

HAMILTON COUNTY

2021 BLACK- OWNED BUSINESS NEEDS ASSESSMENT

The Urban League of Greater Chattanooga (ULGC), with support from Pathway Lending and JPMorgan Chase, has developed The Hamilton County Black-Owned Business Needs Assessment. Through this project, the ULGC has collected Black-owned business data and researched methods to improve outcomes in the entrepreneurial ecosystem for Black-owned businesses in Chattanooga, Hamilton County, Tennessee. This report is intended to provide an updated view on the state of Black-owned businesses in the Chattanooga region, along with insight on the current gaps in access to capital and technical assistance while also highlighting existing support for Black- owned businesses.

September 2021 | Prepared by The Urban League Greater Chattanooga for Pathway Lending with generous funding by JPMorgan Chase & Co.

JPMORGAN CHASE & CO.

 Pathway Lending

 Urban League of
Greater Chattanooga, Inc.

Acknowledgements

Pathway Lending commissioned this report with generous support from JPMorgan Chase & Co. The Urban League of Greater Chattanooga and consultants conducted the research and prepared the report.

JPMorgan Chase & Co.

JPMorgan Chase & Co. (NYSE: JPM) is a leading global financial services firm with assets of \$3.7 trillion and operations worldwide. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. serves millions of customers in the United States and many of the world's most prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands. Visit jpmorganchase.com for more information.

Pathway Lending

Founded in 1999 and based in Nashville, Pathway Lending is a community development financial institution (CDFI) certified by the U.S. Department of the Treasury. It has grown to become a major lending institution in the Southeast, propelling meaningful economic growth in communities across the region. In 2021, Pathway Lending made more than \$57.7 million in loans and delivered 16,557 hours of technical assistance and education. Get to know our mission and the stories of the entrepreneurs and communities we serve at PathwayLending.org.

About Urban League of Greater Chattanooga

The Urban League of Greater Chattanooga is an affiliate of the National Urban League, the nation's oldest and largest community-based movement devoted to empowering African Americans and other underserved individuals to enter the economic and social mainstream. Since 1982, ULGC has served many thousands of economically disadvantaged persons, individuals representing communities of color and minority-owned businesses through programs and initiatives that promote educational attainment, economic development, self-sufficiency and inclusive leadership opportunities. Learn more at ulchatt.net.

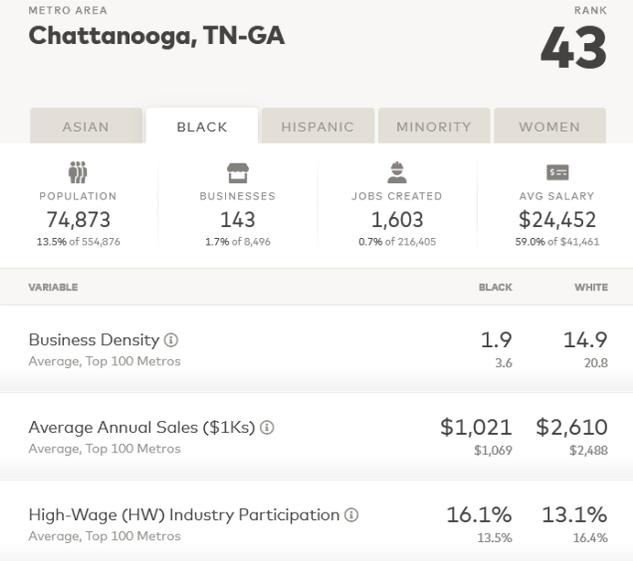
Consultants Garrett Harper and Marcus Shaw

Garrett Harper, Ph.D., is a recognized expert, practitioner, and consultant in disciplines, including demographics, business and market research, and economic development. A frequent speaker and commentator on economic conditions and business trends in the Southeast, his work has appeared in The New York Times, NPR and elsewhere. He previously served as vice president of research and information for the Nashville Area Chamber of Commerce, as former president of the American Chamber of Commerce Researchers Association and former member of the national steering committee of the U.S. Census American Community Survey Data Group. Harper also holds a J.D., MBA and other master's degrees.

Marcus Shaw has spent more than 20 years as an executive in the financial industry with positions at Height Analytics, Piedmont Investor Advisors and Banc of America Securities. Most recently, he served as chief executive at The Company Lab, a nonprofit startup accelerator supporting entrepreneurial growth in southeast Tennessee. Shaw has also led programs dedicated to innovation, equity and development of young professionals at the Montgomery TechLab and MLT. He earned his MBA from Duke University, a B.S. in Mathematics from Morehouse College and another in electrical engineering from Georgia Tech.

Background

Chattanooga is a city that has been shaped by generations of entrepreneurs, industrialists, and a community spirit that rallies behind self-starters and embodies the power of localism. However, the region’s entrepreneurial momentum has not been fully realized, nor fully accessible, by all members in the community. In a city that is nearly 35% Black and 14% in the wider MSA, Black business ownership trails in several key metrics. A combination of systemic and idiosyncratic factors drive disparities in the performance of Black-owned businesses compared to other businesses. We believe the issue of Black business ownership significantly shapes the larger conversation on Black wealth creation.



Entrepreneurship offers a powerful lever for increasing Black wealth, driving both income generation and asset-generated wealth. According to McKinsey & Company’s 2019 Report [The Economic Impact of Closing the Racial Wealth Gap](#), only 7% of Black American assets are held in business equity compared to 16% of white American assets. A comparable analysis for the Chattanooga region would likely reveal an even greater disparity given its lower relative rates of Black entrepreneurship and of equity ownership in privately held businesses.

