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OCTOBER 2023

# BLACK BUSINESS OPPORTUNITY STRATEGY: THE JOURNEY OF BLACK BUSINESS OWNERS IN MEMPHIS

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## ACKNOWLEDGEMENTS

Heartland Forward thanks the following organizations, without whom this project could not have been completed:

- Start Co.
- Greater Memphis Chamber
- Black Business Association of Memphis
- Downtown Memphis Commission
- Center for Entrepreneurship and Innovation, Christian Brothers University
- City of Memphis



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## ABOUT HEARTLAND FORWARD

Heartland Forward’s mission is to improve economic performance in the center of the United States by advocating for fact-based solutions to foster job creation, knowledge-based and inclusive growth and improved health outcomes. We conduct independent, data-driven research to facilitate action-oriented discussion and impactful policy recommendations.

The views expressed in this report are solely those of Heartland Forward.







# EXECUTIVE SUMMARY

Entrepreneurship is a powerful economic development strategy for communities and regions. But the extent to which entrepreneurs are able to succeed, relies largely on providing individuals with the right tools and environment to pursue their businesses. This is especially true for historically disadvantaged communities where barriers are higher and access to resources are harder to come by. Heartland Forward, along with a coalition of partners based in Memphis, examined the unique data and characteristics of Memphis to provide the following key insights regarding black business ownership:

- There are 12,571 Black individuals in the Memphis metropolitan area who earn the majority of their income through self-employment – 3,791 of which own an incorporated business. Focusing on Shelby County alone, there are 10,613 Black business owners, 3,174 of which own an incorporated business.
- Business ownership creates positive benefits for personal wealth generation and communities. Fifty-nine percent of Black individuals whose main source of income is self-employment are homeowners, compared to 50% of Black individuals who work for someone else.

- Memphis has a density of Black-owned businesses, but they are disproportionate to the population size. Forty-six percent of the adult population in the Memphis metro is Black, but only 7.3% of employer firms are Black-owned – employer firms employ more than just the business owner herself, an indicator of entrepreneurship success.
- Memphis is home to a large number of Black-owned nonemployer firms that, if supported, can reduce the employer firm disparity. There are 1,158 Black-owned employer firms in the Memphis metro, compared to 12,968 white-owned employer firms. There are 54,500 Black-owned nonemployer firms, compared to 57,000 white-owned nonemployer firms.
- An example of resource inequity to starting and running a business is only 80% of Black owners of incorporated businesses have high-speed internet at home, compared to 90% of white owners of incorporated businesses.
- Age can be a positive factor. The Black self-employment rate among those younger than 40 is only 47% of the white rate, while the Black self-employment rate for those 40 and older is 60% of the white rate. Thus, Black individuals are able to overcome some of the barriers to entrepreneurship as they move through their careers.

Informed by comments from Black-business owners and community leaders, the following public policy and programmatic recommendations are made:

- Move **material resources to fill the experimentation gap** experienced by Black business owners: under-resourced and lacking exposure to business development principles leaves Black business owners unable to properly test and develop products, services and business models to enable their businesses to grow and scale.
- **Close the digital divide for small businesses:** Black business owners faced unique challenges pivoting during the COVID-19 pandemic, largely due to the lack of access to high-speed internet and sufficient skills to properly utilize the technology.
- **Build bridges for Black business owners:** Black business owners are isolated from opportunities and relationships to partner with white businesses, which limits their ability to scale and exposure to innovation and mentorship.
- **Tailor technical assistance** by stage of business development and industry: Currently available technical assistance (TA) in Memphis does not effectively build capacity and support most Black entrepreneurs. Focus group participants expressed they lacked the ability to apply the knowledge to their business idea. Additionally, investment in services beyond knowledge transfer are needed to envelope around entrepreneurs of color.
- **Promote successful Black business:** Aspiring Black business-owners need to see and know of successful Black entrepreneurs who have gone before them, to provide examples, hope and vision and potentially mentoring opportunities. Such promotion also enables entrepreneurs to visualize what business growth and development for their businesses can be achieved
- **Lessen dependence on necessity entrepreneurship** through wealth and skill building: we estimate nearly 80% of Black business ownership are “side hustles.” Private and public leaders in Memphis should evaluate how support services in Memphis could better support the Black population in securing upward mobility, so side hustles get replaced by thriving and job creating businesses.





