

PROMOTING OPPORTUNITY AND RACIAL EQUITY IN NEWARK

SMALL BUSINESS OWNER VIEWS ON CAPITAL ACCESS



INTRODUCTION

Capital is the foundation of any thriving business. Capital helps small businesses increase their revenue, employ more people, and achieve long-term success.¹ Equitable access to capital is thus crucial for building thriving business districts and local economies, underscoring the widespread benefits of ensuring entrepreneurs of all backgrounds, races, and genders have access to the capital they need.

This is no less true in Newark, New Jersey, which boasts a vibrant small business community and is home to many innovative Black-owned businesses. To assess the landscape in Newark, Main Street Alliance surveyed and held in-depth conversations with 57 small business owners.

Background

Capital is not equally distributed among entrepreneurs, and those without family wealth cannot launch their businesses on the same footing as those who draw on such resources. Black and Latino entrepreneurs, in particular, have less business equity on average than their white counterparts² and experience discrimination in lending;³ due to financial barriers, their businesses tend to bring in lower revenue and have lower profit margins.⁴ Women-owned businesses face similar challenges.⁵ This is particularly significant because Black-owned and Latino-owned businesses are also more likely to be women-owned.⁶

Investing in equitable capital access is essential for realizing the value of businesses launched by entrepreneurs not well-served by the current financial system. Researchers estimate that an investment in parity between Black-owned businesses and other businesses would spur \$5.9 trillion in increased revenue and more than 19 million jobs.⁷ Similarly, with scaling parity, Latino-owned businesses could add \$1.46 trillion to the economy as a whole.⁸

Expanding access to capital is about more than just offering financial products. It also involves providing the support that allows a small business to obtain

high-quality, affordable financing and use it to solidify and grow their businesses, generate good jobs, and contribute to vibrant, equitable communities. Prior research by Main Street Alliance has found that small businesses want a public infrastructure that connects them to opportunities to receive and take advantage of capital.⁹ This research is echoed by the findings of this report.

Findings

In the fall and winter of 2022/2023, Main Street Alliance surveyed 57 Newark business owners and held in-depth conversations on a range of questions concerning access to capital, including access to capital in the midst of the Covid-19 pandemic. The survey was conducted in English and Spanish.

The age of respondent businesses ranges from those established within the survey year to one business in operation for 53 years. Business size ranges from sole proprietorships to one business with 22 employees. Sixty-one percent of respondents identify as immigrant, 60 percent as Hispanic/Latino, 39 percent as Black/African American, 7 percent as Black and Latino, and 3.5 percent as Asian or Asian American. Twelve percent did not report race. Forty-six percent identify as female and 54 percent as male.

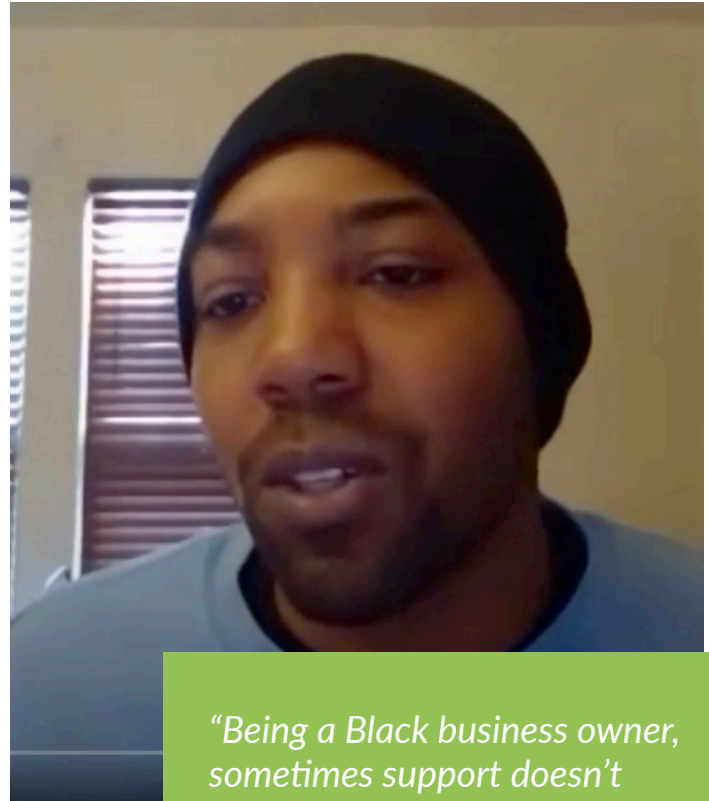
The results of these conversations are as follows:

1. Fewer than half of survey respondents had received key federal, state, or local loans or grants in the past 18 months – a period that included some of the worst months of the pandemic.

The Paycheck Protection Program was the federal government’s largest program supporting small businesses in response to the pandemic. Among our respondents, 19 percent received a PPP loan, 14 percent in the first round and 5 percent in the second round. Fourteen percent had received an Economic Injury Disaster Loan (EIDL), and 5 percent had received a local grant. No respondents received a venue loan or grant or assistance through the Restaurant Revitalization Fund, and one respondent reported receiving another type of federal small business loan.

2. Many small businesses are still struggling to regain their footing from Covid.

Approximately one third of survey respondents say their business is now “doing well,” with one respondent saying their business was back to pre-Covid conditions. Seven percent say they are considering closing or bankruptcy, and 26 percent say they are uncertain about the future, while 17 percent report that they are still not turning a profit, though the loss is manageable. Two respondents say that their income is back up, but they took on a lot of debt.



