



HOUSTON'S SMALL BUSINESS COMMUNITY

EXPANDING ACCESS AND OPPORTUNITY FOR MINORITY AND WOMEN BUSINESS OWNERS

Report produced by

next street

EXECUTIVE SUMMARY

Houston is a world-class city. With over 6 million residents in the metropolitan area, it has been ranked the most diverse city in the country based on socioeconomic, cultural, economic, household, and religious diversity.¹ It is a city where community members take pride in their homes and businesses, and when faced with challenges, notably Hurricane Harvey in 2017, they come together, resilient and relentless in their determination to move forward.

Despite these strengths, disparities prevent minorities and women from fully participating in wealth-building through small business ownership. These challenges are not unique to Houston: nationally, women and minorities are starting businesses at significantly higher rates than their white and/or male counterparts, yet they face disproportional barriers to starting and sustaining businesses. When the barriers are removed, we see advances in wealth creation and improved economic mobility for women and minorities through small business ownership. Research suggests that self-employed business owners, especially minorities, experience faster earnings growth than wage and salary workers.²

FIGURE 1.1

HOUSTON BUSINESS LANDSCAPE

The good news:

#1 in US for minority entrepreneurs, based on criteria such as startup density, rate of new entrepreneurs, percentage of companies owned by minorities, and access to financial resources

#4 in US for women entrepreneurs, based on number of women-owned businesses

The challenge:

Minority-owned businesses are denied loans at 3x the rate of non-minority-owned firms

75% of the city is non-white, yet only 42.5% of Houston's employer small businesses, or small businesses with at least one employee, are minority-owned

Women own only 24% of employer small businesses in Houston, and women-owned businesses account for only 11% of employer small business sales in the city

The opportunity:

Tap the city's existing assets and momentum to foster equity through improved access to capital, customers, and services for Houston's diverse landscape of small businesses



OUR APPROACH

This report reveals the gaps that exist for Houston’s minority and women small business owners, solutions that will connect these business owners with the capital resources and services that are critical to their growth and success. Developed by the City of Houston Minority- and Women-Owned Business Task Force, the report reflects a highly synergistic partnership supported by several community stakeholders.

Houston City Council Member Amanda Edwards led the creation of the Task Force to develop specific, actionable strategies that will strengthen Houston’s small business ecosystem and enable it to better support existing minority and women business owners. Critical collaborators within the Task Force included the Working Group, comprised of a city council representative, local business support organizations (BSOs), a financial institution, and Next Street,

a mission-driven advisory firm committed to revolutionizing how its clients provide capital, customers, and services to small businesses.

The result is a robust analysis of Houston’s small business ecosystem, which is comprised of its small business community, capital providers, and BSOs. The analysis identified twenty-four (24) specific gaps and barriers in the Houston small business ecosystem. The Working Group then prioritized seven gaps (outlined below) with accompanying solutions based on the nature of the challenge, time and resources required to address the challenge, and the potential impact of the solution.

FIGURE 1.2:

GAPS	SOLUTION OVERVIEW	SOLUTION DETAILS
Coordination and Navigation	Develop resources to help business owners understand and navigate the landscape of business services	Fund an “Implementation Alliance” that is responsible for coordinating a network of BSOs and capital providers, planning and executing convenings, tracking impact, developing partnerships, driving marketing, and ensuring overall project success
In-Depth Services	Work with BSOs to develop in-depth and industry-specific support	Fund existing BSOs to increase their capacity to offer specialized support in specific industries/ topic areas
Personal Networks	Connect business owners with potential customers and investors	Develop an anchor procurement strategy to encourage local anchor institutions, such as universities and hospitals that have both significant buying power and ties to local communities, to provide more contract opportunities for minority and women Establish industry-specific networks/forums to encourage business leaders and small businesses to meet through business roundtables and networking events, with time carved out for one-on-one sessions

GAPS	SOLUTION OVERVIEW	SOLUTION DETAILS
Preparedness for Financing	Ensure business owners have the business and financial planning tools and skills required to access financing and new markets	Train BSOs to assist businesses with creating business growth plans, packaging loan applications, and understanding contract requirements to help them secure financing and win contracts Work with existing BSOs or local universities to create and deliver new financial education courses on the most pressing topics, to be delivered free or at a low-cost for business owners
Personal Credit	Offer credit building services to business owners	Increase availability and marketing of credit counseling services to small business owners by connecting existing providers of these services to business support organizations
Alternative and Innovative Capital Solutions	Increase the volume of alternative and innovative capital, creating incentives for partnerships between lenders and other sources (e.g., non-profit lenders such as Community Development Financial Institutions (CDFIs), city governments, philanthropy)	Create a small business grant or forgivable loan program Incentivize increased lending to women and minorities by strategically selecting institutions where city cash is deposited Introduce and expand alternative crowdfunding platforms such as NextSeed and LetsLaunch
Microloans	Meet business owners' need for microloans	Build the capacity of existing CDFIs and other alternative lenders that deploy microloans (all loans below \$100K, but specifically \$50K and under)

The opportunities in Houston are boundless. By addressing the gaps in the Houston small business ecosystem, community leaders can promote economic growth and upward economic mobility. The research is clear: **minority and women small business owners thrive when they have access to the same resources as their white and/or male counterparts, and the City of Houston is committed to promoting their growth and enabling them to flourish.** As the recommendations in this report are implemented, minority- and women-owned businesses will be able to access new levels of business growth, creating opportunities with the power to put all Houstonians on a path to prosperity.

TABLE OF CONTENTS

SECTION 1: INTRODUCTION AND CONTEXT **PAGE 5**

SECTION 2: RESEARCH APPROACH **PAGE 8**

SECTION 3: WHAT WE FOUND **PAGE 9**

I: BSO LANDSCAPE **PAGE 8**

II: CAPITAL LANDSCAPE

III: GAPS IDENTIFIED

SECTION 4: THE PATH FORWARD **PAGE 15**

I: PRIORITY GAPS AND SOLUTIONS

II: NEXT STEPS

III: IMPLEMENTATION TIMELINE AND MEASURES OF SUCCESS

SECTION 5: ACKNOWLEDGEMENTS **PAGE 19**

SECTION 6: APPENDIX **PAGE 21**

I: KEY DEFINITIONS

II: BSO LANDSCAPE ANALYSIS SUPPORTING DETAILS

III: CAPITAL LANDSCAPE ANALYSIS SUPPORTING DETAILS

IV: FULL LIST OF STRATEGIES

V. PRIORITIZATION PROCESS

SECTION 7: REFERENCES **PAGE 42**

Report produced by

next street

INTRODUCTION AND CONTEXT

Small businesses represent a path to build economic opportunity for all of Houston's residents. Just as home ownership allows individuals to build equity, create individual wealth, and support strong, stable communities, small businesses create jobs, improve competition, generate innovation, and contribute to the upward financial mobility of all residents. In general, self-employed business owners, especially minority business owners, experience faster earnings growth than wage and salary workers.³ In Houston, these opportunities abound for city residents, with hundreds of thousands of small businesses across the city. Leading industries include professional services, retail, and healthcare, but real estate, construction, the arts, and food/accommodations are all gaining momentum.⁴ And they are booming: at the end of 2018, a survey of over 1,000 businesses found that 86% of local entrepreneurs were confident that their year-end revenue would exceed that of 2017 and 38% planned to hire in the next 12 months, demonstrating their confidence and optimism in the local economy.⁵

Why should we focus on minority and women-owned businesses?

Women and minority business owners are significant contributors to the thriving Houston business ecosystem, and in 2017, Houston ranked as the top city for minority entrepreneurs nationwide according to *Expert Market*, based on factors such as the rate of new entrepreneurs, percentage of companies owned by minorities, and access to financial resources. **In the metro area, more than half (252K) of businesses are minority-owned and 40% (172K) are women-owned.**⁶ Nationally, Houston ranks number four in number of women-owned businesses⁷ and number three in number of minority-owned businesses.⁸ In inner-city neighborhoods that face higher poverty and unemployment rates, women and minorities are launching businesses with the potential to close the gender and racial wealth gaps and create more opportunities for upward economic mobility. The numbers speak volumes: white adults have 13 times the wealth of their black counterparts, but when the median wealth of black and white business owners is compared, the gap decreases to a multiplier of three.⁹

Women and minority business owners have talent, expertise, and enthusiasm, yet financially they are not reaching the size of their male and non-minority peers.

