St. Louis

Small Business Ecosystem Assessment

Building a more inclusive, resilient St. Louis

WINTER 2020

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Executive Summary

St. Louis – the Gateway to the West – maintains a legacy as a critical trade hub along the Mississippi River. Home to nine Fortune 500 companies, two major league sports teams, an economy driven by diversified industries, and one of the country's fastest-growing foreign-born populations, St. Louis serves as an important economic and cultural hub. However, economic opportunity has not been shared equitably among the St. Louis region's 2.2 million residents. Addressing these disparities requires solutions that build wealth across all communities and create equitable avenues to entrepreneurship and business ownership.

Across the country, communities of color face growing segregation, income inequality, and systemic barriers that hinder their ability to build wealth through business ownership. As a result, Black and Latino(a) Americans possess less wealth and fewer business and financial assets compared to their White counterparts.[1] These socioeconomic disparities in St. Louis persist, as the St. Louis Federal Reserve Bank estimates that White households in St. Louis have 10 times and 7.5 times the level of wealth of Black and Latino(a) households, respectively.[2]

The St. Louis region has made strides to address these racial disparities, but important work remains to make long-lasting change. The history of the region and the state of Missouri is rooted in systemic racism and slavery. This legacy manifests today through lower employment, wealth, wellbeing, and opportunity for Black communities and other communities of color. Prompted by civil unrest following the killing of Michael Brown in 2014, the St. Louis region began efforts to address the deep inequities faced by Black communities and other communities of color. The Forward Through Ferguson Initiative was assembled among local leadership, and the Ferguson Commission published a blueprint report and strategy to help guide the region's efforts to catalyze lasting change.[3]

Washington University in St. Louis and St. Louis University co-published a seminal 2015 For the Sake of All report that documented the importance of social determinants of health to Black Americans – which served as another call to action to address upstream factors around education, income, neighborhood quality, and community resources.[4] These efforts went a long way in galvanizing the region and served as a catalyst for the development of various local initiatives to build entrepreneurship and stronger anchor procurement pipelines. However, additional work remains to address racial inequities in the region.

The advent of the COVID-19 pandemic has worsened these existing inequities and magnified financial distress among small businesses owned by people of color (POC).[5] In the first few months of the pandemic, Black-, Latino(a)-, and Asian-owned businesses faced higher closure rates compared to White-owned businesses nationwide.[6] Over the same time period, POC-owned firms have faced larger cash balance and revenue declines than non-Latino(a), White-owned firms. The impact of the crisis has been particularly severe among Black- and Asian-owned businesses.[7] In Missouri, total small business revenue and the number of small businesses open decreased by 31% and 25%, respectively, from January to mid-October.[8]

At this critical moment, this report examines St. Louis' unique historical context and the current state of play of the region's small business communities and supporting ecosystem, with a specific lens on businesses owned by POC and the COVID-19 response and recovery. This assessment culminates in a set of recommendations and a proposed path forward aimed at narrowing racial gaps across several dimensions – including business ownership, revenue, and employment – throughout the St. Louis region in the next five years.

1 Source: Aspen Institute, 2015
2 Source: Medium, 2020
3 Source: Forward Through Ferguson, 2020
4 Source: Washington University in St. Louis and St. Louis University, 2015
5 Note: In this report, 'people of color' refers to demographics outside of non-Latino(a), White populations, with a focus on Black, Latino(a), and Asian populations
6 Source: National Bureau of Economic Research, 2020
7 Source: JPMorgan Chase Institute, 2020
8 Source: Opportunity Insights, 2020

This report highlights the barriers that entrepreneurs and small business owners of color in St. Louis face and the additional support they and those serving these entrepreneurs need to succeed, as gathered from data analysis, interviews, and local stakeholder convenings.

MAJOR TAKEAWAYS INCLUDE:

1. **There are disparities in small business ownership and size in St. Louis that persist for Black entrepreneurs.** While Black residents make up 18% of the population, they only own 12% of all employer businesses. Black-owned businesses also employ fewer employees and generate less revenue than White-owned businesses; on average, Black businesses in the region generate about $200,000 in revenue annually, compared to $2.5 million generated by White-owned businesses. Black-business owners attribute their challenges in growing their businesses to a lack of peer mentorship and social networks, as well as lower trust in traditional financial institutions. In addition to being underrepresented in business ownership overall, Black-owned businesses in Missouri were disproportionately affected by the COVID-19 pandemic, as they are overrepresented in deeply and immediately impacted industries such as food services and drink places.[9]

2. **There has been a historic unmet demand of $13 billion in capital for small businesses in St. Louis annually, which disproportionately impacts businesses owned by POC.** Businesses owned by POC face challenges getting the loans they need (both by size and geography) and early-stage equity capital. There are pronounced gaps of traditional and alternative lending in neighborhoods in North City and neighborhoods like Benton Park West – with high concentrations of Black and Latino(a) residents. [10,11] Local stakeholders also cited high unmet capital demand for microloans under $50,000 that are generally more costly for lenders to administer compared to larger loans, as well as a gap in one-time "friends and family" early-stage capital that would allow business owners to build their early startups without putting their own personal finances at risk.

3. **Capital and service provision in St. Louis is focused narrowly on high-growth businesses in select sectors, which overlooks Main Street businesses owned by POC.** While St. Louis is recognized for its burgeoning startup ecosystem, current offerings target high-growth firms in sectors with little POC representation, such as financial services, agriculture, biological and life sciences, and healthcare technologies.

4. **St. Louis' small business ecosystem relies on informal and relationship-driven connections, which limits providers' ability to effectively serve business owners.** Capital and service providers and other ecosystem-level stakeholders rely heavily on their personal connections in St. Louis. As a result, they have trouble connecting small businesses to the services that they need and supporting them over time as they access multiple services. Small businesses also waste valuable time trying to navigate the myriad of services available.

5. **Many efforts to support the St. Louis small business ecosystem are underway but have been a challenge to execute due to ecosystem fragmentation and lack of formal accountability.** A constellation of different initiatives and efforts across the ecosystem to drive impact for small businesses have faced challenges in coordination across a fragmented municipality structure – there are nearly 90 municipalities located in St. Louis County alone – and a lack of formal accountability and resourcing. There is a strong base of commitment and momentum in the region, which can be catalyzed with intentional infrastructure and investment.

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9 Source: U.S. Census Survey of Business Owners and Self Employed Persons (2012)
10 Note: Unmet demand in 2017; detailed capital demand and supply methodology can be found in the appendix, p. 35-36
11 Sources: Freedom of Information Act (FOIA) to the Small Business Administration; CDFI Fund; PwC / CB Insights MoneyTree Report; U.S. Census County Business Patterns; U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

In response to these challenges, the research identified critical needs in equitable access to capital, customers, and services that were reaffirmed by local stakeholders. There is an opportunity to meet small businesses owned by POC where they are, provide them with services that have a transformational impact on their businesses, and create wealth and vibrancy in their communities. To do this, the small business ecosystem will need to focus on the following ecosystem pillars:

Ecosystem Building: Develop coordinated networks of local economic development agencies, anchor institutions, philanthropic funders, and business service and capital providers with formal accountability to promote improved outcomes and policies favorable to small business owners of color

Holistic Services: Connect small businesses owners of color to culturally competent services and training to support their success (including multilingual offerings, dedicated outreach to POC communities, and diverse support staff who understand the lived experience and context surrounding challenges faced by POC), while tracking and facilitating businesses' long-term engagement over time

Continuum of Capital: Increase availability of free or low-cost, flexible capital to better finance and strengthen all small businesses and corresponding responsible capital providers

St. Louis has a large presence of corporations and other anchor institutions, a strong and growing startup ecosystem for select industries, and a number of ongoing efforts to build a more equitable region underway. This foundation makes the ecosystem well equipped to incubate several ideas at once and serve as a model for other communities.

Introduction and Context

An estimated 68% of revenue generated by local businesses stays within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.[14]

Small businesses are core to the national economy.

In the U.S., over 30 million small businesses employ nearly half of the national workforce and create approximately two-thirds of new jobs. [12,13] In communities, small businesses serve as a critical means to build community and individual wealth. An estimated 68% of revenue generated by local businesses stays within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.[14] Small business families also have an estimated median net worth between four to six times higher than that of families that do not own a small business.[15]

Despite their critical role in communities, small business owners of color face institutional and systemic barriers in accessing capital and customers and encounter services gaps that stifle their businesses' sustainability and growth. Loan denial rates are twice as high for small business owners of color compared to White business owners, and loan sizes are 39% smaller for business owners of color approved for loans.[16] Moreover, while there are many public and private sector supplier diversity programs, business owners of color report that they continue to struggle to access large contracts due to lack of access to networks and marketplace discrimination. Non-native English-speaking entrepreneurs also face barriers in finding culturally and linguistically competent support services; 22% of Asian and Pacific Islander entrepreneurs report not knowing where to find free help in their language.[17]

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12 Source: Small Business Administration, 2020
13 Source: Big Ideas for Small Business, 2020
14 Source: Civic Economics, 2004
15 Source: Federal Reserve, 2007
16 Source: U.S. Department of Commerce Minority Business Development Agency, 2010
17 Source: National CAPACD, 2019

THE COVID-19 PANDEMIC HAS AMPLIFIED THE CHALLENGES FACING SMALL BUSINESS OWNERS OF COLOR.

An estimated 6 million small businesses closed through the first six months of the crisis - representing over 19% of small firms nationally – and approximately 60% of these firms are expected to stay closed permanently.[18,19,20] Between March and April 2020, businesses owned by POC faced even higher closure rates, with 41% of Black-owned businesses, 32% of Latino(a)-owned businesses, and 26% of Asian-owned businesses permanently shuttered nationwide.[21] Over the same time period, cash balances of Black-owned firms and revenues of Asian-owned firms declined by over 25% and 60%, respectively, while Latino(a)-owned firms experienced larger cash balance and revenue declines than that of non-Latino(a), White-owned firms.[22] Even as businesses begin to recover through the reopening of local economies, disparities persist in the recovery. Altogether, this crisis has dramatically exacerbated existing inequities and financial distress among small businesses owned by POC.

To develop a more equitable small business environment nationwide, Next Street and Common Future partnered to conduct research and drive a community-centric process to develop solutions for businesses owned by POC. Next Street is a mission-driven consulting firm revolutionizing how its clients provide capital, customers, and services to small businesses, with national expertise in equitable small business ecosystems. Common Future is a network of leaders (re)building an economy that includes everyone. Through leadership and field building, capital aggregation and deployment, project incubation, and strategy consulting, Common Future connects and empowers wealth holders and wealth builders who believe in the power of entrepreneurship, business, and asset ownership to restore community wealth. These organizations brought their collective strengths to the work – Next Street's expertise in small business and data analysis and Common Future's insights in community building and uplifting voices – to conduct a rigorous analysis, shaped and grounded by local communities. The research and process will span across nine cities and localities across the U.S., including St. Louis, and are centered around community engagement and fostering a network of relationships among local community organizations and leaders to catalyze solutions focused on racial equity and recovery from the COVID-19 pandemic.

18 Source: Opportunity Insights, 2020
19 Source: SBA, 2019
20 Source: Yelp local Economic Impact Report, 2020
21 Source: National Bureau of Economic Research, 2020
22 Source: JPMorgan Chase Institute, 2020

How We Approached the Research

Over four months from July to October 2020, Next Street and Common Future studied the local economic and social context of St. Louis, the core capital and service needs of local entrepreneurs and small business owners of color, and the gaps, assets, and initiatives present in the small business support ecosystem. The research was then synthesized and shared with a coalition of local stakeholders to inform strategies co-created to address the historical inequities for small businesses owned by POC, deepened by the COVID-19 crisis. This project balanced quantitative and qualitative data analysis with community engagement to deepen the network among local businesses, community organizations, and economic development and civic leaders by presenting a common language and set of facts for the ecosystem. Drawing on first-person data collection and engagement with those directly impacted by local conditions and leveraging publicly available datasets, this work aimed to elevate locally relevant insights that inform a better way forward for St. Louis's small business communities.