In fact, data from MasterCard’s Center for Inclusive Growth [Small Business Equity Toolkit](#) (SBET) estimate Black Chattanooga residents own less than 2% of the region’s employer businesses but represent 13.5% of its total population with 75,000 Black residents. Black-owned employer businesses in the region tend to be smaller, creating jobs at a rate less than half that of non-Black businesses. Revenue generated by Black-owned businesses lingers at 40% of white-owned businesses. Through the lens of our experience working within the region’s ecosystem, we interpret these data to point to the prevalence of informal, part-time ventures among Black owners, many who incubate the business as a microbusiness or “side hustle” with a single employee. While those businesses are likely excluded from the SBET dataset, they represent an opportunity for business growth provided a proper vision to scale their businesses and to deliver access to capital to fuel their growth.

Challenges

Tools for Scaling Businesses

Scale is fundamental to the growth and long-term success of a business, yet Black business owners in the Chattanooga region face challenges. We estimate that **nearly 80% of the region's Black-owned businesses fall into one of the following sectors: Consumer/Retail, Services/Consultants, Salon/Barber/Beauty, and Restaurants/Food Services.** The concentration is notable because these businesses typically have limited operating leverage, are difficult to scale, and experience more economic volatility. Across the U.S., minority business enterprises (MBEs) tend to group in industries such as leisure, hospitality, or retail that have faced serious economic consequences from the COVID-19 pandemic, with 40% of Black-owned business revenue generated in the most vulnerable sectors.

Often in these sectors, many Black-owned businesses enjoy healthy local demand but find it difficult to capture comparable demand outside of the region. Such hyper-local demand means that while they generate sufficient revenue to replace the owner's income, they fall short of scaling to generate enough revenue to support significant job and wealth creation. This dynamic shows up in Chattanooga and across the country since Black business owners are more likely to start businesses that meet local demand in their communities. With lower disposable incomes and customers who are fewer in number comes limited revenue and profit opportunities as well as overall enterprise value for these local businesses.

Brookings noted in its 2020 report [*Five-Star Reviews, One-Star Profits: The Devaluation of Businesses in Black Communities*](#) that highly-rated businesses in Black communities underperform poorly-rated businesses in communities that are less than 1% Black. Simply put, businesses in Black communities with stellar products and services often don't achieve the financial success of their peers with inferior products and services in other communities. While the solution to the "scale dilemma" may seem simple – open high-performing Black businesses in white communities or bring white patrons to predominantly Black communities – the realities of racial profiling, redlining, and gentrification present an array of barriers. We are encouraged by an increase in Black businesses opening in downtown Chattanooga in recent months.

Navigating Capital Sources and Access

Compounding the limited growth profile of many Black-owned businesses is their limited access to capital. We believe it is especially important for Black business owners to be well informed on the pros and cons of various asset classes and that capital partners operate with integrity, transparency, and empathy when engaging Black business owners. The tepid relationship between Black business owners and banks is well chronicled and not specific to Chattanooga, as highlighted in the Federal Reserve's [*Small Business Credit Survey: 2021 Report of Firms Owned by People of Color*](#). Mistrust of banks has left many Black business owners with few financing options for starting a business. McKinsey & Company reports only 1% of Black business owners receive a loan from a bank during the first year in business. Many of these small businesses lack strong connections with larger banks and other financial institutions.

When Black business owners find other financing pathways (e.g. credit cards), they often come with a combination of higher leverage and higher average cost of capital that can paralyze the business with debt service exceeding 50% of revenue in instances.

Black business owners can benefit from access to a diverse suite of financing options and technical assistance that supports prudent and strategic decisions. Efforts to meet the capital

needs of Black business owners should not be seen as predatory nor purely philanthropic. For businesses that are positioned for scale (i.e. in growth sectors with viable products/services) and in need of capital and strategic counsel, an equity-based financing vehicle with a diverse set of vetted advisors may be appropriate. For cash-flowing businesses looking to expand capacity, low-interest loan funds with accommodative repayment schedules may be more suitable. For mission-driven, for-profit businesses that require capital to develop impactful infrastructure, seed grants and other non-dilutive, forgivable investments can help businesses achieve milestones to exit the ideation and early start-up phases of growth.

Capacity Building Networks

Capacity building is vital to business success. It supports growth, margin expansion, and mitigates business risks. Within the context of small businesses, we generally consider operations-based functions – accounting, finance, legal, human resources, marketing, and supply chain – to afford entrepreneurs the greatest capacity benefits.

Black entrepreneurs are less likely to benefit from social capital afforded by helpful relationships that make up business networks, according to McKinsey. Many Chattanooga entrepreneurial support organizations have explored the concept of shared service platforms for underserved businesses. In 2020, CO.LAB piloted a capacity building program for 10 Black- and Latino-owned businesses that provided access to accounting, banking, legal, and marketing subject matter experts. The pilot proved to be a positive experience for the participating business owners who developed strong relationships with partners. These relationships positioned their businesses for stronger performance via financing, legal support, marketing assistance, and strategic counsel. The experience increased confidence, knowledge, and relationships for participating business owners.

Government Contracting Environment

Several aspects of the Chattanooga area’s government contracting activity with Black-owned businesses warrant considerable attention and effort going forward. This report’s survey findings again highlight scant interest, knowledge, and success among business owners around government contracting at the local, state or federal levels. The [2019 Disparity Study](#) commissioned by the City of Chattanooga found “statistically significant underutilization of minority and Caucasian female-owned firms as prime contractors in all categories except for Asian American owned firms.” Our survey data and interview insights validate this finding.

