



NATIONAL
Minority Supplier
Development Council

National Survey **Access to Capital** **Among Minority Business Enterprises**

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Foreword by

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National Minority Supplier Development Council

The National Minority Supplier Development Council (NMSDC) is the global leader for advancing business opportunities for certified minority business enterprises and connects them to corporate members. NMSDC assists in the development and maintenance of effective corporate supplier diversity programs, and connects corporate purchasers with minority business enterprises (MBEs).

Number of Corporate Members: 1,750 including many Fortune 500 companies

Number of MBEs: 12,000 MBEs

Economic Output: \$100 billion+ in products and services purchased by US corporations supplied by NMSDC certified MBEs

Demographics: Asian, Black, Hispanic and Native American

More information can be found in the NMSDC Annual Report www.nmsdc.org



Rochester Institute of Technology (RIT) Saunders College of Business

Founded in 1829, Rochester Institute of Technology (RIT) is a privately endowed, coeducational university with nine colleges emphasizing career education and experiential learning. Located in Rochester, New York, RIT also has international campuses in Eastern Europe and Dubai. The Saunders College of Business is one of the smallest of the top business programs in the country and is accredited by the Association to Advance Collegiate Schools of Business International (AACSB). Its undergraduate entrepreneurship program is ranked #21 by Bloomberg BusinessWeek and its Masters of Science in Entrepreneurship and Innovative Ventures program is ranked #33 by Eduniversal. saunders.rit.edu/about/recognition.php



NCT Ventures

NCT Ventures is an early stage venture capital firm dedicated to helping entrepreneurs build great companies. NCT provides a platform for entrepreneurs to succeed in turning their ideas into profitable business models through hands-on operational support. Over the last decade, NCT's team has helped build many successful companies in the Midwest by investing in companies with disruptive business models that create greater efficiency in focus market sectors. www.nctventures.com



Coalescence

Founded in 2005, Coalescence is the premier solutions provider to the Food, and Health Care sectors. Coalescence partners with customers from ideation to commercialization with a commitment to ethical sourcing, talent development, and environmental sustainability to address global health concerns. In addition to co-founding Coalescence, Dr. Blount is a published scholar and regularly partners with universities and institutions to conduct academic research on minority entrepreneurship.

www.coalescencellc.com

Foreword

Access to capital is a critical factor to the success and competitiveness of any business. The lack of access to capital among minority entrepreneurs is well documented. BAML Capital Access Funds Management (CAF) and the National Association of Investment Companies (NAIC) are proud of our work in helping fund managers and connecting minority and women owned businesses with sources of capital and business development programs. In addition to the realization that access to capital among minority owned businesses is critical to building a more vibrant economy, investment professionals continue to prove that investing in underserved markets can lead to strong market returns.

Having reviewed the findings and recommendations contained in the NMSDC Access to Capital Survey Executive Summary, we agree with the report's premise that Minority Business Enterprises (MBEs) would benefit by focusing efforts to overcome the internal factors that inhibit their ability to access capital. While external factors like historical discrimination can inhibit access to institutional capital, MBEs should explore the factors within their own organizations that may hamper their ability to obtain the critical growth or acquisition capital they seek. Additionally, we encourage MBEs to explore the many types of investment capital available and examine their willingness to consider various ownership structures in their companies to achieve their growth objectives.

As the researchers identify, overcoming barriers to accessing capital begins with education. MBEs interested in growing their companies beyond legacy or lifestyle concerns should develop a working knowledge of the varied funding and capital sources available to them. Business networks such as the National Minority Supplier Development Council (NMSDC) and NAIC can assist MBEs in cultivating relationships with non-traditional funding sources.

We commend the research team and NMSDC for their efforts to identify and address the barriers to accessing capital among minority business enterprises, and support many of the recommendations submitted by the researchers to address the various issues identified in this report.



Craig Fowler

About BAML Capital Access Funds Management

Since its inception in 2002, BAML Capital Access Funds Management, LLC (CAF), a private equity fund of funds, has been committed to providing capital to diverse investment managers and underserved markets. CAF has committed and advised on \$1.6 billion to 45 funds managed by ethnic and gender diverse professionals. Importantly, these professionals have significant shares of economics – on average receiving 55% of the carry and holding 57% ownership in the General Partner – and have an interest in investing in minority and women led enterprises.¹ CAF also co-founded the MBE M&A Summit and Inner City Capital Connections (ICCC) annual events to promote access to growth and acquisition capital for MBEs and inner city businesses. www.bofaml.com



Robert Greene

About the National Association of Investment Companies

NAIC was founded in 1970, and for the past forty four years has served as the industry association for diverse owned private equity firms and recently expanded its membership to include diverse owned hedge funds. The association engages in strategic advocacy and compelling thought leadership in order to promote wealth creation for diverse communities across the nation. NAIC has approximately forty member firms that collectively manage more than \$40 billion in private equity and hedge fund assets. www.naicvc.com

Introduction

By the year 2044, more than half of all Americans will belong to a minority group, according to the U.S. Census Bureau. This major demographic shift will have a significant impact on every aspect of the country, and ensuring greater access to employment and entrepreneurship among minorities will be of exponentially greater concern to the health and sustainability of the U.S. economy. Entrepreneurship and small business ownership is the greatest driver of wealth and job creation in the U.S. Improving access to capital among underrepresented minority entrepreneurs is more than a social issue; it is an economic imperative.

Moreover, investing in underrepresented markets is good for business. Studies by the National Association of Investment Companies (NAIC) show that funds investing in underserved markets consistently generate returns that outperform the market. Although there has been some progress in the private equity industry to develop programs and funds that focus capital on addressing underserved markets, minority entrepreneurs continue to be significantly undercapitalized when compared to non-minority counterparts. Particularly in high growth and technology sectors, the lack of diversity continues to be a major challenge.

The private equity and venture capital industries are becoming more aware about the environmental factors, historical discrimination and unconscious biases that help drive disparities in access to capital. In August 2015, the Obama Administration and the National Venture Capital Association (NVCA) announced a bold commitment to action to improve inclusion across the entrepreneurship ecosystem. In addition to addressing issues within the technology and investment industries, understanding the internal barriers that impede minority firms' ability to access capital is a necessary step towards addressing this issue.