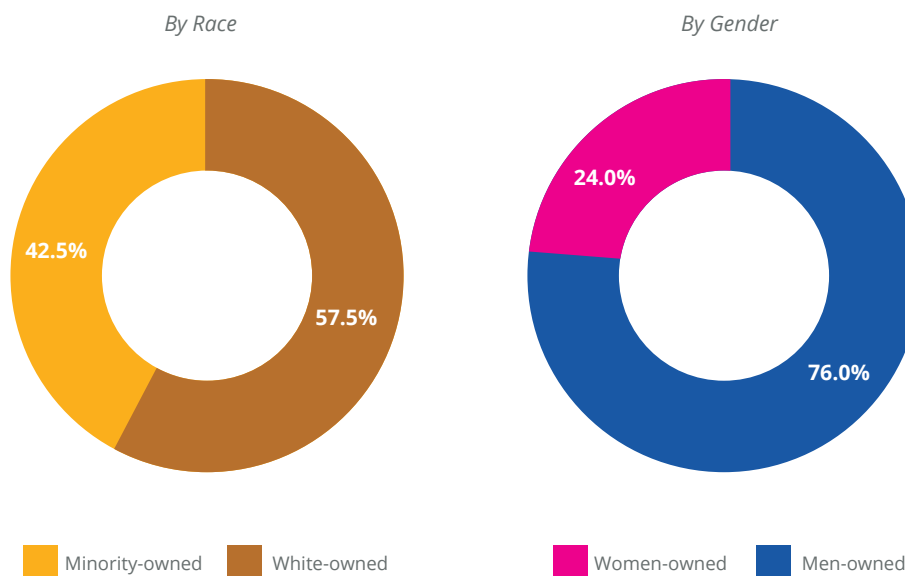
These business owners are creating critical opportunities for themselves and others to bridge the wealth gap in their communities, yet they are the businesses earning the least. We need to ensure they can earn as much as their white counterparts to bridge racial and gender gaps in wealth ownership. If black-owned small businesses alone were able to reach parity with national small business employment rates, 600,000 new jobs would be created and \$55 billion would be added to the economy.¹⁰

FIGURE 2.1 HOUSTON OVERVIEW

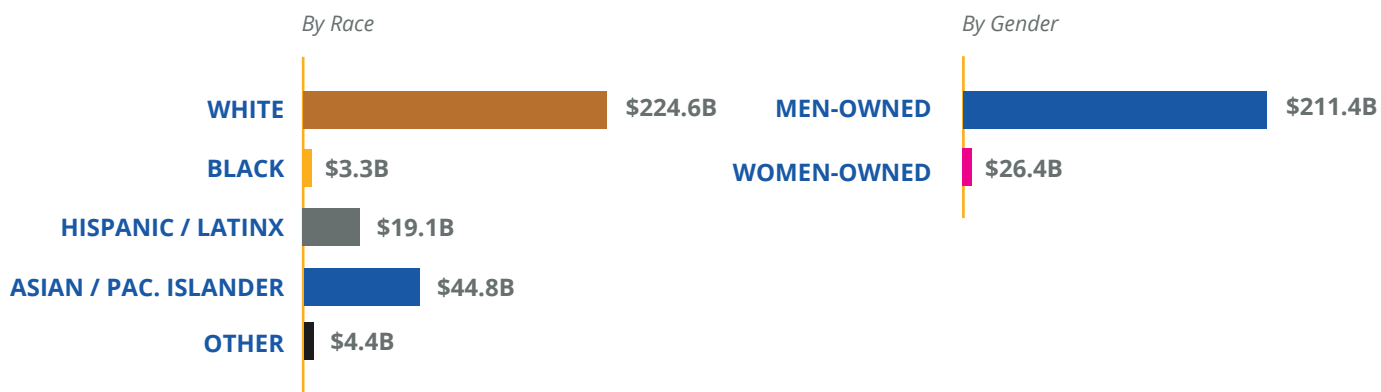
Nationally, minority-owned firms earn about half of the revenue of non-minority-owned firms.¹¹ In Houston, the disparities are similar yet more severe:

At the same time, there is significant untapped opportunity to better support established minority and women-owned businesses

Breakdown of All Employer Small Businesses



Sales and Receipts for Small Businesses



There is a disparity in the number of employer businesss owned by minorities and omen

Minority and women business owners have an unequal amount of sales



KEY AREA OF FOCUS

Given the opportunity to address meaningful disparities facing minority and women-owned firms, the Task Force chose to focus specifically on strategies for developing products, services, and marketing/communications that better meet the needs of those minority and women business owners. The Task Force further refined its attention to those minority- and women-owned businesses with fewer than 50 employees, given this is a common definition for small businesses where the owner is deeply involved in the day-to-day operations and faces unique issues related to size and scale. The Task Force also focused on established, moderate growth businesses as opposed to startup businesses, given the recognition from groups like *Expert Market* of the existing density of startups and the vast array of resources available to them in the Houston area. Finally, the Task Force did not include the tech industry in this analysis because of existing efforts from the Tech and Innovation Task Force in Houston to serve the tech industry. Altogether, this report examines the unique economic, social, structural, and cultural barriers that prevent minority- and women-owned businesses with fewer than 50 employees in established Main Street businesses from being able to reach their highest potential.



To provide an overview of the current state of minority and women-owned businesses in Houston, we conducted both quantitative and qualitative analyses to identify challenges to growth and access to support services and capital. We evaluated three primary areas: the overall Houston Business Landscape, the Business Support Organization (BSO) Landscape, and the Capital Landscape. Examining the business environment, including demographics, industry, and growth trends, ultimately helped to inform the assessment of service and capital needs.

FIGURE 3.1:

KEY ANALYSES

HOUSTON BUSINESS LANDSCAPE

Activities/Resources:

- Assessed distribution of businesses in terms of size, industry, and demographics
- Reviewed growth, employment, and demographic trends at the industry level

BSO LANDSCAPE

Activities/Resources:

- Developed an inventory of service offerings available across the small business ecosystem
- Mapped demographic-specific BSOs
- Analyzed geographic distribution of BSOs
- Interviewed local BSOs for on-the-ground perspectives

CAPITAL LANDSCAPE

Activities/Resources:

- Analyzed Community Reinvestment Act (CRA), Small Business Administration (SBA), CDFI, and venture capital data
- Identified total volume and number of loan investments by year for the last five available years
- Conducted a peer city analysis and benchmarking
- Interviewed local capital providers across both debt and equity markets

Houston's small business support landscape is gaining momentum with increased involvement from banks, the rise of several BSOs, and an increasing sense of partnership between all stakeholders. However, there are opportunities to better coordinate across the small business ecosystem to reduce duplication of services and ensure that access to services is more equitable across the expansive city. Additionally, increasing the volume of alternative, flexible, non-bank capital solutions and smaller loans would expand access to capital, which today are largely made up of loans guaranteed by the Small Business Administration (SBA) as well as conventional loans (non-SBA). These capital and service opportunities would support the thousands of minority- and women-owned small businesses in Houston to reach their goals.

BSO LANDSCAPE

Our deep dive into the Houston ecosystem revealed that more and more organizations are invested in supporting small businesses.

Driven by increasing partnership amongst BSOs and higher involvement from banks in supporting small businesses, Houston's business support landscape is gaining momentum. More than half of Houston's BSOs target specific racial/ethnic groups, women, and neighborhoods, all with events and other networking opportunities as a core service, which has helped to create a sense of community within minority groups and women.

However, there is incredible opportunity for these groups to become more collaborative and reduce the duplication of services offered.

Part of the challenge is that trust and shared cultural understanding play a big role in minority business owners' awareness of and willingness to engage with BSOs. In addition, the business support landscape is fragmented—interviewees attributed this to a lack of strong coordination among BSOs, the large proportion of BSOs serving demographic-specific needs, and Houston's large size. Additionally, very few BSOs provide direct, in-depth services, likely due to limited capacity. This has resulted in duplicative, high-level support that is not tailored to each business owner's specific needs, limiting the potential for BSOs to drive impact to small businesses.



FIGURE 4.1:
ELEMENTS OF A ROBUST BSO LANDSCAPE

From our national experience conducting ecosystem assessments across the country, we have learned that there are six key elements of a robust BSO landscape



ELEMENTS NEEDED	HOUSTONS FINDINGS
1 - Access & Navigation Business owners should be able to understand and navigate the landscape of service offerings; program offerings should be designed (e.g., location, schedule) so that business owners are able to access these services	While there are early efforts to improve Access & Navigation, they are fragmented (e.g. individual BSOs compiling lists of full landscape) or not well-known (e.g. online tool). Forthcoming strategies should seek to make it easier for business owners to access and navigate the ecosystem.
2 - Collaboration & Handoffs Business support organizations should collaborate with each other and with capital providers to effectively serve business owners; there should be seamless handoff between BSOs	BSOs are starting to take the first steps in collaboration. However, the BSO community can still make significant strides to minimize duplication of services, capitalize upon the expertise of one another, and work collaboratively to deliver a more comprehensive suite of services that business owners need.
3 - Client-Centered Program Design Programs are intentionally designed with client needs (e.g., business challenges, learning style, language) in mind	Many BSOs in Houston have implemented a standard set of offerings based on what they believe business owners require, but our research suggested that BSOs can more deeply understand business owner needs (in terms of type of offering and structure of offering) and better design programs to specifically address them.
4- Specialization A set of specialized BSOs (e.g., stage, industry, demographic focus) are required to effectively serve unique business owners and the accelerate growth	Although more than 50% of Houston BSOs specifically target women, minorities, and neighborhoods, there is a lack of BSOs that have an industry specific focus or offer more in-depth services beyond basic business education and general networking events. Interviewees repeatedly expressed the need for more targeted and in-depth support and guidance to address complex and critical business needs.
5 - Innovation Mindset There should be a culture of innovation and continuous improvement amongst BSOs	The Houston BSO ecosystem is very traditional in the ways it delivers services, connects business owners, and collaborates. BSOs have the opportunity to develop and deliver more innovative programming and leverage technology to reach and serve more business owners.

Houston’s geography and limited public transportation also play a critical role in small businesses’ ability to access BSO services. The BSOs are largely concentrated in the downtown area; long commute times (by car or public transportation), particularly for those businesses in the southern, eastern, and north-eastern parts of the city, decrease the likelihood that small business owners will visit distant BSOs. Future growth of BSOs or outreach services should look to address this gap.

CAPITAL LANDSCAPE

While there is plenty of bank capital available, the Houston community should seek to increase the types and amount of alternative capital that are available to small businesses. For example, there are few loans awarded under \$100K, and particularly under \$50K—a critical gap given that over half of businesses request loans below \$100K.¹² The low volume of loans under \$100K is most likely a result of lack of confidence on the part of business owners in terms of asking for what they need, lack of knowledge around what they need, and structural barriers (e.g., credit scores, collateral) that prevent them from being able to secure financing.

