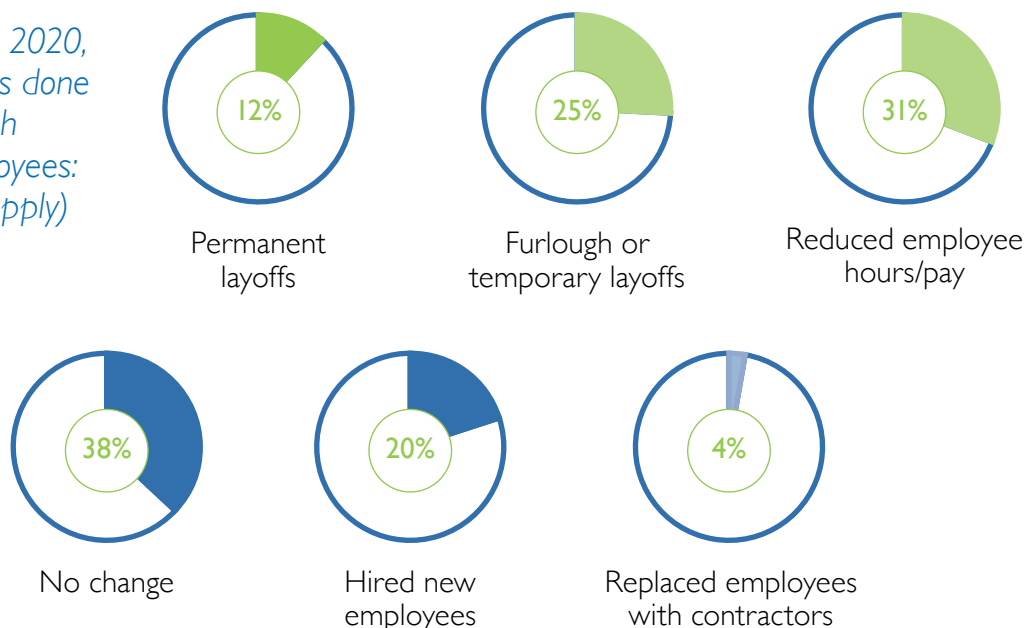
Lack of childcare has a large impact on minority small business owners. Hispanic business owners (21.4%) cite lack of childcare as having a large impact on their business; two-and-a-half times more often than their White counterparts (8.8%). The percentage of Black business owners that cite lack of childcare as having a large impact on business operations (16.8%) is about twice as high as White owners (8.8%).

Remote work is another factor that has been found to disproportionately affect minority business owners. While one quarter (25.1%) of all businesses have been negatively impacted by remote work, the number doubles for Black business owners, where nearly half (45.2%) report being negatively impacted. Likewise, one-third (33.2%) of Hispanic business owners cite remote work as having a large impact on their businesses.

COVID-19 is negatively affecting employment for all businesses, but Black and Hispanic business owners are more optimistic about hiring in the next six months, and one year.

When the pandemic caused businesses to abruptly shut-down, stall, or slow down for longer than expected, many businesses had to lay off (11.7%), furlough (25.3%), or reduce employee hours/pay (31.1%). Fortunately, 38% of business owners reported no change in employment. (The responses were consistent among groups.)

Since March 15, 2020, my company has done the following with respect to employees: (check all that apply)



As new vaccines, medications, and containment strategies to address COVID-19 come into view, many businesses are regaining confidence to return to a higher level of business activity. Some small business owners feel relatively optimistic about their expectations to hire employees or contractors over the next six months, or year. This data suggests this is especially true for minority business owners.

What are your expectations for your business employment in the next 6 months, one year?				
	6 months layoff	1 year layoff	6 months hire	1 year hire
White	10.0%	6.6%	19.0%	38.3%
Black	10.0%	7.1%	38.8%	51.7%
Hispanic	16.3%	11.4%	26.8%	50.8%

What are your expectations for hiring contractors in the next 6 months, one year?				
	6 months layoff	1 year layoff	6 months hire	1 year hire
White	6.4%	5.5%	18.8%	26.1%
Black	6.5%	6.6%	37.6%	46.0%
Hispanic	9.0%	10.1%	28.2%	37.8%

Black business owners expect to hire employees (38.8%) and contractors (37.6%) within the next six months at a rate that is two times higher than White business owners. Hispanic business owners are also relatively optimistic, with 26.8% looking to hire employees in the next six months and 28.2% looking to hire contractors, as compared to 19% of White business owners.

While these responses represent a level of optimism, many small business owners still express concern about future employment.

“I’ve continued to keep impacted employees in a paid status since March, which has drained my reserves. I am not earning enough revenue while my employees who are still working to continue doing so.” – Black business owner

PART 2:

Impact of Resources and Support

Highlights

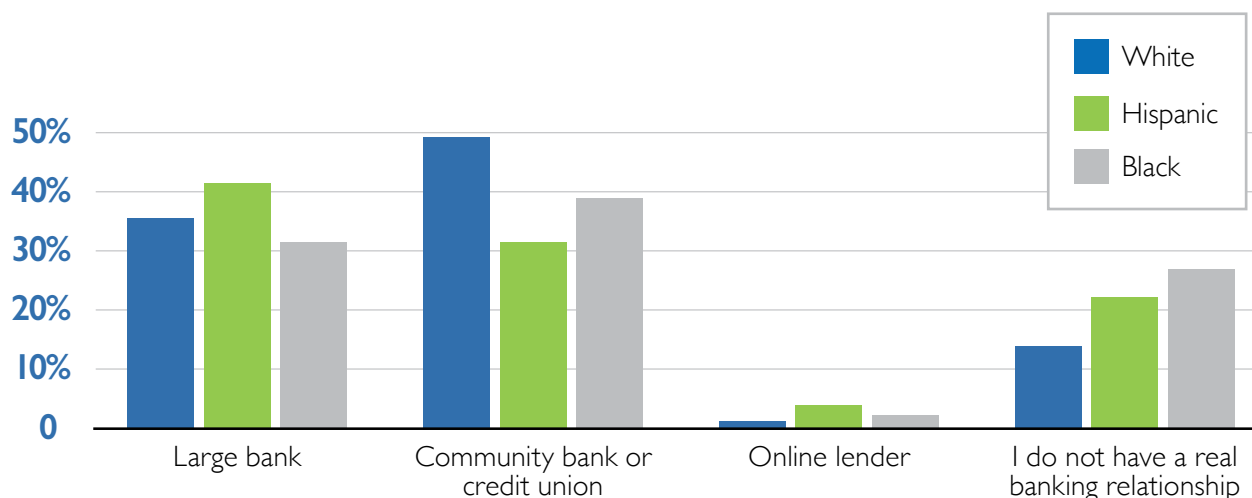
- Black and Hispanic business owners are more likely to apply for federal loans, but far less likely to receive funds. White business owners were three times more likely to get Payroll Protection Program (PPP) loans; three times more likely to get Economic Injury Disaster Loans (EIDL); and four times more likely to get other Small Business Administration (SBA) loans than Black business owners.
- Black and Hispanic business owners struggle more with bad credit. They are twice as likely as White owners to seek delays for existing loan payments and expanded lines of credit, and to request improved payment terms.
- Hispanic business owners had trouble securing investors. While Hispanic owners (28.4%) sought funding from new investors three times more than their White counterparts (9.6%), in this study, none reported success. White business owners received funds 13.3% of the time. Black business owners received funds 6.4% of the time.
- Personal funds have kept all businesses afloat. Since March 2020, most business owners (75.3%) used personal funds to keep their businesses from closing. Some (46%) downsized operations (hours, staff, etc.); some (14.6%) took on additional personal debt (HELOC, etc.) and some (13.1%) took loans from friends or family.
- Most business owners (66.0%) agreed that stimulus checks to individuals were the most helpful government program.

“I thought I was finally ready to take my business to new and higher levels, but once COVID hit: all down-hill.”

Most Black business owners do not have a strong banking relationship.

Business owners with a trusted banking relationship tend to gain access to better management tools for cash flow, better lines of credit, better customer service, and better guidance regarding loans and financing. When SCORE asked small business owners to describe their business banking relationship, 27.1% of Black business owners and 22.4% of Hispanic business owners say they do not have a real banking relationship, double that of White business owners (13.7%).

How would you describe your business banking relationship?



This finding is confirmed in the latest Report on Employer Firms based on the Federal Reserve's 2019 Small Business Credit Survey, which indicates fewer than one in four Black employers have a recent borrowing relationship with a bank*.

This often impacts credit scores. Studies reveal that Black and Hispanic small business owners have lower credit scores than White and Asian small business owners^{xi}. "Credit scoring is one of the truest reflections of the racial economic divide and wealth gap in this country, and its continued use perpetuates economic inequality, and limits small business owners' access to future opportunities."^{xii}

"My business collapsed due to COVID-19, so I had to pivot, and I have high expectations for the future." – Hispanic business owner

Black and Hispanic business owners are more likely to apply for non-government financial programs (delays in loan payments, expanded lines of credit, better payment terms, etc.) but much less likely to receive the help.

SCORE's data shows minority business owners are twice as likely as White business owners (19.9%) to seek delays for existing loan payments (39.8% of Black business owners and 33.5% of Hispanic business owners) and about twice as likely to apply for new loans (47.7% of Black business owners; 46.7% of Hispanic business owners; 26.5% of White business owners). They are also twice as likely (37.8% of Black business owners; 30.5% of Hispanic business owners) as White owners (16.4%) to seek expanded lines of credit. Similarly, minority business owners were twice as likely to request improved payment terms from vendors when compared to their White counterparts.

Despite pursuing these options at higher rates, Black and Hispanic businesses are much less likely to receive the help. White business owners (54.2%) are twice as likely as Black business owners (22.3%) to receive a new loan, even though twice as many Black and Hispanic business owners apply for them. 39.1% of Hispanic business owners received new loans.

Hispanic business owners had trouble securing investors. While 28.4% of Hispanic business owners sought funding from new investors, a rate that is three times higher than their White counterparts (9.6%), none were successful. White business owners received investor funds 13.3% of the time. 31.6% of Black business owners sought investor funding and 6.4% received funds.

