
Small Business Owner Race, Liquidity, and Survival

July 2020

Executive Summary

A large black circle containing the text "JPMORGAN CHASE & CO." and "INSTITUTE" in white serif font. A thin white horizontal line is positioned between the two lines of text.

JPMORGAN CHASE & CO.

INSTITUTE

Executive Summary

Diana Farrell

Chris Wheat

Chi Mac

The financial challenges small businesses face may be even more substantial for businesses with Black and Hispanic owners.

The contributions of the small businesses sector to the U.S. economy are often noted in periods of economic growth, and the fragility of the sector is a core focus of policy in an economic downturn. The sector is important not only because of its contributions to job growth, real economic activity, innovation, and economic dynamism, but also because of the impact it makes on the financial lives of the 30 million families whose household income and wealth is tied to the success or failure of the businesses they own. Black and Hispanic Americans comprise a substantial and growing share of small

business owners. A view of the financial performance of the firms they own is critical to understanding the extent to which the sector can deliver broad-based growth during an expansion, or where to focus policy attention and resources during a downturn, yet little recent data exists on differences in financial performance by owner race.

This report attempts to fill this gap by leveraging voter registration data from Florida, Georgia, and Louisiana to create a sample of nearly 150,000 small businesses with self-identified owner race. We use this new data asset

to inform differences in small business financial outcomes and survival by owner race from 2013 to 2019.

Black and Hispanic Americans comprise a substantial and growing share of small business owners.

Our findings are five-fold:

Finding 1: Black- and Hispanic-owned businesses are well-represented among firms that grow organically, but underrepresented among firms with external financing.

Finding 2: Black- and Hispanic-owned businesses face challenges of lower revenues, profit margins, and cash liquidity.

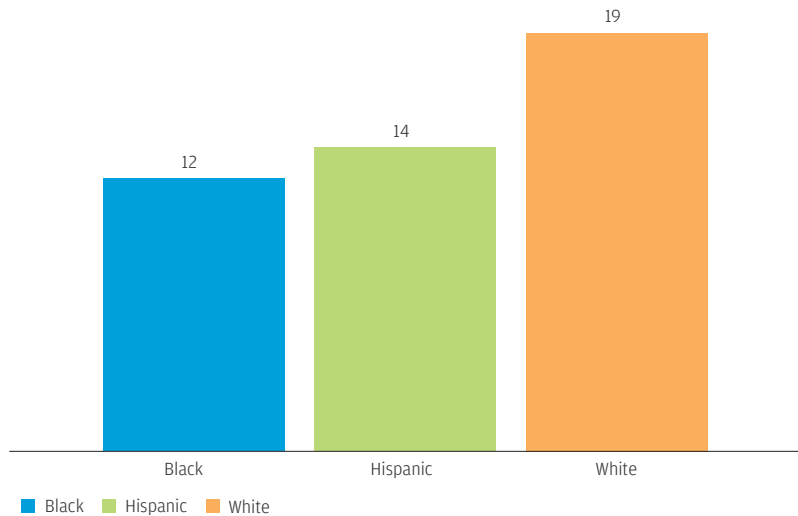
Finding 3: Firms with Black owners, particularly owners under the age of 35, were the most likely to exit in the first three years.

Finding 4: Black- and Hispanic-owned businesses with comparable revenues and cash reserves are just as likely to survive as White-owned businesses.

Finding 5: Racial gaps in small business outcomes are evident across cities, even in cities with large Black or Hispanic populations.

Our findings suggest that Black- and Hispanic-owned businesses may be disproportionately affected during the current economic downturn, though support to these businesses through liquid assets and access to markets could materially support their survival. Moreover, while these findings suggest that opportunity for the small business sector to deliver substantial wealth creation to Black and Hispanic families may be limited, policies that target smaller small businesses, businesses with younger owners, and businesses owned by women may best support broad-based growth during a recovery.