While there is strong capital availability in the SBA and non-SBA bank segments in Houston compared to peer cities, more flexible, non-bank capital is needed in order to increase access to capital for underserved populations. Data shows that Houston lands at the top of its peer city cohort in terms of the volume of CRA and SBA loans deployed, but, the volume of alternative lending is lower in Houston compared to peer cities.

Across both debt and equity capital, a greater volume of smaller deals (<\$100K for debt, <\$5M for equity) would support established Main Street businesses as they look to grow. There are still some gaps in availability. Interviewees highlighted that there is a gap in loans below \$100K, and especially loans under \$50K, which may be due to particularly high demand among women and minorities for this loan type.

Even when minority business owners do become aware of their options, distrust in financial institutions and a lack of confidence makes these business owners hesitant to apply for loans. This is particularly true of black and Hispanic/Latinx business owners.

In terms of the awareness of capital, capital providers need strategies for how to better reach untapped communities with marketing and advertising efforts. Geographic and language barriers often prevent minorities from hearing about critical services.

Trusted BSOs and capital providers can work together to improve knowledge about capital and access to capital for women and minorities. Women are primarily impacted by cultural nuances, whereas minority business owners are also impacted by knowledge and structural barriers. Specifically, women are often at a disadvantage because they lack confidence in both approaching capital providers and asking for the total amount of capital they actually need. Furthermore, minorities face structural issues such as redlining, the historic practice of refusing to lend to a person because they live in a specific geographic area, which have made it difficult for them to borrow money from traditional financial institutions.



GAPS IDENTIFIED

As a result of the research and analysis of the BSO and capital landscapes as well as the Houston ecosystem landscape, 24 gaps were identified. To eliminate these gaps and propel the local economy, Houston's public, private, and government sectors must come together to harness resources toward priorities that require immediate action.

Note: Unless otherwise noted below, all gaps were found to be present across both minority- and women-owned businesses.

BSO Gaps: Gaps in services to address specific management and financial challenges that minority and women business owners face

1. Personal Networks: Minority business owners often do not have access to personal networks that can help connect them with new customers and investors

2. Business Acumen: There is a need to increase the business planning and financial management capacity of minority business owners

3. Personal Credit: Many business owners, especially minority business owners, struggle to access capital due to poor credit or lack of credit history

4. Innovative Mentorship / Networking Programs: Business owners need more innovative and intentional mentorship and networking opportunities that are effective in driving opportunities and benefit to both parties

5. Preparedness for Financing: Many businesses across demographic groups need additional support in preparing for financing (e.g., refining business plan and financial projections)

6. Knowledge about Capital Options: Many business owners do not understand the risks/benefits of leveraging external capital and struggle to identify the type and volume of capital that best meets the needs of their business

Capital Gaps: Gaps in access to the types of capital required by women and minority-owned businesses

1. Alternative and Innovative Capital Solutions: Business owners need a higher volume of flexible and accessible capital deployed by mission-driven alternative lenders (e.g. CDFI capital)

2. Microloans: Though some microlenders are active in the Houston market, business owners need more loans available under \$100K

3. Lines of Credit: Construction / contracting businesses require greater access to lines of credit to smooth cash flow

4. Early-Stage Equity: The ecosystem needs to expand angel / early-stage equity capital in Houston, particularly as innovation and tech sectors are scaled up

5. Equity-Like Capital: Main Street businesses require access to patient, equity-like capital in order to scale up businesses

6. Credit Enhancements and Incentives: Innovative credit enhancements (e.g., guarantees, loan loss reserves) and incentives can help to increase total capital available to small businesses

7. Friends and Family Capital: Business owners, especially minority business owners, struggle to raise friends and family capital that can help to launch and sustain a business, which venture capital firms (VCs) sometimes look for as a validation of a business model

8. Consistency in Due Diligence Process: VCs can sometimes execute the due diligence process differently for men / white-owned businesses compared to women / minority-owned businesses

9. Lack of Confidence: Women business owners tend to ask for less capital than they need

Ecosystem Building Gaps: Gaps in coordination and collaboration across the ecosystem

- 1. Lack of Information:** There is no “one-stop shop” where business owners can learn about available business support and capital resources and identify ones that will be most relevant
- 2. Geographic Access:** Concentration of banks and BSOs in the downtown and western areas of the city impacts access to services and capital, especially for minority business owners
- 3. Lack of Coordination Between BSOs:** Interaction between BSOs has historically been more competitive than collaborative, making it difficult to offer a robust set of business support services
- 4. Siloed Ecosystem:** Many of Houston’s identity-based BSOs focus on community-building and tend to operate in silos; this can limit opportunity for minority business owners, in particular
- 5. Trust and Cultural Ties:** Minorities (immigrants in particular) can be reluctant to provide personal / business data and can be wary of institutions with whom they do not have community ties
- 6. Limited Services Designed Around Business Owner Needs:** Many BSOs have developed a “standard” set of business support offerings; few are customizing or tailoring services to the needs of an individual business
- 7. Online / Mobile Inventory of Business Resources:** Business owners are looking for resources that help them both understand the landscape of services available to them and that help them navigate the landscape to identify the services that will be most impactful
- 8. Lack of In-Depth Services:** Many organizations try to provide a wide suite of services to small businesses; few organizations provide in-depth services that enable business owners to fully address their needs.
- 9. Effective Marketing / Outreach to Support Navigating the Landscape:** There is a need for more innovative and intentionally inclusive methods of marketing to small businesses, as it is more difficult to reach populations such as immigrants, minorities, women, and non-English speakers

While these gaps pose significant challenges, stakeholders’ widespread enthusiasm for supporting minority and women business owners is clear. The Task Force anticipates that through a set of interconnected strategies, Houston has the potential to move forward and support these business owners in realizing additional growth opportunities. The Path Forward section lays out a plan for action by prioritizing key strategies.

04

THE PATH FORWARD

Based on this in-depth research, the Task Force has developed a set of recommendations that chart a clear path forward for Houston to close gaps, eliminate barriers, and promote success for minority and women business owners. From a long list of strategies developed to address the 24 gaps identified through Next Street’s analysis, the Working Group prioritized seven of the gaps based on the type of challenge, resources required, time required to implement a solution, and the potential impact of the solution. As the project moves forward, the remaining gaps will be addressed through additional strategies.

GAPS	SOLUTION OVERVIEW	SOLUTION DETAILS
Coordination and Navigation	Develop resources to help business owners understand and navigate the landscape of business services	Fund an “Implementation Alliance” that is responsible for coordinating a network of BSOs and capital providers, planning and executing convenings, tracking impact, developing partnerships, driving marketing, and ensuring overall project success
In-Depth Services	Work with BSOs to develop in-depth and industry-specific support	Fund existing BSOs to increase their capacity to offer specialized support in specific industries/ topic areas
Personal Networks	Connect business owners with potential customers and investors	Develop an anchor procurement strategy to encourage local anchor institutions, such as universities and hospitals that have both significant buying power and ties to local communities, to provide more contract opportunities for minority and women Establish industry-specific networks/forums to encourage business leaders and small businesses to meet through business roundtables and networking events, with time carved out for one-on-one sessions

GAPS	SOLUTION OVERVIEW	SOLUTION DETAILS
Preparedness for Financing	Ensure business owners have the business and financial planning tools and skills required to access financing and new markets	Train BSOs to assist businesses with creating business growth plans, packaging loan applications, and understanding contract requirements to help them secure financing and win contracts Work with existing BSOs or local universities to create and deliver new financial education courses on the most pressing topics, to be delivered free or at a low-cost for business owners
Personal Credit	Offer credit building services to business owners	Increase availability and marketing of credit counseling services to small business owners by connecting existing providers of these services to business support organizations
Alternative and Innovative Capital Solutions	Increase the volume of alternative and innovative capital, creating incentives for partnerships between lenders and other sources (e.g., non-profit lenders such as Community Development Financial Institutions (CDFIs), city governments, philanthropy)	Create a small business grant or forgivable loan program Incentivize increased lending to women and minorities by strategically selecting institutions where city cash is deposited Introduce and expand alternative crowdfunding platforms such as NextSeed and LetsLaunch
Microloans	Meet business owners' need for microloans	Build the capacity of existing CDFIs and other alternative lenders that deploy microloans (all loans below \$100K, but specifically \$50K and under)

NEXT STEPS

The time to act is now. The Task Force recommends immediate action on the strategies articulated in this report, starting with the steps below:

1

Create an Implementation Alliance to focus on “quick-win” strategies.

The Implementation Alliance will be responsible for coordinating the partnerships and overseeing the strategies, which includes stewarding a network of BSOs and capital providers, developing new partnerships, organizing and hosting convenings, tracking impact, driving marketing, and more to make sure that the strategies are successfully implemented. The Alliance will also finalize metrics to assess the impact of individual strategies.

2

Support local small businesses.

Whether it is listening to local small business owners to understand their unique successes and challenges or buying from small businesses to support their efforts, local community members play a vital role in supporting small businesses.

3

Spread the word! Those interested in these findings and in developing a more accessible and robust ecosystem are encouraged to share this report.

Through social media channels and networks, let friends, followers, and colleagues know about the efforts to make Houston a more inclusive environment for minority and women business owners.