To that end, the NMSDC Access to Capital Survey examines Minority Business Enterprises (MBEs) and focuses on the internal factors, those within a minority firm's control, which may hamper their ability to obtain critical growth or acquisition capital. The survey findings indicate that improving access to capital begins with education. Organizations such as the National Minority Supplier Development Council (NMSDC) can help provide educational opportunities and assist minority firms in developing relationships with alternative investors. Additionally, more opportunities for networking between capital providers and minority entrepreneurs can help to improve the negative perception MBEs may have about private equity and other alternatives.

Although NMSDC corporate members spend over \$100 billion with certified MBE suppliers every year, this represents only a fraction of procurement activity in the US. MBEs are being left behind when it comes to high growth opportunities. While new emerging companies are disrupting every sector of our economy, many MBEs are struggling to innovate, scale and compete because they are undercapitalized. Access to early stage, growth, and expansion financing is critical to the ability of minority entrepreneurs to compete in the future economy.



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Executive Summary

There are many external environmental factors that contribute to the lack of access to institutional capital among minority business enterprises (MBEs). Stereotyping, statistical discrimination, historical discrimination, pattern bias, and cultural resistance were among the environmental barriers identified in the extant literature. We believe that over time, the industry will make incremental strides to ameliorate the aforementioned barriers to capital. However, we postulate that MBEs will have greater control and impact change more rapidly by focusing on their firms' internal factors.

Objectives

- To research the barriers that inhibit minority business enterprises from raising capital
- To develop strategies and policy recommendations that improve access to capital for diverse entrepreneurs, and
- To identify opportunities for future research

Survey Result Highlights

This study investigates what internal factors within MBE organizations contribute to the lack of access to venture and other forms of institutional capital. The survey results identified several key internal factors, including lack of a growth oriented exit strategy, lack of knowledge, lack of engagement, MBE certification requirements and negative perceptions about institutional funding sources.

Exit Strategy

70% of MBEs surveyed are seeking to grow legacy or lifestyle businesses. Private equity and venture capital are forms of institutional capital structured towards high growth, and usually require an exit event. This does not align with the goals of a legacy or lifestyle business.

Lack of Knowledge

50% or more have little or no knowledge across all categories of finance identified. However, about 70% of MBEs are interested in learning more about financing options across all categories.

Lack of Engagement

11% of MBEs have seriously explored alternative funding options compared to 69% that have seriously sought funding from banks.

Certification

54% of MBEs surveyed believe that losing certification would jeopardize their ability to retain customers. Those MBEs are less likely to seek equity financing for their companies.

Negative Perception

About 25% of MBEs surveyed have a negative or extremely negative perception of Venture Capital. The highest across all categories identified.

Recommendations

In order to overcome internal factors that contribute to the lack of access to institutional capital among MBEs, we recommend the following strategies be expanded and/or implemented:

Education

Online and on site curriculum, promoted to networks of minority business owners, such as the NMSDC, that teach MBEs about all of the finance options, as well as fundraising best practices and entrepreneurship in high growth sectors. These programs should be specifically structured to enhance a MBE's understanding of all types of financial tools as well as improve their overall level of financial sophistication to be able to interact in a substantive way with various fund managers. If MBEs are still interested in running lifestyle or legacy businesses, at a minimum succession planning needs to be incorporated into their lexicon.