		Sought	% of those seeking who received
Delays for existing loan payments	White	19.9%	72.4%
	Black	39.8%	33.6%
	Hispanic	33.5%	45.5%
Expanded lines of credit	White	16.4%	32.7%
	Black	37.8%	12.1%
	Hispanic	30.5%	11.7%
New loans	White	26.5%	54.2%
	Black	47.7%	22.3%
	Hispanic	46.7%	39.1%
Improved payment terms from vendors	White	17.2%	43.0%
	Black	35.2%	16.1%
	Hispanic	31.5%	14.5%
Support from crowdfunding or other community requests	White	9.6%	25.2%
	Black	33.6%	10.9%
	Hispanic	26.9%	11.3%
New investors	White	9.6%	13.3%
	Black	31.6%	6.4%
	Hispanic	28.4%	0.0%

A recent report from McKinsey shows that roadblocks for minority-owned businesses may be linked to credit scores, personal finances, and limitations found in personal financial statements. The report found that: “FICO credit scores are the primary gate keeper used by banks to determine credit worthiness, and that has also worked against many Black-owned and other minority-owned businesses^{xiii}.” Also, “research has found that Black small business owners were significantly more likely to be asked to provide more information about their personal financials—including personal financial statements and personal W-2 forms—when applying for small business loans than white small business owners were, even when controlling for credit score and business characteristics^{xiv}.” In a similar survey, a majority of Black and Hispanic small business owners indicated that they applied for less than \$20,000 in loans, but only 12.0% received the full amount of assistance requested^{xv}.

Most business owners have had to use personal funds to stay afloat.

SCORE asked small business owners what personal actions they had to take to keep their businesses open since March 2020. Most business owners report tapping into personal funds (75.3%). Many (46.0%) had to downsize operations (hours, staff, etc.). Some (14.6%) took additional personal debt (HELOC, etc.) or loans from friends and family (13.1%).

Owners also commented that they had to use other strategies to stay open, including:

“working many more hours”

“went without salary” “I haven’t taken a check March, April, July, or yet August”

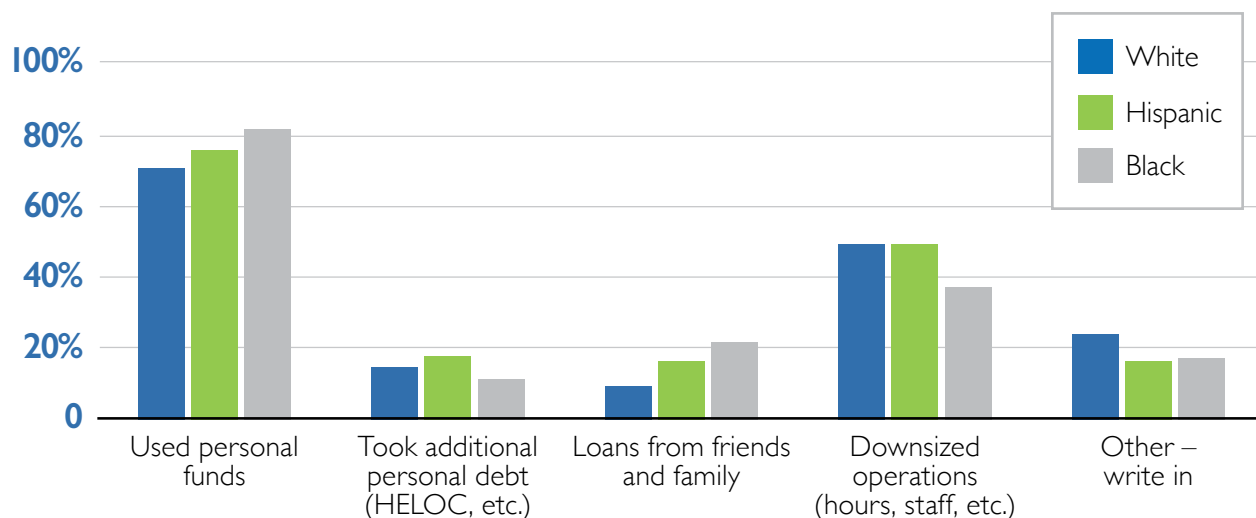
“worked second job”

“use retirement to pay off personal business loans”

“some vendors allowed us special terms”

“mortgaged properties”

Since March 15, 2020 what personal actions have you taken in order to maintain business? (check all that apply)



Black and Hispanic business owners were much more likely to apply for government help, and three to four times less likely to receive it.

When the federal government offered several loan and assistance programs to address the economic burdens of COVID-19, businesses of all sizes jumped at the opportunity. About half of all business owners in this survey applied for the Payroll Protection Program (PPP). According to SCORE's data, 63.7% of White small business owners received the full amount of the loan, which is three times more often than Black small business owners (20.3%), and nearly two times more often than Hispanic applicants (36.8%). These findings are consistent with larger reports that indicate "Black business owners received less than 2% of PPP loans, while White business owners received 83%."^{xvi} Additionally, because the PPP was offered through banks, the lack of formal banking relationships mentioned earlier in this report may have also had an impact both on applications and availability.

With a larger indication of inequity, Black business owners (8.4%) were four times less likely to receive the full amount requested of a Small Business Administration (SBA) loan than their White business counterparts (33.0%). Hispanic business owners received SBA loans (the full amount requested) 13.7% of the time. In the same respect, Black and Hispanic business owners were more likely than White business owners to apply for EIDL (Economic Injury Disaster Loans), but only 15.0% of Black business owners and 22.2% of Hispanic business owners received the full amount requested. This success rate is much lower than White applicants (42.8%).

Four times as many Black and Hispanic employers applied for the 50.0% payroll tax credit and delays for paying employer-side payroll taxes, but these efforts rarely paid off.