The 2019 Disparity Study offered evidence the race, ethnicity, or gender status of the firm owners likely played a determining role in the disparities the study identified. Minority public and private contracting in Chattanooga remains modest and below levels that would be expected. Ample opportunities to expand subcontracting across types and sizes of Black-owned employer and nonemployer firms lay within reach given an ecosystem committed to the effort and investment directed toward training and network development.

A 2016 report from the Minority Business Development Agency’s (MBDA), [Contracting Barriers and Factors Affecting Minority Business Enterprises: A Review of Existing Disparity Studies](#), the agency highlights the value of minority business enterprises (MBEs) in the national economy:

Today, many MBEs have proven to be major catalysts for economic growth, job creation, innovation, and entrepreneurship...[Our] long-term engagement has helped MBDA to identify promising business opportunities that create jobs and generate wealth. Since 2009, MBDA has helped minority-owned firms access more than \$34.8 billion in contracts and capital, which resulted in more than 153,000 jobs created and retained.

Recent Efforts

Over the past several years, the Chattanooga community has steadily increased efforts to improve outcomes for Black-owned businesses. In 2016, Mayor Andy Berke convened the Minority Business Task Force to research the needs of Black business owners in Chattanooga. The Task Force published a [Final Report in 2017](#), which included the following recommendations: 1) Increase Access to Capital 2) Support a Web Portal 3) Complete the Disparity Study 4) Grow Social Capital.

As of June 2021, varying degrees of progress have been made on the recommendations.

In 2018, **CO.LAB** developed the CO.LAB Capital Network. The Network connected business owners with a collection of banks, venture capitalist firms, angel investors, crowdfunding platforms, and grantmaking institutions, increasing access to social and financial capital. As part of the effort, CO.LAB launched the **Kiva** crowdfunding platform, offering business up to \$15,000 (raised in response to COVID-19) at 0% interest.

The **Greater Chattanooga Community Foundation** also launched a \$150,000 Accelerator Loan Fund to provide loans up to \$25,000 (at 3% interest rates) with deferred interest payments and mentorship.

TVFCU's IdeaLeap loan program works with select technical assistance providers to offer businesses term loans and credit facilities up to \$50,000.

The **City of Chattanooga** also launched the Neighborhood Reinvestment Fund (NRF) providing businesses located in city limits partially forgivable loans up to \$25,000 to support infrastructure-related capital needs.

Each of these programs has supported one or more Black-owned businesses. The **ULGC**, **CO.LAB**, **LAUNCH Chattanooga**, **TSBDC**, and **SCORE** continue to support Black-owned businesses through education, technical support, and expanding social networks.

Through a three-year pilot initiated in 2018, the **ULGC** launched the **Building Futures Initiative** in partnership with the **Tennessee Valley Authority** to broaden the pool of minority firms prepared to do business with TVA within the Quality Contractor Network (QCN) and the Preferred Partner Network (PPN) supporting Home Uplift, TVA's residential and commercial energy program across the Valley. Together with the Tennessee Urban League Affiliates (TULA), the ULGC has graduated more than 40 minority contractors who have completed training, coaching, and project management, and 15 program participants have contracted with TVA for work valued at \$264,000 in total. Although the pilot ended in September of 2021, the ULGC will continue to provide technical support and advocacy to help minority contractors access and understand opportunities with supplier diversity programs and government bids.

Over the past five years, the **ULGC** has offered the **Next Level Business Accelerator** program to dozens of minority business owners in Chattanooga and across the state using the nationally-recognized StreetWise 'MBA.'™ Designed specifically for established small business owners, the curriculum prepares them with the know-how, training, and networks they need to realize growth plans and increase revenues. On average, participants increased annual revenue 21%. Through the seven-month cohort, participants receive coaching and technical support and walk away with a three-year strategic growth plan. The key components of Next Level Chattanooga:

Leadership, Resource Management, Accessing Capital, Securing Government & Corporate Contracts, Financial Analysis, Marketing & Sales, CEO Mentoring Groups, and Strategic Growth Action Plan™.

While graduates have experienced tremendous success, the program offers a limited number of slots annually to established employer firms with more than three years in operation and annual revenues above \$150,000 prior to program enrollment. Business owners who are not ready to scale would benefit from similar programs offering comparable development and support.

The **ULGC's** newly established **Center for Economic and African American Business Success** will provide a support ecosystem for minority-owned businesses and entrepreneurs to accelerate growth, expand networks and increase sustainability for business success. A physical location will serve as the hub for activities, including mentorship, relationship-building, connections to financing, back-office support, a new coaching model using the RISE Business Inventory assessment, and other forms of capacity-building.

Both the **Greater Chattanooga Chamber of Commerce** ([Starting Block](#)) and **The Enterprise Center** ([Resiliency Checklist](#)) have launched online portals to support local small businesses. While these portals are not designed specifically for Black-owned businesses, we believe targeted marketing efforts can connect Black-owned businesses with access to valuable resources and networks through the portals.