KEY FOCUS AREAS AND DEFINITIONS

Through the course of the research for this project, several key definitions were used about the type of businesses focused on this work:

Defining "Small Business Ecosystem"

This report defines a "small business ecosystem" as a system of interdependent actors and relations directly or indirectly supporting the creation, sustenance, and growth of new ventures in a city or locality. Key elements of a strong ecosystem, as defined by the Kauffman Foundation and drawing from Next Street's and Common Future's collective experiences in regions across the U.S., include expertise that can help businesses grow, knowledge and resources to help small businesses, champions and conveners, access points and stories that help understand how to interact with the ecosystem, and robust social capital. Critical elements required to make an ecosystem inclusive include conversations about entrenched racism and inequities across a diverse network of key actors, systems that are designed to change beliefs, values, and priorities and alter power structures, and processes for decision-making that results in more equitable outcomes and access to opportunity for underserved groups.

Defining "Small Business"

This report defines "small businesses" as firms with 50 full-time employees or fewer, including micro-businesses, mom-and-pop businesses, and sole-proprietors or non-employer businesses. For cases in which data on this definition of small businesses is unavailable, the category of "employer businesses" is used. Employer businesses are defined as businesses with at least one, but fewer than 50 full-time employees.

Defining Geographic Focus

The focus of this report is on the city of St. Louis; however, based on the availability of quantitative data, most of the quantitative analysis in this report defines St. Louis at the metropolitan statistical area (MSA) level. Broader geographic areas are referenced where MSA-level data is not available.

Demographic Breakdown

This report specifically focuses on businesses owned by POC, defined as populations outside of the non-Latino White population – with a specific focus on Black, Latino(a), and Asian business owners. Census definitions are used for these demographic groups throughout the analysis performed.

RESEARCH ACTIVITIES

This report uses relevant data and insights from several sources, including prior reports, publicly available datasets, and insights from local stakeholders and small businesses. Potential data limitations that should be considered in the context of the overall research findings can be found in Appendix I.

RESEARCH TRACK	ACTIVITIES
Select interviews	Interviewed over 20 local economic development stakeholders, capital and service providers, and small business owners to understand their perspectives on the St. Louis small business ecosystem and the needs of local business owners of color.
Secondary research	Aggregated, analyzed, and synthesized nearly 30 different sources, including relevant studies, local strategic plans, surveys, webinars, events, and other analyses to inform the analysis of St. Louis historical economic and social context and its small business communities (listed in Appendix).
Small business landscape	Analyzed census and other publicly available data to understand the current small business landscape in St. Louis, including business size, industry, location, and ownership information among POC.
Business services landscape	Analyzed data collected from a sample of 51 business support organizations, including data on specialization and breadth of services, leadership demographics, and funding.
Capital landscape	Analyzed publicly available data and surveys on the flow of debt and equity capital to measure the current supply of capital available to small business in St. Louis and to estimate and forecast small business capital demand before and during the COVID-19 pandemic.
Broad stakeholder engagement	Convened coalition of 47 local stakeholders that leveraged their knowledge of the St. Louis small business landscape to provide project and strategic direction and co-create strategies to create a more inclusive small business ecosystem.

KEY STAKEHOLDERS AND COLLABORATIVE, ACTION-ORIENTED APPROACH

To ensure that this effort built upon the collective knowledge of individuals throughout our small business ecosystem, we brought together a variety of stakeholders who informed our approach and findings. These stakeholders co-created solutions with the project team and were positioned to drive recommended strategies forward with action. This work helped create a dedicated platform to connect existing efforts and stakeholders across the region, allow for more collaboration and awareness of participants' respective strengths and synergies.

A list of all stakeholders can be found in the Acknowledgements section. These include:

- **Project leads:** Two local small business ecosystem leaders – Erica Henderson (St. Louis Economic Development Partnership) and Gabriela Ramírez-Arellano (Private Consultant) – who played a critical role in shaping and executing the work. The project leads served as primary points of connection between the project team and communities and worked directly with the project team to support and execute key elements of the research.
- **Working Group:** A group of 13 local stakeholders with expertise in the needs of business owners of color and an understanding of and connections to the local small business ecosystem. The Working Group provided feedback on project direction on a monthly basis and helped us draw connections and find synergies across the ecosystem.
- **Advisory Council:** A steering committee of 47 local leaders and small business owners across the small business ecosystem. Members included small business owners, business support organizations, capital providers, government representatives, philanthropic organizations, and anchor institutions. The Advisory Council helped shape the project direction, provided on-the-ground insights, and advocated for the work within their networks.
- **Research team:** An integrated team of advisors from Next Street and Common Future with collective expertise in community-led, small business development. The research team led the quantitative and qualitative research and project management with the Working Group and Advisory Council and facilitated the workshops across local stakeholder groups.

What We Found

HISTORICAL CONTEXT OF ST. LOUIS

The St. Louis MSA[23] – situated geographically in both Missouri and Illinois and inclusive of the city of St. Louis – is a large region with a predominantly White and non-Latino(a) population. The region is the 20th largest metropolitan area in the United States and is home to nearly 2.2 million residents who live within the MSA's 8,500 square miles and 14 counties. There are numerous geographic jurisdictions within the region, each with differing rules and regulations; St. Louis County alone is made up of 90 different municipalities.[24] By race, White individuals comprise over 75% of the population, Black individuals comprise 18% of the population, and Asian individuals comprise 3% of the population. By ethnicity, Latino(a) individuals make up 3% of the population.

St. Louis' population has remained stable in recent years, but the composition of the population has evolved based on race, ethnicity, and nativity. The city has experienced outmigration by Black residents over the past decade due to disinvestment, increasing living costs, and encroaching gentrification in North City and other predominantly Black neighborhoods. Between 2018 and 2019, the Black population in the city decreased 2.5%, with many moving to other neighboring counties in the region.[25] This outflow of Black city residents has in part been offset by a steady increase in the Latino(a) and foreign-born populations. St. Louis has the third fastest growing immigrant populations among major cities in the U.S., attracting highly-educated, non-native residents from countries such as Mexico, India, Bosnia and Herzegovina, China, and Vietnam.[26]

23 Note: Based on availability of quantitative data, the research team focused on the St. Louis metropolitan statistical area (MSA), but the overall focus for the project is on the city of St. Louis
24 Source: Open Government, 2019
25 Source: STL Today, 2020
26 Source: STL Mosaic Project, 2019

"St. Louis has made progress against the social, economic and health spheres but there's still a lot of poverty, there's still a lot of unemployment. This just shows there's not a lot of focus on our neighborhood businesses that are economically under-valued in zip codes that are seen as poverty stricken, high crime, high unemployment. Those communities often lack the resources, and greenspaces needed for a community to thrive – and that's how our businesses thrive. ... I always say that economic development is synonymous with community development, so we also have to build our human capital to [recreate the] thriving region that we once were."

– ***VP Community Investment and Real Estate, STL Economic Development Partnership, City Visit (July 2020)***

St. Louis has several unique assets that contribute to its economic vitality and create an attractive business environment, such as the presence of several corporate leaders and its geographic trading legacy, nascent startup ecosystem, and affordable living and business costs. St. Louis' top industries are diversified among biological sciences, healthcare, and finance industries.[27,28] These sectors are led by corporations headquartered in the city, including Monsanto, Centene, and Jones Financial. These companies bring world-renowned expertise and investment to the region and serve as large anchor institutions alongside local universities and hospital networks. Geographically, St. Louis has long served as the "Gateway to the West" as an economic trade hub through the City of St. Louis Port District along the Mississippi River. More recently, St. Louis has also become a thriving innovation hub for startup companies and was ranked second among rising cities for startups, offering lower living and business costs, and talent from leading academic institutions and universities.[29]

In spite of this, St. Louis has grappled with a long legacy of racial discrimination, segregation and growing income inequality rooted in Missouri's history as a state with large-scale slavery. St. Louis today is one of the most segregated cities in the country. The stark Black-White residential divide in St. Louis manifests across Delmar Boulevard, which splits the city into North and South City. Nearly 40% of all Black residents live in majority Black neighborhoods in the MSA, and many neighborhoods in North City are home exclusively to Black residents.[30,31] These geographic disparities are paralleled in economic terms; the Black population has a poverty rate that is over three times higher and an unemployment rate between four to nine times that of the White population in the city.[32,33] Communities of color – specifically Black residents in St. Louis – disproportionately face challenging socioeconomic conditions.

The region has begun to reckon with its deep racial inequity, mobilizing local stakeholders through efforts and research originating from the Forward Through Ferguson Commission. Established after the death of Michael Brown in 2014, Forward Through Ferguson created a blueprint strategy to increase economic opportunity for Black and Latino(a) communities in the St. Louis region.[34] Based on this call to action, several local initiatives have been launched to address racial socioeconomic disparities through small business such as St. Louis Equity in Entrepreneurship, a regional effort working to ensure that systems built to support new entrepreneurs operate equitably in regards to race and gender. Local corporations are working on a set of strategic initiatives, including Civic Progress' Supply STL program that convenes a collective of anchors to increase procurement spend with local and diverse businesses, to enhance the local business ecosystem and create a multiplier effect for jobs and wealth creation.

27 Source: AllianceSTL, 2020
28 Source: The New Localism Associates and Qvartz, 2020
29 Source: Forbes, 2020
30 Source: NextSTL, 2018
31 Source: Washington Post, 2014
32 Source: STL Today, 2017
33 Source: Data USA, 2020
34 Source: Forward Through Ferguson, 2015

SMALL BUSINESS LANDSCAPE

Small businesses are a critical driver of St. Louis' economy. Yet, the region's Black residents own disproportionately fewer small businesses than their White counterparts, compounding the inequities described previously in this report.