Implementation Timeline and Measures of Success

Measuring and managing performance based on key performance indicators will be crucial for the Implementation Alliance to support both the short- and long-term health of minority- and women-owned small businesses in Houston. The Implementation Alliance will finalize metrics as they begin work, but working draft metrics include:

- 1. Total number of funding awards and volume of capital deployed to minority- and women-owned small businesses
- 2. Survival rates of minority- and women-owned small businesses
- 3. Sales and receipts for minority- and women-owned small businesses compared to white- and male-owned small businesses

The Implementation Alliance anticipates implementing prioritized strategies within the next two years, following the timeline below.

	Launch Implementation Alliance Offer industry-specific networking forums Increase availability of credit counseling services
QUICK WINS (3-6 MONTHS)	Develop specialized support for small businesses Train BSOs to assist businesses with creating a business plan and packaging loan applications Work with existing BSOs (e.g. SCORE, etc.) or local universities to create and deliver new financial education courses Introduce and expand alternative investing platforms
MEDIUM-TERM STRATEGIES (6-12 MONTHS)	Explore anchor procurement strategy Launch city deposit strategy Develop small business grant / forgivable loan programs Build capacity of existing CDFIs

This project is the result of a collaboration dedicated to supporting minority and women small business owners and to improving the quality of life for all of Houston's citizens. We sincerely appreciate the time, effort, ideas, and enthusiasm of our partners.

This report was made possible through the generous support of JPMorgan Chase & Co.

NEXT STREET

Marina Linhart, CEO

Donald Jones, Director

Apurva Pande, Associate

Nicole Peña, Senior Analyst

WORKING GROUP

Amanda Edwards, Council Member

Brad Burke, Rice University

Courtney Johnson Rose, George E. Johnson Properties

Carolyn Rodz, Alice

Carolyn Watson, JP Morgan Chase & Co.

Heath Butler, Gestalt Growth Advisors

INVITED TASK FORCE PARTICIPANTS

Adriana Gonzalez, Empresarios Latinos

Alex Cox-Cuzzi, NextSeed

Amanda Edwards, Houston City Council Member At-Large Position – 4

Andre Amos, Nu World Epicenter

Andrea Cooksey, Exit Realty 360

April Day, Women's Business Enterprise Alliance

Assata-Nicole Richards, Sankofa Research Institute

Beth Shapiro, SCORE

Brad Burke, Rice University

Carlecia Wright, OBO

Names in bold are also part of the Working Group.



Carol Guess, Greater Houston Black Chamber of Commerce

Carolyn Rodz, Alice

Carolyn Watson , JPMorgan Chase & Co.

Connie Rankin, CRES + Associates

Courtney Johnson Rose, GEJ Properties

Dennis Silva, TDECU

Diana Murakhovskaya, The Artemis Fund

Diane Yoo, Entrepreneur

Estella Gonzalez, BakerRipley

Fern Dawkins, JM Carty Holdings

Frances Dyess, East End Chamber of Commerce

Gabrielle Rowe, Station Houston

Gary Lindner, People Fund

Grace Rodriguez, Station Houston/CEO Impact HUB

Grace Holden, Blue Print for the CEO

Heath Butler, Gestalt Growth Advisors

Ingrid Williams-Robinson, HMSDC

Juliana Garaizar, TMC Venture Fund

Justin Moore, Holly Hall Supply Co.

Laura Murillio, The Houston Hispanic Chamber of Commerce

Lauren Caldarera, TXRX Labs

Lawson Gow, The Cannon Houston

Lilly Liu, Mercury Fund

Linda Toyota, LiftFund

Lisa Riley, LiftFund

Lisa Alexander, National Association of Women Business Owners

Liz Lara Carreno, HCC

Marguerite Williams, Alfreda's

Markita Samuel, Entrepreneur

Marlon Mitchell, HBDi

Marylyn Harris, Veterans Business Center

Maya Durnovo, Houston Community College

Paul Cannings, RPH

Percy "King" Cruezot, Frenchy's

Rhian Davies, Lets Launch

Saleha Khumawala, SURE program at University of Houston Bauer School

Samina Farid, Farid Enterprises

Sandra Le Tran, Tout Suite

Shantera Chatman, The Chatman Women's Foundation

Sonia Mathur, Golden Seeds

Stephanie Campbell, Houston Angel Network

Stephanie Nellons-Paige, Texas Central

Suzan Deison, Greater Houston Women's Chamber of Commerce

Tim Jeffcoat, SBA

Acres Home Chamber for Business & Economic Development

East End Chamber of Commerce

Fifth Ward Chamber of Commerce

Greater Houston Black Chamber of Commerce

Greater Houston LGBT Chamber of Commerce

Greater Houston Partnership

Greater Houston Women's Chamber of Commerce

The Houston Hispanic Chamber of Commerce

Nigerian American Chamber of Commerce

CAPITAL LANDSCAPE INTERVIEWEES

Heath Butler and Mathis, Houston Black Angel Network

James Connolly, JP Morgan Chase

Jemerell Rodgers and Gary Lindner, PeopleFund

Lisa Riley, LiftFund

Marlon Mitchell, HBDi

Sonia Mathur, Houston Angel Network and Golden Seeds

Tim Jeffcoat, SBA

BSO LANDSCAPE INTERVIEWEES

Carol Y. Guess, Greater Houston Black Chamber of Commerce

Estella Gonzalez, Baker Ripley

Laura Murillo, Houston Hispanic Chamber of Commerce

Liz-Lara Carreno, Goldman Sachs 10,000 Small Businesses, HCC

Maya Dunorvo, HCC

Phillip Yates and Judson Robinson III, Houston Urban League

Suzan Deison, Greater Houston Women's Chamber of Commerce

Names in bold are also part of the Working Group.

APPENDIX I: KEY DEFINITIONS

Anchor Institutions: Large organizations, such as universities and hospitals, that have both significant buying power and ties to local communities

Business Support Organizations (BSOs): Organizations that provide essential training, guidance, and connections to capital providers within local communities. BSOs can be sponsored by government entities, non-profit, or for-profit entities

Business Support Ecosystem: The network of support services, organizations, and products that help business owners launch, grow, and sustain their businesses

Community Development Financial Institution (CDFI): Private financial institutions designed to offer affordable capital to low- to moderate-income individuals or businesses

Community Reinvestment Act (CRA): Federal law enacted in 1977 designed to encourage depository institutions to meet the credit needs of low- to moderate-income communities. Banks receive credit for how well they meet their CRA commitments, and these credits are relevant when federal regulators evaluate bank applications for bank mergers, acquisitions, branch openings, etc.

Employer Business: A business that has at least one full-time employee in addition to the founder

High-Growth Business: Business with disruptive business model that targets large addressable markets (~\$1B); these businesses typically pioneer new products, services, and markets

“Main Street”/Moderate Growth Business: Business with a traditional or established business model that seeks to grow by increasing market share, reaching new customers in adjacent markets, and making incremental innovations and efficiency improvements; these businesses have a moderate growth trajectory

Microloans: all loans below \$100,000, but specifically \$50,000 and under

Minority: Refers to individuals who are part of under-represented groups as it relates to race/ethnicity

Non-employer Business: A business with a founder and no other employees; commonly referred to as “solo-preneur”

Redlining: The historic practice of refusing to lend to a person because they live in a specific geographic area

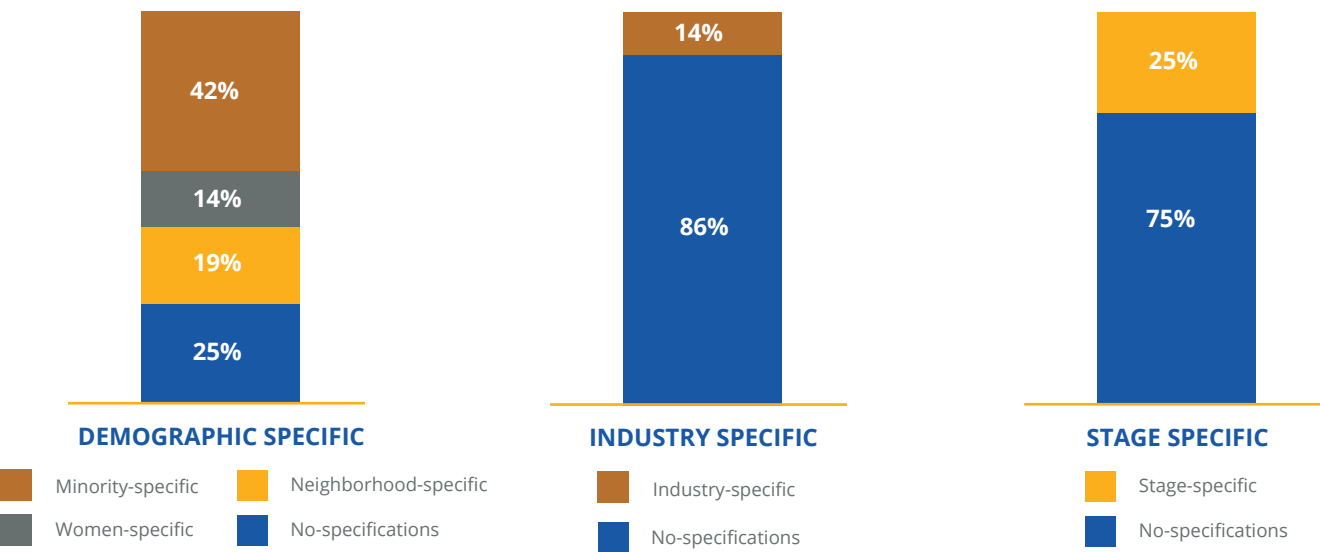
Small Business: Refers to businesses that employ fewer than 50 people