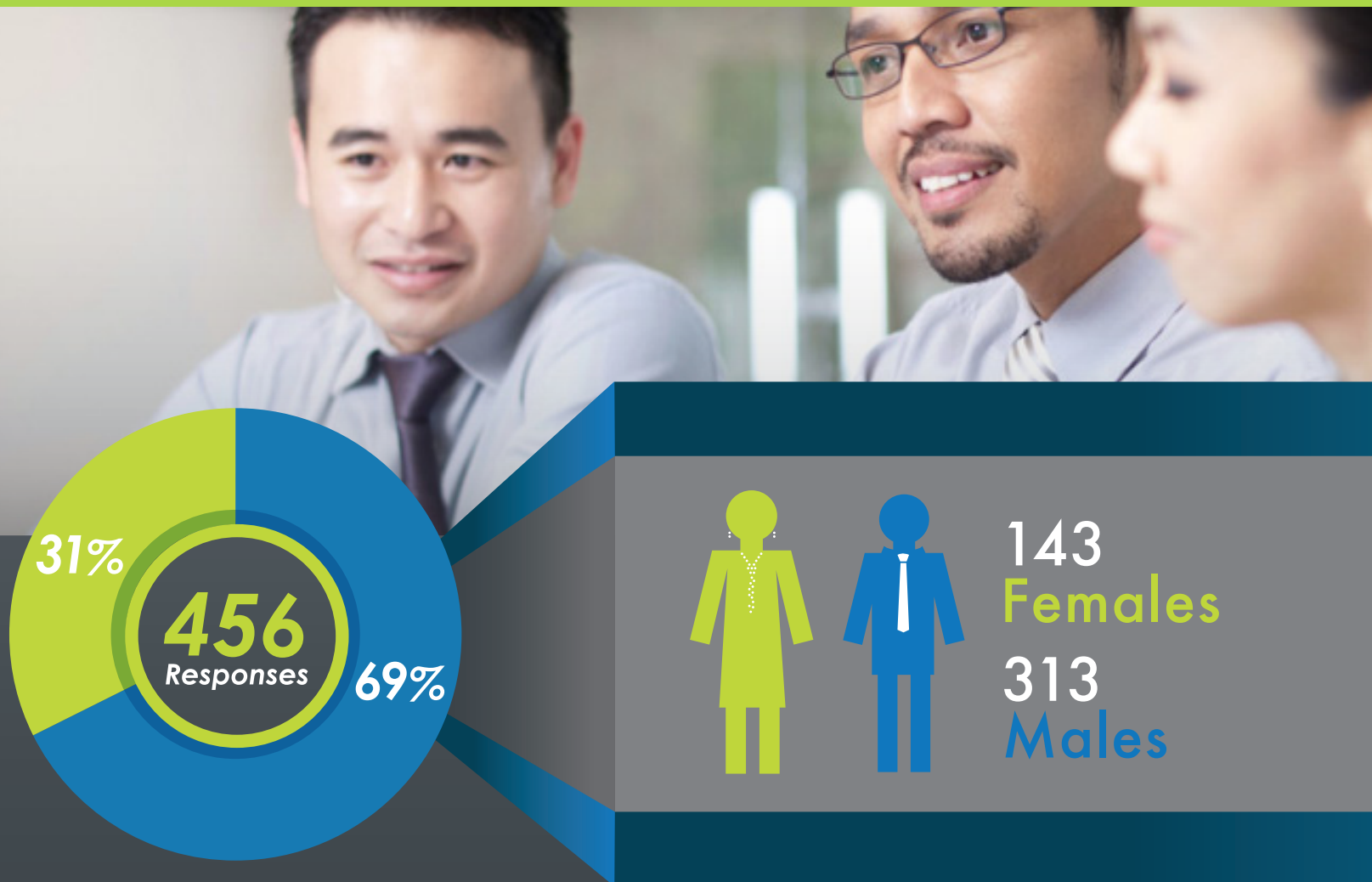
Outreach and Engagement

Relationships between networks of MBEs (i.e. NMSDC, MBDA etc.) and networks of investors (i.e. NVCA, NAIC, PEGCC, ACA) need to be significantly improved. Both formal and informal interactions should enhance opportunities for both MBEs and funders to gain better insight to the needs and/or requirements of the other. We believe by achieving "alignment" we will see better outcomes for both parties.

Certification Policy

MBE certifying agencies should explore policy changes to permit ownership structures that allow minority entrepreneurs to raise venture capital and private equity, while still maintaining their diversity designation. Public and private minority certification programs require that firms maintain 51% ownership and control by ethnic minorities in order to be eligible for MBE certification; a number much higher than the median equity stake of US venture backed companies after receiving venture funding. The NMSDC's growth initiative should be promoted and expanded in the public and private sectors. 54% of MBEs who responded to our survey indicated that losing certification would jeopardize their ability to retain current customers. Given that raising a round of institutional funding is likely to make a firm ineligible for certification, our survey suggests that certification requirements is a factor that limits MBEs from raising rounds of financing because it may jeopardize their ability to retain current customers.

Who took the survey?

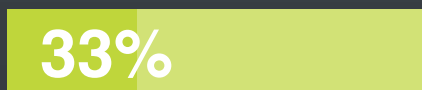


We asked **you** responded.