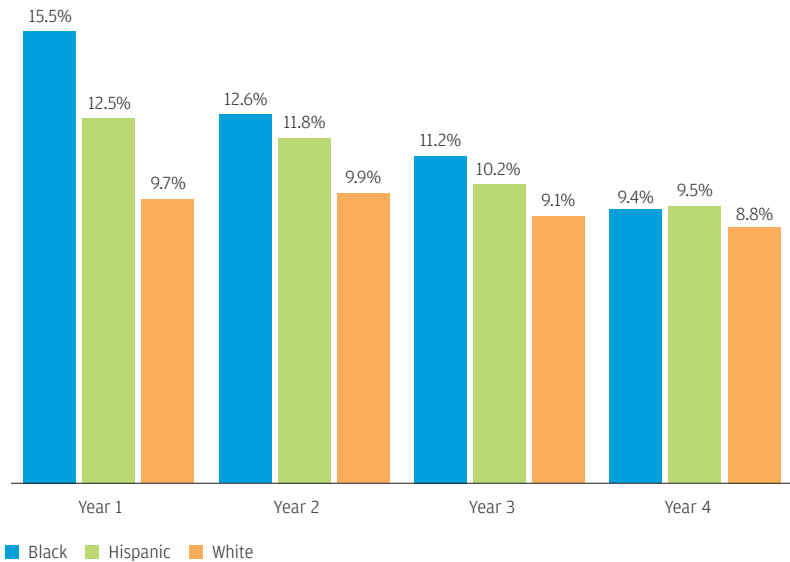
Median cash buffer days - year 1



Note: Sample includes firms founded in 2013 and 2014. Cash buffer days are calculated as the number of days during which a firm could cover its typical outflows in the event of a total disruption in revenues.

Source: JPMorgan Chase Institute

Exit rate by year



Note: Sample includes firms founded in 2013 and 2014.

Source: JPMorgan Chase Institute

Acknowledgments

We thank our research team, specifically Anu Raghuram, Nicholas Tremper, and Olivia Kim, for their hard work and contributions to this research.

We are also grateful for the invaluable inputs of academic and policy experts, including Caroline Bruckner from American University, David Clunie from the Black Economic Alliance, Sandy Darity from Duke University, Connie Evans, Jessica Milli, and Hyacinth Vassell from the Association for Enterprise Opportunity (AEO), Joyce Klein from the Aspen Institute, Claire Kramer-Mills from the Federal Reserve Bank of New York, Adam Minehardt, Susan Weinstock, and Felicia Brown from AARP. We are deeply grateful for their generosity of time, insight, and support.

This effort would not have been possible without the critical support of our partners from the JPMorgan Chase Consumer & Community Bank and Corporate Technology Solutions teams of data experts, including

Anoop Deshpande, Andrew Goldberg, Senthilkumar Gurusamy, Derek Jean-Baptiste, Anthony Ruiz, Stella Ng, Subhankar Sarkar, and Melissa Goldman, and JPMorgan Chase Institute team members including Shantanu Banerjee, James Duguid, Elizabeth Ellis, Alyssa Flaschner, Fiona Greig, Courtney Hacker, Bryan Kim, Chris Knouss, Sarah Kuehl, Max Liebeskind, Sruthi Rao, Parita Shah, Tremayne Smith, Gena Stern, Preeti Vaidya, and Marvin Ward.

We would like to acknowledge Jamie Dimon, CEO of JPMorgan Chase & Co., for his vision and leadership in establishing the Institute and enabling the ongoing research agenda. Along with support from across the Firm—notably from Peter Scher, Max Neukirchen, Joyce Chang, Marianne Lake, Jennifer Piepszak, Lori Beer, Derek Waldron, and Judy Miller—the Institute has had the resources and support to pioneer a new approach to contribute to global economic analysis and insight.

Suggested Citation

Farrell, Diana, Chris Wheat, and Chi Mac. 2020. “Small Business Owner Race, Liquidity, and Survival.”

JPMorgan Chase Institute. <https://www.jpmorganchase.com/corporate/institute/small-business/small-business-owner-race-liquidity-and-survival>.

For more information about the JPMorgan Chase Institute or this report, please see our website www.jpmorganchaseinstitute.com or e-mail institute@jpmchase.com.

This material is a product of JPMorgan Chase Institute and is provided to you solely for general information purposes. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the authors listed and may differ from the views and opinions expressed by J.P. Morgan Securities LLC (JPMS) Research Department or other departments or divisions of JPMorgan Chase & Co. or its affiliates. This material is not a product of the Research Department of JPMS. Information has been obtained from sources believed to be reliable, but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. The data relied on for this report are based on past transactions and may not be indicative of future results. The opinion herein should not be construed as an individual recommendation for any particular client and is not intended as recommendations of particular securities, financial instruments, or strategies for a particular client. This material does not constitute a solicitation or offer in any jurisdiction where such a solicitation is unlawful.

JPMORGAN CHASE & CO.

©2020 JPMorgan Chase & Co. All rights reserved. This publication or any portion hereof may not be reprinted, sold, or redistributed without the written consent of J.P. Morgan. www.jpmorganchaseinstitute.com