Last year in response to the COVID-19 pandemic and the disproportionate impact on Black-owned businesses, the **City of Chattanooga** and the **Greater Chattanooga Chamber of Commerce** established the **Chattanooga Economic Recovery Alliance** (ERA). As part of the ERA's overall mission to rebuild a stronger, more resilient, and more inclusive economy post-pandemic, it established a subcommittee on Small and Ethnic Minority Business Development to create an ecosystem of support for racially ethnic minority-owned businesses and emerging entrepreneurs to accelerate growth, inclusion, and sustainability. The subcommittee offered the following recommendations:

1. Invest in and ensure the successful creation and launch of the proposed, "rebranded" Racially Ethnic Minority Business Ecosystem Hub through the **ULGC**.
2. Collaborate through a newly formed African American Business Alliance (as a part of the new ecosystem) to monitor progress and break down the structural barriers to capital access as well as racial and economic wealth equality in our city.
3. Identify opportunities for place-based investments in the Downtown Corridor that promote the inclusion of African American Business commerce and long-term success.

In 2021, **Pathway Lending**, a regional nonprofit Community Development Financial Institution (CDFI), together with financial and philanthropic partners launched the **Chattanooga Small Business Opportunity Fund**, a \$7.5 million loan fund established as part of a collaborative effort to advance an inclusive recovery and small business ecosystem. The Fund aims to improve access to capital for area small and minority-led businesses, particularly borrowers who may not qualify for a conventional bank business loan. **Pinnacle Financial Partners**, **First Horizon Bank**, and **Regions Bank** provided the fund's capital along with grant support from **The Benwood**, **Bobby Stone**, **Footprint** and **Lyndhurst Foundations**, **JPMorgan Chase Foundation** and **Pointer Management Co**. Pathway Lending administers the fund with support from key local hires and a strategic local presence in the Edney Innovation Center. Pathway Lending and partners in the Chattanooga Fund have recruited local leaders to serve on the Fund's Advisory Committee.

In addition to contributing capital to the Fund, JPMorgan Chase provided additional support for Pathway Lending and community partners LAUNCH Tennessee and the ULGC to collaborate in finding innovative ways to strengthen Chattanooga's small business ecosystem for its small and minority-led businesses. This research initiates and will guide coordinated efforts to offer a broad range of technical assistance that will prepare minority entrepreneurs to navigate growth, access capital, and adapt to working in the digital environment accelerated by the pandemic.

Following these recent efforts, the research conducted for this report marks the next step in understanding and building an effective and equitable ecosystem for Black-owned businesses in the Chattanooga region.

Research Findings

ULGC is developing a comprehensive Black-owned business data set to support a range of opportunities to engage with and support Black-owned businesses. As part of our research process, we distributed an initial survey and conducted interviews with survey respondents to provide a current and contextualized understanding of business owner needs and gaps.

Survey

During our research we conducted a survey of Black-owned businesses in the Chattanooga region to 1) develop a deeper understanding of the Black-owned business ecosystem; 2) capture the current needs of Black business owners in Chattanooga; and 3) identify businesses with non-traditional capital needs.

In the first step of our research, we identified and distributed a digital survey to over 500 businesses we believe are, or were, Black-owned. We confirmed many of these businesses are no longer active, including many that failed to launch. A significant portion of businesses in this initial list are part-time businesses that operate sporadically and/or do not generate revenue.

Our final survey captures responses from 62 Black business owners in the Chattanooga region. We initially received 104 survey responses. We excluded eight respondents who no longer owned a business, 28 who had no substantive data, and six associated with multiple records who represented a single firm. Almost all respondents (92%) reported their Race/Ethnicity as Black or African American.

We believe the survey provides a representative sample of the diversity among Black-owned businesses in Hamilton County. Of the 62 respondents, 57% represent employer businesses with two or more employees. Businesses are located in 13 of the 26 zip codes in Hamilton County, with notable concentrations (20) in the 37421 zip code. Notably, few respondents reported business locations in downtown Chattanooga or North Chattanooga.

In Hamilton County overall, as in most areas, nonemployer firms outnumber employer firms (those with payroll employees) by a wide margin. There are over three times as many nonemployer firms of all types in Chattanooga as employer firms (28,380 versus 8,496). However, Black-owned businesses represent a somewhat small share in each category. Black-owned nonemployer firms comprise 8.2% of that total and Black-owned employer firms comprise 2.0% of that group.

Woman owners make up over half of both Black-owned employer and nonemployer firms (56.3% and 58.0%). Survey and interview results here were strong in each group, obtaining responses from nearly one in four Chattanooga Black-owned employer firms (23.9%), more than one in four of the area's Black female-owned employer firms (28.8%), and a strong 1.2% sample from the large Black-owned nonemployer group of businesses.

Survey research also yielded correspondence useful for comparing responses by industry sector with the composition of all Black-owned nonemployer firms.