1. What is your ethnicity?



Black/ African American



Hispanic



Asian/Pacific Islander



Native American

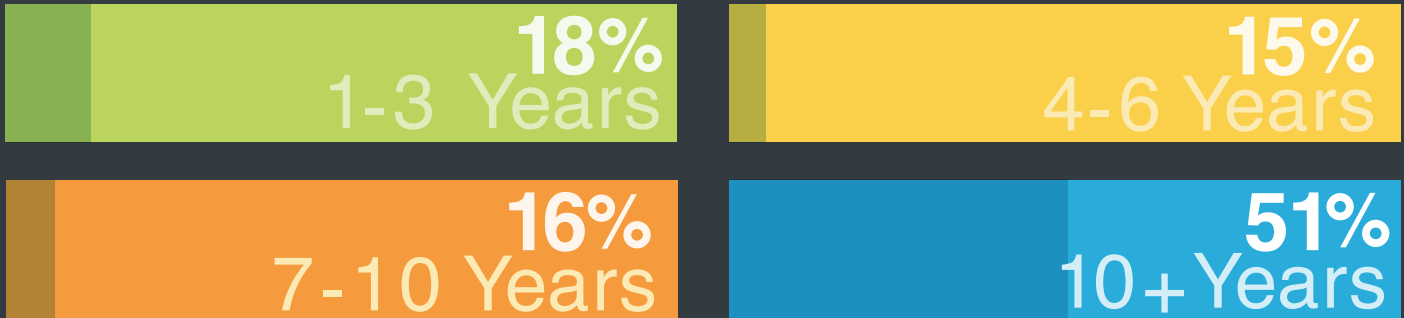


White

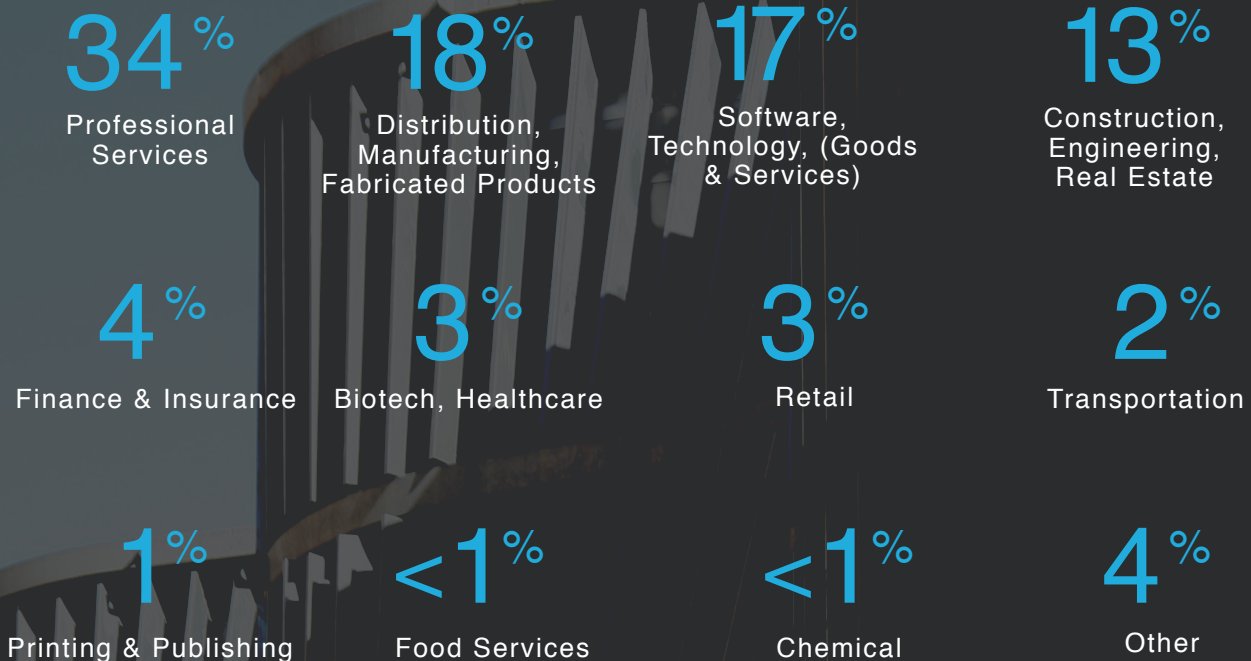


Other

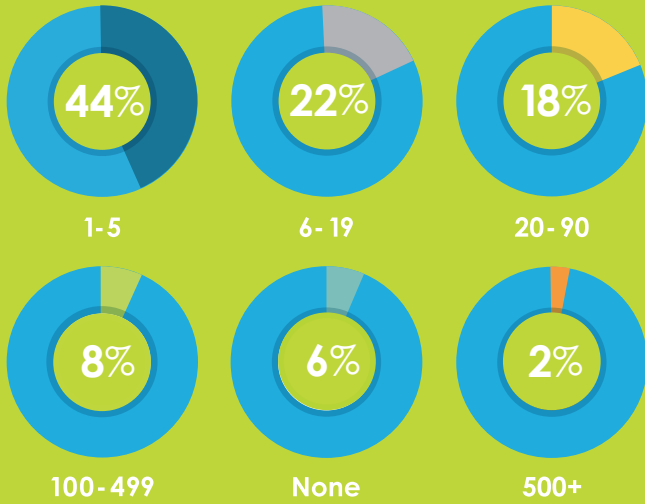
2. How long have you been in business?



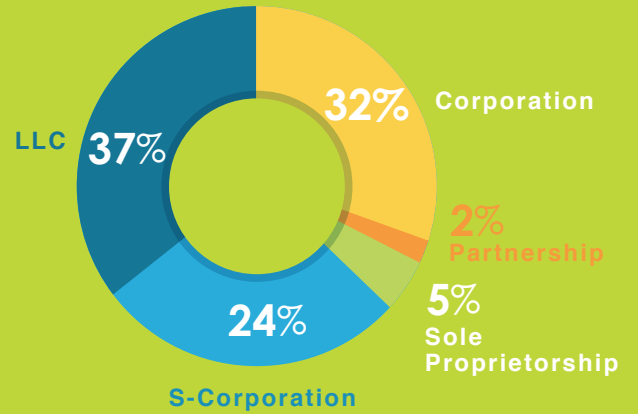
3. Which of the following best describes the industry or sector in which your business operates?



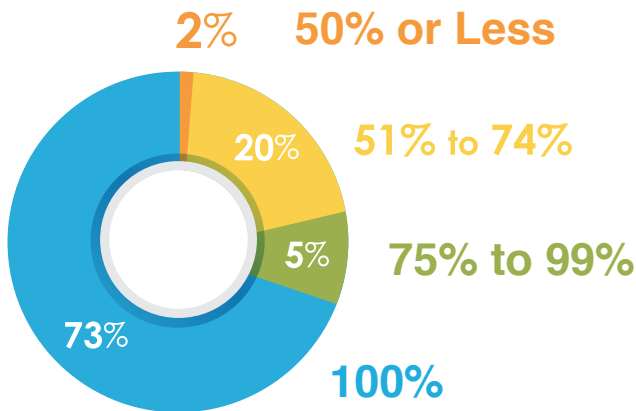
4. How many full time personnel are currently employed by your business?



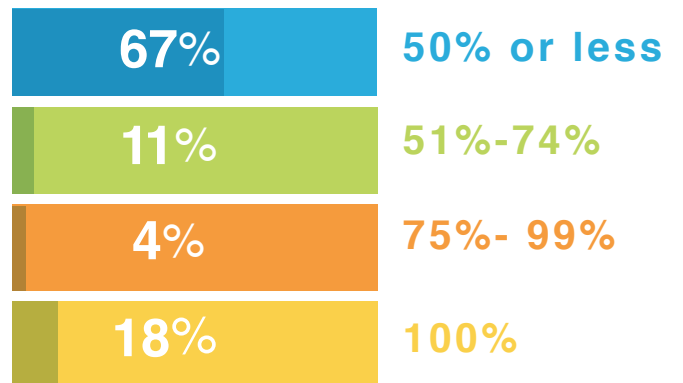
5. Which of the following best describes the structure of your business?



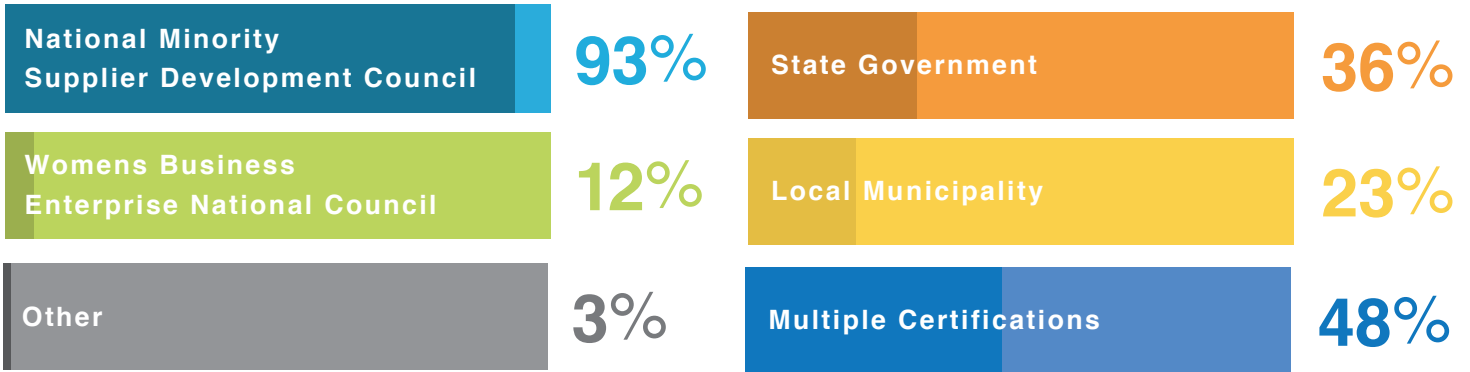
6. What percentage of your company is minority owned?