“Being a Black business owner, sometimes support doesn’t always come in the way that you expect it. Folks give me opportunities to market and for exposure. That’s something folks and institutions have been generous about. But when it comes to releasing those funds, or helping people gain access to the capital, or building my capacity so I can leverage more financial opportunities, it has been very scarce.”

Marcellis Counts
Apiary in the Sky, Newark, NJ

3. The greatest challenge for business owners in finding and getting Covid-related support was identifying where and how to apply loans and grants.

More than one-third of respondents (37 percent) said they had trouble finding out where and how to apply for loans or grants. Twenty-one percent cited their lack of financial/business history and/or business informality, with 16 percent saying they were discouraged from applying. Fourteen percent of respondents cited lack of reliable relationships with financial institutions; the same share reported not being able to get information in their preferred language. Four respondents cited immigration-related barriers, and two cited barriers related to prior legal challenges or convictions.

4. Small businesses experience varied challenges getting the financing they need.

Fewer than one-in-five (19 percent) of our survey respondents said they have received all the financing they need. They face a wide range of challenges, including:

- Not enough initial capital or collateral to secure a loan (26 percent)
- Too low credit scores to qualify for a loan (18 percent)
- Got loan, but with very high interest rates (5 percent)
- Not able to apply for a bank loan of the size needed (4 percent)

5. Drop in consumer demand is a major challenge for small businesses in Newark, among other challenges to starting and staying in business.

Among a list of challenges, responding business owners chose drop in consumer demand more frequently than any other (44 percent), followed by affordable financial services, bookkeeping, and HR support (16 percent):

- Drop in consumer demand (44 percent)
- Affordable financial services, bookkeeping, HR support (16 percent)
- Finding affordable rental commercial space (14 percent)
- Confusing city/state regulations (14 percent)
- Lack of access or understanding of city/state procurement services (12 percent)
- Affordable and accessible business planning and technical assistance (11 percent)
- Consumers shifting purchases to larger online corporations like Amazon (9 percent)
- Affordable legal services for leases, contracts and disputes (5 percent)

6. Very few of our survey respondents had received assistance from among eight local business support organizations, and name recognition is low among our respondents.

We shared a list of eight organizations that provide support to small businesses and asked respondents if they had received support from them. Four had received assistance from the New Jersey Economic Development Authority, and two had received support from Rising Tide Capital. One respondent had received assistance from the Greater Newark Enterprise Corporation, one from Invest Newark, and one from United Way of Essex County.

However, 84 percent of respondents said they had not received support from these organizations or the others on the list (United Way of Essex County, Center for Urban Entrepreneurship and Economic Development, and Local Initiative Support Corporation). In fact, 63 percent of our respondents said they had not heard of any of these organizations. Among the eight, respondents were most likely to have heard of Invest Newark: 11 percent had.

“Especially in the CBD cannabis space... it was even hard just finding bank accounts that took hemp accounts, which is a different type of banking, and just knowing the resources. As a person of color I think it probably exacerbated the situation as far as finding businesses who even thought our business was viable.”

Rashad Davis
Plantivia Wellness, Newark, NJ





7. Small business owners in Newark want a wide range of support and assistance.

Asked to select from among a list of ideas for improving access to capital that would benefit them as Newark business owners, our respondents chose the following:

- Small business office to provide dedicated support to Newark small businesses: 46 percent
- Additional grants to assist with COVID recovery: 32 percent
- Online site with current information about Newark grants, technical assistance and other opportunities: 30 percent
- Assistance preparing business and financial documentation for loan applications: 18 percent
- Mentorship: 18 percent
- Assistance with PPP loan forgiveness: 16 percent
- Better info and access to procurement opportunities: 16 percent
- Financial and business planning services: 14 percent
- Initiatives to create more affordable commercial storefront properties: 12 percent
- Alternative credit criteria for small business owners with traditional financial/credit history: 12 percent
- Ability to easily compare loan products across banks/online lenders: 11 percent
- Revolving loan fund to increase access to low cost loans for higher risk businesses: 9 percent
- Access to quality affordable financial services (bookkeeping, payroll, etc.): 9 percent

"I was working and saving to invest in my business. I would spend 2 hours at one job then run to another job and so on. I didn't start of big. Things were small at the beginning. But that was the way I could start without having any credit."

Oscar Rodriguez
Fenix Services LLC, Newark, NJ

ENDNOTES

- 1 https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf, p. 6.
- 2 <https://www.aspeninstitute.org/wp-content/uploads/2021/10/Sec5-Ch40-Klein-1.pdf>, p. 328.
- 3 <https://ncrc.org/lending-discrimination-during-covid-19-black-and-hispanic-women-owned-businesses/>; Amber Lee, et al, Divestment, Discouragement and Inequity in Small Business Lending, National Community Reinvestment Coalition, <https://ncrc.org/wp-content/uploads/2019/09/NCRC-Small-Business-Research-FINAL.pdf>.
- 4 <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-small-business-owner-race-report.pdf>
- 5 <https://cdn.www.nwbc.gov/wp-content/uploads/2018/02/27191226/High-Growth-Women-Owned-Businesses-Access-to-Capital-Report.pdf>
- 6 <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-small-business-owner-race-report.pdf>, p. 9.
- 7 <https://www.brookings.edu/essay/to-expand-the-economy-invest-in-black-businesses/>
- 8 <https://www.aspeninstitute.org/wp-content/uploads/2020/02/AILAS-2020-Playbook-final.pdf>. Scaling refers to reaching \$1 million in revenues annually. (Compared to white-owned businesses.)
- 9 <https://static1.squarespace.com/static/5ff74507e375c93150f0ca32/t/60905c2ca055ee-18b199a9dc/1620073527274/Role+of+Government+Report+Design+FINAL.pdf>