# INTRODUCTION

Entrepreneurship is both a wealth-creation and economic development strategy, assuming the entrepreneur has access to the right resources to help her start and grow her business. The journey that entrepreneurs embark upon is complex and non-linear; it often involves multiple loops of starting, stopping and tweaking the business model before getting it right. Because of the risk involved, investment required, knowledge and experience needed, owning a business is not for everyone; but for those that do it, it provides so many tangible benefits: control over their time and resources, economic contributions to their local economy, satisfaction of achieving something bigger than themselves, keeping a promise or fulfilling a dream.

For underrepresented populations, entrepreneurship is exponentially harder. While white entrepreneurs have numerous examples of successful business owners from their community, access to startup capital via friends, family and personal savings, as well as banking services and technical assistance, underrepresented populations do not have comparable access to these resources. The sources of the inequality vary from the results of systemic racism (e.g., inability to provide collateral due to low homeownership rates among minority populations), geography (i.e., transportation costs are excessive to receive resources), lack of awareness of business ownership as a career choice and networks of businesspersons with whom they can do business with and have mentor them.

Furthermore, BIPOC business owners feel isolated. Lacking family members or examples that have gone before them, familiarity with the business development process and proximity to entrepreneurship programming, the technical assistance services provided to them lack depth and leave business owners unaware of how to apply the principles to their own businesses. Also, incentive programs seeking to increase investment in underdeveloped areas cause many to locate in isolating areas characterized by high crime, inadequate workforce or poor access to customers and distribution.

The result of these differing experiences between white and underrepresented business owners is that the white business owners can pursue “opportunity entrepreneurship” – business development that reflects a new market or technology, with high growth potential but also high levels of risk. Being under resourced, BIPOC business owners must seek lower risk opportunities that often do not have similar growth potential, and therefore function more like second jobs, or side hustles, than primary sources of income; often referred to as “necessity entrepreneurship,” these businesses exist to provide additional income and meet needs of the owner.

While racial inequalities in Memphis were recognized long before the COVID-19 pandemic, this period brought to light the disparate resiliency experienced between white- and Black-owned businesses; Black entrepreneurs could not easily pivot like their white counterparts. White business owners, who were either opportunity entrepreneurs or had access to them, could innovate their businesses quickly to adapt to the new reality. However, Black businesses found it much more difficult to adapt: many did not have home access to the internet, digital literacy or technology acumen limiting how they could use that tool; also, many businesses classified as necessity entrepreneurs were limited in their adaptability. For example, hairstyling, handyman, catering and ride-sharing services (e.g., Uber or Lyft) must be done in person. A larger issue for Black business owners was simply a lack of understanding the innovation process and having little exposure to alternate business models; seeing alternative ways of conducting business makes them easier to implement.

Heartland Forward was invited to partner with local organizations in Memphis, Tennessee, to conduct extensive data analysis on Black business ownership.

The goals of the project were to:

- Identify historical trends in Black business development in Memphis and other metropolitan areas for which data was available;
- Compare Black business development outcomes to white business development outcomes, as well as to the share of Black individuals in the population;
- Examine community and individual characteristics and identify those which influence Black business performance;
- Provide public policy and programmatic recommendations to empower Black business growth and increase Black business ownership.

Three outputs were generated for this project:

- A guided data visualization that explains the story of Black Memphian business owners, available [here](#).
- An interactive data visualization that shares additional data analyzed during this project, including time series and comparisons to other cities is available [here](#). Topics in this visualization include: race, gender, employment, wages and sales at nonemployer firms.
- This policy report shares key observations from our analysis and provides public policy and programmatic recommendations to empower Black Memphian business growth and increase Black Memphian startups.

Heartland Forward utilized a mixed methods approach to assess the state of Black entrepreneurship and identify the challenges they face in starting and growing their businesses. The quantitative analysis utilized the American Business Survey and public use microdata (PUMS) from the annual American Community Survey to identify demographic and economic characteristics associated with Shelby County and the Memphis, TN-MS-AR metropolitan statistical area (MSA). In addition to providing individualized responses to survey

questions, these data sets allow us to look at county and MSA trends across time and generalize responses to the population. Focus groups were also conducted to understand the experience of Black business owners in Memphis, and the focus group participants provided feedback regarding our interpretation of the quantitative analysis.