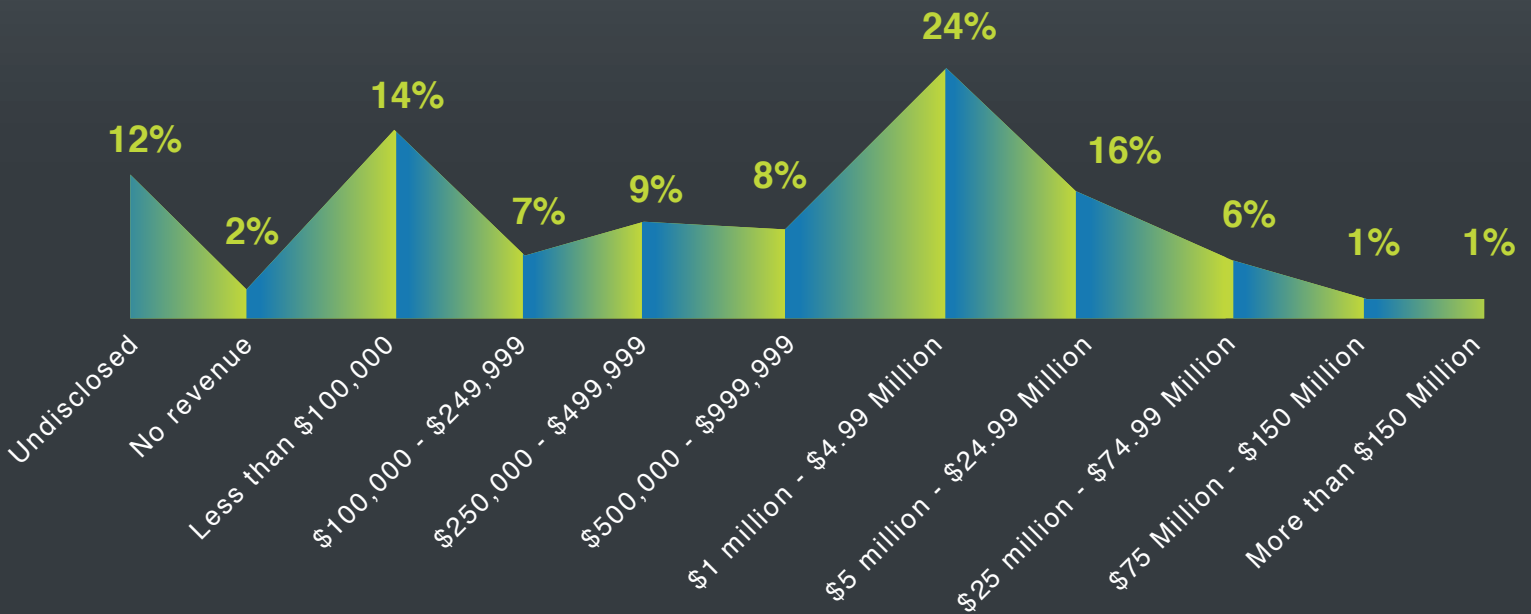
7. What percentage of your company is women owned?



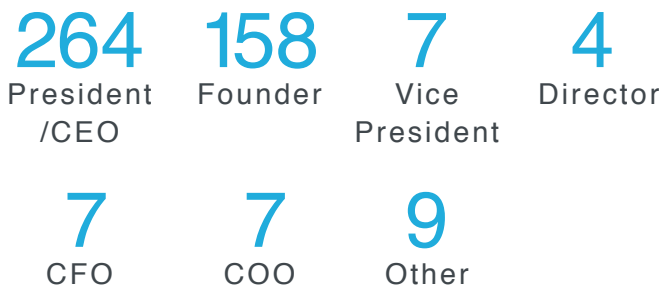
8. Is your business certified by any of the following certification bodies?



9. What is your company's gross sales revenue?



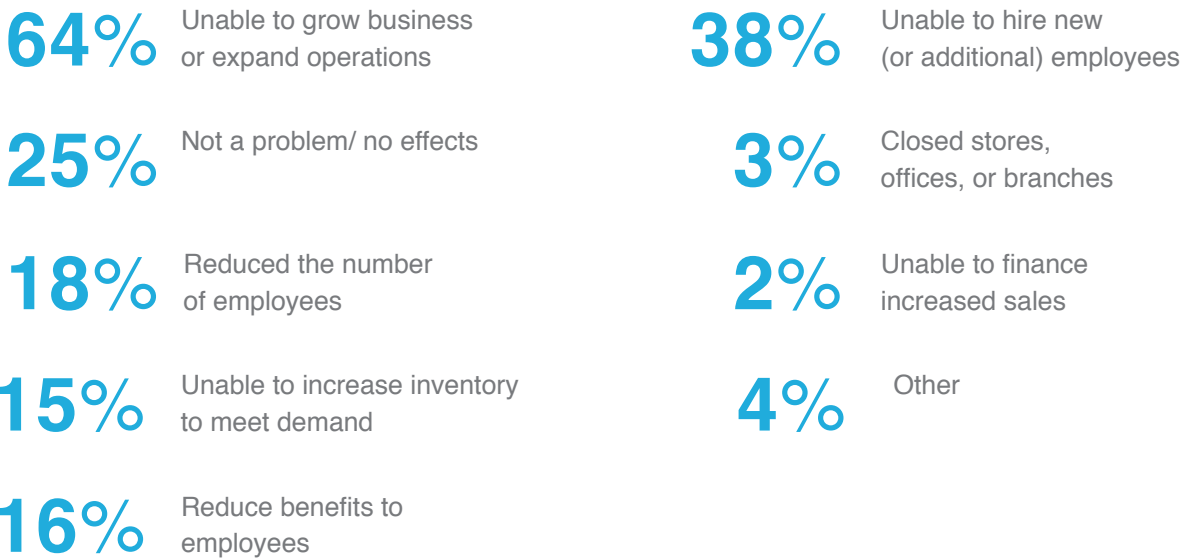
10. Describe your capacity within the organization?