Small Business Administration (SBA): Federal agency that provides capital and services to small businesses and advocacy on behalf of small businesses

APPENDIX II: BSO LANDSCAPE ANALYSIS SUPPORTING DETAILS

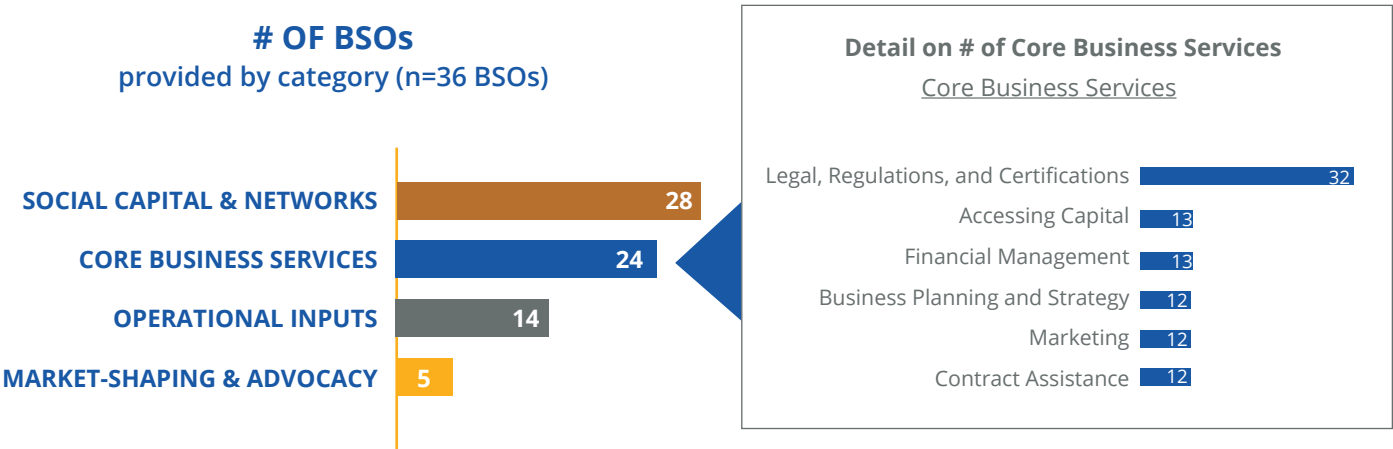
Listed below is a representative sample of Houston’s BSOs to understand the types of small businesses they aim to serve

PERCENT BREAKDOWN OF BSOS PROVIDING SPECIALIZED SERVICES



- Few organizations explicitly specialize based on industry or stage, however, **>50% of organizations have an explicit demographic** (e.g., minority, women, neighborhood) focus
- Only 14% of businesses explicitly focus on a particular industry – the majority of these BSOs are focused in the construction & contracting industry; food businesses and home-based businesses (e.g., healthcare, personal care) are industry clusters that would benefit from specialized BSO support given unique challenges around regulations and customers
- The vast majority of organizations have no explicit business stage specialization, however many stage-agnostic BSOs provide services that are only relevant to businesses at a particular stage, and therefore are specialized though there is no stated specialization
 - The majority of stage-specific BSOs target operating / established businesses; given that most stage-agnostic BSOs also provide services that are relevant for operating / established businesses, there does not seem to be a gap in services for these businesses
- Interviewees repeatedly expressed the need for more in-depth support to small business that provide business owners more guidance and support on critical topics such as business planning, financial management, marketing, etc.

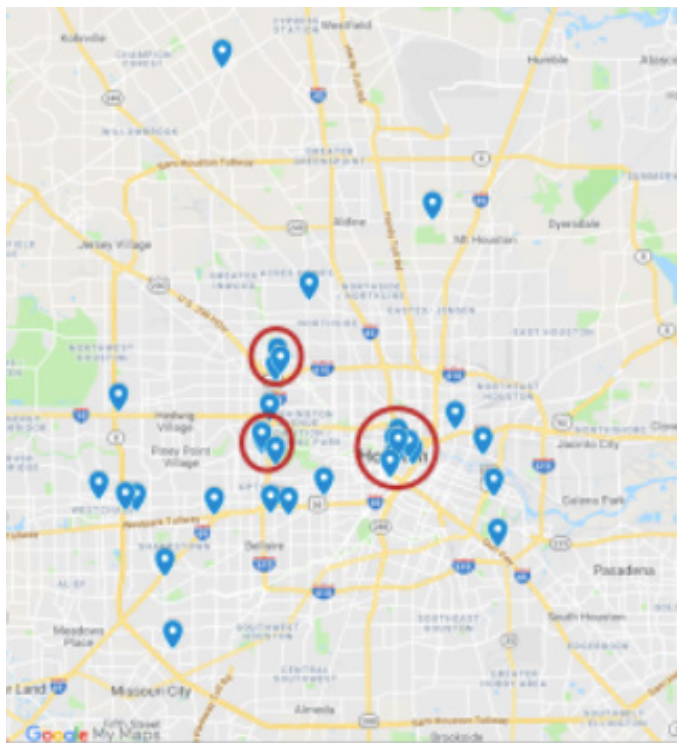
A robust business support ecosystem requires players that offer a strong mix of different categories of business support services



- Most BSOs try to **position themselves as a “one-stop” center for businesses – they have a wide range of offerings, but have limited in-depth services**
- The equal distribution along other Core Business Services aligns with the interview insight that **BSOs try to offer high-level services across all major need areas**
- The focus in the Legal, Regulations, and Certifications business service is likely driven by the **difficulty of obtaining MWBE certification and the number of Houston BSOs focusing on minorities**
- **Houston has a large number of BSOs that host events and other networking opportunities;** this is reflective of the fact that most (67%) BSOs are membership organizations that are intentionally focused on Social Capital and Networks.
 - Many interviewees noted that the focus on Social Capital & Networks is helpful given that this is a pain point for many businesses, but highlighted that effectiveness can be limited because these networking opportunities are very siloed within the BSO members
- The Operational Inputs category primarily consists of employee hiring assistance programs

Houston is a large city with limited public transportation, making the geographic distribution of BSOs important for small businesses' ability to access services

BSOs BY LOCATION



KEY TAKEAWAYS

- Long commute times, whether by car or public transportation, **decrease the likelihood that small business owners will visit BSOs that are not close to their location**
- BSOs are largely concentrated in the **Downtown area**, which is to be expected given the population there
- The Northwest side of Houston city has a **high concentration of BSOs**
- The geographic distribution of BSOs makes accessing services **more challenging for business owners located far out from the Downtown area**, particularly in the Southern, Eastern, and North-Eastern parts of the city



BSO LANDSCAPE: LIST OF BSOS PROFILED

WE PROFILED THE FOLLOWING BSOS AS PART OF OUR ANALYSIS:

Acres Home Chamber for Business and Economic Development	Houston Urban League
Asian Chamber of Commerce	Houston West Chamber of Commerce
Associated General Contractors of Houston	Indo-American Chamber of Commerce
BakerRipley	Korean American Chamber of Commerce
Black Chamber of Commerce	Minority Business Development Agency - Houston MBDA Business Center
Build Up Houston	National Association of Women Business Owners – Houston
Camara de Empresarios Latinos de Houston	National US-Arab Chamber of Commerce
East End Chamber	Nigerian American Multicultural Council
Fifth Ward Chamber of Commerce	Northwest Center for Entrepreneurship
Greater Houston LGBT Chamber of Commerce	OBO Solutions Center
Greater Houston Partnership	Pakistan Chamber of Commerce
Greater Houston Women's Chamber of Commerce	Small Business Administration
HCC Goldman Sachs 10,000 Small Businesses	South Asian Chamber of Commerce
Hispanic Chamber of Commerce	Southeast Center for Entrepreneurship
Houston Contractors Association	The Women's Resource of Greater Houston
Houston Minority Supplier Development Council	University of Houston SBDC
Houston Northwest Chamber of Commerce	Vietnamese American Chamber of Commerce
Houston SCORE	Women's Business Enterprise Alliance

APPENDIX III: CAPITAL LANDSCAPE ANALYSIS SUPPORTING DETAILS

CAPITAL LANDSCAPE: APPROACH

Listed below is a high-level overview of the key inputs to the capital landscape analysis: data analysis, peer city benchmarking, and an interview program

DATA ANALYSIS

CRA, SBA, CDFI, and Venture Capital data was analyzed to understand the volume and types of capital available in Houston

- For each dataset, the total volume and number of loans/investments by year for the last 5 available years were identified. The data was segmented by loan size for each data source
- Wherever possible, data was also segmented by race, ethnicity, gender, and industry cluster

PEER CITY BENCHMARKING

A peer city analysis and benchmarking were conducted to contextualize Houston's current capital landscape

- Specifically, this analysis helped identify trends that are unique to Houston and understand the market's relative positioning in terms of the total volume and number of small business loans deployed

INTERVIEW PROGRAM

Eight capital providers across both the debt and equity markets were interviewed to supplement the data analysis

- The goal of the interviews was to understand the current state of capital availability, accessibility, and demand in Houston from the perspective of on-the-ground stakeholders
- This allowed Next Street to identify challenges and opportunities for women and minority business owners when trying to get connected to and access capital to grow and sustain their businesses

SMALL BUSINESS LENDING: APPROACH TO BENCHMARKING

5 PEER CITIES WERE SELECTED TO BETTER UNDERSTAND HOW HOUSTON COMPARES NATIONALLY:

- First Next Street selected the cities that were most similar to Houston in terms of their equity (e.g., racial composition, change in poverty rate, education) and outlook (indicators of a city's demographic and economic future)
- Then, the cities closest to Houston in terms of levels of Main Street entrepreneurship (rate of business owners, small business density, business survival rates) were identified
- We included the black / white and Hispanic / white dissimilarity indexes as a proxy for opportunity for minorities across cities

City	Population	Population Change (2000-17)	Unemployment Rate	Median Income	% White Non Hispanic	Main Street Entrepreneurship	Black / White Dissimilarity Index	Hispanic / White dissimilarity index
Houston	2.31M	16.1%	6.6%	\$51K	24.7%	24	67.8	61.1
Dallas	1.34M	9.4%	5.9%	\$51K	28.5%	29	65.1	58.5
New York	8.62M	6.9%	7.8%	\$61K	31.7%	18	80.5	63.7
Chicago	2.72M	0%	9.9%	\$55K	32.9%	14	82.1	60.5
Nashville	0.67M	1.0%	5.3%	\$58K	55.3%	20	48.6	45.9
San Jose	1.04M	1.0%	6.4%	\$105K	25.8%	30	42.8	49.1

CAPITAL ECOSYSTEMS: KEY TAKEAWAYS (1 OF 2)

1

PERCEPTION THAT THERE IS CAPITAL AVAILABLE...

