



Economic Impact Report

Western Regional
Minority Supplier Development Council

September 2016

EXECUTIVE SUMMARY

Since its inception on September 9, 1977 the Western Regional Minority Supplier Development Council (WRMSDC) has been:

- **Certifying** Minority Business Enterprises (must be 51% owned, operated and controlled)
- **Connecting** those certified MBEs with its Corporate Members (major public and private corporations) interested the inclusion of MBEs within their procurement processes
- **Advocating** on behalf of both its Corporate Members and certified MBE community to encourage greater diverse supplier participation within corporate supply chains.

Originally the WRMSDC covered Northern California only. Today it serves not only Northern California, but also Nevada and Hawaii. Early in 2016, the WRMSDC retained The Institute for Thought Diversity to assist the Council in conducting a study to assess the economic impact of the certified MBE community of the Western Regional MSDC on the three state region covered by the WRMSDC, namely Northern California, Hawaii, and Nevada. This impact includes the increased business activity created by the 876* Western Regional MSDC certified Minority Business Enterprises (MBEs), the jobs that are maintained and/or created as a result of this activity throughout the various sectors of state's economies, and the incremental business taxes that are generated.

The results of the study indicate that today, WRMSDC MBEs have a total economic impact of over \$10.8 billion dollars in output that results in the creation and/or preservation of close to fifty-five thousand jobs held by persons who find themselves either directly or indirectly employed by WRMSDC certified MBEs. These are jobs that not only support individuals, but also contribute to the economic well-being of their families, their communities, and the three state region as a whole. This is particularly striking in a time when unemployment is at an all-time high within many minority communities. These same individuals are also contributing over \$459 million to the tax base of states (including only state and local taxes) that have historically struggled with enormous budget deficits.

In many circles, with the rapidly changing demographics of the United States, the minority business sector is arguably the fastest growing segment of small business. Therefore, it stands to reason that ensuring the success of minority businesses will have significant, positive effects on both the United States economy in general and the economies of Northern California, Nevada and Hawaii in particular. Simply put, the economies of the three states under the jurisdiction of the WRMSDC cannot reach their full and true potential unless the minority business community in each of the states is growing and reaching its full and true potential. The Western Regional MSDC, in its various iterations, has a long-standing history as a catalyst for that growth.

** The number of certified MBEs as of June 2016*

INTRODUCTION AND PURPOSE

Minority-owned businesses have been growing at a faster pace than non-minority firms in the total number of firms, gross receipts, and in paid employment. If not for the employment growth created by minority firms, American firms (excluding publicly held firms) would have experienced a greater job loss during the Great Recession, which according to the National Bureau of Economic Research (NBER) was officially from December 2007-June 2009. Despite the fact that the recession officially ended in 2009, many areas of the United States continued to struggle with high unemployment, foreclosures and consumer consumption nation-wide is just now approaching pre-recession numbers (Lansing, 2011).

While the overall impact of the recession was most definitely felt within the minority business community, according to Minority Business Development Agency (MBDA), Minority Business Enterprises (MBEs) continue to be the engine of employment in emerging and minority communities (Fairlie & Robb, 2010).

The purpose of this study is to present empirical evidence demonstrating the positive impact that the WRMSDC minority business community has on the state economies of Northern California, Nevada and Hawaii. This will be done by examining the economic impact of the WRMSDC MBE community through the lens of job creation, income generation and tax revenue.

METHODOLOGY OF THE STUDY

The full economic impact of the 876 MBEs certified by the WRMSDC on the US economy, was estimated using classic input-output model methodology in combination with regional specific Social Accounting Matrices and Multiplier Models. In this input-output model, the business sectors of the economy being examined are organized according to who makes what outputs and who uses what inputs (imagine a matrix).

The benefit of using input-output methodology is that it helps evaluate the effects of WRMSDC MBEs on each other and on all other industries within the territory covered by the WRMSDC. This interrelatedness between and among all businesses within the WRMSDC footprint is rooted in the supposition that all businesses use the outputs of each other as inputs. An input-output model makes it possible to examine economic relationships between businesses as well as between business and consumers. It will measure changes in any one or several economic variables on all of the territories covered by the WRMSDC.