"My eligibility was in doubt, and with the confusing way in which some of these programs were administered (along with short application turnaround periods), I couldn't identify trusted counsel to guide me in time." – Black business owner

		Sought	% of those seeking who were rejected	% of those seeking who received partial amount	% of those seeking who received full amount
PPP (Paycheck Protection Program)	White	47.8%	15.6%	13.3%	63.7%
	Black	53.4%	34.0%	16.2%	20.3%
	Hispanic	53.8%	24.5%	16.0%	36.8%
EIDL (Economic Injury Disaster Loans)	White	44.3%	17.3%	24.1%	42.8%
	Black	61.1%	30.3%	22.8%	15.0%
	Hispanic	54.8%	23.1%	22.2%	22.2%
SBA loans	White	19.5%	26.1%	12.7%	33.0%
	Black	41.3%	32.9%	6.7%	8.4%
	Hispanic	37.1%	37.0%	4.1%	13.7%
Unemployment-insurance benefits for self-employed workers	White	24.6%	15.8%	26.2%	39.4%
	Black	40.2%	21.9%	17.8%	22.4%
	Hispanic	35.0%	23.2%	17.4%	23.2%
Small Business Debt Relief Administration (on current or potential non-disaster SBA Loans)	White	11.2%	26.9%	10.9%	28.0%
	Black	28.4%	34.8%	1.3%	3.2%
	Hispanic	24.4%	33.3%	2.1%	10.4%
50% refundable payroll tax credit on worker wages	White	5.0%	38.5%	3.8%	6.4%
	Black	22.0%	28.3%	3.3%	2.5%
	Hispanic	17.8%	28.6%	2.9%	5.7%
Delay in employer-side payroll taxes	White	4.9%	22.1%	3.9%	15.6%
	Black	20.6%	26.8%	0.9%	0.9%
	Hispanic	16.8%	24.2%	0.0%	3.0%

NOTE: Numbers do not total 100% as many owners are still in process of application.

"I didn't trust that the loans would truly be forgiven. I don't have a good relationship with an accountant yet."

– Black business owner

Many Black and Hispanic business owners found the government loan application process difficult (58.1%) or confusing (71.9%).

When SCORE asked respondents why they didn't apply for a government loan program, White business owners noted that they did not want to take on additional debt (34.2%). Hispanic and Black businesses were more likely to report finding the application process difficult or confusing. Several minority business owners expressed concern about whether the money would be a loan or grant.

If you did not apply for a government program, why not? (check all that apply):

	White	Black	Hispanic
Debt averse	34.2%	20.1%	27.1%
Application process too difficult	21.0%	25.2%	32.9%
Poor banking relationship	7.7%	19.0%	14.3%
Confused on payback (loan vs grant)	23.8%	31.9%	40.0%
Not needed	18.5%	4.8%	5.7%
Did not qualify	8.0%	8.6%	5.7%

“Complicated [process] and every time we saw some type of an advertisement, it was not a process easy to understand or navigate.” – Hispanic business owner

Business owners felt it was unfair that start-ups did not qualify for emergency government programs.

This report analyzed responses from businesses in operation for at least one year, since start-ups did not qualify for government programs. However, there were many comments about how the failure to include newer businesses in the program was a problem:

“My business just opened in October 2019 and to deny funding because it took a loss last year is ridiculous. My small business needs it the most as a newly opened business.”

“I really wish there was some sort of aid for people who have been in business less than a year, or even help with budgeting and banking during a disaster or pandemic.”

“These programs don’t accept projected costs, so a new business can’t apply. There is no help for early stage startups who have filed a DBA with the county and is following the steps recommended by the SBA.”

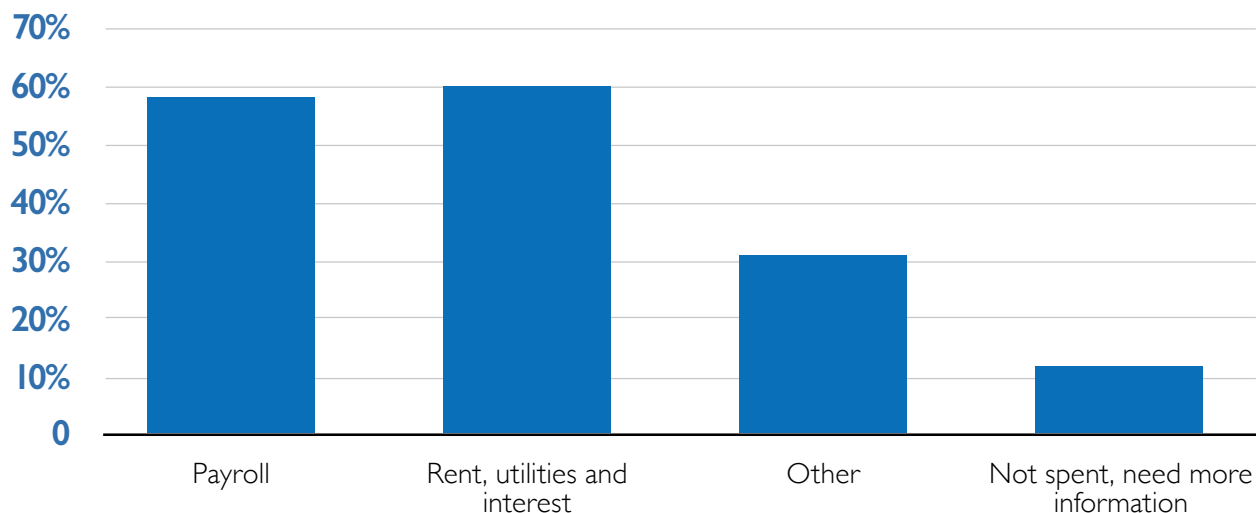
More than twice as often, Black and Hispanic owners cite insufficient or poor credit as the main reason they didn’t receive requested funds.