- Houston's capital ecosystem is large and growing. Many of the small business lenders on the ground in Houston take advantage of the SBA program and there has been an inflow of capital providers in recent years that is helping to increase the total amount of capital available
- Capital providers have an appetite for small business loans and are actively trying to find ways to identify businesses in need of capital by attending events and forming partnerships with BSOs in the ecosystem
- Data shows that Houston lands at the top of its peer cities in terms of the volume of CRA and SBA loans deployed
- However, there are still some gaps in availability. Interviewees highlighted that there is a gap in loans below \$100K, and especially loans under \$50K – this may be due to particularly high demand among women and minorities for this loan type

2

...BUT THERE IS A NEED TO INCREASE RISK TOLERANCE

- Although the capital is there, small businesses, particularly women and minorities have limited access due to strict underwriting terms (e.g., credit score requirements, collateral, cash flow)
 - This is especially true for business owners without the friends and family capital needed to get their businesses to a point where they are able to successfully secure external funding
- Interviewees have highlighted the need for more innovative products that can increase flow of capital to those that do not qualify for traditional sources of financing – interviewees called out crowdfunding in particular
 - Interviewees also suggested that risk-tolerant angel investors could think more creatively about how to support small businesses through debt products (e.g. microloans)
- Financial institutions also noted that incentives and credit enhancements (e.g. loan loss reserves) could help them better leverage the capital they currently have to serve more borrowers; incentives (e.g. tax incentives) can be used to encourage capital providers to provide these innovative products
- The structure of equity funds' due diligence can disproportionately screen out women and minority business owners
 - Investors often rely on "pattern matching," and look for entrepreneurs who resemble entrepreneurs who have succeeded in the past - the majority of whom are white males
 - Investors often look for some amount of financing to already have been secured (e.g., friends and family); those who do not have access to a network that can invest in their business can be screened out by this criteria

INTERVIEW HIGHLIGHTS:

- "Capital is much more available here than other ecosystems"
- "We host events to try to get the word out about our capital"
- "The gap is especially and ironically within the smaller size loans... We could get 10 microlenders in Houston tomorrow and keep them all busy"
- "If you're talking about access to capital, you don't have anywhere you can go and get access to \$100K if you are trying to grow as a minority- or women-owned business in Houston"
- "We come across a ton of opportunities where someone needs funding for something that is not that high risk but we don't have the mechanism in place to provide funding to them"
- "Founders need to think more about becoming loaners than equity holders. The creativity in the kind of deals that we do is a gap"
- "Non-profit lenders do a good job of providing capital to small businesses. Traditional, for-profit lenders don't have an incentive"

CAPITAL ECOSYSTEMS: KEY TAKEAWAYS (2 OF 2)

3

BUSINESSES ARE NOT PREPARED TO ACCESS CAPITAL

- For businesses that do get connected with capital providers, low credit scores, lack of credit history, and limited business management skills are the most common reasons for denial
- There is a knowledge gap around the requirements for accessing capital for business owners who have not sought outside financing in the past – this is especially true for minorities. Many are unaware of the credit requirements, collateral, business financials needed to secure a loan
 - This is not true for women, whom capital providers perceive to be over-prepared for financing
- Many capital providers have noticed an increase in the number of small businesses seeking capital from online lenders with less stringent requirements

4

GREATER DEMAND FOR CAPITAL CAN BE UNLOCKED IN THE MINORITY AND WOMEN-OWNED BUSINESS MARKETS

- Understanding which capital products would be the most helpful for their business is a significant challenge for women and minorities business owners – many are unaware of the different types of capital providers in the ecosystem
- Even when minority business owners do become aware of their options, distrust in financial institutions and a lack of confidence makes these business owners hesitant to apply for loans. This is particularly true of black and Hispanic / Latinx business owners
- Capital providers struggle with 1) how to target marketing and advertising to untapped communities (e.g. women and minorities), 2) representation of women and minorities within their own organizations, and 3) the geographic and language barriers that prevent minorities from becoming aware of their services
- There is potential for trusted BSOs and capital providers to work together to improve knowledge about capital and access for women and minorities

INTERVIEW HIGHLIGHTS:

- “A lot of business owners don’t know what to do to run a business or raise capital. It is an education thing – the baseline requirements aren’t there and they need practical advice on how to put those together”
- “A lot of business owners don’t know what they’re doing to run a business or raise capital. It’s an education thing”
- “Women and minorities need to enter the system first”
- “There is apprehension in certain communities to utilize the traditional banking system. Those in leadership position tell us the issues, but we are not taking strides to fix it”
- “We need to find a way to effectively communicate to target audiences that the capital is there”
- “We are a disfigured ecosystem. The dots are there but they are not connected with each other. Capital and TA providers should be better connected”

DEBT CAPITAL: KEY TAKEAWAYS

1

VOLUME OF CAPITAL

Is there sufficient capital to meet the demand of Houston's small businesses?

- a. Houston outperforms its peer cities in terms of the volume of both CRA and SBA loans per small business, however, Houston has significantly less flexible CDFI funding than its peer cities
- b. Growth in small business lending has slowed over the last couple of years

2

TYPES OF CAPITAL

Does the capital that is available meet the needs of Houston's small businesses? Does available capital align with types of capital required by high potential small business industries?

- a. Houston's loans are more equally distributed across loan sizes (e.g., <\$100K, \$100K – \$250K, >\$250K) than its peer cities, demonstrating a greater availability of various loan sizes in the ecosystem
- b. Despite this, interviews revealed that there is still a significant unmet demand for microloans
- c. There is unmet demand for capital that has more flexible underwriting requirements and for capital that is intentionally targeted towards underserved population segments
- d. Houston's CDFIs effectively serve women and minority business owners, and are more flexible than traditional banks; however, significantly more of this type of capital is required to meet demand
- e. Construction and contracting businesses require greater access to lines of credit that can help to smooth cash flow cycles and enable new project launches

3

EQUITABLE ACCESS TO CAPITAL

Do minority and women business owners have equitable access to capital relative to white business owners?

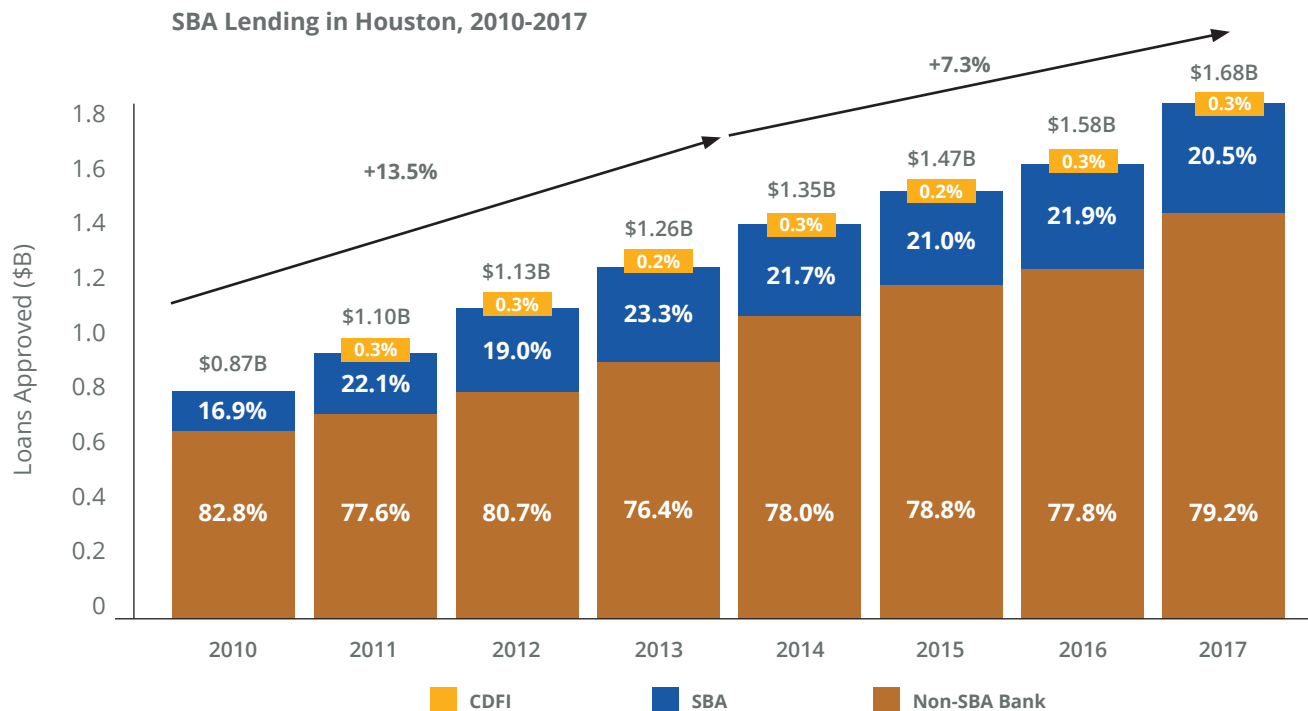
- a. There is a gap in the financing that women and minorities are able to secure compared to the financing that white / male-owned businesses are able to secure
- b. This is due to a combination of knowledge (awareness of financing options, lack of preparedness for financing), cultural nuances (distrust of financial institutions), and structural challenges (underwriting criteria that disproportionately screen out women and minorities)
- c. There is also geographic disparity in capital access, with most banks being clustered in the downtown and western areas of the city
- d. Cultural nuances in how women manage businesses (e.g. tend to be more risk-averse) mean that women often ask for less capital than is required, which can lead to undercapitalization of their businesses