Strictly speaking, each industry that produces goods and services has an influence on, and in turn is influenced by, the production of goods and services of other industries. These interrelationships are captured through a multiplier effect as the demand and supply from various industries trickle over from business to business. This allows for the quantification of the cumulative total economic impact, which includes output, compensation, employment, local, state and federal tax revenue (Varshney & Tootelian, 2009).

THE MULTIPLIER EFFECT

Having a workable understanding of the multiplier effect mentioned in the previous section is crucial to having a better grasp on the methodology of this study and, as a result, having a better understanding of the results being reported. The multiplier effect in this study is based on the data extracted from the WRMSDC certified MBEs. It reflects the increased economic activity that comes from sales being generated and expenses being incurred by the WRMSDC certified businesses.

When a WRMSDC MBE generates sales, it must use some of that money to purchase other goods and services and to hire people to meet the demand for its products and services. Purchases made by the WRMSDC MBE are representative of sales to other firms who must then also purchase goods and services and hire people to meet their new demand. The additional hiring to meet this increased demand means more people will have income which they in turn will use to purchase goods and services for their households and families. All of this brings added sales to businesses in the community. The net effect is that WRMSDC MBE sales dollars are recycled in the community through this process of sales requiring additional purchases and employment, which result in sales for other businesses who must use that money to make their own purchases and hire people.

SCOPE OF THE STUDY

This research mainly focuses on the economic impact of WRMSDC certified minority business enterprises on the regional economy (and ultimately the US economy) and is comprised of several components. Specifically, the report analyzes three types of economic impacts:

- **Output Effect** - Total sales or revenues generated by WRMSDC certified MBEs.
- **Income Effect** - Total income generated within the WRMSDC footprint by certified MBEs.
- **Employment Effect** - Number of jobs created within Northern California, Nevada and Hawaii by WRMSDC certified minority business enterprises.

In addition, the direct, indirect and induced impacts of the above categories are also examined. The full range of economic impacts includes direct, indirect and induced impact.

- **Direct Impacts** consist of economic activity contained exclusively within the designated sector(s). This includes all expenditures made and all people employed by the diverse suppliers.
- **Indirect Benefits** define the creation of additional economic activity that results from linked businesses, suppliers of goods and services, and provision of operating inputs.
- **Induced Benefits** measure the consumption expenditures of direct and indirect sector employees. Examples of induced benefits include employees' expenditures on items such as retail purchases, housing, banking, medical services, and insurance.

ECONOMIC IMPACT SUMMARY

The economic impact analysis in this study was conducted for the total expenditures of 876 WRMSDC certified MBEs. In order to qualify for and be included in the study, the MBEs had to be certified and in good standing with the WRMSDC. It should also be noted that this analysis is based on annual revenues of WRMSDC MBEs, meaning that this impact is what is expected each year that such spending with the MBE community occurs.

The Output, Employment, Labor Income, and Indirect Business Taxes for the WRMSDC MBEs is summarized and presented in the table below.

SUMMARY FOR TOTAL ECONOMIC IMPACT	TOTAL	PER DAY
Output	\$10,806,404,201	\$29,606,587
Employment	54,704	N/A
Labor Income	\$3,524,951,560	\$9,657,402
Tax Impact (local, state and federal)	\$1,275,944,861	\$3,495,739.34

Output

The overall Output, or the amount of overall business activity created by WRMSDC MBEs, is more than \$10.8 billion, which equals nearly \$30 million per day. This includes the direct spending with the WRMSDC MBE community (“Direct”), the amount of additional business activity created by that spending (“Indirect”), and the amount of additional business activity created by people’s spending caused by the incremental labor income (“Induced”).

Employment

There are 54,704 jobs that are created or maintained within the three state WRMSDC footprint as a result of the activities of the WRMSDC MBE community. 24,770 of these jobs, or 45%, are people that are directly employed by WRMSDC MBEs. The remaining 29,934 jobs would not be possible without the expenditures of either the MBE companies or their employees.

Labor Income

The 876 certified MBEs of WRMSDC disbursed \$1.8 billion in salaries, wages and benefits to the 24,770 employees measured under direct labor income. This direct labor income served as a catalyst for the \$935 million in indirect income paid to the non-MBE supplier community. It is necessary to remember that these businesses had to hire these additional employees to meet the business demands of 876 certified MBEs. The induced income is estimated to be a little more than \$778 million, bringing the total labor income effect to more than \$3.5 billion which equates to more than \$9.6 million per day.