## Why Memphis?

Memphis, TN-MS-AR MSA had the highest share of population that is Black among metropolitan statistical areas with populations greater than 1 million at 46%, according to the 2020 Decennial Census. Additionally, it has over 54,000 Black-owned businesses without employees, making it one of the densest concentrations of Black business ownership in the United States. Yet, Memphis persists as one of the poorest cities in the United States; in 2022, it had the second highest poverty rate among MSAs with more than 1 million population.

It's not that Memphis has not tried to address poverty and racial inequality over the years. Millions of dollars have been invested over the last few decades, but little progress has been achieved. While these efforts at economic justice for Memphians has cultivated interest in the city, the efforts themselves have been haphazard and not grounded in an understanding of the data surrounding Memphis' economic issues.

The 800 Initiative called attention to the disproportionate number of Black businesses in the city of Memphis with employees, 800 in 2018, versus 40,000 Black businesses without employees and set meaningful goals to grow and increase Black businesses. However, additional data analysis was not used to inform the solutions implemented. No longer can Memphis afford to materially invest in strategies that do not address the core issues facing Black businesses, and therefore resulting in marginal impacts. The city is finally recognizing that Black business ownership intersects with social determinants: homeownership, marriage, poverty, broadband access, etc. all impact an individual's opportunities for success and one's success is what begins to move the needle on these same determinants.



Not only does Memphis have a large Black population, and many Black-owned businesses, the community has begun the necessary conversations to address the inequity that exists there. And through understanding the data surrounding Black business owners, they will gain invaluable insights into the programming and policy needed to elevate them. These insights, along with significant and appropriate investments, will position Memphis to reduce inequality and empower business development for all Memphians.

## Why focus on Black businesses?

As with many social issues, the COVID-19 pandemic and racially motivated murders over the last several years called much needed attention to the inequitable opportunities that entrepreneurs of color face when starting or growing a business. We previously showed that Black business owners in Tennessee, for example, received less than 4% of the first round of Paycheck Protection Program loans, though they represent nearly 14% of all firms in the state.<sup>1</sup> This bias away from business owners of color is not new, but the pandemic elevated the issue and created the potential to start addressing it. Once in a lifetime resources and corporate responses have created a moment in time to begin correcting the course faced by BIPOC entrepreneurs. Communities that capitalize on this moment can set these business owners on a new path of success, empowering them to grow and scale their businesses, tangibly secure the “American dream” and build wealth that can be passed to future generations.

In 2018, the 800 Initiative promoted the contrast of 800 employer businesses and 40,000 self-employed businesses among Black business owners; the corresponding numbers in 2021 are 1,158 and 54,500, respectively. However, there are nearly 13,000 white-owned employer businesses in Memphis in 2021, and 57,000 nonemployer, white-owned businesses. While the disparity in employer owned businesses is drastic, as is the contrast between Black employer and nonemployer firms, these numbers do not disclose the fact nearly 80% of Black-owned businesses are not the primary source of income for the owner. This suggests most Black-owned businesses are necessarily side hustles.

A lack of startup capital did not stop many of the business owners we spoke with from executing on their business ideas. Startup capital came from life insurance payouts, residential relocation (where equity of a higher valued home was accessible after its sale and purchase of a lower-cost home), income from another job or supportive spouse, and/or creative agreements to secure needed equipment (e.g., bartering with other business owners or borrowing unused equipment from a landlord). This creative problem-solving, or growth mindset, is essential for any entrepreneur to be successful, and our target population does not appear to lack for such “out of the box” thinking.

In addition to correcting the inequitable distribution of Black businesses, the city of Memphis is motivated by the belief that if they can fix the business climate for Black business owners, it will fix the business climate for all business owners. This belief is rooted in two fundamental presuppositions:

1. The challenges faced by Black business owners are not dissimilar to those of any business owner, though they often face more severe setbacks resulting from these challenges.
2. Participation in any strategy to address the inequity facing Black owners will not be restricted by race, ethnicity or gender.

The implication, then, is any potential entrepreneur in Memphis will have greater access to resources in starting and building her business. For example, all entrepreneurs need financial capital to start their business. Black business owners often lack sufficient savings or personal credit, banking relationships and knowledge of financing options. This startup capital provides a critical cushion that enables firms to experiment and refine their products and business model; without this critical resource, Black businesses are not able to experiment, making them less competitive in the market. By addressing these concerns for Black businesses, the city of Memphis will address the concern for all potential entrepreneurs.