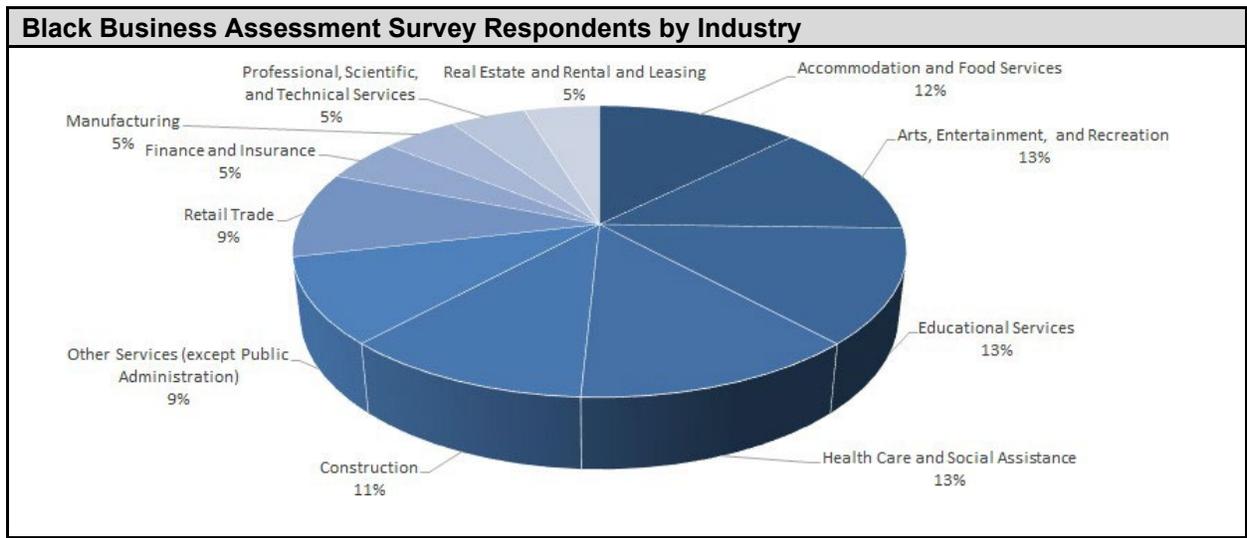
Black Nonemployer Firms by Industry: Universe of Business and Survey Response, Chattanooga Area

NAICS	Industry	Percent of Total	
		US Census	Survey Response
81	Other services (except public admin)	31.3	17.2
56	Admin, support, waste mgmt, remediation services	14.1	0.0
62	Health care and social assistance	10.9	10.3
54	Professional, scientific, technical services	7.8	6.9
48-49	Transportation and warehousing	7.8	6.9
44-45	Retail trade	6.3	0.0
23	Construction	6.3	6.9
71	Arts, entertainment, and recreation	4.7	20.7
61	Educational services	3.1	17.2
53	Real estate and rental and leasing	2.8	6.9
72	Accommodation and food services	2.8	6.9
52	Finance and insurance	1.6	0.0
31-33	Manufacturing	0.6	0.0
42	Wholesale trade	na	na
11	Agriculture, forestry, fishing, hunting	na	na
51	Information	na	na

Reported industries reflect a diverse ecosystem of respondents. While the industry concentration among Black-owned businesses is well documented, the survey highlights the range of business models Black-owned businesses in the Chattanooga region represent.

Additionally, it is important to note that the above chart numbers only **represent the nonemployer group of survey respondents**. Others participating in the survey as employer firms such as manufacturers were so few in total in Chattanooga there is little breakout by industry type possible precluding a comparison like the preceding table shows.

Black Business Assessment Survey Respondent Snapshot N=61							
Black Business Assessment Survey Respondents Demographics							
Ownership Gender				Full Time Employees			
Female		Male		1	2-5	6-10	11+
68%		32%		43%	38%	8%	10%
Annual Revenue				Years in Business			
<\$50k	\$50-100k	\$100-250k	>\$250k	<2	2-5	6-10	>10
36%	20%	25%	20%	16%	36%	27%	20%
Black Business Assessment Survey Respondents by Zip Code							
<p># of Businesses</p> <p>1 20</p>							



Survey Selected Results

In this section, we present key results from the Black Business Assessment Survey, and we categorize results under Capital, Customers, Capacity, and Technical Assistance & Support. The survey results highlight broad based capital gaps and educational needs to support Black businesses in Hamilton County.

Capital

What percentage of funds by source were used to start or acquire your business?

	Personal savings	Credit (borrowing)	Formal investors	Family and friends	Other
% of respondents using funding source	92%	43%	21%	30%	20%
Average % of total funding	70%	36%	5%	11%	11%

Do you have....

	A separate bank account for business?	A business credit card?	Other business debt?
Yes	93%	48%	34%
No	7%	52%	66%

Has your business applied for a business-related loan?

Applied for loan and received one	Applied for loan but never received one	Never applied for a loan
39%	7%	54%

I am interested in receiving information about the following types of capital for businesses.

	Loan Programs	Private Investment	Grant Programs	Crowdfunding
Yes	51.6%	67.7%	91.9%	56.5%
No	37.1%	17.7%	6.5%	30.6%
No response	11.3%	14.5%	1.6%	12.9%

How do you think your business's profitability compares to other businesses like yours (that provide approximately the same goods or services)?

My business is much less profitable	My business is slightly less profitable	My business is about average profitability	My business is slightly more profitable	My business is much more profitable
18%	16%	43%	15%	8%

Customers

My business customers are...

Primarily minority (Asian, Black/ African American, Hispanic/ Latino, or Native American)	Equal mixture of minority and non-minority	Primarily non-minority (White)	Other
30%	46%	20%	5%

Do you sell online?

I sell through my own website	I sell through Amazon	I sell through other online retail outlets	I do not currently sell anything online
43%	7%	15%	49%

Do you sell to wholesale customers (B2B)?

Yes	No
26%	74%

Respondents reporting government customers.

Federal government	State government	County government	City government	I do not have any government customers
7%	23%	13%	31%	52%

Capacity

How do you manage bookkeeping for your business?

I outsource bookkeeping services	I have a bookkeeper on staff who performs bookkeeping	I perform my own bookkeeping	Other (please specify)
33%	7%	56%	5%

Other Capacity related results

	Do you have office/ retail space separate from your house?	Is the business your primary source of income?	Do you use a Certified Public Accountant (CPA) to prepare and file your business taxes?	Do you have business insurance?
Yes	61%	69%	62%	80%
No	39%	31%	38%	16%

Technical Assistance and Support

I have participated in the following business programs.