St. Louis houses a robust small business ecosystem with approximately 68,000 employer small businesses in 2016 that accounted for 94% of all employer businesses in the region. Separately, there were also over 190,000 non-employer sole proprietorships in the region. These small employer firms and sole proprietorships account for 24% of the local workforce.[35]

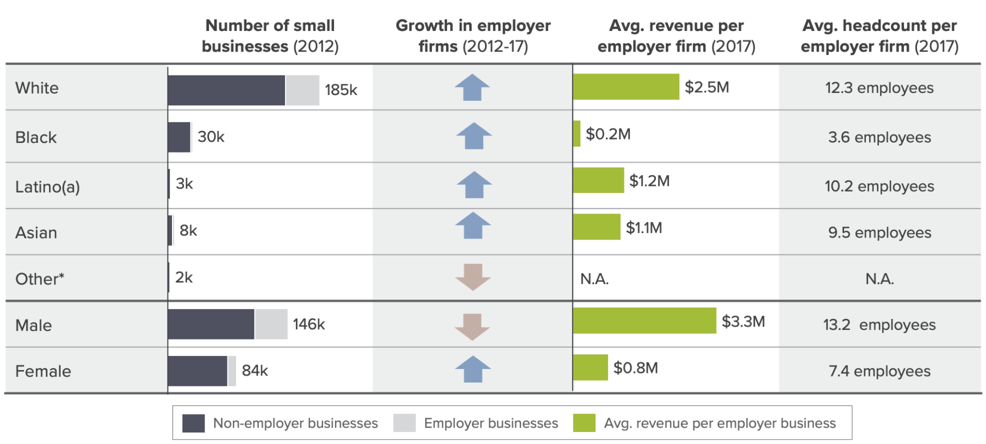
These local small businesses have been historically clustered in leading industries and tended to be older and more established firms. Top sectors for small business include Healthcare (15%), Retail Trade (12%), Professional Services (11%), and other Services (11%). Over half of employer small businesses were "micro businesses" that employ between 1 and 4 employees. In parallel, St. Louis' small businesses are predominantly comprised of older businesses: 52% of the MSA's small businesses are over 16 years old, compared to 6% that are startups less than 2 years old.[36]

Disparities in business ownership have persisted for Black-owned businesses. While Black residents make up 18% of the population, they only own 12% of all businesses.[37] These ownership disparities also have been paired with revenue and employment imbalances, with Black businesses historically generating less revenue and employing fewer staff than their White-owned counterparts, as shown in Figure 1.[38]

Local business owners in St. Louis further expanded on the drivers behind ownership, revenue, and headcount disparities through feedback provided in two focus groups. All 12 focus group participants cited that Black-owned businesses faced challenges in starting up due to a lack of peer mentorship and social networks to easily take advantage of existing service and capital offerings. For established Black-owned firms looking to scale their business and grow revenue and staff, a third of focus group attendees stated that low trust of traditional financial institutions was a barrier to accessing needed working capital (which was unanimously ranked by focus group participants as their top need). These local findings are consistent with national trends in loan funding sources by demographics: fewer than a fourth of Black-owned businesses attain loans from banks, compared to nearly half of White-owned businesses.[39] Instead, Black-owned businesses are more likely to seek debt capital from online lenders and credit unions.

It is important to note that the small business statistics highlighted in this report are a snapshot in time, and that throughout the COVID-19 pandemic, numerous small businesses have been and will be forced out of operation. The full impact of this crisis on the total number of establishments in St. Louis is still unknown and will not be fully measured in this report.

Figure 1: Small business ownership, revenue, and employment by race and ethnicity



35 Note: Figures assume sole proprietorships serve as primary form of employment for self-employed individuals
36 Source: U.S. Annual Survey of Entrepreneurs (2016)
37 Source: U.S. Census American Community Survey, 2016; U.S. Census Survey of Business Owners and Self Employed Persons, 2012
38 Source: U.S. Census Survey of Business Owners and Self Employed Persons, 2012
39 Source: Federal Reserve Bank's Small Business Credit Survey Report on Employer Firms, 2020

Impact of the COVID-19 pandemic

The public health measures adopted to reduce the spread of COVID-19, including the city's and county's stay-at-home order in place between March and May 2020, and the other restrictions on local business practices, have devastated small businesses across the region. During this period, many small businesses were forced to temporarily close or reduce operations, incurring significant revenue losses and others permanently shuttering. Even as businesses began to reopen in the months following the stay-at-home order, many faced reduced customer traffic and revenue as they worked to pivot operations to comply with health mandates and other regulations. In Missouri, total small business revenue and the number of small businesses open decreased by 31% and 25%, respectively, from January to mid-November 2020.[40]

To better understand current and emerging needs of small businesses throughout this pandemic, this analysis focused across three main segments that were adapted from a segmentation developed by the Brookings Institution.[41] Industries were grouped based on immediacy and severity of the impact felt by businesses, as shown in Figure 2.

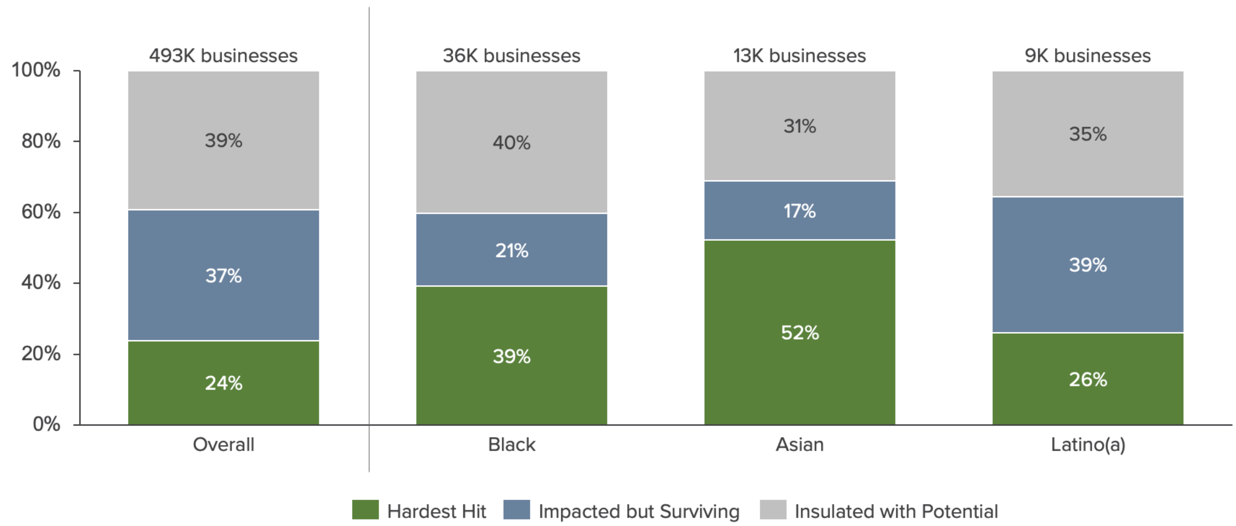
Figure 2: COVID-19 risk segmentation by industry

	Hardest Hit "How do I stay in business?"	**Impacted but Surviving** "How can I pivot or evolve?"	**Insulated with Potential** "How can I maintain and grow?"
Description	Non-essential businesses that have had to close or significantly adjust operations and face significant risk of closure	Essential businesses that have lost revenue due to reduced spending from consumers and non-essential businesses	Essential businesses that have been able to continue operations and supply critical goods and services
% of small businesses^ in St. Louis MSA (2017)	24%	26%	50%
Key industries	• Food services & drinking places • Personal & laundry services • Clothing & accessories stores • Motor vehicle & parts dealers • Gasoline stations • Misc. store retailers	• Specialty trade contractors • Admin. & Support Services • Real Estate • Merchant wholesalers, & durable goods • Construction of buildings • Truck transportation	• Social assistance • Prof. & technical services • Ambulatory & health services • Repair & maintenance • Insurance carriers & related activities • Securities, commodity contracts, investments

40 Source: Opportunity Insights, 2020
41 Source: Brookings Institution, 2020

Using historical surveys of owner demographics in Missouri, Black-, Asian-, and Latino(a)-owned businesses operated more in the Hardest Hit industries, while Latino(a) owners operated more in the Impacted but Surviving industry segment, as shown in Figure 3.[42] Accordingly, the region's small businesses owned by POC have been disproportionately represented in the most affected industries. POC-owned businesses have long been concentrated in industries such as leisure, hospitality, and retail due to systemic racial disparities leading to lower education and higher capital barriers to entry in higher-growth industries.[43]

Figure 3: COVID-19 risk segmentation breakdown of Missouri-based businesses, by race and ethnicity



Source: Brookings Institution; Moody's Corporation; US Census Bureau, County Business Patterns (2016)

42 Source: U.S. Census County Business Patterns Data, 2017
43 Source: U.S. Census Bureau Center for Economic Studies, 2013

CAPITAL SUPPORT LANDSCAPE

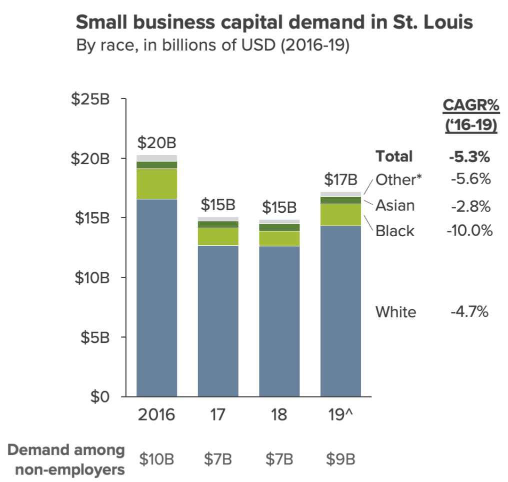
The St. Louis small business capital landscape is characterized by a significant shortage of capital to meet small business needs, disproportionately low rates of traditional lending in neighborhoods with high concentrations of Black and Latino(a) residents, and lack of formal collaboration amongst capital and service providers. To understand the dynamics of the capital support landscape in St. Louis, the research team examined the capital demand and supply for small businesses within the region.

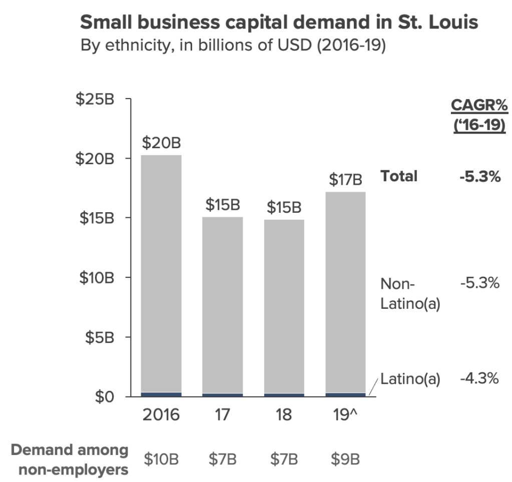
Debt and equity capital demand in St. Louis declined between 2016 and 2019, as illustrated in Figure 4. This decline was, in part, driven by small business tax relief resulting from the 2017 Tax Relief Bill and by declining trust in traditional financial institutions among some demographic groups.[44,45] Over this period of time, demand dropped most significantly for Black small business owners.[46]

Concurrently, small business capital supply in St. Louis has increased modestly in the years prior to the pandemic, driven by growth of the region's supply of equity capital. From 2012 to 2017, total capital supply grew by 2.7% per annum (p.a.) to an estimated $2.3 billion, with equity and debt capital growing by 33.7% p.a. and 1.1% p.a., respectively. Of the debt capital supplied, St. Louis has lower SBA and Community Development Financial Institution (CDFI) lending compared to other localities with similar numbers of small businesses, such as Dallas or Atlanta. To service the approximately 68,000 small employer businesses and 190,000 sole proprietors in the region, traditional, non-CDFI lenders made $231 million in SBA loans in 2017, while CDFIs made an additional $4.4 million in SBA and non-SBA lending.[47]

Even with the gap between capital supply and demand shrinking incrementally in recent years, capital supply has not met the significant demands in the region. In 2017, there was an estimated $13 billion gap between small business capital supply and demand.[48] Examining access to debt capital through numerous focus groups with small business owners and stakeholder interview feedback, small businesses indicated a need for additional supply of microloans under $50,000.[49] This was consistent with national trends, as microloans are more expensive to process and underwrite compared to larger loans. The philanthropic community has subsidized microlending activity and made smaller loans more financially viable to an extent, as evidenced by CDFI lending in St. Louis that was disbursed in smaller average loan sizes than other peer localities, investments in St. Louis were concentrated by value in Series A and Seed stage funding, creating challenges for businesses seeking growth capital to scale their business.[50,51]

Figure 4: Estimated small business capital demand in St. Louis





44 Source: Pepperdine Private Capital Markets Project, 2018
45 Source: Federal Reserve Small Business Credit Survey - Report on Minority Businesses, 2016-2018
46 Note: Detailed capital demand and supply methodology can be found in the appendix, p. 35-36
47 Note: SBA Lending includes SBA lending, excluding SBA loans made by CDFIs, and CDFI Lending includes all lending by CDFI Fund recipients
48 Note: the gap in capital demand and supply based on estimated capital demand and supply figures in 2017. Detailed capital demand and supply methodology can be found in the appendix, p. 35-36
49 Sources: Aggregate statistics sourced from Freedom of Information Act (FOIA) data to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report
50 Note: Series funding aligns to a company's expansion stage – while there is no standard funding threshold for Series A or Seed funding, an analysis over 38 Series B deals in June 2020 indicated the median Series B median was $26 million
51 Source: Fundz Database, 2020

Disparities in accessing capital by geography, race, and business stage were present in St. Louis. When examining small business owners' ability to access capital geographically, there were disproportionately low rates of bank lending in neighborhoods with high concentrations of Black and Latino(a) residents, as evidenced in Figure 5. This was most pronounced in neighborhoods in North City and others throughout the city such as Benton Park West. CDFI lending filled some gaps, but significant unmet demand remained. Based on consistent feedback from interviews and focus groups, POC in St. Louis face greater barriers in accessing capital compared to their White counterparts due to numerous reasons: lower trust in mainstream financial institutions, a lack of formal banking relationships, and a lack of traditional credit histories among POC communities. Distrust in financial institutions was further exacerbated by a lack of culturally competent capital providers that understood the unique context and needs of serving communities of color. Regarding access to equity capital, local stakeholders indicated that racial bias and a lack of investor connections among POC further limited entrepreneurs of color from acquiring necessary funding.