# A WORKING HYPOTHESIS: BLACK OWNED BUSINESSES CANNOT EXPERIMENT OR SCALE LIKE WHITE-OWNED BUSINESSES

The path to owning a successful business is not well paved for the Memphis Black community. The history of racism and segregation in Memphis, and the United States more broadly, has resulted in few long-standing Black businesses that have created generational wealth for the founders' descendants and business-ownership aspirations for the Black community.

The disparity in generational wealth between Black and white families results in the lack of a safety net or seed investor for aspiring Black entrepreneurs; while the parents of white entrepreneurs may have the financial means to support their children in starting their business and/or recovering from a failed business, the parents of Black entrepreneurs are much less likely to have those means. While we do not have household wealth data for Memphis specifically, the median Black household in the U.S. has a net wealth of \$24,000, significantly less than the white household median of \$189,000.<sup>2</sup> What are the ramifications of this difference? One is Black entrepreneurs are less likely to have the family-provided seed capital that is often necessary to cover expenses related to incubating a business idea. Thus, they find it necessary to rush their product or service to market without fully identifying a target market or testing their offering. Other ramifications are Black potential entrepreneurs may choose to delay starting a business until they can grow their own wealth to a sufficient level to substitute for familial support, choose to remain employed full time at an organization they do not own and develop their business on the side or choose to not start a business at all.

The final ramification reflects the self-perpetuating nature of low Black self-employment rates. Limited Black self-employment limits Black families' upside income potential, which limits the development of generational wealth.<sup>3</sup> Further, low Black self-employment rates mean potential Black entrepreneurs are surrounded by fewer entrepreneurial success stories. Additionally, to the extent that Black individuals' social networks are more Black-dense, they have access to fewer entrepreneurial mentors with whom they have a prior relationship. Indeed, the Black self-employment rate in the Memphis metropolitan area is 4.9%, while the white self-employment rate is 10.3%. This implies Black individuals are notably less likely than white individuals to know someone whose main source of income is self-employment and who looks like them. This lack of accessible mentorship, as well as the general lack of an indication that entrepreneurship is a career pathway for Black workers, may deter Black individuals from choosing self-employment or even prevent them from considering self-employment at all.

Unfortunately, average Black household wealth and the number of successful Black entrepreneurs are not things that can be increased quickly; indeed, a major focus of this report is how the Memphis community can assist its Black entrepreneurs in overcoming those two factors, and how overcoming the factors in the short term can lead to increases in Black wealth and Black entrepreneurship success in the long term. Thus, the rest of this section will discuss ways to support Black entrepreneurs, many of which are substitutes for family wealth and low numbers of Black entrepreneurship mentors, and where Memphis currently stands in offering such support. The evaluation of Black entrepreneur support will focus





on three broad areas: technical assistance, funding and scaling, and access to the broader professional community. Information on the states of technical assistance and professional community access is derived from our own research of the Memphis entrepreneurship ecosystem and the responses of focus group participants. Information on funding and scaling comes from our own data analysis, with context provided by focus group participants.

### Technical Assistance

One way to overcome a lack of accessible mentors is through high-quality technical assistance offerings. To be effective, these offerings need to provide a diverse set of information, ranging from basic guides to starting a business, incorporating, hiring, and marketing; to education on the realities of being a Black-owned business in Memphis; to industry-specific guidance; to understanding the innovation process (imagining, incubating and demonstrating). The offerings must also be easily accessible.

A common form of technical assistance is entrepreneur education programming, such as multi-week courses provided by a chamber of commerce or small business development center. When discussing such programming with Memphis' Black

entrepreneurs, the consensus is local organizations offer multiple programs for those entering into business ownership, but there are limited programs available for more specific topics. Local Black entrepreneurs also indicate the large number of similar programs makes it difficult to decide which program to attend.

Another complexity is the geographic size of the Memphis metropolitan area and even Shelby County. If a program is held in the downtown area at 5:30pm, traffic data indicates the roundtrip of a White Haven resident could take 45 minutes; for a Cordova resident, one could expect up to an hour-and-35-minute roundtrip.<sup>4</sup>

A concern of the interviewed business owners is they are siloed into Black-specific entrepreneur education programs and feel precluded from non-race-specific, industry-specific offerings. This concern indicates the need for a liaison between the Black business community and these industry-specific programs to reduce any perception-related or structural barriers into such programs.