Responses from businesses in operation for at least one year were analyzed for this report, since start-ups did not qualify for government programs. However, there were many comments about how the failure to include newer businesses in the program was a problem.

	White	Black	Hispanic
Insufficient or low credit	13.3%	30.5%	24.2%
Problems filling out application	14.4%	18.7%	10.6%
Poor banking relationship	7.7%	12.8%	9.1%
No funds available	16.5%	24.6%	22.7%

For businesses that did receive government resources, most have been using the loans for payroll and rent, as well as utilities, in compliance with government loan guidelines. (There were no significant differences by demographic group.)

If you received government resources, how are you using them? (check all that apply):



Stimulus checks are considered the most helpful government support right now.

When asked what type of government help would be most useful right now, the majority (66%) of all small business owners agreed that stimulus checks to individuals would be most helpful.

What can help?	Percentage	Description
<i>What Government proposed programs would help most right now?</i>	66.0%	Stimulus checks to individuals
	30.8%	Extension of PPP loans
	30.4%	Extension of enhanced unemployment benefits
	23.8%	Elimination of 75% payroll requirement for PPP loans
	20.6%	Bonus for employees who start new jobs or are rehired
	19.6%	Employee tax credit

Minority-owned businesses cite business mentoring, access to business networks, and free advertising credits as the most helpful non-government support that they could use.

Business owners were asked about a variety of non-government resources, information and tools that they feel would best support their businesses through this tumultuous time. About half of all business owners (52%) cite that free advertising credits would be helpful. Business mentoring was also cited as a need; especially for Black business owners (58.5%) and Hispanic business owners (63.7%), more so than White business owners (45.4%). Likewise, access to local business networks was cited as something Hispanic business owners (54.4%), and Black business owners (52.1%) would like help with.

Minority small business owners value help finding additional financing (Black business owners 54.9%; Hispanic business owners 45.4%) and securing relationships with financial institutions (Black business owners 45.5%, Hispanic business owners 34.6%). A smaller, but notable number of Black business owners (29.3%) and Hispanic business owners (35.2%) would like professional assistance to negotiate with creditors or landlords.

What non-government programs would help most right now? (check all that apply):



Impact on Business Owner Expectations and Outlook

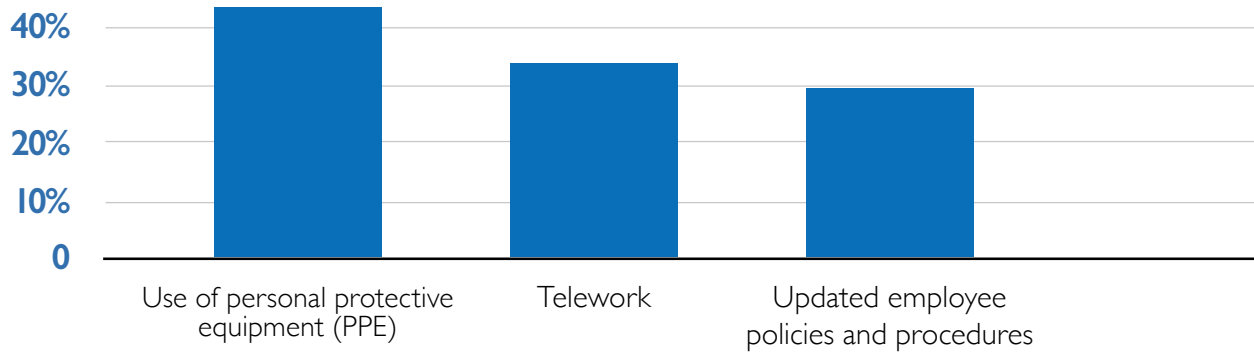
Highlights

- COVID-19 caused businesses to make significant changes in their operations. Most businesses (70.8%) had to change their operations to include things like personal protective equipment, new safety protocols, and telework since March 2020.
- Optimism for future growth persists. More than half of all business owners (55.2%) feel somewhat or very optimistic about growth in the next 12 months.
- Minority business owners are especially optimistic. Twice as many Black business owners (36.1%) and about one-and-one-half times as many Hispanic business owners (26.9%) feel very optimistic about the next year, compared to 18.7% of White business owners.

“2020 has required several pivots that may lead to better long-term results, but delayed income presently. I am optimistic, but also very aware of the work it will take.”

Small business owners are adapting. 70% of businesses cite making significant changes to their business operations.

COVID-19 created challenges that no business owner could have anticipated, so businesses had to quickly consider operational changes and new strategies in order to stay in business. The vast majority of businesses (70.8%) cited significant changes with the top three biggest changes being:

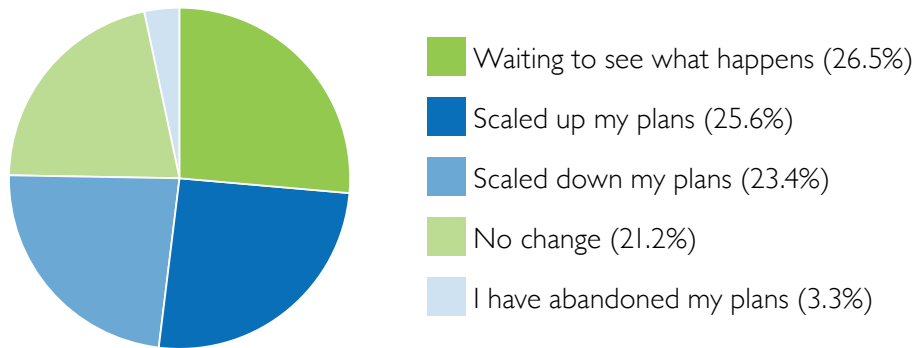


What changes have you made with your business? (check all that apply):



When business owners were asked how their attitudes have changed since March 2020 with respect to their business plans, answers were split. About one quarter of all respondents (25.6%) feel optimistic about scaling up; one quarter (23.4%) feel they should scale down; one quarter (21.2%) will make no changes; and, one quarter (26.5%) are still waiting to see what happens.