"What happens, [with] us as Black and Brown people, we have a distrust factor. But at what point, [are we] going to ask for assistance? How do we create that relationship?"

– Owner and Founder of Consulting Business, Focus Group Participant (August 2020)

"Because of the atmosphere and racial tension, financial institutions need to put their money where their mouth is. They need to reach out to us [and say,] how can I help you? It is hard for them to do that too. They need to take a step forward."

– CEO of Film Production Company, Focus Group Participant (August 2020)

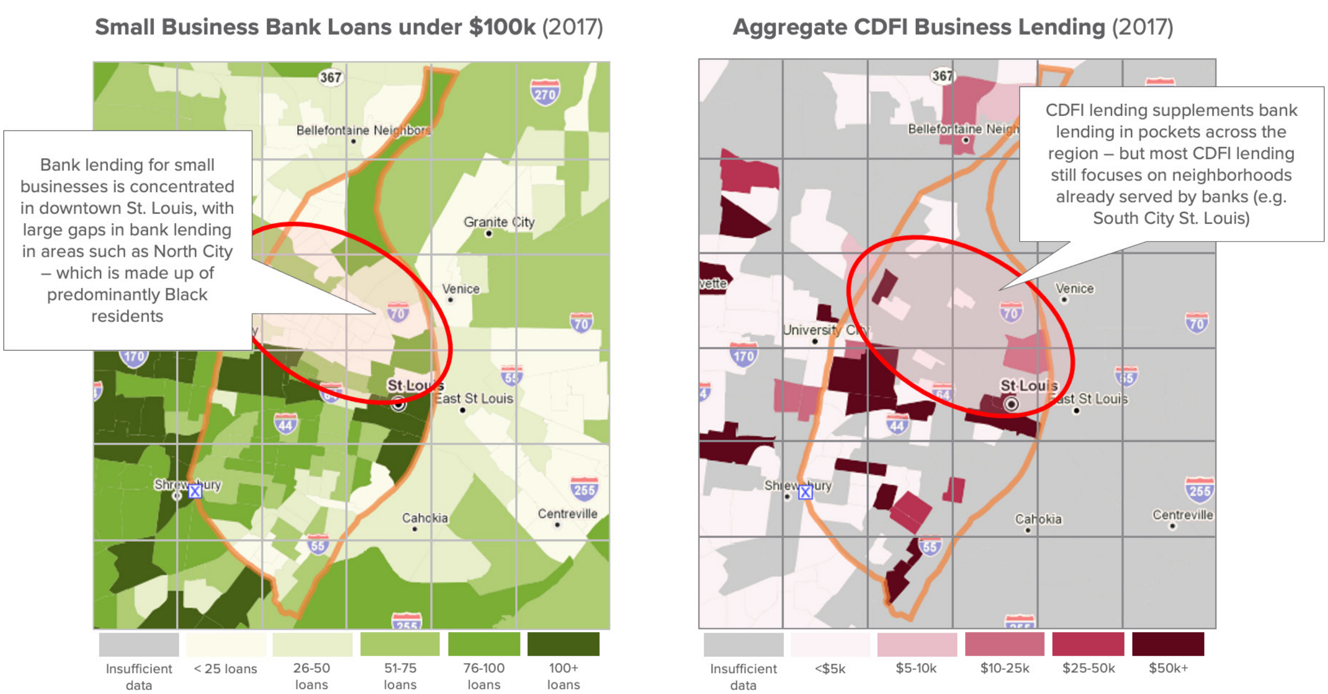
"Too much funding is centered around tech and high-growth industries, despite data [illustrating] that the majority of St. Louis entrepreneurs and small businesses are in main street businesses [...] very little of the overall funding that goes to entrepreneurs of color."

– CEO of POC-led BSO, Interview (August 2020)

Furthermore, equity capital in St. Louis was focused on high-growth businesses in select sectors such as biological sciences and healthcare technologies – as evidenced by numerous compilations of equity investors, incubators, and accelerators focusing on these industries in the region. [52,53] Notably, POC entrepreneurs are both overlooked and underrepresented in these focus, high-growth industries. Nationally, only 1% of venture-backed startup founders are Black, and 1.8% are Latino(a).[54]

Further research indicated that alternative capital providers in St. Louis have historically under-deployed available capital to small businesses and lacked formal coordination with business support providers. According to MOSourceLink, approximately 40% of Missouri's 33 alternative loan funds – with $18 million in available alternative financing – did not make a loan in 2018.[55] This under-deployment of capital was brought on in part by a lack of formal connections with service providers in the region, which was confirmed by multiple business owners and ecosystem stakeholder interviewees. While there is a nascent St. Louis Coalition of CDFIs that was established in 2016, coordination focuses on non-small business asset classes. Without strong relationships to service providers or each other, local capital providers were not strongly positioned to take advantage of potential referrals or coordinate in ways that would have allowed them to reach more businesses. Recognizing this need for stronger collaboration and capital infrastructure, philanthropists have begun to test new efforts such as the 2039 Fund, a new fund intended to support emerging entrepreneurs and business owners of color to build and scale ideas that bring vitality and economic growth to the city.

Figure 5: Bank and CDFI lending in St. Louis by census tract



52 Source: Axial Forum, 2020
53 Source: MOSourcelink, 2020
54 Source: Crunchbase, 2019
55 Source: MOSourceLink, 2019

In the COVID-19 crisis, while some small businesses in St. Louis have adapted to position themselves for growth, most small businesses have tried to offset lost revenue, creating immediate short-term increased demand for emergency funding, and long-term reduced demand for traditional financing. Many businesses were largely unprepared to weather a long-term disruption – prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.[56]

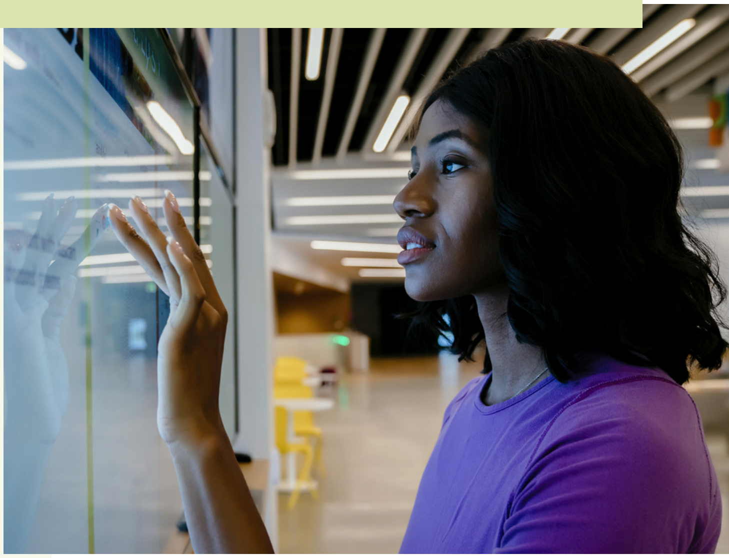
As such, many businesses sought flexible, emergency financing from federal, state, and local sources, including loans made available by the Paycheck Protection Program (PPP) of the U.S. Cares Act. At the local level, members of the St. Louis CDFI Coalition offered short-term loan extensions and loan deferments.[57] Municipal and regional emergency funds with varying geographic scope have also been launched to fill gaps unmet by federal funding, all with significantly lower capitalization than that of Federal SBA programs.

A few months after the advent of the pandemic, median small business cash balances fell 12.7% compared to pre-pandemic levels.[58] With this following recessionary environment, the research team expects a subsequent decrease in capital demand driven by fewer small businesses able to take on additional debt or seek investment capital given expectations that fundraising will be more difficult due to tighter underwriting and investment policies.

In numeric terms, the research team estimated an initial surge of capital demand in St. Louis peaking at $5.4-$6.2 billion in the second quarter of 2020, with demand decreasing through a 'recovery' period between $2.0-3.3 billion through the end of the calendar year. Subsequently, a 'post-recovery' period with stabilized and flattening demand is expected, rising slowly each quarter to an estimated $2.9-$4.8 billion by the end of 2021.[59]

With the research team's forecast, it was important to note that small business capital demand can serve as a proxy of the small business ecosystem's health, with higher longer-term demand for traditional financing correlated with a more robust ecosystem. To ensure that capital demand reaches levels prior to the COVID-19 crisis, an integrated small business ecosystem response among capital and service providers should serve as a method to promote the overall health of small businesses and the supporting ecosystem and accelerate recovery.

Prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.[56]



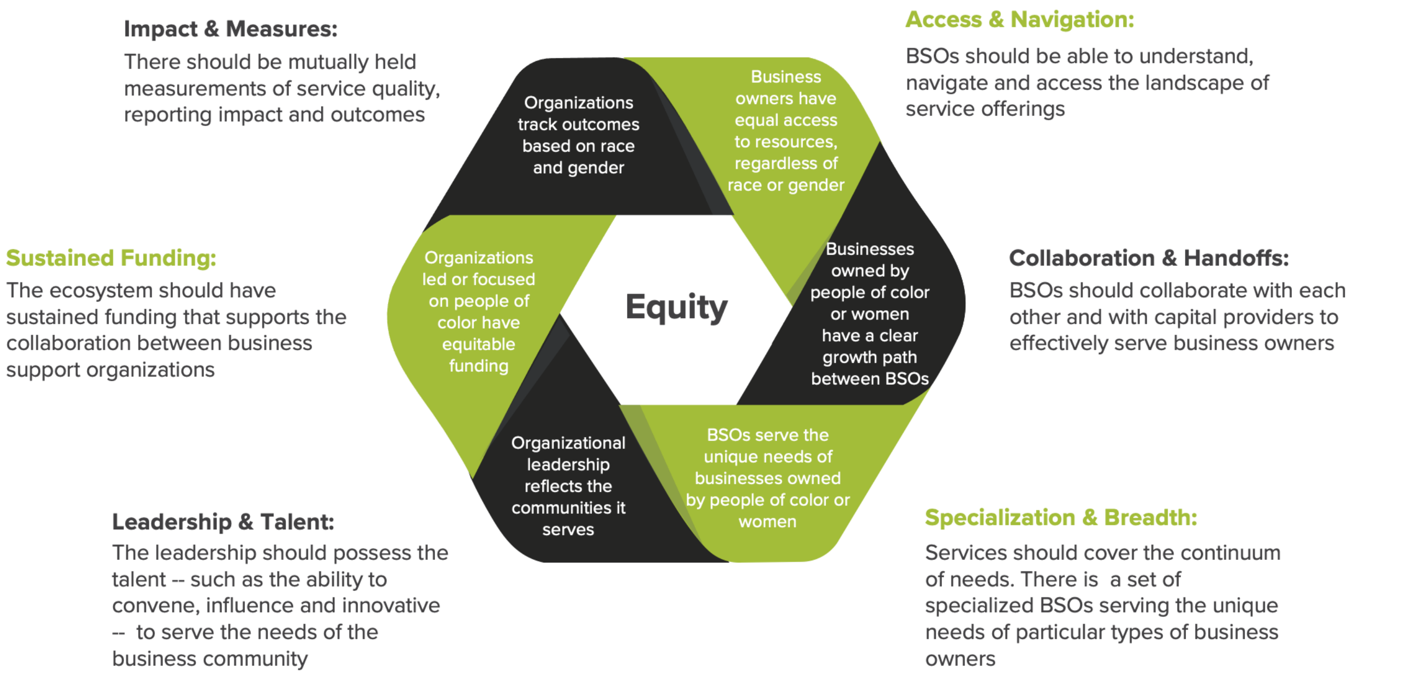
56 Source: JPMorgan Chase Institute, 2019
57 Source: St. Louis Coalition of CDFIs, 2020
58 Source: JPMorgan Chase Institute, 2020
59 Note: Detailed capital demand and supply methodology can be found in the appendix, p. 35-36

BUSINESS SERVICES LANDSCAPE

Known for its innovation centers; strengths in bio sciences, healthcare, and financial services; and investments in the aerospace and food processing industries, St. Louis is creating a robust environment for early-stage start-ups and science focused small businesses. However, this support infrastructure has been largely homogeneous and inaccessible to Black entrepreneurs and other POC. As business support organizations (BSOs) respond to calls for inclusion and relevant support services, their efforts are hampered by weak coordination and accountability across the region and the reliance on informal networks of referrals. With 90 municipalities in St. Louis County, the landscape of business regulations and business support services is complex, inconsistent, and difficult for small businesses to navigate.

To assess the BSO landscape, the research team analyzed a sample of 51 service providers based in the St. Louis region, examining the critical elements of the BSO systems across the following areas depicted in Figure 6.

Figure 6: Critical elements in the local business services landscape



Access and Navigation

The business service organizations studied in this assessment were primarily clustered in St. Louis City and otherwise dispersed throughout the St. Louis region. Examining BSO locations by residential race and ethnicity, as shown in Figure 7, revealed that many BSOs were located along the border of North and South City. However, despite the broad physical presence of BSOs, the St. Louis ecosystem lacked formal coordination and infrastructure to refer business owners to services they need. The ecosystem's informal referral system through networks was insufficient in connecting business owners – especially those new to and unfamiliar with the local ecosystem – with other providers and resources to help them succeed. Business support organizations reported that business owners in St. Louis consistently cited difficulty in navigating or identifying resources when they were new to the ecosystem or finding mentors or contacts who could advise them on where to begin looking for support.[60]

60 Source: Live polling during the third Working Group convening

"It's no one's job to connect entities with well-known resources. There is no formal method that says based on these criteria, that you should work with this specific business."

– President and CEO, Purpose First Advisors, Advisory Council Meeting (September 2020)

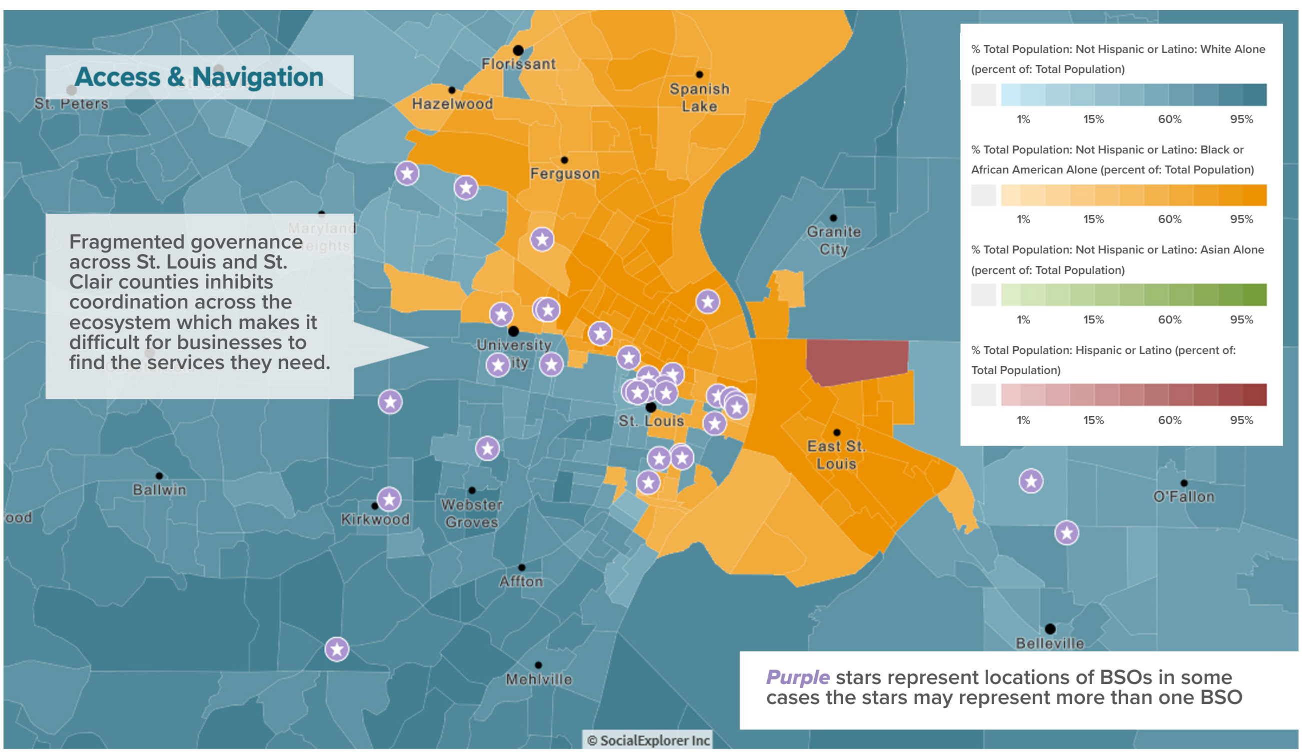
Research further indicated that to expand access for POC business owners, more deliberate marketing and outreach efforts should be implemented to increase awareness of services. To better serve communities of color, business services ecosystem stakeholders must meet small businesses of color where they are by providing culturally competent services, including targeted outreach strategies with community partners. BSOs must also be mindful of hiring staff that share the same experiences and perspectives as the communities they serve, ensuring that programs are relevant and sensitive to the needs of POC communities. Hiring directly from communities being served was crucial to designing and delivering culturally competent programs.

"A lot of organizations think that they can just provide services and that it is the responsibility of the entrepreneurs to take advantage of those services. Using my lived experience as an entrepreneur, I know we need to entice and incentivize Black entrepreneurs to engage with the ecosystem despite the lack of inclusion and outreach from local providers."

– Founder and Consultant, BRAND of STL, Interview (August 2020)

Additionally, BSOs should provide multilingual offerings to meet the needs of foreign-born business owners unable to access English resources. Translating materials and offerings in Spanish, Hindi, Bosnian, Chinese, Vietnamese, and other languages that correspond with major immigrant populations in St. Louis will be critical in expanding access. [61]

Figure 7: BSO providers by location in St. Louis[62]



61 Source: STL Mosaic Project, 2019
62 Source: BSO Inventory (n=51)

Minerva Lopez

FORMER OWNER OF GOOAAAL & CHEROKEE AVENUE BUSINESS ASSOCIATION FOUNDER

"I was involved in California already, and when I came here and saw the lack of resources for Latinos and Mexicans in particular, I got involved."

After visiting friends in 2003 and seeing a wealth of economic opportunity in St. Louis, Minerva decided to leave her life in California and move to St. Louis to open a soccer apparel shop. In 2005, Minerva opened Gooaaal a specialty soccer apparel store on Cherokee Street. Historically, Cherokee Street was a commercial destination because of its proximity to the Union Railroad Depot Company electric streetcar lines.

Today, the Cherokee Street neighborhood is seen as a diverse microcosm of St. Louis as well as a place that many Latino business owners call home.

Minerva fondly recalls her experience as a business owner on Cherokee Street, "As a specialty store, Gooaaal would attract people from a 200-mile radius." Unfortunately, due to other conditions in the neighborhood, Lopez had to close Gooaaal in 2016. Minerva stated that she could have gone back home to California, but after building a comfortable life in St. Louis she decided to stay and form the Cherokee Street Business Owners Association.

When asked about the top challenges for Latino business owners on Cherokee Street, Minerva stated that because of this pandemic, the community isn't getting information about the resources that are available.

Knowing the sense of pride that Latinos have, she noted that many don't look for help, especially because the resources that are out there aren't in Español.

"A lack of resources in Español. Not that the resources do not exist. But lack of resources in Español. As you may know some of the Latinos that are here came looking for a better opportunity for their lives and some were wise enough to start their own businesses, but they started their businesses without any knowledge. They had money, opened a storefront and boom that's it. A lot lacked financial information. To even be able to read a bank statement for them would be a blessing because that is what they don't have. And sadly, I don't think any other organizations other than a few are doing anything about it."

Minerva stated that the work of Gabriela Ramirez-Arellano and STL Juntos are addressing this challenge. She believes that if there was an organization that could research economic opportunities and actively share that information within the Latino(a) community, many more business owners would have the ability to scale and grow.

"Some of the longstanding businesses could really use the help. There are bakeries in the community that at one point were shut down because they couldn't manufacture. It's the resources. The money is out there."

Specialization and Breadth

As shown in Figure 8, the BSOs inventoried for this assessment were more likely to offer certain services over others – however, these commonly offered and utilized services did not align with the types of highly demanded services requested by small businesses. For example, while marketing assistance – defined as support to increase business visibility to customers – was the most commonly offered service among BSOs, it was also the least requested service among business owners. For some services, there seemed to be a disconnect between the services provided and the business owners' awareness and usage. For example,

- Inventory of 51 BSOs indicate marketing services are the most commonly provided service;
- Survey of 11 BSOs indicate that marketing is the least requested by business owners; and
- Focus group of businesses state it is the most needed service.