Another form of technical assistance is offered by professional service providers such as certified public accountants and lawyers. These individuals

can assist business owners with decisions related to incorporating, becoming an employer and filing tax returns. Unfortunately, our focus group participants report pervasive negative preconceptions of Black business owners and their businesses among the professional service providers. Many participants indicate a need to overcome these preconceptions through repeated interaction with the providers before the providers begin providing appropriate guidance.

While appropriate education programs and professional services can substitute for the lack of a mentor or even provide superior information to a mentor, there are still psychological and knowledge benefits of mentorship that cannot be easily substituted. In cases where a Black business owner needs guidance on which professional service provider or banker to choose to avoid prejudice, it could be particularly valuable to have an experienced Black entrepreneur as a mentor. For more industry-specific guidance in an industry with few Black business owners, it may be the case that industry-specific knowledge is a more important mentor than race.

Focus group participants indicate an interest in both Black mentors and industry-specific mentors, but they feel that there are no well-defined pathways to obtain such mentors. If a formal pathway could be developed to match mentors and mentees, this may overcome the lack of mentors easily accessible to Black business owners.

The importance of technical assistance programs should go beyond just transferring knowledge. Instead, programs should adopt a more comprehensive educational approach that recognizes successful business development relies on multiple factors: Access to Resources: Entrepreneurs need access to various resources, including mentors, support organizations, financial backers, individuals with expertise in their specific industry, and a range of experiences; Business Skills: Entrepreneurs should possess the necessary business skills, such as a deep understanding of the technical aspects of their

industry, effective cost management practices, and proficiency in marketing and digital media; Learning Environments: Entrepreneurs should be able to engage in appropriate learning environments, such as peer learning (learning from fellow entrepreneurs) and learning from industry leaders. These settings facilitate ongoing learning and growth. In essence, merely imparting knowledge is insufficient for fostering successful business development. Instead, a more holistic approach is needed, encompassing resources, skills, and supportive learning environments to empower Black entrepreneurs and increase their chances of success. Start Co.'s "Social Envelope for Black Entrepreneurship" is one such model that ensures an entrepreneur is surrounded by support, skills and learning opportunities to empower and enable her to succeed.

In addition to a supportive and conducive environment, the entrepreneur also needs a clear understanding of how businesses develop. Such a pathway allows the entrepreneur to anticipate the next stage of business, which motivates her to achieve as well as enables her to anticipate coming changes to the business. The combination of a supportive environment and clear direction gives an entrepreneur confidence and resources to overcome challenges and business cycles that frustrate business growth.

This combination of support and direction is particularly helpful to startups that have not been exposed previously to entrepreneurship and self-employment, like many Black entrepreneurs. Possessing such frameworks reduces risk exposure to the entrepreneur and gives her the ability to experiment with the products, services and/or business model without the fear of failure (i.e., losing the business). Building such an environment and common business development pathway is critical to empowering the Black entrepreneur in Memphis.



## Scaling and Funding Memphis Black Businesses

It is well-established that start-up funding and scaling are very different for Black businesses and white businesses, an issue that relates to the relative lack of generational wealth in the Black community, as many early investors in young companies are family members and friends. Indeed, Black business owners nationwide are more likely to self-fund their business than their white counterparts.<sup>5</sup> The greater tendency to self-fund likely relates to our finding that white workers under the age of 40 are much more likely to be self-employed than Black workers of the same age; Black individuals with entrepreneurship aspirations seem to wait until they have saved sufficient capital from their early-career earnings to get their business off the ground. Our data analysis also finds that self-employed Black individuals are more likely to own a home than non-self-employed Black workers, which may indicate that individuals who are able to build equity in a home are then able to leverage that equity for their business via a home-equity line of credit. Additionally, a disproportionately large share of Memphis' Black businesses are side businesses, as evidenced by the fact that there are approximately 55,658 Black-owned businesses in

Memphis but only 12,571 Black individuals whose main source of income is self-employment; there are 69,968 white-owned businesses compared to 26,479 white individuals whose main job is self-employment. These data imply a higher likelihood that Black entrepreneurs continue working full time for someone else as they scale their business, ensuring stable income. This hypothesis is largely validated by the focus group participants, as many indicated they continued to work full time in another role, even after finding entrepreneurship success, to protect against any future business income volatility.