SBDC	CO lab	Launch Chattanooga	CO starters	Urban League Next Level	Other	None
31%	29%	24%	18%	16%	10%	27%

What is the highest level of education of the business owner?

Graduate or professional degree	Bachelor's degree	Associate's degree	Some college	High school
36%	31%	7%	23%	3%

I believe Chattanooga, TN has an adequate and accessible ecosystem of supports to help minority-owned businesses grow.

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
13%	24%	26%	27%	5%

What do you believe are the top training or technical support needs to improve the growth of your business? Rank in order from Most (1) to Least (5) Important.

	Business Development / Customer Relations /Sales	Marketing/ Advertising/Communications	Accounting / Finance	Technology Advancements	Management / Leadership	Human Resources	Government Relations
% #1 Ranking	26%	23%	25%	5%	11%	2%	8%
Average	3.11	3.31	3.56	3.97	4.30	4.56	5.20

I am interested in receiving information on the following types of support for business owners

	Free technical support	Business coach or mentor	Online learning tools
Yes	83.9%	82.3%	87.1%
No	16.1%	17.7%	12.9%
No response	0.0	0.0	0.0

How proficient are you in the following areas (1 to 10, lowest to highest)?

	Problem solving	Problem analysis	Team building	Team management	Motivating employees	Writing skills	Developing business relationships	Oral presentation
% Ranked 10 or 9	80%	69%	61%	52%	54%	48%	49%	61%
Average	8.27	7.97	7.75	7.70	7.54	7.42	7.28	6.97

What level of impact do you believe the below challenges have on your business, if any?

	Ability to access informal networks	Ability to grow and expand business	Ability to access capital	Balancing full-time work and running my business on the side	Gender discrimination	Racial discrimination	Time to invest in strategic planning	Recruiting, retaining and promoting talent
High Impact	34%	43%	52%	30%	15%	25%	34%	34%
Moderate Impact	28%	25%	18%	20%	16%	23%	31%	28%
Low Impact	13%	5%	7%	21%	44%	23%	3%	15%

Subgroups of Response

Two groups of interest emerged from survey data and interview responses in light of the business dynamics related to Black-owned business in Chattanooga: 1) large employer firms with a history of government contracts, and 2) woman-owned businesses. Both groups offer a range of insights and perspectives that distinguish them from the broader group of businesses.

Woman-owned Businesses

A substantial number of Black woman entrepreneurs operate businesses in the Chattanooga area, comprising an important group for understanding the needs, challenges and opportunities which past or future ecosystems may address.

Our research identified impacts and challenges to business growth unique to this group. While the ability to grow a business and access resources are shared needs across many Black-owned businesses, woman business owners noted special challenges related to finding time for strategic planning and balancing full-time work with running a business. They also consider gender discrimination a greater challenge to business growth.

Impact on Business Growth: Woman Respondents (n=42)			
	High Impact	Moderate Impact	Low Impact
Ability to access informal networks			
Ability to grow and expand business			
Ability to access capital			
Balancing full-time work and running my business on the side			
Gender discrimination			
Racial discrimination			
Time to invest in strategic planning			
Recruiting, retaining and promoting talent			
NOTE: Survey response among Black woman-owned firms in both nonemployer and employer categories (64.3% and 67.6% of all Black-owned firm respondents, respectively)			

Larger Firms

Larger Black-owned firms provide useful examples of ways they have started and grown over time. Nearly half of survey respondents (43.5%) represented firms that earned \$100,000 or more in annual revenue. Owners of these firms were more likely to hold graduate or professional degrees, to believe their earnings are above average for their industries, and to report more diversified funding sources for starting and growing their businesses. These firms also contracted with government agencies more often.

Businesses with History of Government Contracting

An important issue for the Chattanooga area involves creating more opportunity and utilization of government contracting among Black-owned businesses. Albeit small numbers, our survey data suggest that larger Black-owned firms, or those with higher revenues, have been participants in government contracting.

Annual Revenue of Respondents: Businesses that have/ had government contracts (n=26)	Percent
Less than \$20,000	3.9
\$20,000 to \$29,000	11.5
\$30,000 to \$39,999	3.9
\$40,000 to \$49,000	7.7
\$50,000 to \$74,999	11.5
\$75,000 to \$99,999	11.5
\$100,000 to \$149,000	11.5
\$150,000 to \$249,000	7.7
\$250,000 to \$499,999	23.0
\$500,000 to \$999,999	3.9
\$1,000,000 to \$4,999,999	3.9
\$5,000,000 to \$9,999,999	0.0
\$10,000,000 or more	0.0
TOTAL	100.0

The industry distribution of Black-owned firms with government contracting experience also falls within a relatively small number of sectors. This may be an artifact of past contracting practices that may not describe patterns for future contracting opportunities.

Industry Distribution of Respondents: Businesses that have/ had government contracts	Percent
Accommodation and Food Services	15.4
Administrative and Support and Waste Management and Remediation Services	0.0
Agriculture, Forestry, Fishing and Hunting	0.0
Arts, Entertainment, and Recreation	15.4
Construction	11.5
Educational Services	15.4
Finance and Insurance	3.9
Health Care and Social Assistance	11.5
Information	0.0
Management of Companies and Enterprises	0.0
Manufacturing	0.0
Mining, Quarrying, and Oil and Gas Extraction	0.0
Other Services (except Public Administration)	7.7
Professional, Scientific, and Technical Services	3.9
Public Administration	0.0
Real Estate and Rental and Leasing	3.8
Retail Trade	11.5
Transportation and Warehousing	0.0
Utilities	0.0
Wholesale Trade	0.0
TOTAL	100.0

Firms with government contract history also tended to have more years in business.