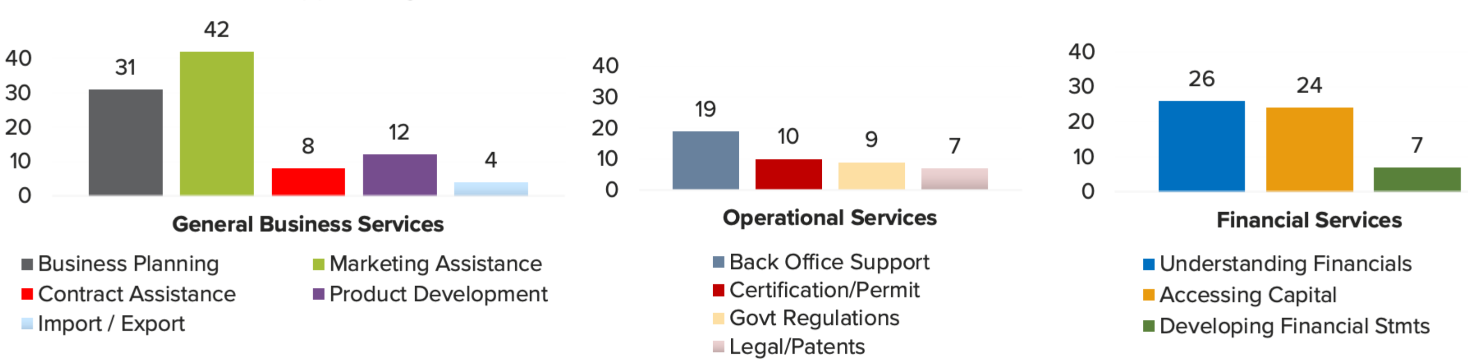
This may indicate that, while marketing services are being provided, they are not reaching business owners of color.

There were other points of disconnect between services being provided by business support organizations and business owners feeling underserved. Similar to marketing services, accessing working capital, providing support in back office functions and navigating government regulations and systems appear to be highly needed and existing in the ecosystem but also largely not accessed by business owners of color.

Service providers in St. Louis have an opportunity to refine the portfolio of services offered to focus on high-demand offerings around navigating complex government regulations across municipalities, back office support and technical expertise in functions such as accounting or legal, and support in accessing capital.

Figure 8: Services offered by BSOs in St. Louis[63]

# of Business Service Organizations Surveyed (n=51)



63 Source: BSO Inventory (n=51)

Interviews alongside Working Group and Advisory Council input also revealed the need for more seamless provision of services across different stages of business growth. Several BSOs in St. Louis focus on supporting early-stage firms in high-growth industries such as healthcare technology. Among survey respondents, 27% and 36% of services focused on growth-stage and startup firms, respectively.[64] Local stakeholder feedback indicated that, as a result, there is less of an emphasis in providing services for lower-growth businesses such as grocery stores or laundromats who need support beyond the startup phase. Business owners were offered less support in sustaining and optimizing these essential businesses – further exacerbating a scarcity of these businesses in underserved neighborhoods across St. Louis.

Moreover, in a region with a significant Black population and a growing foreign-born population, few BSOs have dedicated programming or mentorship for entrepreneurs of color and immigrants. Few BSOs and business accelerators in St. Louis provided services designed to foster social networks among business owners of color and immigrant business owners, restricting support, peer mentorship, potential connections, and opportunities among entrepreneurs of color.

With the sustained impact of the COVID-19 pandemic, BSOs in the St. Louis region need to support businesses in pivoting their business models under new constraints, and to meet new opportunities that arise. Small businesses require technical support in areas such as moving operations to an online platform, support in digital marketing to engage customers remotely, and legal support to follow government regulations around health safety and reopening. To execute those shifts, businesses then need the legal and accounting assistance to effectively secure financing.

Leadership and Talent

BSO leadership that reflects the experiences, perspectives, and demographics of its surrounding communities is key to ensuring alignment with the needs and expectations of diverse stakeholders. POC and women comprised a significant number of the leaders of local organizations – among the approximately 50 local BSOs inventoried, 27 BSOs were led by POC, and 22 BSOs were led by women (60% of which are women of color).

64 Source: BSO Survey (n=11)

Sustained Funding

POC-led BSOs appeared better funded than White-led BSOs in St. Louis, as shown in Figure 9. This greater racial parity in funding was driven by the broader programming focus for POC-led BSOs, which offered an array of services across community and economic development (e.g. employment, housing, youth development). In comparison, White-led BSOs generally had smaller budgets due to the more targeted focus on small business. Male-led BSOs also tended to be larger and better funded than female-led BSOs. The average budget for male-led BSOs was twice as large as female-led BSOS: $4.7 million, compared to the average budget of $2.3 million, respectively.

Figure 9: Distribution of business service organizations by demographic and size

	People of Color	Women
% of population	24%	51%
% of businesses	17%	24%
% of BSO CEOs	55%	45%

Led by	Average Budget Size
White Men	$4.4M
White Women	$1.4M
POC Men	$4.9M
POC Women	$3.1M
Total	$3.7M

Collaboration and Support

While noting the multitude of existing initiatives and local organizations supporting small businesses, local stakeholders consistently shared that there is no clear “quarterback” for the St. Louis BSO ecosystem that coordinates service providers, costing businesses time and money trying to identify the right service providers and the corresponding services for their business. A “quarterback” should be a central convener and navigator that serves small businesses in the region – this individual leader or entity would have long-term and sustained funding in order to increase accountability, partnering with other leaders across the region in the city and counties in the St. Louis MSA, on small business efforts in the region.

Stakeholders engaged in this assessment reported that they believed that the good will and high-level commitment to supporting small businesses and communities of color was strong, but that past efforts and studies across the region had failed to yield action due to a lack of coordination with other influential actors, long-term funding dedicated to regional goals, and shared responsibility. Fragmented governance across the city and other counties in the MSA has also inhibited coordination among service providers across BSOs in disparate jurisdictions.

In addition, there is a strong need for coordination and consistency of businesses licensure and permit requirements across the many municipalities. Until that is accomplished, there is a need for greater coordination between BSOs to ensure ecosystem-wide understanding of the various regulations and the ability to direct businesses to service providers that have expertise in the right locality. There is also a need for coordination across the city and county in terms of both service provision and consistency of business regulations.

Impact and Measures

The right set of mutually held measures of service quality that report impact and outcomes help BSOs hold one another accountable and make for a more efficient ecosystem. However, in St. Louis, fewer than half of BSOs surveyed reported that they provide impact reports to the public. This made it difficult to measure their effectiveness, gauge whether there were shared metrics and goals across ecosystem players, or map what was successful in growing small businesses.

Furthermore, business owners and other local stakeholders emphasized the importance of tracking impact metrics by business owner race and ethnicity. The majority of the BSOs surveyed tracked the demographics of the businesses served. However, it does not appear that the demographics are aggregated and measured by the ecosystem. A targeted approach to serving Black-owned and other POC businesses is necessary to move towards a more equitable ecosystem.

GAPS AND NEEDS IN THE ECOSYSTEM

From the research and insights from local stakeholders, it is clear that St. Louis' small businesses owned by POC face significant barriers in accessing capital, customers, and services. Extensive quantitative and qualitative research surfaced 23 challenges impeding the success of small businesses owned by POC. The research team worked with 13 local leaders of the small business ecosystem in the Working Group and 47 leaders in the Advisory Council, representing a broader cross-section of the region's small business ecosystem, to refine the long list of gaps into a shorter list of priority focus areas. Through two initial workshop sessions, the groups discussed and further developed the gaps analysis and then completed a survey to prioritize the final 10 high-priority gaps (see Figure 10 and 11). Afterward, the groups came together in two additional working sessions to brainstorm strategies to address those gaps – drawing on the region's assets and unique dynamics of the existing St. Louis small business ecosystem.

Local leaders aligned on the most significant challenges facing small businesses in St. Louis, including accessing capital due to a lack of financial acumen, absence of traditional lenders in local communities of color, and fewer avenues to tap funding from family and friends due to lower overall wealth profiles. These small business owners need tailored technical assistance to start-up, survive, sustain, or scale despite the barriers they face, and a more coordinated business support landscape to ease access to the services they need.

The COVID-19 pandemic further entrenched these institutional barriers and disproportionately affected POC-owned businesses. In particular, this crisis exposed the greater need for more affordable funding to help businesses shift or launch new marketing efforts, as well as availability of back office support to navigate accounting and legal complexities following business decisions around emergency funding and reopening.

Figure 10: Prioritized small business needs

Small Business Needs

Needs among small businesses in accessing financing, technical assistance, and markets

Access to Capital

Financing for small businesses to start, survive, sustain, or scale

1. Need capital products and training programs that help small business owners of colors increase their financial acumen, build credit and access traditional bank capital
2. Need affordable funding (e.g., low-cost debt or grants) to help small businesses execute business model shifts or new marketing efforts in the COVID19 environment
3. Need access to "risk capital" (equity or grants) that enable POC to experiment with business ideas without putting their personal financial health at risk

Access to Customers and Services

Avenues for small businesses to reach customers and maintain and grow revenue; Technical assistance support for small businesses to start, survive, sustain, or scale

1. Need targeted, compelling outreach to small business owners of color to ensure that they are aware of and take advantage of existing capital and service resources
2. Need more availability of back office support (such as accounting, taxes, and legal) to help small businesses improve their fiscal management so they are better prepared for future crises and can qualify for emergency funding, if needed
3. Need more culturally competent service and capital providers who understand or can relate to the unique experiences and needs of small businesses of color to more effectively support them
4. Need more effective engagement of the anchor community (e.g., government, universities, hospitals, and corporates) to increase large, stable contract opportunities for small businesses owned by POC

Figure 11: Prioritized ecosystem infrastructure needs

Ecosystem Infrastructure Needs

Needs among ecosystem stakeholders to better support small businesses with capital, customers, and services

1. Need accountability, action planning, and long-term funding to coordinate local stakeholders to successfully implement recommended strategies
2. Need to formalize the existing informal, relationship-based approach to referrals amongst capital and service providers by creating formalized pathways for small business owners to leverage multiple resources to build their business
3. Need targeted neighborhood- or business corridor development programs to incentivize ownership of essential businesses (e.g., grocery, personal care) in underserved neighborhoods

Emerging Solutions

This research culminated in a set of ecosystem strategies designed to move St. Louis towards a shared vision of creating a more equitable small business environment that narrows the racial wealth gap in the region. The research team worked with the Working Group and Advisory Council through an iterative and collaborative process to advance a robust collection of solutions to address the priority ecosystem gaps. Throughout the solutions design process, the Working Group and Advisory Council developed strategies that recognize and harness the region's size, diversity, and existing assets. Strategies were designed to address root causes and create the enabling infrastructure to respond to the prioritized gaps. The strategies were developed from local stakeholder input and national best practices for place-based ecosystems and build from local momentum and existing initiatives that can be further formalized and expanded. A few select examples of local momentum are highlighted below.

These solutions are organized under three key strategic pillars and are recommended to address the broad set of capital, customer, and services needs among small businesses owners of color within St. Louis:

ECOSYSTEM BUILDING

Develop coordinated networks of business service and capital providers to promote improved outcomes and policies favorable to POC-owned small businesses. Ecosystem building efforts should build off existing momentum created by the pending merger of five regional economic development agencies and emerging anchor collaboratives such as SupplySTL and the Anchor Institution Initiative at the University of Missouri, St. Louis.

Regional collaboration for ecosystem-wide coordination and accountability:* Establish and sustain a formal coalition of ecosystem stakeholders to coordinate ecosystem-wide initiatives, collective policy agendas, and track and report city- and county-wide metrics, led by designated "ecosystem builders"; support merger of local economic development agencies to create coordinated regional strategy.

Anchor collaborative:* Create a collective of anchor institutions with shared commitment to purchasing from small businesses owned by POC and matchmaking programs to connect anchors with small businesses owned by POC.

HOLISTIC SERVICES

Connect POC-owned small businesses to culturally competent services and training to support their success, while tracking and facilitating businesses' long-term engagement over time. Holistic service efforts should integrate and refine existing assets such as the MOSourcelink small business resource repository, the Heartland St. Louis Black Chambers' network of professional services providers and existing networking events.

Targeted outreach and ongoing case management:* Hire team of small business liaisons and case managers dedicated to proactively engaging small businesses to build trust, connect them to the appropriate services, and track their progress over time to ensure they receive the help they need across an integrated support structure (including a digital resource, social hub, and peer networking).