While the behaviors of Black entrepreneurs are rational, they reflect the impact of a lack of seed capital. When Black entrepreneurs are forced to start their businesses later in life, and are forced to slowly transition from an early-career job to their entrepreneurial endeavor, they will naturally experience less growth in the value of their business, on average, before they reach retirement age and either sell or pass their business on to future generations. Therefore, the wealth passed on to the next generation of their family will be less than for their white counterparts who were able to start and fully commit to their business earlier.



The relatively large number of Black-owned side businesses may also indicate a high rate of necessity entrepreneurship. That is, many side-business owners may own those businesses to overcome a lack of quality job opportunities. Local entrepreneur support organizations should assist such individuals in determining the potential of these businesses to scale, and, if there is limited potential, these individuals should be directed toward workforce development programs that improve their job prospects. However, as is implied in the paragraphs above, many of these side businesses could also be examples of opportunity entrepreneurship, where the business owner has identified an opportunity to improve upon an existing product or service. These businesses have great potential to scale and improve the lives of their owners. Therefore, entrepreneur support organizations must take care when guiding these side-business owners, diligently considering the potential of the businesses to improve the lives of their owners before providing guidance.

In addition to a slower transition to full-time entrepreneurship, there is another transition that seems to occur more slowly due to a lack of capital:

the transition from a sole proprietor to an employer. This transition is a key step toward reaping the economic benefits of entrepreneurship, but it is also a complex one. In addition to overcoming the legal and infrastructural hurdles of hiring an employee, a business owner must also ensure they have a sufficiently stable cash flow to pay a worker at the end of each payroll period. Black-owned businesses' relative lack of seed funding beyond the wealth they accumulate over their early career, as well as documented issues in acquiring debt funding,<sup>6</sup> mean that Black entrepreneurs must generally achieve higher revenue, relative to white entrepreneurs, before they can attain a cash flow position that allows them to hire.

One area where Memphis' Black business owners have closed the gap on white business owners is the incorporation rate for businesses are their owners' main source of income. While there was a sizable gap between Black- and white-owned business incorporation rates only a decade ago, that gap has effectively closed. Incorporation is key because it legally formalizes the business, makes the process of receiving investment easier, can provide tax







benefits, and reduces the liability of the business owner. It is important to note the closing of the gap along racial lines does not mean entrepreneur support organizations should not continue to focus on incorporation-related education. It may still be the case that the large number of Black-owned side businesses in Memphis still need guidance, and it may also be the case that both Black-owned and white-owned businesses are incorporating at suboptimal rates.

### **The Intersection of Social and Economic Networks**

In addition to feeling siloed into Black-specific education programming, focus group participants report concerns that Black entrepreneurs are siloed in the broader business ecosystem. One form of division is geographic, as the participants indicate that they are nudged toward building their businesses only in Black-majority neighborhoods. The other form is social, as participants report an inability to obtain contracts from both local government institutions and major Memphis-based corporations.

When discussing geographic siloing, interviewed entrepreneurs cite programs such as Opportunity Zones and HUBZones as examples. These are federal government programs aimed at (re)vitalizing struggling commercial districts and neighborhoods by offering businesses incentives to locate there. The idea is an influx of new businesses will draw consumers into the area, which will lead to even more business investment. Thus, formerly distressed areas will become sustainable consumer hubs. However, focus group participants note that the qualifying zones in Memphis tend to be low-income, Black-majority areas with high crime rates. Thus, they worry that locating in such a zone will increase the probability of theft and reduce the probability of developing a large, racially diverse consumer base.

Discussions of social division center on an inability to access the government and corporate social networks that lead to an increased chance of obtaining major business contracts. Focus group participants believe a large share of Memphis-area business-to-business contracting still results from social connections. That is, while corporations and government institutions may have formalized application processes in place for major contracts, having a preexisting relationship with key decision makers greatly increases the probability of obtaining a contract. This is a common refrain, as the organizations that have previously received contracts will often have the best resumes among the companies applying for new contracts. Additionally, the decision to contract with a company whose leadership the decision maker knows and trusts is in many ways rational and efficient. Unfortunately, the history of racism and segregation both socially and economically means that Black-owned businesses have been precluded from the social and business interactions that build resumes and trust.

There have been efforts, both publicly and privately, to increase the percentage of contracts that are awarded to minority-owned businesses. However, focus group participants indicate the success of the efforts are difficult to track due to the complexities of defining minority-owned businesses and measuring the true amount of a large contract that goes to minority subcontractors. Further, interviewed entrepreneurs believe while such efforts may have increased business-to-business opportunities for Black business owners, they have not effectively led to improved social relationships that would lead to increased trust in, and preference for, Black-owned businesses by white decision makers.