Businesses that have/ had government contracts: Years in business	Percent
Less than 2 years	7.7
2 to 5 years	23.1
6 to 10 years	42.3
11 to 15 years	0
16 to 20 years	3.9
More than 20 years	23.1

Lastly, these business owners indicate a strong belief that understanding the political system is a key component of business success in the area.

Businesses that have/ had government contracts: Understanding the political system is a critical factor in the success of this business	Percent
Strongly disagree	11.5
Disagree	0
Neither agree nor disagree	15.4
Agree	30.8
Strongly agree	42.3

Survey Key Insights

- 1. Gender shapes perceptions and experience.** Black woman business owners outnumber Black men 2-to-1. About a third of women who responded (31%) report gender discrimination as a “high impact” challenge to their businesses while no men who responded reported gender discrimination as “high impact” challenge. Similarly, one in two (52%) woman respondents report racial discrimination as “high impact” challenge to their business, compared to 11% of men.

Time to dedicate to the business also appears to be a point of difference between women and men who responded to the survey. Sixty percent of women report time to invest in strategic planning as a “high impact” challenge to their businesses, compared to 35% of men. Fifty percent of women who responded also reported balancing full-time work with running their businesses on the side as a “high impact” challenge compared to 29% of men.

The divergent responses from women and men reporting these challenges highlights an opportunity to create a more inclusive, engaging ecosystem for woman business owners, particularly Black women. This may mean having more touchpoints with other Black women in entrepreneurial support organizations, particularly in financial institutions. Many woman business owners often split time in their businesses with other responsibilities, highlighting the need for efficient, flexible, and empathetic support organizations.

- 2. Most Black-owned businesses are initially self-funded.** Over 90% of respondents reported that they used their own savings to start their businesses. On average, respondents report 70% of startup capital came from personal savings, with nearly half (48%) reporting 100% of startup capital came from personal savings. This raises concerns around the financial security of Black business owners who launch businesses with little financial cushion.

While 93% of respondents report having a separate business bank account, over 54% reported that they have never applied for a business-related loan. This highlights the weak relationship between financial institutions and Black business owners. Follow-up discussions with Black business owners revealed distrust and resentment toward banks on the part of business owners who have been long-term account holders but could not obtain loans nor qualify for COVID-19 relief funding. Underinvestment in Black-owned businesses may explain low levels of reported interest in loans and other forms of debt capital. Despite loans’ lower cost of capital compared to equity investment, fewer respondents reported a desire to learn more about loan programs compared to private investment (52% vs 68%). In fact,

respondents rank interest in loan programs lowest among capital programs behind grants (92%), private investors (68%), and crowdfunding (57%).

3. Technical Assistance is most needed in Sales, Marketing, and Accounting.

Approximately 1 in 4 survey respondents reported sales, marketing, or accounting as the top area of training or support that would improve the growth of their businesses.

Comparatively, respondents reported training resources in management, technology, human resources, and government relations as less critical to the growth of their business. Survey results also highlight areas of individual skill development for the respondents. Soft skills including oral presentation and business relationship-building yielded lower average scores from respondents when the survey asked them to rate their proficiency in certain skills. Broadly, respondents expressed high interest in free technical support, business coaching and mentoring, and online training tools.

4. Black-owned businesses that currently have or have previously had government contracts at the city, county, state, or federal levels exhibit several distinctive characteristics.

These firms are far more likely to furnish their owners' primary incomes (92% versus 66% for all business owners). These firms also more likely employ multiple people, to have operated longer, and to occupy fewer industry types. These findings indicate that many smaller, often nonemployer, firms may lack the capacity in time or expertise to successfully navigate developing and maintaining government contracts and relationships. Nonemployer firms also are better represented in certain sectors like retail where they may find few government contract opportunities. Nevertheless, broader delivery of information and training for contracting practices, particularly as adapted to nonemployer firms including woman-owned firms, will fill a clearly identifiable gap in the relatively low level of overall government contracting reported in survey results and interviews and echoed in the [City of Chattanooga 2019 Disparity Study](#).

5. Differential for Business Development and Success is Substantial.

Survey data reveal stark differences in business growth outcomes across populations in the Chattanooga area and show that many Black-owned businesses struggle to start, grow, and flourish. Aggregate data substantiates the disparity showing a wide divergence between the share of Black business owners and the share of the area's Black population, even among minority groups.

The higher proportion of Black women who aspire to own or own businesses amplifies their underrepresentation in the business community. The related U.S. Census data illustrate the challenges and the opportunities for supporting development and growth of Black businesses in the Chattanooga area at rates commensurate with their share of area population. Whether measured by absolute number of firms, employment totals, revenue or payroll, the share of Black-owned businesses in Chattanooga and Hamilton County trails far behind their share of population in both areas.