11. Have you needed funds for your business and been unable to find anyone to lend to you in the last four years?



12. If capital availability is a problem for your business, what is the effect on your operations?



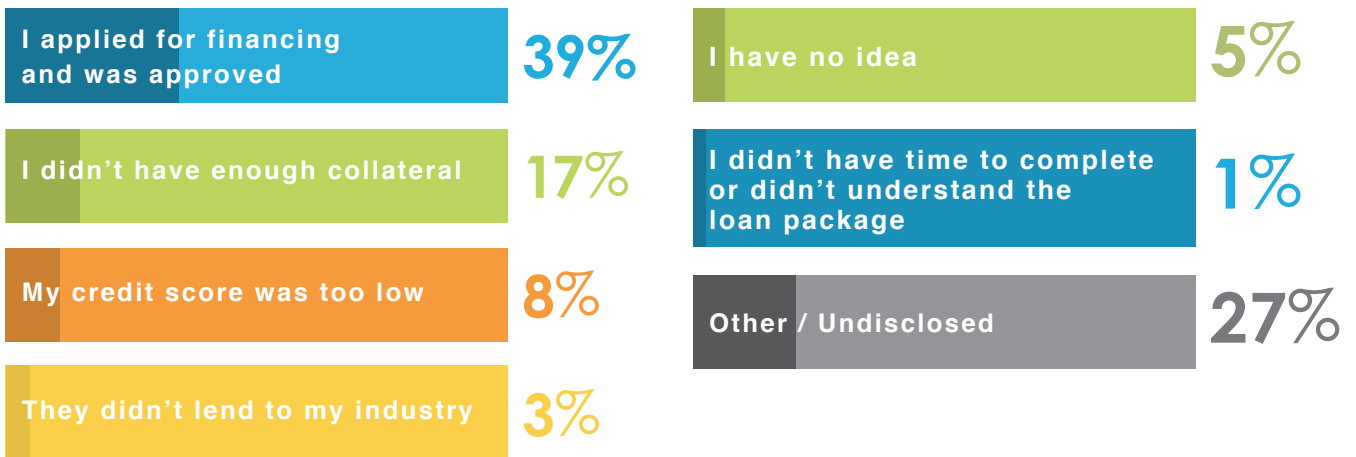
13. What types of financing has your company used within the last 12 to 24 months to meet your capital needs?



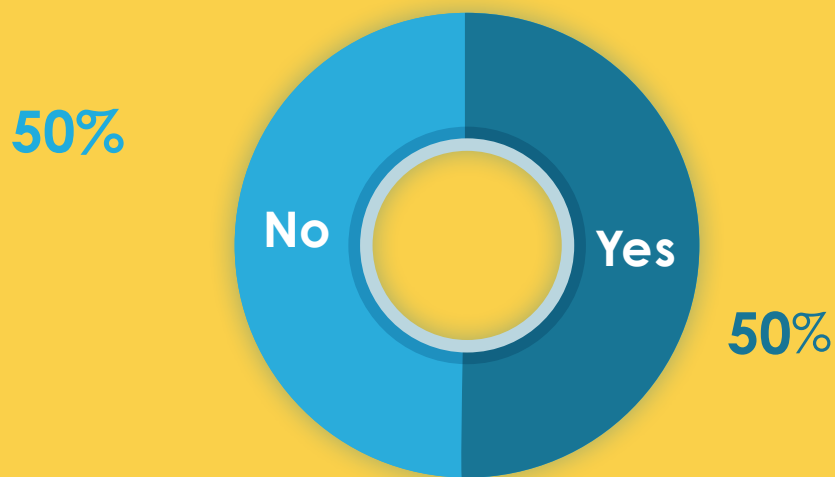
14. Have you applied for a loan or line of credit in the last three years?



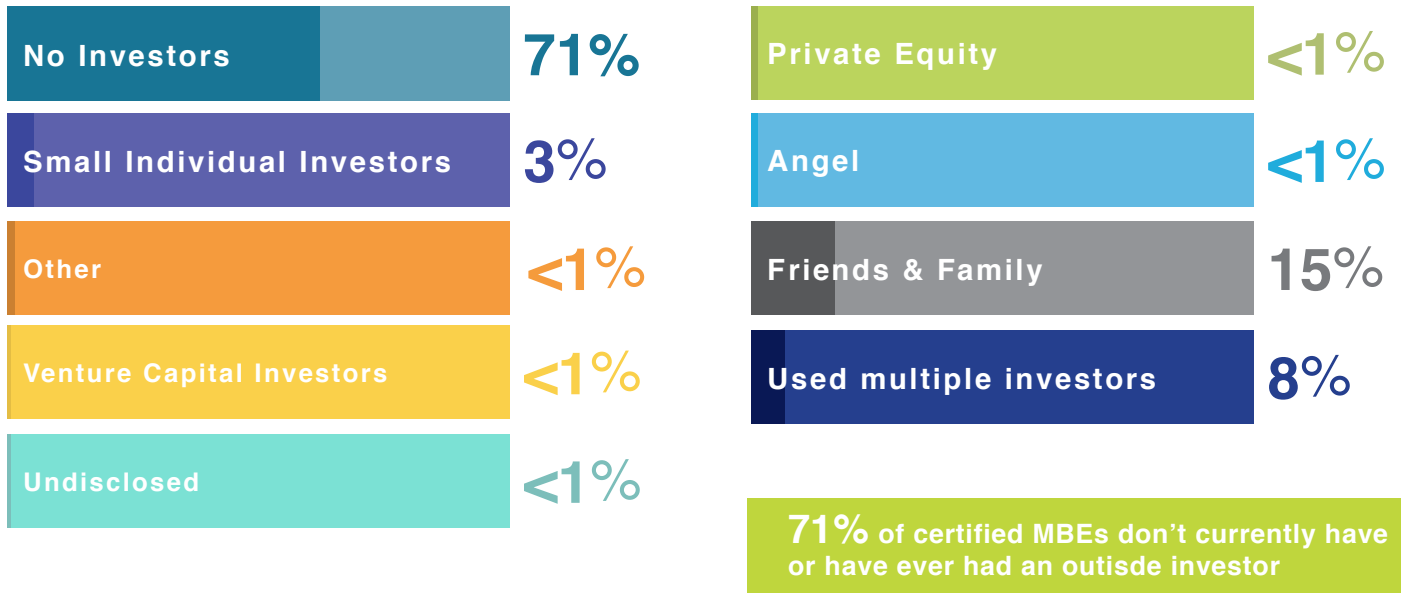
15. If you've applied for a loan or line of credit in the last three years, what was the result?