# THE CALL TO ACTION

The discussion above identified limitations faced by Black-owned businesses in Memphis. By clearly understanding the issues, we can now point to practical solutions for the Memphis community.

## Move Material Resources to Fill the Experimentation Gap

While the COVID-19 pandemic brought many challenges, particularly to BIPOC communities, it also enabled more individuals to start businesses. This seems counterintuitive, given the initial economic slowdown and longer-lasting supply chain disruptions, but entrepreneurship is often used as a substitute for employment during economic downturns. However, the generous unemployment benefits and tax rebates provided people with financial resources, and work from home policies and reduced work hours provided time, to consider what kind of work they really wanted to do. This period and the available resources gave Black entrepreneurs the opportunity to reflect, dream and flesh-out business ideas unlike any other time in recent history. Such planning, and experimentation potential, is uncommon among Black business owners, who often do not have the resources or time to enable them to ideate, incubate and demonstrate their products or services. For many, starting a business is a “do or die” proposition: the business must succeed in its present form, because there does not exist additional funds to pivot the business. By providing financial investments and appropriate support to Black business owners that enable them to plan, experiment and refine their business idea as a startup or to scale their business will enhance their success and scalability.

Existing models like Start Co.’s “Social Envelope for Black Entrepreneurship” and “Business Development Journey” provide great starting points for cohesion across the entrepreneurial ecosystem as well as supporting Black business owners.

## Close the Digital Divide for Small Businesses

Another key resource that will be available but resulted from the pandemic is the availability of high-speed internet. Schools, employers and businesses all took to the internet during the pandemic to continue activities, but many across the country were not able to participate due to a lack of affordable and reliable internet access. Businesses without a website, or that could not accept online orders, were at a particular disadvantage. Our data analysis revealed that white business owners are more likely to have high-speed internet at home than Black business owners. Fortunately, the Federal requirements of the broadband deployment funds require communities to buildout areas that are unserved or underserved (have internet access but speeds are less than 100 megabytes per second download and 20 megabytes per second upload) first, and they must identify locations of “covered populations” that represent a variety of marginalized populations including race and ethnicity and provide a strategy to ensure the locations of these populations receive access. The hope is this will be a game-changer by providing Black business owners with internet access and enabling them to compete with other businesses, as well as reach new markets beyond Memphis.

## Build Bridges for Black Business Owners

Memphis has infrastructure to support Black business ownership, as reflected by several of the partners on this project to include Black Business Association and the Office of Business Diversity and Compliance, and there are other minority focused resources like the Mid-South Minority Business Council and the Minority Business Development Center. While there are issues of awareness and access to these organizations and their resources, the organizational leadership literature suggests that affinity groups such as these are necessary but not sufficient. The literature points out these groups are helpful and necessary for marginalized populations to find support,



encouragement and shared learning. However, they do not help members of the group achieve greater success, which often requires networking and relationships beyond the affinity group.

Similarly, Black business owners need to have outlets for support, technical assistance and shared learning, but to grow their businesses beyond the Black community they also need to build relationships with white business owners. Such relationships would open opportunities to expand business through subcontracting opportunities and exposure to specialized resources not available in the Black community (e.g., legal and accounting services that can help a business owner incorporate her business or better understand the tax implications of different business practices). Best practices suggest these relationships are most productive when those in authority or power initiate these relationships. For Memphis, the Greater Memphis Chamber of Commerce could facilitate intentional engagements between white and Black business owners.

### **Tailor Technical Assistance (TA) by Stage of Business Development and Industry**

As discussed above, Black business owners found locally available technical assistance inadequate; the assistance was too ambiguous, simplistic or inappropriate for their business. Technical assistance providers need to better understand the needs of their clients and invest in materials and expertise to meet their needs.

Part of the issue can also be attributed to the lack of coordination and collaboration across technical

assistance entities in the region. Memphis will benefit from creating a collaborative network for technical assistance providers with specialized services and expertise and who readily refer clients to other organizations when necessary. The current system encourages competition among TA providers for clients, reinforcing the fixed mindset also found among the Black business community. Alternatively, the TA providers should adopt a “any door” policy, where an entrepreneur can enter any one provider with the assurance that she will be referred to the best resources for building her business. Such collaboration not only reduces the burden on entrepreneurs to learn where the best resources might reside, it embodies the growth mindset that advancement of Memphis businesses means a bigger economy in which all businesses get to participate.