How much has your attitude changed about starting or continuing your business since March 15, 2020?:

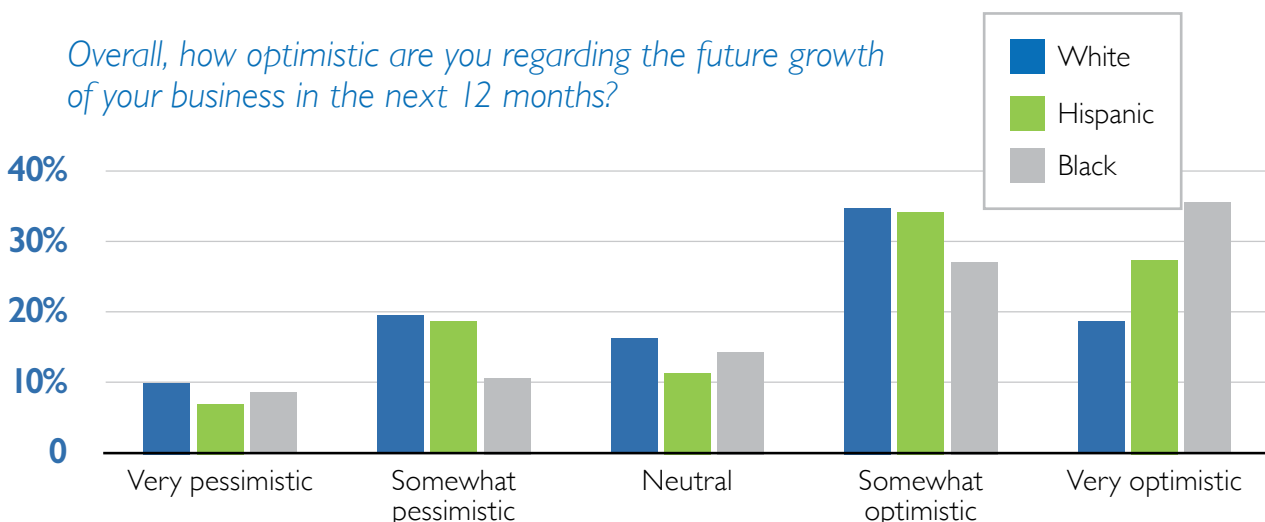


More than half (55.2%) of all business owners feel somewhat or very optimistic about growth in the next 12 months.

Business owners tend to be very optimistic and resilient people, but the pandemic has shaken the confidence of many. To learn how small business owners really feel, SCORE asked how optimistic they were with respect to their growth potential over the next 12 months.

More than half of all business owners (55.2%) feel somewhat or very optimistic about growth in the next 12 months. Twice as many Black business owners (36.1%) and about one-and-one-half times as many Hispanic owners (26.9%) feel very optimistic about the next year, compared to 18.7% of White business owners.

Overall, how optimistic are you regarding the future growth of your business in the next 12 months?



Conclusion

Minority business ownership has grown 23.0% since 2008, at twice the rate of all other businesses, but the COVID-19 pandemic has hit minority-owned businesses harder than their White business counterparts. Minority-owned businesses began 2020 with weaker financial health than their White business counterparts, and minority small businesses are concentrated in economic sectors that are among the most impacted by COVID-19 (hotels and leisure, restaurants, construction, and business services).

While most business owners report a decline in profitability since the pandemic began, this study reveals a more extreme decline among minority-owned businesses. The percentage of Black business owners reporting profitable businesses decreased to 26.5%, down from 48% in 2019. Among Hispanic business owners, it decreased to 29.2%, down from 51.2% in 2019.

This study also reveals that COVID-19 health concerns have directly impacted Black and Hispanic business owners far more than their White counterparts, with Black business owners 90.7% more likely and Hispanic business owners 42.4% more likely to have a direct relationship with someone who's been affected by the virus. Additionally, lack of childcare for Hispanic business owners (21.4%) posed a significant unmet need at a rate two-and-a-half times greater than their White counterparts (8.8%).

Among this study's most striking findings are racial inequities evident within small business owners' experiences with loans and assistance. While Black and Hispanic business owners sought business funding 100% more often than White business owners, they were far less likely to receive it. White business applicants (63.7%) received the full amount of the Federal Payroll Protection Program (PPP) loan three times more often than Black applicants (20.3%), and two times more often than Hispanic applicants (36.8%). Additionally, when it comes to new investors, though 28.4% of Hispanic business owners sought funding from new investors (a rate that is three times higher than their White counterparts (9.6%), they received no funds (0.0%), compared to White business owners (13.3% of whom received funds) and Black business owners (6.4% of whom received funds). In general, White business owners were three times more likely to get PPP loans; three times more likely to get Economic Injury Disaster Loans (EIDL); and four times more likely to get other Small Business Administration (SBA) loans than Black and Hispanic business owners.