APPROACH TO ASSESSING AVAILABILITY

THREE KEY SOURCES WERE ANALYZED TO UNDERSTAND HOUSTON'S SMALL BUSINESS LENDING ACTIVITY

	Role in Small Business Ecosystem	Data Description
Bank lending to businesses <\$1M	CRA regulations set a requirement for the number of loans deployed in LMI census tracts, which typically have higher portions of minorities. These loans incentivize FFIEC institutions to lend to small businesses that have limited access to traditional banks due to geographic, historical, and cultural barriers	• All regulated financial institutions with at least \$1.3B in assets are required to report lending information to the Federal Financial Institutions Examination Council (FFIEC) each year • The FFIEC summarizes and reports on small business lending data as defined by loans and lines of credit of less than \$1M to businesses • This data provides the most robust inventory of bank lending in given geographies, and can be broken out by financial institution, census tract and loan size for each year, but not by borrower demographics, loan terms, or industry
SBA lending	The SBA offers a wide variety of loans to address small businesses, with the most popular products being the 504 and 7(a) loans. The SBA's goal is to address gaps in loans under \$1M to small businesses	• The Small Business Association (SBA) offers several partially-guaranteed lending products through a network of certified local lenders • Data on individual loans is available from the SBA, including information about lender, geography and industry associated with each loan, but detail is not available on borrower demographics or loan terms • SBA loans provided through regulated financial institutions are also reported through the CRA data (above)
CDFI lending (CDFI Fund)	CDFIs are non-profit financial institutions that serve borrowers not qualified for traditional financing through smaller dollar loans and somewhat less stringent requirements than banks	• Additional data on CDFI lending is accessed via the CDFI Fund's Community Investment Impact System (CIIS), though is limited in scope • CIIS data is only collected from CDFIs that have received a CDFI Fund-sponsored award within three years, which typically translates to 30-40% of national CDFIs report in a given year. This transaction-level data includes detailed information on loan terms and borrower demographics

SBA LENDING: OVERVIEW



- Overall, Houston's small business lending has almost doubled from \$0.87B in 2010 to \$1.68B in 2017. The market has plateaued since 2013, largely driven by the decreased growth in SBA lending
- Non-SBA lending dominates the small lending market at about 78% of total loans
- SBA lending has remained steady at about 21% of the market since 2014
- While the CDFI data available is underrepresented, we know that the volume of CDFI lending in Houston is small. Data shows that at its highest, the volume of CDFI loans has comprised of 0.3% of the market

EQUITY MARKETS: KEY TAKEAWAYS

1

VOLUME OF CAPITAL

Is there sufficient capital to meet the demand of Houston's small businesses?

- a. There is an increased need for equity capital – especially as Houston is working to scale up its technology and innovation sector

2

TYPES OF CAPITAL

Does the capital that is available meet the needs of Houston's small businesses? Does available capital align with types of capital required by high potential small business industries?

- a. There is a need for more angel and early-stage investment capital in Houston; while data shows that the % of early stage deals have been growing, there is still unmet demand
- b. Interviewees noted that there is demand for patient, equity / equity-like capital with lower return expectations that can be deployed in non-tech startups

3

EQUITABLE ACCESS TO CAPITAL

Do minority and women business owners have equitable access to capital relative to white business owners?

- a. Minorities and women face significantly higher hurdles in securing equity capital for their businesses
 - i. Minorities often do not have family and friends funding that some VCs consider a form of business validation
 - ii. Women and minorities often do not have the personal networks that can help them secure a warm intro to VCs
 - iii. VCs subconsciously can require different levels of proof to validate a women / minority vs. male / white owned business (e.g., the questions that minorities and women are asked during the due diligence process differ from the questions that white / male entrepreneurs are asked)
 - iv. There is a need for more women- and minority-led VC firms that can help to make access to venture capital more equitable

CAPITAL LANDSCAPE: LIST OF CAPITAL PROVIDERS PROFILED

WE PROFILED THE FOLLOWING CAPITAL PROVIDERS AS PART OF OUR ANALYSIS:

Allegiance Bank	DreamSpring	PeopleFund
American First National Bank	Frost Bank	Prosperity Bank
BancorpSouth Bank	Golden Seeds	Spirit of Texas Bank
Bank of America	Green Bank	Texas Capital Bank
BBVA Compass Bank	HBDi	TMC Venture Fund
Capital One	Houston Angel Network	TruFund
Celtic Bank	Independent Bank	US Bank
Chase	J.P. Morgan Chase Bank	Wallis Bank
Citibank	LetsLaunch	Wells Fargo
Comerica	LiftFund	ZB
Community Bank of Texas	NextSeed	Zions / Amegy Bank



APPENDIX IV: FULL LIST OF STRATEGIES

HOUSTON ECOSYSTEM STRATEGIES: BSO-ONLY SOLUTIONS 1/2

Below are solutions for BSO gaps that would help the ecosystem more effectively address the specific management and financial challenges that business owners face

GAPS	STRATEGIES
> Personal Networks: Minority business owners often do not have access to personal networks that can help connect them with new customers and investors	> Connect business owners with potential customers and investors
> Business Acumen: There is a need to increase the business planning and financial management capacity of minority business owners, in particular	> Leverage the success of the Goldman Sachs 10K Business Program to build something that can touch more businesses, but is simpler, shorter and more digestible > Develop and introduce interactive financial management tools (e.g. cash flow forecasting)
> Personal Credit: Many business owners, especially minority business owners, struggle to access capital due to poor credit or lack of credit history	> Implement credit score counseling programs for small business owners > Fund a Houston-specific disparity study lending
> Innovative Mentorship / Networking Programs: Business owners need more innovative and intentional mentorship and networking opportunities that are effective in driving opportunities and benefit to both parties	> Expand networking and mentorship opportunities to help effectively reach more minorities and women > Create mentorship program that intentionally pairs small businesses with mentors outside the Houston area (e.g. Launch New York) > Develop a playbook of how to be a good mentor > Partner with professional associations to develop mentorship program

HOUSTON ECOSYSTEM STRATEGIES: BSO-ONLY SOLUTIONS 2/2

Below are solutions for BSO gaps that would help the ecosystem more effectively address the specific management and financial challenges that business owners face

GAPS	STRATEGIES
> Preparedness for Financing: Many businesses across demographic groups need additional support in preparing for financing (e.g., refining business plan and financial projections)	> Do further analysis on minority-owned businesses that are securing capital so that we can replicate the steps they took to be ready for capital as well as replicate the capital products and services that they accessed > Train BSOs to assist businesses with creating a business plan, packaging loan applications, and understanding contract requirements to help them secure financing and win contracts > Create a database of existing, vetted financial advisors to help small business understand their books, planning, and projections > Work with existing BSOs (e.g. SCORE, etc.) or local universities to create and deliver new financial education courses in the most pressing areas (e.g., budgeting/forecasting, books/records, taxes, applying for capital) to be delivered free or low-cost
> Knowledge about Capital Options: Many business owners do not understand the risks/benefits of leveraging external capital and struggle to identify the type and volume of capital that best meets the needs of their business	> Host matchmaking sessions with small businesses and capital providers to help match small businesses trying to access capital with the right products

HOUSTON ECOSYSTEM STRATEGIES: CAPITAL SOLUTIONS

Below are solutions for capital gaps that would allow small business owners to have more consistent access to the types of capital they require

GAPS	STRATEGIES
> Flexible Capital from Alternative Lenders: Business owners need a higher volume of flexible and accessible capital deployed by mission-driven alternative lenders (e.g. CDFI capital)	> Launch a City and / or philanthropy funded CDFI fund to increase lending by existing CDFIs. > Leverage co-investments from the City and CDFIs to lower cost of capital and blended interest rates for borrowers > Incentivize increased lending to women and minorities by strategically selecting institutions where city cash is deposited > Introduce and expand products like grants or alternative financing (e.g., crowdfunding, CDFI products) which would reduce the need for our target audience to seek friends and family capital > Develop loan loss guarantees to increase lending ability of alternative capital providers > Expand funding platforms with less stringent credit score requirements > Develop small business grant programs, potentially funded by the City and foundations > Create a small business portal for Opportunity Zone equity investments in minority and women owned small businesses
> Microloans: Though some microlenders are active in the Houston market, business owners need more loans available under \$100K	> Build the capacity of existing CDFIs and other alternative lenders (such as Kiva Zip) that deploy microloans (loans below \$100K, but specifically \$50K and under)
> Lack of Confidence: Women business owners tend to ask for less capital than they need	> Develop mentorship program for women via Alice > Create a discussion forum on an app > Develop a guidebook for lenders and investors to better support women > Develop a speaking bureau for women and minorities > Host training sessions with lenders, buyers, etc. to discuss unconscious bias of women