Differential Between Percentage of Population and Percentage of Actual Business Representation			
Employer Firms - Chattanooga Area			
		Hamilton County	Chattanooga
Number of Firms			
	Black	-16.5	-27.2
	Asian	4.7	4.0
	Hispanic	-4.5	-6.4
	Women	-35.5	-38.5
	Veteran	1.6	3.1
Employment totals by type of firm			
	Black	-17.6	-28.8
	Asian	0.7	-0.4
	Hispanic	-5.4	-7.1
	Women	-43.8	-45.7
	Veteran	-3.5	-2.0
Sales totals by type of firm			
	Black	-18.2	-29.2
	Asian	-0.6	-2.0
	Hispanic	-5.8	-7.3
	Women	-48.4	-50.1
	Veteran	-3.8	-2.4
Payroll totals by type of firms			
	Black	-18.0	-29.0
	Asian	0.2	-0.9
	Hispanic	-5.7	-7.3
	Women	-45.8	-47.4
	Veteran	-3.7	-2.3

Interviews

Based on insights from the survey, we identified 18 survey respondents who could be potential participants in Pathway Lending's small business loan programs. Based on their availability, we interviewed eight of these business owners to better understand the current status of the businesses, including growth strategies and financing needs. The interviews also provide meaningful observations on the challenges and opportunities facing Black-owned businesses related to financing, business development, and talent.

Interview Questions

1. *How has COVID impacted your business financially, operationally, or in other ways?*
2. *Have you ever considered or been approached by a strategic partner to invest in your*

business?

- 3. What has your experience been working with banks and/or lenders to finance your business? What worked well, what did not work well?*
- 4. Do you expect you will need access to between \$25,000-\$150,000 of additional financial support in the next 12 months? 24 months?*
- 5. Are you cash flow positive? If not, how long will it take you to break even?*
- 6. How are you recruiting, training, and developing employees?*
- 7. Are you interested in receiving government (local, state, federal) and private sector contracts?*
- 8. How can the Chattanooga business support organizations (Urban League, Launch, City, etc.) better support your business, specifically?*
- 9. Where do you receive your information about what is available to support business owners?*

List of Businesses Interviewed
Dunson Auto Repair
Mo Lemonade
Professional Cleaning Solutions
Moderate Living Investments
Dipped Fresh
Chattanooga Cigar Bar
Sound Living Counseling Center
Wingard Quality Supply, LLC

Interview Key Insights:

- 1. Businesses need support for expanding outside of the Chattanooga area.** Most businesses we interviewed aspire to expand into Alabama, Georgia, Kentucky, Memphis, or Nashville. They described this as a primary strategy for increasing revenue. Access to expansion opportunities could increase efficiency and distribute resources more effectively in these businesses' operations.
- 2. Businesses need increased networking opportunities.** Many businesses expressed a desire to contract with government but no activity. The discrepancy points to an information gap between businesses and governmental institutions where businesses have little awareness of what contracts come up, when they renew, and how to obtain them.

Other businesses aren't receiving information about bids and opportunities even though they have obtained certifications recognized at the local, state, and federal level. In general, small businesses need help getting their names out to the community to increase their customer bases.

- 3. Businesses have a clear inclination towards self-funding.** Respondents prefer self-funding to loans or working with bank/loan institutions and push the limits of their capacity pursuing growth before considering other options. The businesses that reported favorable outcomes with banks/lending institutions had one commonality: They felt their bankers prioritized the relationship and developed trust by doing so. Different lending mechanisms

are available that would allow business owners to think about growth before they reach full capacity. Woman survey respondents and interviewees expressed more reluctance to engage banks, particularly following negative experiences during outreach or underwriting.

- 4. Businesses need support for hiring and workforce development.** All business owners we interviewed expressed concern around growing and developing their workforces and consider it directly related to their businesses' ability to grow revenue. Business shutdowns related to COVID-19 continue to impact their ability to rehire. Companies are interested in resources that can reduce the cost of hiring and training.

Recommendations

- 1. Leverage regional partnerships:** Pathway Lending can help businesses identify and pursue opportunities for expansion to other markets in the southeast region. Many companies expressed the desire to expand and/or launch in markets outside of Chattanooga. For businesses that have demonstrated success in the Chattanooga market, technical assistance and financing for expansion projects could be mutually beneficial. In particular, firms expressed interest in learning about or developing franchising and trademark opportunities that could extend the reach of their businesses into new and larger markets.
- 2. Support transparency for government opportunities:** Pathway Lending can boost visibility into contract opportunities and access to networks to pursue them by convening government procurement specialists with area businesses positioned to provide services to local, state or federal agencies in the Chattanooga region. Helping business owners recognize and apply for such opportunities can drive potential cash flow accretive projects and positive relationship building. Particularly in the area of subcontracting across many industry types, businesses can benefit from a stronger, focused delivery of training and networking related to public sector contracting.
- 3. Develop clear marketing to communicate the power of loans:** Pathway can elevate awareness and deepen knowledge of the benefits of loans as a funding strategy for growth-oriented businesses through dedicated, ongoing marketing and communications efforts. Many businesses expressed heavy reliance on self-funding as a safe and trustworthy way to run their businesses. Pathway will need to clearly lay out its ability to aid businesses by listing markets for potential growth, financing options, and available technical assistance. The reticence of business owners to consider debt is multifaceted and often constrains their ability to grow their businesses. Building the capacity of business owners to develop strategic business plans that encourage responsible borrowing can provide a breakthrough opportunity for many businesses.
- 4. Foster trust by investing in relationships:** To effectively overcome community mistrust in financial institutions, Pathway must stay relationship-oriented in its engagement with businesses. Reaching businesses will require contact beyond phone calls and emails to maintaining a physical presence in business spaces and with business owners, listening to their stories and showing sincere interest in their work is essential. Adapting these resource and lending relationships to a variety of business types will be a critical step in overcoming a widespread reluctance to engage with institutions. Tailored, thoughtful approaches to involvement with woman business owners, family-owned businesses, part-time businesses and others can provide the essential elements that many owners have either lacked or sought without success.