More than twice as often, Black and Hispanic Business owners cite insufficient or poor credit as the main reason they did not receive requested funds. Additionally, twice as many minority business owners report not having a formal relationship with a bank (27.1% of Black business owners and 22.4% of Hispanic business owners reporting no banking relationship vs. only 13.7% of White business owners).

“The current status of our country has led me and many others to look for and pursue avenues outside the normal sector. Survival skills are born through adversity.” – Black business owner

Although COVID-19 has forced 70% of businesses to make significant changes to their operations, business owners remain an optimistic group. This is especially true for Black and Hispanic business owners. Twice as many Black business owners (36.1%) and about one-and-one-half times as many Hispanic business owners (26.9%) feel very optimistic about the next year, compared to only 18.7% of White business owners. Black and Hispanic business owners are also much more likely to anticipate hiring employees or contractors within the next six months or year.

All businesses (but especially minority-owned businesses) cite business mentoring, access to business networks, and free advertising credits as the most helpful forms of non-government support.

SCORE understands that a thriving and healthy ecosystem for minority-owned businesses is important for broader economic growth and opportunity. All entrepreneurs are encouraged to take advantage of the variety of free, online resources available on www.score.org including connecting with a free, expert SCORE mentor. The [SCORE Small Business Resilience Hub](#) is designed to help business owners successfully navigate the COVID-19 pandemic and bolster their business for future success.

Please contact SCORE's media office for interview inquiries, or to discuss future research partnerships, at media@score.org.

"My whole business journey has been one challenge after another. I am happy to say I have made it this far and I won't stop. My business will be a success!" – Hispanic business owner

Methodology and Demographics

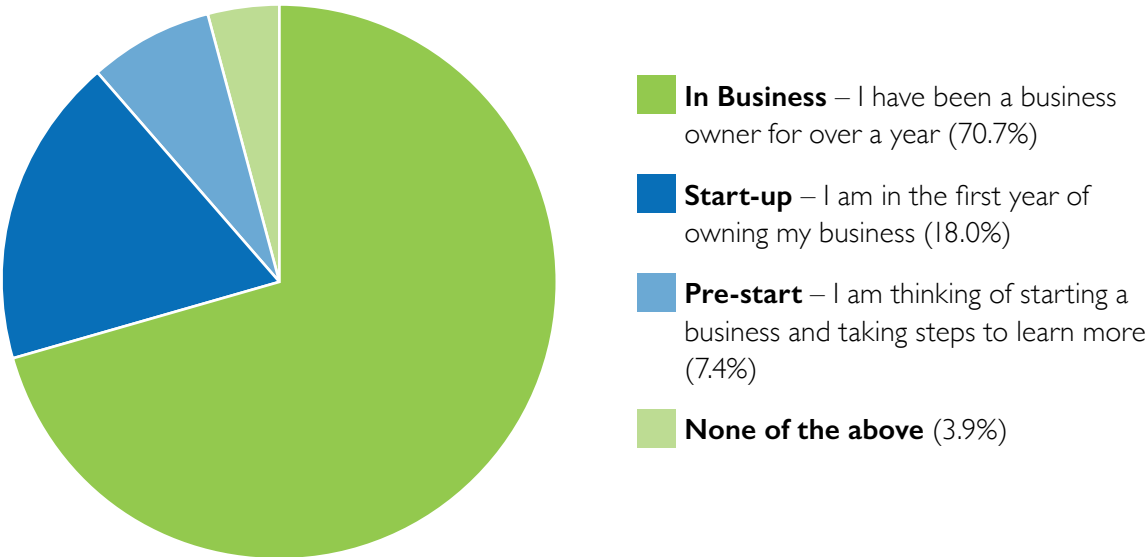
Between August 14-25, 2020 SCORE recruited 3,613 entrepreneurs to participate in this survey through SCORE's newsletter email list. SCORE also sought the opinions of entrepreneurs through Facebook ads and reached out to members and interest groups through the Latino Coalition. (99% of all respondents came through the SCORE email list outreach.)

All respondents who identified as current business owners were given the same questions. In the demographics section, respondents could select as many race/ethnicity categories as they wished. In this report, Black business owners are those selecting "Black or African American," Hispanic business owners are those selecting "Of Hispanic origin or descent (such as Mexican, Puerto Rican, Cuban, or other Spanish background)" and White business owners are those selecting "White/Caucasian." In any analysis denoting "all business owners," all respondents were used.

Stage of Ownership and Size of Business

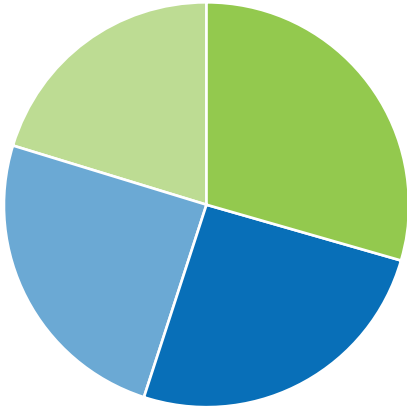
Of the entrepreneurs responding to SCORE's survey (3,613), 70.7% have been in business for over one year. If an entrepreneur selected "none of the above", they were not included in this analysis. For this reason, the total number of responses analyzed for this report is 3,461.

What is your stage as a small business owner?