16. Are you currently seeking financing for your business?



17. Do you currently have, or have you ever had, any of the following investors in your company?



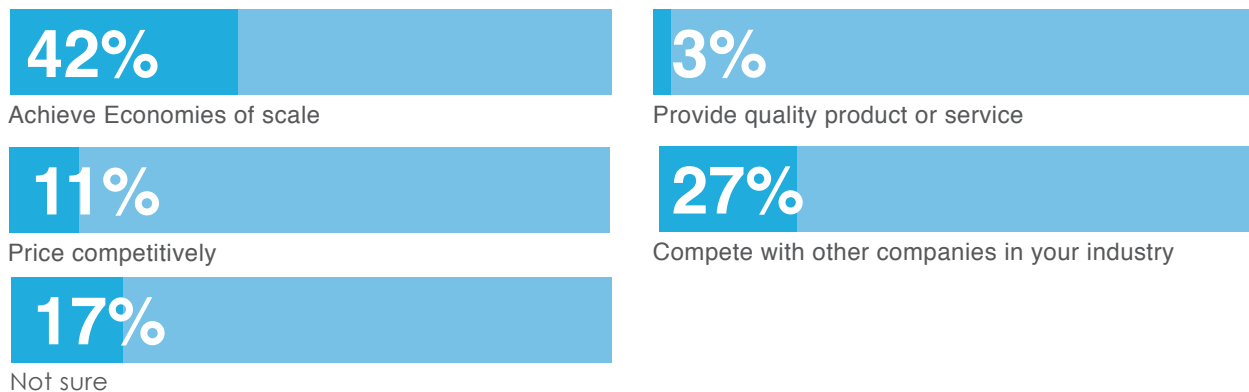
18. Approximately how much of your company is owned by outside investors?

■ Responses

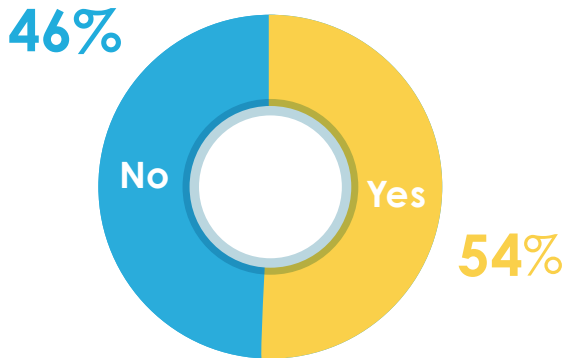
■ Percent of outside investors



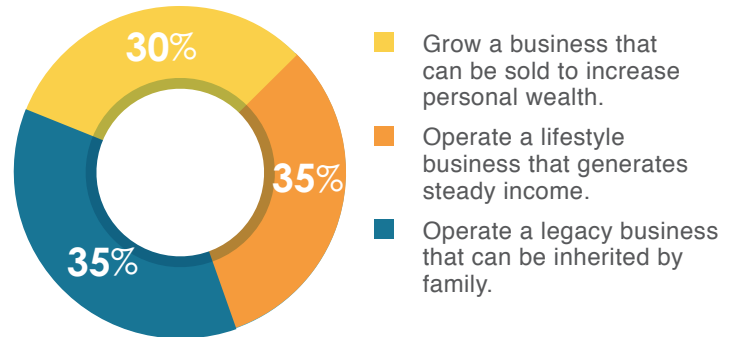
19. Does your company's size inhibit your business' ability to achieve any of the following?



20. If your business lost certifications, would it jeopardize your ability to retain current customers?

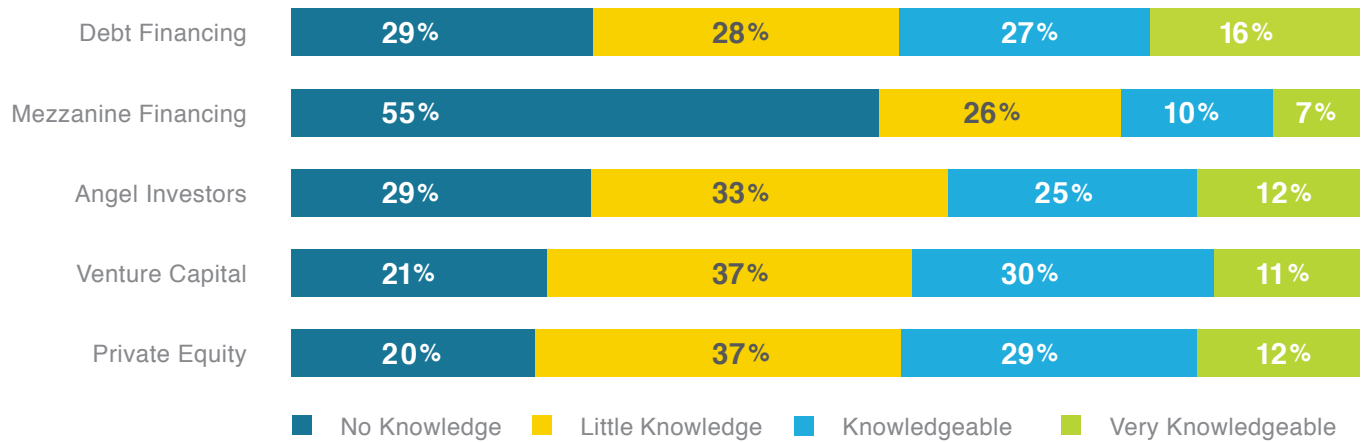


21. What is your primary goal as an entrepreneur?

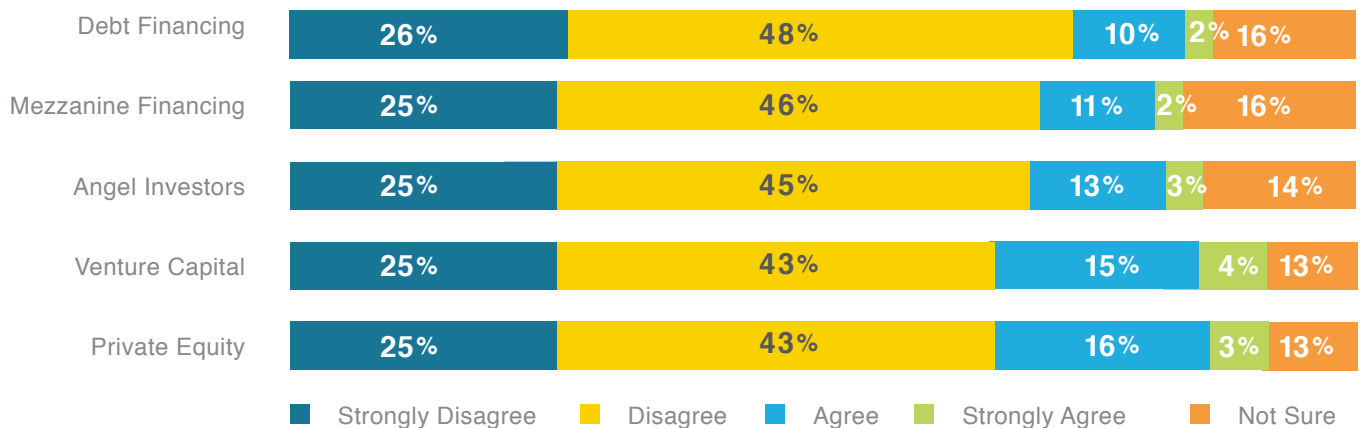


Over 50% of MBEs indicated that they have little to no knowledge about every category of financing identified in the survey