Competition across TA providers also creates confusion around business practices and terminology. Adoption of a common business development framework across the TA providers in Memphis further simplifies the search for assistance by business owners, and it gives business owners vision for what their business could be as they grow and progress in the framework. Both the business data and our focus groups participants articulated that the objective was often to meet personal objectives, such that expansion beyond their current business model, customers or location was not given much thought. The result is they do not employ workers or seek to grow revenue and business development stalls. Seeing a framework that describes additional growth opportunities could inspire Black business owners to further expand their businesses, employ workers and create real generational wealth.

## Promote Successful Black Businesses

As affinity groups are necessary for support and encouragement, seeing persons that have gone before you and achieved success is critical in knowing what is feasible. This principle is sometimes referred to as having a “north star:” you have a clear outcome that you want to achieve that guides your decision making. To this end, promotion of contemporary and successful Black business owners is critical for the next generation to visualize what their businesses could become. Memphis needs to both promote and celebrate their Black business owners. This also provides exposure to opportunity entrepreneurship and cultivates ideas for business growth and development among necessity entrepreneurs. Black business promotion should comprise a portfolio of strategies that could include annual awards and traditional advertising outlets calling out successful Black business owners, but it could also mean requiring construction firms to acknowledge which subcontractors are Black-owned on their temporary fencing that promotes the general contractor and describes the project.

Additionally, proclaiming Memphis’ history as being home to a large and prosperous free Black community throughout the 1800s could be a powerful way to inspire young people. Much like the success of Black Wall Street and rebirth of the Greenwood District in Tulsa, remembering the prominence of Black professionals in Memphis (beyond the music and entertainment legends highlighted on Beale

Street) not only highlights what Memphis was (as a thriving, pre-industrial city), but it also makes the success tangible and accessible on a personal level.

## Lessen Dependence on Necessity Entrepreneurship through Wealth and Skill Building

Nearly 80% of Memphis’ Black entrepreneurship activity can be described as necessity entrepreneurship; that is, these businesses are not the primary source of income for their Black owners. While necessity entrepreneurship can be an on-ramp to self-employment, it can also create an unhealthy business climate focused on cash flows and survival rather than growth and innovation. Private and public sector leaders should evaluate further why Black entrepreneurs depend upon necessity entrepreneurship and leverage their resources and services to elevate employment opportunities that provide living wages, promote savings and wealth creation and diminish the need for side hustles. Ensuring that Black youth are exposed and empowered to pursue higher education, develop skills in professional trades and become literate in personal finance through investments in supportive environments and pathways open doors to economic mobility.





## ENDNOTES

<sup>1</sup> Shideler, D. and Crews, J. (2020, August 5). “Did Black- and Hispanic-owned Businesses Receive Their Share of PPP Loans?” <https://heartlandforward.org/case-study/did-black-and-hispanic-owned-businesses-receive-their-fair-share-of-ppp-loans/>

<sup>2</sup> Irving, D. (2023, May 9). What Would It Take to Close America’s Black-White Wealth Gap? RAND Corporation. Retrieved September 7, 2023, from <https://www.rand.org/blog/rand-review/2023/05/what-would-it-take-to-close-americas-black-white-wealth-gap.html>

<sup>3</sup> Quadri, V. (1999, March). The Importance of Entrepreneurship for Wealth Concentration and Mobility. *The Review of Wealth and Income*, 45(1), 1-19. <https://onlinelibrary.wiley.com/doi/10.1111/j.1475-4991.1999.tb00309.x>

<sup>4</sup> Google. [Google Maps Directions for driving from multiple Shelby County, TN locations to Downtown Memphis, TN]. Retrieved September 6, 2023, from <https://www.google.com/maps/>.

<sup>5</sup> de Zeeuw, M. (2019, December). Small Business Credit Survey: Report on Minority-Owned Firms. Fed Small Business. Retrieved September 8, 2023, from <https://www.fedsmallbusiness.org/survey/2019/report-on-minority-owned-firms>

<sup>6</sup> de Zeeuw, M. (2019, December). Small Business Credit Survey: Report on Minority-Owned Firms. Fed Small Business. Retrieved September 8, 2023, from <https://www.fedsmallbusiness.org/survey/2019/report-on-minority-owned-firms>



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