Shared platform access to professional services:* Create subscription-based shared services platform that allows small business owned by POC to access high-quality professional services or other relevant business back-office infrastructure for an affordable monthly fee.

Culturally competent leaders and stakeholders: Create cohort- or peer-based learning initiatives to help local economic development leaders and staff explore topics of racial equity and the application to their work.

Note: * denotes solutions that are currently underway

Michelle Robinson

FOUNDER & CEO. DEMIBLUE NATURAL NAILS

"I have taken it upon myself to do a lot of research, on a step by step how to manual."

Born out of her mother's experience with cancer, Michelle Robinson founded DEMIblue, a nail polish line that is vegan friendly and free of carcinogens. After leaving her job in corporate America, Michelle leveraged her love for research and her vision of offering a healthy and specialized manicuring experience for her community. She caters to the health-conscious consumer with her colorful line of 28 shades of polish and a complete line of nail treatments.

Demiblue started out as a mobile service, but after the pandemic started, she coupled with a local boutique and now offers private manicuring services with her line of vegan nail polishes. Robinson draws upon her 18-year background as a healthcare provider and educator to teach women about healthy alternatives to nail care.

With the support of the Balsa Foundation and as a recent recipient of UMSL Diversity, Equity and Inclusion Accelerator grant, Michelle has seen success that has landed her products in the Walmart marketplace as well as in other local and national retailers.

Michelle has plans to continue growing and expanding her brand and business. Once the pandemic ends, she will continue to offer free manicures to women in the community that are undergoing cancer treatment and pop up at different beauty-related events.

CONTINUUM OF CAPITAL

Increase availability of free or low-cost, flexible capital to build financial acumen while better financing and strengthening small businesses. There are several new or emerging efforts in St. Louis that will create a strong foundation for this work. Examples range from special emergency grant funds created in response to the COVID-19 pandemic (e.g., Invest STL Neighborhood Solidarity Fund, STL City Small Business Grant Fund) to a new five-year fund being launched in 2021 to provide grant capital, education and advice to small business owners.

Expanded pools of capital: Create a funder collaborative that will create a pool of funding that can be deployed across the region, including for strategies around COVID-19 recovery and resiliency and startup risk capital for POC businesses.

Credit-building products with wraparound services support:* Pair business credit-building capital products with wraparound support including 1:1 professional services support and training to increase businesses' financial acumen.

Emergency recovery and resiliency fund:* Form a grant or loan facility from government or private funding to deploy longer-term recovery and resiliency capital to businesses through local intermediaries and community financial institutions.

Startup 'friends and family' fund: Launch a small business fund that gives one-time equity or grant capital to POC-owned businesses in the start-up phase.

The Working Group and Advisory Council specifically prioritized 'Regional Coordination and Accountability' and 'Targeted Outreach and Ongoing Case Management' among identified strategies. These solutions demonstrated immediate momentum and actionable steps towards addressing gaps surfaced in this report. The following callouts provide additional context and examples of how similar solutions have been deployed in cities across the country.

Envisioning

‘Regional Collaboration for Ecosystem-wide Coordination and Accountability’

The Need:

St. Louis is home to a myriad of initiatives and research to increase racial wealth equity through small business ownership in recent years, many of which stemmed from the foundational strategy laid by the Forward Through Ferguson report published in 2015. However, despite commitment to advancing racial equity and the local small business ecosystem, efforts have stalled in execution due to a lack of regional collaboration, accountability to prompt action and track impact, and long-term funding.

The Solution:

To foster greater connectivity and collaboration across the county, ecosystem stakeholders can further formalize, deepen, and expand local coordinating bodies to align regional efforts. Through a regional coalition that convenes regularly around a shared strategy, and with one to four designated “ecosystem builders” that will coordinate efforts and hold people accountable to execute these solutions, the ecosystem will be able to reduce fragmentation and more effectively implement solutions around holistic service provision and creating a stronger continuum of capital for small businesses.

While the pending merger of St. Louis’s leading economic development agencies will help create more coordination across the ecosystem, there is still a need for a single entity or partnership that is responsible for driving forward and tracking progress towards the recommendations put forward as part of this effort.

An Example Model:

Co-led by Accion Chicago and Small Business Majority, the Chicago Inclusive Growth Coalition is a collective of ecosystem stakeholders that have established initiatives to coordinate Chicago-based capital and services. This formalized coalition, driven by two local leader organizations, provided a shared platform on which the Chicago small business ecosystem was able to rally around and drive initiatives forward.

Envisioning

‘Targeted Outreach and Ongoing Case Management’

The Need:

The St. Louis small business ecosystem currently lacks targeted outreach to small business owners of color and a formal system of referrals that tracks small businesses as they move through services. While referrals amongst capital and business service providers happen frequently today, they are ad-hoc and driven primarily by relationships. Without designated outreach and marketing efforts to build trust with communities of color, as well as a single platform to integrate businesses into a holistic support structure, the BSO landscape in the region has been challenged in actively and effectively engaging underserved entrepreneurs.

The Solution:

To ensure that business owners of color are able to access the holistic support they need for success over time, resources should be directed to hire a team of dedicated liaisons and case management professionals that can build trust with POC business owners and streamline case-management after initial engagement to ensure they receive the help they need in the long-term. This will require outreach coordination with trusted organizations, commitment to share and track impact outcomes, culturally competent offerings that resonate with POC, and a comprehensive map of available services.

St. Louis’s current small business ecosystem has several assets that help connect small businesses to each other and to services, but they are largely informal and fragmented and can be further formalized and expanded. For example, MOSourcelink offers a useful resource navigator for small businesses today, but it is largely an aggregator. There is a desire from small businesses and providers to have an online “hub” that pairs the resource navigator with social engagement so they can connect with and learn from each other. Additionally, efforts like those led by Venture Café’s programs, spaces, and events that bring people together to inspire each other, collaborate, and launch new projects and businesses.

Example Models:

St. Louis can draw from a mix of national examples as it builds out stronger outreach and case management infrastructure:

To increase outreach to communities of color, a coalition of partners (including NYC Economic Development Corporation, NYC Small Business Solutions and Chambers of Commerce), funded by the Peterson Foundation, created an outreach network of 20+ full-time ‘recovery specialists’ to identify small business owners of color that are struggling to survive because of COVID-19 and connect them to the services through an online clearinghouse.

In parallel, to aggregate resources as a foundation for ongoing case management, Baltimore’s ecosystem has developed the EcoMap, an online hub for the city’s entrepreneurs, creators, and community builders. The platform also serves as a resource repository to support ecosystem mapping and corresponding referrals among capital and service providers.

Conclusion and Call to Action

The time to act is now.

As part of a broader national initiative across nine cities and localities, the St. Louis small business ecosystem is at a crossroads with the opportunity to lead, learn from, and coordinate with other cities to build a more equitable small business ecosystem across the U.S.

The research team recommends immediate action on the strategies articulated in this report, starting with the steps below to fulfill the vision of closing racial gaps in business ownership, revenue, and number of employees across St. Louis. The below priority measures will provide a strong foundation to drive execution and capitalize on existing local momentum across the other recommendations articulated in the report.

1. **Organize a coalition of funders.** Bring together a group of funders, ranging from long-standing philanthropic funders and those newer to small business, as well as corporates and other private and public funders, to provide multi-year funding to implement these solutions.

2. **Identify Ecosystem Builders.** Designate between one and four local organizations with the influence and capacity to drive regional collaboration efforts forward. Ecosystem builders should represent geographic and neighborhood diversity throughout the region and will be responsible for ensuring execution and activate impact tracking across different initiatives.

3. **Formalize the Advisory Council and align on priorities with responsibilities for execution.** Continue gathering people involved in this work and include others to foster collaboration, allow initiatives currently underway to expand and deepen, and develop implementation plans that are driven by and represent the needs of small businesses and the organizations that support them.

4. **Take immediate action on any “low hanging fruit” solutions or areas where the businesses need support urgently.** With businesses continuing to face instability due to the COVID-19 pandemic, implement programs to provide immediate relief as quickly as possible.

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In particular, the research team would like to recognize – Erica Henderson (St. Louis Economic Development Partnership) and Gabriela Ramírez-Arellano (Private Consultant) -- for their contributions and commitment to serving as Project Leads in St. Louis.

St. Louis Small Business Ecosystem Advisory Council

Members denoted in bold were also members of the Working Group

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About the Research Team

The core research team would also like to acknowledge the contributions from Next Street and Common Future, who partnered together to produce this report and underlying research.

Unless otherwise specifically stated, the views and opinions expressed in the report are solely those of Next Street and Common Future and do not necessarily reflect the views and opinions of JPMorgan Chase & Co. or its affiliates.

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Appendix

APPENDIX 1: DATA ANALYSES AND POTENTIAL LIMITATIONS

Small Business Landscape

The quantitative analysis combined data from several national, publicly available sources. Multiple data sources originate from the U.S. Census, but pose some minor inconsistencies in the data between sources.

Seven primary data sources were used to analyze the small business landscapes.

- U.S. Census Survey of Business Owners and Self-Employed Persons (SBO), 2012 data (latest available, provides business owner demographics / business characteristics by 2-digit NAICS code)
- U.S. Census American Community Survey (ACS) Public Use Microdata Sample (PUMS), 2018 5-year data set (provides workforce data by 2-6 digital NAICS code)
- U.S. Census Longitudinal Employer-Household Dynamics (LEHD) Quarterly Workforce Indicators (QWI), 2017 data (provides business data by 2-6 digit NAICS code)
- U.S. Census County Business Patterns (CBP), 2011-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Annual Business Survey (ABS), 2017 data (latest available, provides business revenue and employee data by business owner demographics)
- U.S. Census Non-employer Statistics (NES), 2007-2017 data (provides non-employer firm data)
- Opportunity Insights Wompy Dataset, 2020 data (provides small business revenue and closure data)

The most recent publicly available data consistently available from all datasets is from 2017 at this study occurred (apart from SBO); given the disparity in year that data was collected, it is possible that the data does not accurately represent current business dynamics.

Capital Landscape

<u>Capital Supply Methodology</u>

Four primary data sources were used to analyze the small business and capital landscapes.