Business function

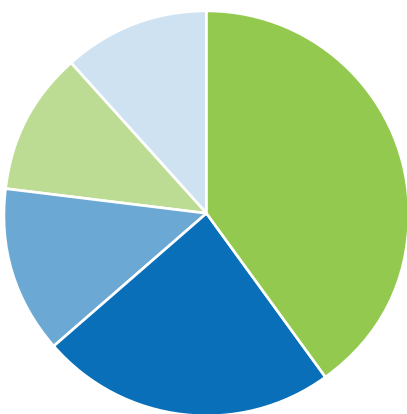
The intended business function for the entrepreneurs included in this study range fairly evenly between supplemental work for themselves (25.4%) to businesses that are ready to hire employees (20.1%).



- Stable Non-employer** – The business is the owner’s primary source of income; the owner does not work as an independent contractor or 1099 worker; and, the owner has no plans to hire employees in the next 12 months. (29.7%)
- Supplemental Work** – The business is not the owner’s primary source of income and the owner has no plans to hire employees in the next 12 months. (25.4%)
- Contract Work** – The business is the owner’s primary source of income; the owner works as a contractor or 1099 worker; and, the owner has no plans to hire employees in the next 12 months. (24.8%)
- Early Stage Potential Employer** – The firm has been in business for 1 year or less and the owner has plans to hire employees in the next 12 months. (20.1%)

Age of business

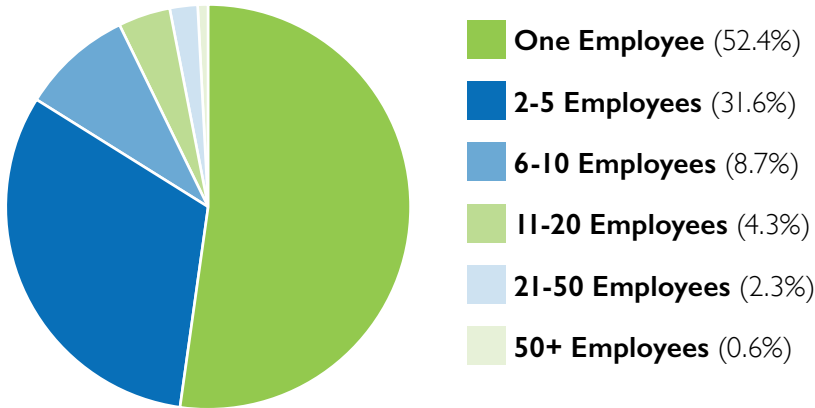
Over one thousand respondents have been in business between 0-2 years (40.2%). The next largest group (23.5%) has been in business between 3-5 years.



- 0-2 Years** (40.2%)
- 3-5 Years** (23.5%)
- 6-10 Years** (13.3%)
- 11-20 Years** (11.6%)
- Over 20 Years** (11.4%)

Number of employees

The majority of respondents are the sole employee of their small business (52.4%). 31.6% have 2-5 employees; 8.7% have 6-10 employees; 4.3% have 11-20 employees; and 2.9% have 21 or more employees.



Annual business revenue

< \$25,000	43.8%
\$25,001 – \$50,000	13.6%
\$50,001 – \$100,000	11.7%
\$100,001 – \$250,000	11.6%
\$250,001 – \$500,000	8.0%
\$500,001 – \$1M	5.2%
\$1M – \$2.5M	3.9%
\$2.5M – \$5M	1.4%
\$5M – \$10M	0.5%
> \$10M	0.4%

Industry/Category of Business

Agriculture, Farming, Fishing and Hunting	2.0%
Arts, Entertainment and Recreation	10.0%
Banking, Finance and Insurance	2.6%
Construction	4.3%
Education/Day Care	4.3%
Health Care and Social Assistance	8.0%
Home Maintenance Services	2.4%
Food and Accommodations	6.5%
Manufacturing and Industrial	6.2%
Nonprofit/Public/Professional Organization	4.0%
Personal Services	11.7%
Real Estate, Rental and Leasing	2.6%
Rental and Wholesale Trade	14.9%
Professional/Scientific/Technical Services	17.2%
Transportation and Warehousing	1.7%
Travel	1.7%

Business Location



Gender of Business Owner

Female	63.8%
Male	33.3%
Prefer not to answer	2.7%
Non-binary	0.3%

Race/Ethnicity of Business Owner (check all that apply)

White	62.7%
Black	21.8%
Hispanic	7.9%
Prefer not to answer	6.0%
Asian	4.0%
Race/ethnicity not listed here	2.5%
First Nation/Native American	2.2%

Age of Business Owner

18-24	0.3%
25-34	5.5%
35-44	17.7%
45-54	29.3%
55-64	32.8%
65+	14.4%

Education of Business Owner

Non High School Graduate	0.7%
High School Graduate	4.1%
Some College	17.1%
Trade/Tech School	6.7%
College Graduate	33.7%
Some Postgraduate	8.4%
Postgraduate Degree	29.3%

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^{xii}Knowles, Francine. “Column: With limited access to resources, Black-owned businesses hit especially hard by pandemic”. Chicago Tribune. July 14, 2020 <https://www.chicagotribune.com/suburbs/daily-southtown/ct-sta-knowles-column-st-0714-20200714-xbreb5wafvhczdgz6etaiyodzq-story.html>

^{xiii}Knowles, Francine. “Column: With limited access to resources, Black-owned businesses hit especially hard by pandemic”. Chicago Tribune. July 14, 2020 <https://www.chicagotribune.com/suburbs/daily-southtown/ct-sta-knowles-column-st-0714-20200714-xbreb5wafvhczdgz6etaiyodzq-story.html>

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