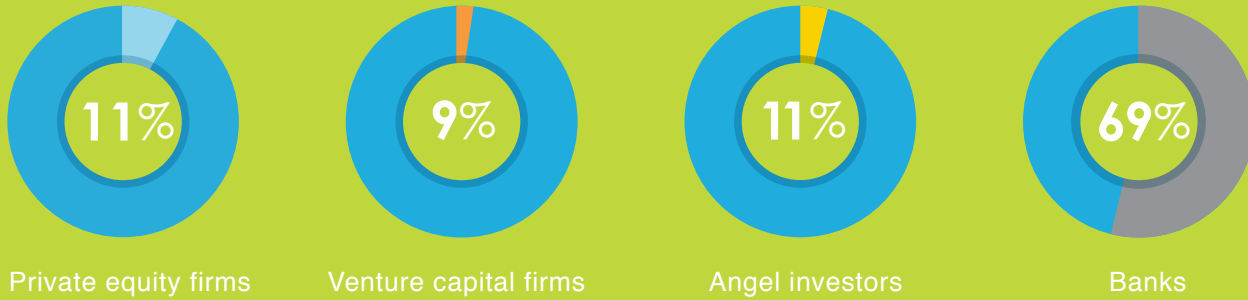
22. How knowledgeable are you about the following sources of funds?



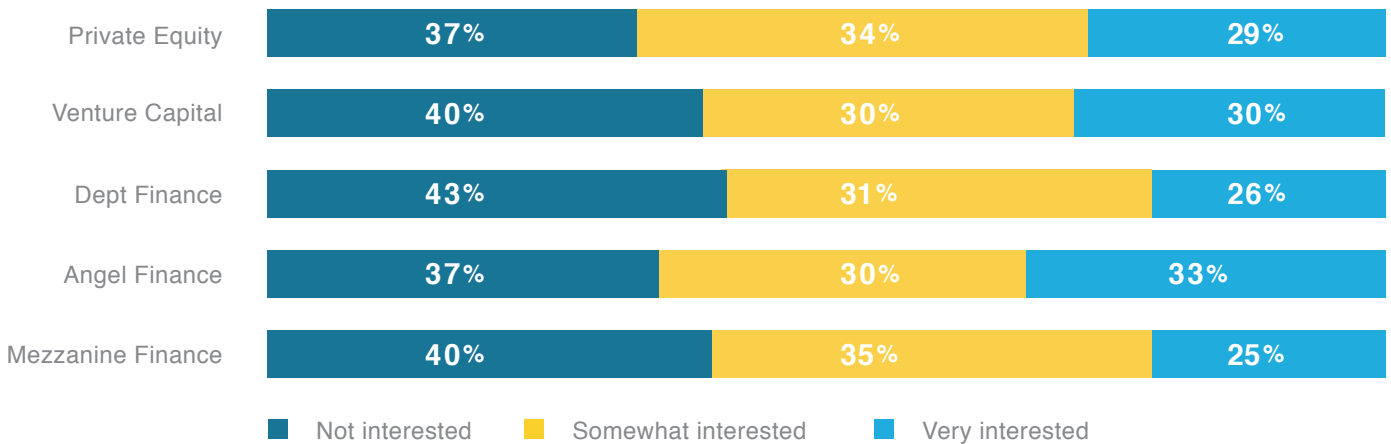
23. Certification requirements limit my options for accessing the following sources of capital to scale my business.



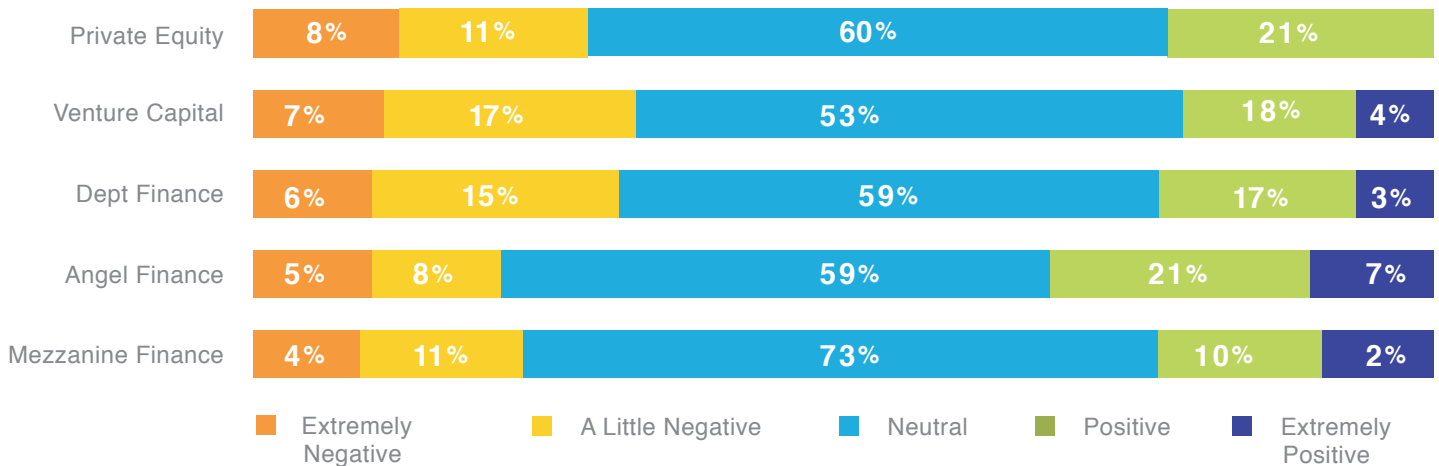
24. Have you seriously explored and sought any of the following sources of funds for capital to scale your business?



25. How interested are you in learning more about the following financing options?



26. What is your perception of the following financing options?





James Carpenter
Brand + Identity Designer
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