- Federal Financial Institutions Examination Council (FFIEC) Community Reinvestment Act (CRA) report data made available from the Freedom of Information Act, 2008-2017 data
- Small Business Administration 504 and 7(a) lending databases made available from the Freedom of Information Act, 2008-2017 data
- CDFI Fund Program Awardee Data Release, 2008-2017 data
- PwC and CB Insights Money Tree Report, Series A or Series B or Series C or Series D or Growth Equity or Seed / Angel or Convertible Note or Other, 2008-2017 data

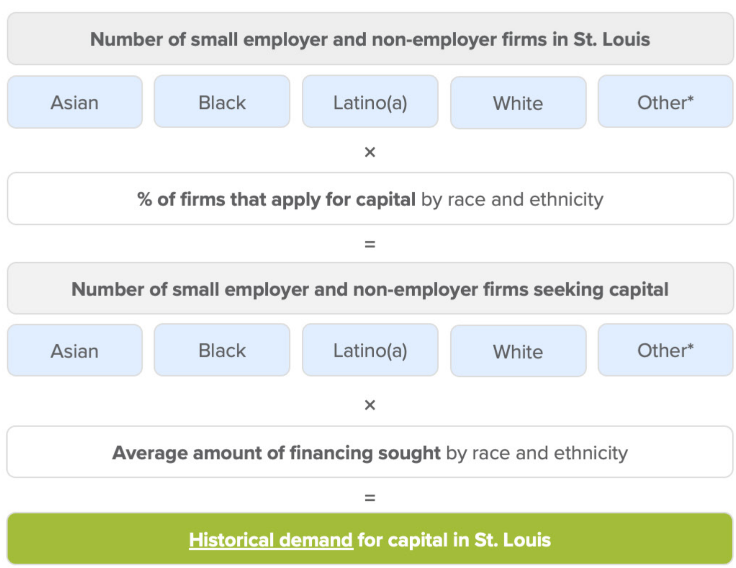
The data provided in this report is representative, but not necessarily comprehensive, of the capital providers located and operating in St. Louis. There are some limitations and considerations that should accompany any analysis of this capital landscape dataset:

- FFIEC CRA data does not fully represent bank loans to small businesses, as only banks above a certain asset threshold are required to report CRA loans. Banks are also required report all loans under $1 million to businesses, indicating that some loans may actually be to businesses with more than 50 employees
- CDFI Fund data underrepresents loans to small business because not all CDFIs in St. Louis report full loan data. As a result, the research team adjusted the data to estimate CDFI loans by scaling up estimates in this report to increase accuracy
- Equity data publicly available from the PwC and CB Insights MoneyTree Report is aggregated across the St. Louis MO-IL, Metropolitan Statistical Area, which may overrepresent equity deals made specifically to businesses located in St. Louis

Capital Demand Methodology

The research team used a bottoms-up methodology that to directly estimate the historical demand for financing from small businesses across demographic groups in the St. Louis, as shown in Figure 12.

Figure 12: Methodology to estimate historical small business capital demand



Note: * Other includes populations of American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau

Applying this methodology to forecast capital demand in 2020 and 2021, the research team made key assumptions to three forecast scenarios that measure the degree of impact the COVID-19 pandemic and resulting economic recession, shown in Figure 13.

Figure 13: Forecast assumptions for small business capital demand

	NUMBER OF SMALL BUSINESSES	% OF FIRMS THAT APPLY FOR CAPITAL	AVG. AMOUNT OF FINANCING SOUGHT
Base case Expected scenario with assumptions that analysts deem most likely to occur	• Net growth in employer and non-employer firms equal to median growth rates during financial crisis (2007-10)[65]	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[66] • From 20Q4-21Q4, proportion seeking financing assumed to decline due to lower revenue expectations[67]	• Amount sought to decline relative to lower expected revenue, assuming a direct relationship between revenue and capital demand[68]
Optimistic forecast Scenario based on a moderately severe recession due to C-19	• Net growth in employer and non-employer firms equal to growth rates during the latter years of the financial crisis (2008-10)[65]	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[66] • From 20Q4-21Q4, proportion seeking financing assumed to decline due to moderate revenue expectations[67]	• Amount sought to decline relative to moderate expected revenue, assuming a direct relationship between revenue and capital demand[68]
Pessimistic forecast Scenario where C-19 recession results in conditions seen at the height of Great Recession	• Net growth in employer and non-employer firms equal to growth rates at the height of the financial crisis (2007-09)[65]	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[66] • From 20Q4-21Q4, proportion seeking financing assumed to decline due to significantly lower revenue expectations[67]	• Amount sought to decline relative to significantly lower expected revenue, assuming a direct relationship between revenue and capital demand[68]

65 Note: Estimated based on historical data sourced from U.S. County Business Patterns and Non-Employer Statistics
66 Source: Goldman Sachs 10,000 Small Businesses, 2020
67 Note: Based on a logistic regression model assessing the relationship between the percentage seeking financing and the aggregate small business debt-to-income ratio
68 Note: Revenue decline expectations are based on the relative levels compared to estimated 2019 revenues, with expectations ranging from 25% to 90% of 2019 levels

Four primary data sources were used to estimate historical and estimated small business capital demand.

- U.S. Census County Business Patterns (CBP), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Nonemployer Statistics (NES), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Annual Survey of Entrepreneurs (ASE), 2016 data (latest available, business owner demographics / business characteristics by 2-digit NAICS code)
- Federal Reserve Small Business Credit Survey, 2016-2019 survey results (latest available, provides data on capital demand trends by demographics / business characteristics)

The data sourced to estimate capital demand in this report provides a directional representation of capital demand but may not precisely account for capital demand among all small businesses operating in St. Louis. There are some limitations in the datasets used to estimate capital demand that require additional considerations and assumptions:

- U.S. Census County Business Patterns and Nonemployer Statistics data is available up to 2016. To estimate the baseline number of small employer and non-employer firms following 2016, the research team scaled the total firms reported in 2016 by the annualized growth rate from 2014 to 2016
- U.S. Census Annual Survey of Entrepreneurs data is available up to 2016. To estimate the business ownership demographic breakdown by race and ethnicity across the historical and forecast period, the research team assumed that the breakdown remains fixed at 2016-levels
- The Federal Reserve Small Busines Credit Survey measured capital demand among small businesses across the U.S. As a result, the small business capital demand dynamics measured in the annual surveys may not fully represent the small business sentiments in St. Louis

APPENDIX 2: RESEARCH SOURCES

Interviews

- Executive Director, Invest STL
- Community Development and CRA Officer, Midlands State Bank
- President and Executive Director, Center for Acceleration of African American Business (CAAB)
- Senior Loan Counselor/ Chief Communications Officer, Justine Petersen
- Executive Director, Small Business Empowerment Center
- Director of Supplier Diversity, Washington University in St. Louis
- Special Assistant for Inclusive Construction, Washington University in St. Louis
- Director, Inclusive Business Solutions, St. Louis Regional Chamber
- Specialty Finance Relationship Manager, BRAND of St. Louis
- Senior Program Manager, St. Louis Mosaic Project

BSO Inventory

- AAIM Employers' Association
- St. Louis Mosaic Project Immigrant Entrepreneurship
- The Mid-States Minority Supplier Development Council (Mid-States MSDC)
- St. Louis Minority Business Council
- Grace Hill Women's Business Center (WBC)
- Women's Business Development Center (WBDC)
- The Small Business Empowerment Center
- The University of Missouri System's Minority Business Development Program
- SCORE-St. Louis
- National Association of Women Business Owners (NAWBO-St. Louis)
- Sandberg Phoenix
- 100 Black Men of Metropolitan St. Louis
- Missouri Small Business Development Center-Minority Business Development (SLDC)
- St. Louis Lambert International Airport-Business Diversity Development (BDD)
- St. Louis Regional Chamber
- Hispanic Chamber of Commerce of Metropolitan St. Louis
- Justine Petersen
- The World Trade Center St. Louis
- Center for Emerging Technologies (CET)
- CIC St. Louis
- Technology Entrepreneur Center Inc ("T-REX")
- The Asian American Chamber of Commerce of St. Louis
- Alliance STL- St. Louis Economic Development
- The Center for the Acceleration of African-American Business (CAAAB)
- BioSTL
- Better Family Life (BFL)
- DK Solutions
- Urban League of Metropolitan St. Louis, Inc.- Save Our Sister Program
- Heartland Black Chamber of Commerce- St. Louis Chapter
- NexCore
- International Institute of St. Louis - Small Business
- St Louis Makes
- ITEN
- Child Day Care Association (CDCA)
- Habitat for Neighborhood Business
- Saint Louis Fashion Fund
- Metro East Regional Chamber of Commerce
- STL Foodworks
- The African Chamber of Commerce St. Louis (ACCSTL)
- Sling Health
- Business Resource Association for Networking & Development (BRAND)
- St. Louis MBDA Business Center
- Northwest Chamber of Commerce
- The Veterans Business Outreach Center (VBOC)
- Washington University in St. Louis
- WePower (Elevate/Elevar Accelerator Program)
- SLUStart I-Corps
- Stadia Ventures
- Legal Services of Eastern Missouri
- Cortex
- St. Louis County Library- Small Business Resources

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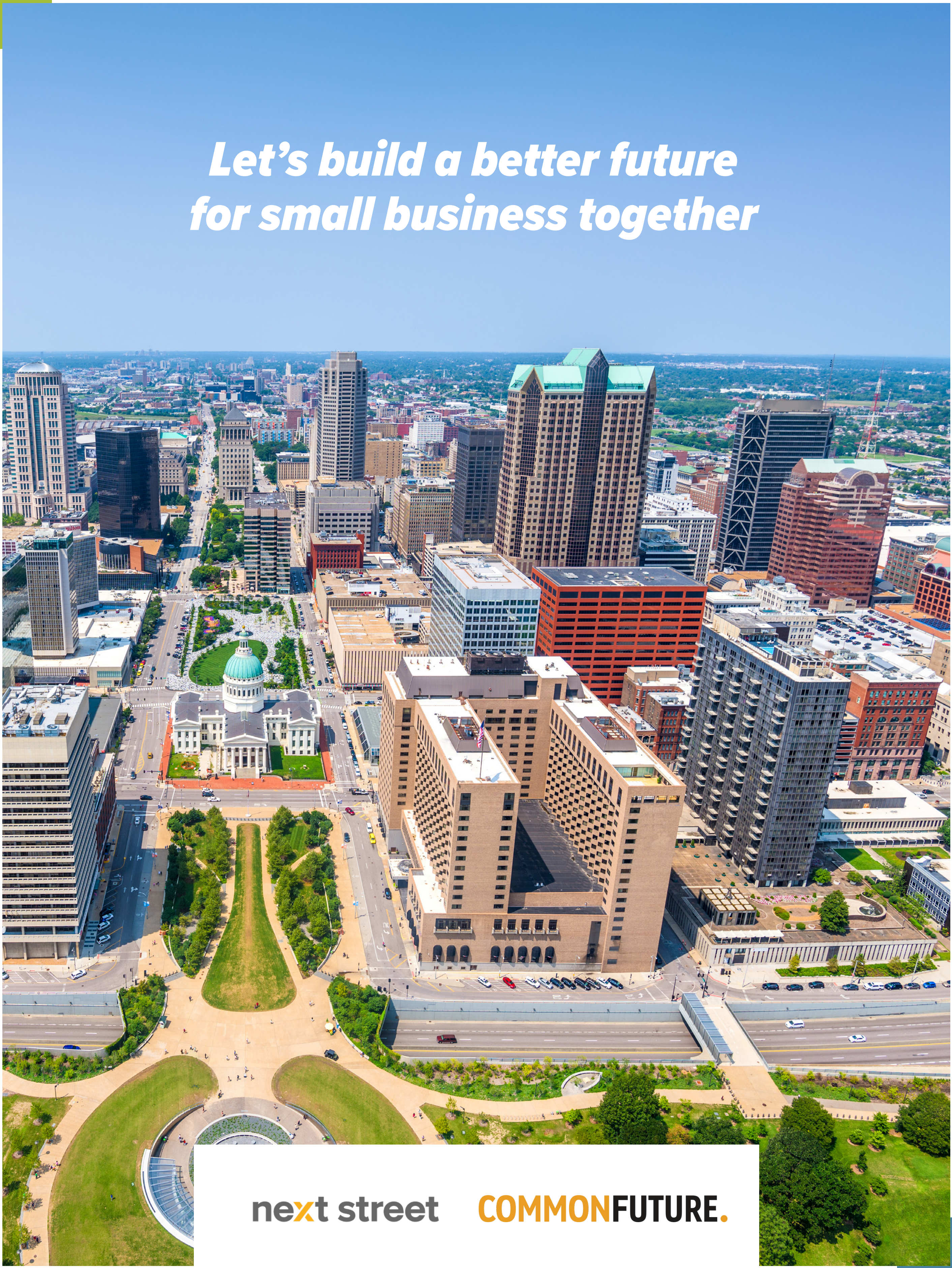

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