HOUSTON ECOSYSTEM BUILDING STRATEGIES: ECOSYSTEM BUILDING SOLUTIONS 1/3

Below are solutions for ecosystem building gaps to increase collaboration and coordination across the ecosystem that will enable relevant organizations to work together better

GAPS	STRATEGIES
> Lack of Information: There is no “one-stop shop” where business owners can learn about available business support and capital resources and identify ones that will be most relevant	> Develop an artificial intelligence (AI) powered platform that intentionally matches businesses with resources that fit their needs > Create an online portal for permitting rules and regulations > Develop a pipeline graphic that allows small businesses to map themselves and identify resources needed to move up / go to the next level > Partner with the advocacy arm of the SBA to increase their spending on advertisement > Create a non-competitive platform responsible for marketing resources across all BSOs
> Geographic Access: Concentration of banks and BSOs in the downtown and western areas impacts access to services and capital, especially for minority business owners	> Develop a geographic map of BSOs to help businesses locate resources > Replicate NYC’s BSO model in the 4 quadrants of the city
> Lack of Coordination Between BSOs: Interaction between BSOs has historically been more competitive than collaborative, making it difficult to offer a robust set of business support services	> Fund an “Implementation Alliance” who is responsible for coordinating network of BSOs, tracking metrics, developing partnerships, etc. > Host a roundtable with large bank institutions to discuss challenges faced by women and minorities when accessing capital > Create a network of BSOs and capital providers (similar to Greater Houston Partnership) funded through a public / private partnership that funds continual collaboration (e.g. forums) and marketing – this will enable BSOs cross-share resources, identify overlapping services, and jointly plan and host events together > Develop a “common language” for BSO programs and requirements to increase clarity and transparency around the services offered throughout the City of Houston > Develop a small business classification system based on revenue / number of employees / industry so that business owners are directed to the right resources > Develop a “help-desk” (with a customer service orientation) for small businesses to get connected with resources hosted at City Hall

HOUSTON ECOSYSTEM BUILDING STRATEGIES: ECOSYSTEM BUILDING SOLUTIONS 2/3

Below are solutions for ecosystem building gaps to increase collaboration and coordination across the ecosystem that will enable relevant organizations to work together better.

GAPS	STRATEGIES
> Siloed Ecosystem: Many of Houston's identity-based BSOs focus on community-building and tend to operate in silos; this can limit opportunity for minority business owners, in particular	> Revive conferences hosted by HGAC so that BSOs learn more about each other > Host BSO convenings to help BSOs become more culturally competent and become better embedded into trusted community organizations
> Trust & Cultural Ties: Minorities (immigrants in particular) can be reluctant to provide personal/business data and can be wary of institutions with whom they do not have community ties	> Develop a guidebook that lays out the documentation required by BSOs and capital providers for services > Market relatable success stories > Create a "neighborhood liaisons" program where members of local communities are asked to serve as champions of BSO services within their communities, increasing awareness and trust
> Lack of In-Depth Services: Many organizations try to provide a wide suite of services to small businesses; few organizations provide in-depth services that enable business owners to fully master a topic	> Explore the potential to develop an anchor procurement strategy to encourage local anchor institutions to partner with minority and women businesses > Establish industry-specific networks to encourage business leaders and small businesses to meet through business roundtables and networking events, with time carved out for one-on-one sessions > Offer free or affordable legal and accounting services to make them more accessible to small businesses > Deliver a shared service / shared back office support for small business owners (e.g., Fractured Atlas) > Leverage philanthropy to enable existing BSOs to increase their capacity to offer specialized support in specific industries / topic areas
> Effective Marketing / Outreach: There is a need for more innovative and intentionally inclusive methods of marketing to businesses, particularly more difficult to reach populations such as immigrants, minorities, women, and non-English speakers	> Create a marketing fund for BSOs and capital providers to jointly market their services > Create a centralized calendar of events for BSOs and capital providers that is consistently updated > Launch a marketing campaign to intentionally promote investment in and support of women and minority owned local small businesses (e.g. "Business For All")

HOUSTON ECOSYSTEM BUILDING STRATEGIES: ECOSYSTEM BUILDING SOLUTIONS 3/3

Below are solutions for ecosystem building gaps to increase collaboration and coordination across the ecosystem that will enable relevant organizations to work together better.

GAPS	STRATEGIES
> Limited Services Designed Around Business Owner Needs: Many BSOs have developed a “standard” set of business support offerings – few are customizing or tailoring services to the needs of an individual business	> Leverage the success of the Goldman Sachs 10K Business Program to build something that can touch more businesses, but is simpler, shorter and more digestible > Develop more modular, online, in-depth programs that teach entrepreneurs about different topics > For standardized legal / accounting forms that are required for small businesses, develop free templates that can be used to reduce costs for entrepreneurs; may be industry specific (e.g. Y Combinator) > Expand Urban Renewal Through Entrepreneurship Program at University of Houston > Invest in a user evaluation mechanism / customer feedback tool to allow small businesses to provide feedback on quality of TA provision > Develop a required training program for BSO staff that focuses on how to effectively serve business owners > Fund 3rd party to work with BSOs to better understand small business owner needs and their true value / expertise in the ecosystem > Develop an annual “State of Small Business” survey that can amplify the voices of small business owners and call attention to needs, challenges, and focus areas > Develop an organization that tracks the results / impact of BSOs and leads in hosting conferences / discussions to discuss impact and services
> Online / Mobile Inventory of Business Resources: Business owners are looking for resources that help them both understand the landscape of services available to them and that help them navigate the landscape to identify the services that will be most impactful for them	> Develop an artificial intelligence (AI) powered platform that intentionally matches businesses with resources that fits their needs

APPENDIX V:

HOUSTON ECOSYSTEMS GAPS: PRIORITIZATON PROCESS

- > The Task Force brainstormed a long list of strategies for the full list of gaps that Next Street identified through their research and analysis
- > The Working Group took all the input from the Task Force to prioritize a portfolio of gaps that we want to tackle first (a gap not being prioritized does not mean it is not important/we will not address it — it means it is not one of the first gaps we will tackle)
- > The Working Group had a series of conversations to identify a balanced portfolio of gaps to focus on first; factors that were considered in crafting a balanced portfolio included:
 - **Type of gaps** addressed (e.g., between capital, BSO, and ecosystem building gaps)
 - **Resources required to address gaps:** a mix of higher and lower resource intensive gaps was desired
 - **Time to launch:** a mix of quick wins and longer-term solutions was desired
 - **Impact:** there was a desire to ensure all solutions would be high impact in terms of accelerating minority- and women-owned business growth
- > Based on this conversation, **the Working Group selected a portfolio of seven gaps to focus on first**



¹ McCann, Adam. "Most Diverse Cities in the U.S." WalletHub, April 10, 2019.

² Holtz-Eakin, Douglas, Rosen, Harvey S., Weathers, Robert. "Horatio Alger Meets the Mobility Tables." NBER Working Paper #7619, 2000.

³ Klein, Joyce. "Bridging the Divide: How Business Ownership Can Help Close the Racial Wealth Gap." Aspen Institute. 2017.

⁴ US Census Bureau, County Business Pattern Survey, 2016.

⁵ Leinfelder, Andrea. "Houston-Area Small-Business Owners Ending 2018 on High Note." Houston Chronicle, December 10, 2018.

⁶ U.S. Census Bureau, Survey of Business Owners, 2012.

⁷ Pilon, Annie. "30 Top Cities for Women Entrepreneurs." Small Biz Trends, 2019.

⁸ Pilon, Annie. "30 Top Cities for Minority Entrepreneurs." Small Biz Trends, 2019.

⁹ Association for Enterprise Opportunity (AEO), "The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success." 2017.

¹⁰ Ibid.

¹¹ "Helping Entrepreneurs of Color Grow their Business Early Insights from the Ascend 2020 Initiative." ICIC, 2018.

¹² "Small Business Credit Survey: Report on Employer Firms." Federal Reserve, 2017.

FIGURE 1.1

"Houston is the Best City for Minority Entrepreneurs." Focus by Expert Market.

Pilon, Annie. "30 Top Cities for Women Entrepreneurs." Small Biz Trends, 2019.

U.S. Census Bureau Survey of Business Owners, 2012.

FIGURE 2.1

U.S. Census Bureau Survey of Business Owners, 2012. County Business Pattern Survey, 2016.

FIGURE 3.1

U.S. Census Bureau Survey of Business Owners, 2012. County Business Pattern Survey, 2016.

U.S. Census Bureau Non-employer Statistics (NES), 2016. LEHD Quarterly Workforce Indicators, 2017.

APPENDIX III

Peer City Benchmarking

Datausa.io, 2019.

Kauffman Foundation website, 2019.

SBA Lending Overview

Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data.

Federal Financial Institutions Examination Council 2010-2017 CRA MSA Aggregate Reports Harris County.

CDFI Fund 2017 CIIS Data Release.

Creative Direction &
Graphic Design provided by



iBrandMedia

www.ibrandmediainc.com

For printed collateral:
byron@launchinhouston.com

HOUSTON'S SMALL BUSINESS COMMUNITY
EXPANDING ACCESS AND OPPORTUNITY FOR MINORITY AND WOMEN BUSINESS OWNERS

Report provided by

next street