State and Local Taxes

Finally, the more than \$1.27 billion in additional tax revenue will be created from the business activities of the WRMSDC MBEs, equating to nearly \$3.5 million each day of the year. These are tax dollars generated from MBE businesses, their suppliers, and their families--none of which would be possible without the heightened economic activity and the increased employment originating with the WRMSDC MBE community. Like most state governments, Northern California, Nevada and Hawaii rely primarily on taxes to fund the public services that they provide to the individuals and businesses located in each of the states.

Economic Impacts for Each State

To arrive at the total economic impact for the WRMSDC, impact analyses were conducted for Northern California (701), Nevada (137) and Hawaii (37). It is important to note that these estimates are based on the annual revenues of the MBEs headquartered in Northern California, Nevada and Hawaii respectively.

The economic impacts of the revenues generated by the WRMSDC certified diverse suppliers in each state are presented in the following tables on an annual and daily basis and summarized below:

SUMMARY PER YEAR	NORTHERN CALIFORNIA	NEVADA	HAWAII
Output	\$8,213,844,596	\$1,378,318,158	\$1,214,241,446
Employment	40,988	8,715	5,001
Labor Income	\$2,754,002,767	\$470,830,374	\$300,118,420
Tax Impact (local & state only)	\$362,385,804	\$46,738,001	\$50,299,583

SUMMARY PER DAY	NORTHERN CALIFORNIA	NEVADA	HAWAII
Output	\$22,503,684	\$3,776,214	\$3,326,688
Employment	N/A	N/A	N/A
Labor Income	\$7,545,213	\$1,289,946	\$822,242
Tax Impact (local & state only)	\$992,838	\$128,049	\$137,807

Northern California

The Output, or the amount of overall business activity created, is estimated to be more than \$8.2 billion within Northern California, which equates to more than \$22.5 million each day of the year. This includes the revenues generated by the 701 WRMSDC MBEs headquartered in Northern California (“Direct”), the amount of additional business activity created by those revenues (“Indirect”), and the amount of additional business activity created by people’s spending as a result of the incremental labor income (“Induced”).

40,988 additional jobs have been maintained or created as a result of the sales revenue from the Northern California-based MBEs.

Labor Income resulting from current employees and the additional people employed is estimated to be \$2.7 billion annually, equating to more than \$7.5 million each day of the year.

Finally, more than \$362 million in additional tax revenue will be created from the increased business activity caused by WRMSDC diverse suppliers, equating to approximately \$993 thousand each day of the year. These are tax dollars generated from businesses, their employees and their households, benefiting from the heightened economic activity and the increased employment created by the MBE community.

Nevada

The Output, or the amount of overall business activity created, is estimated to be more than \$1.3 billion within Nevada, or more than \$3.7 million each day of the year. This includes the sales revenue generated by the activities of the 137 WRMSDC Nevada based diverse suppliers (“Direct”), the amount of additional business activity created by that revenue (“Indirect”), and the amount of additional business activity created by people’s spending as a result of the incremental labor income (“Induced”).

8,715 additional jobs have been maintained or created as a result of the Nevada diverse suppliers. Labor Income resulting from the additional people employed and current employees is estimated to be almost \$471 million, equating to more than \$1.28 million each day.

Finally, more than \$46 million in additional tax revenue will be created from the increased business activity

of the Nevada MBEs, which averages out to be \$128,049 each day of the year. These are tax dollars generated from businesses, their employees and their households, benefiting from the heightened economic activity and the increased employment. These tax dollars can be used for programs that further benefit the communities within Nevada.

Hawaii

The overall Output coming from WRMSDC certified MBEs in Hawaii is estimated to be more than \$1.2 billion, which equates to more than \$3.3 million each day of the year. This includes the sales revenue generated by the 37 Hawaii-based diverse suppliers (“Direct”), the amount of additional business activity created by that revenue (“Indirect”), and the amount of additional business activity created by people’s spending as a result of the incremental labor income (“Induced”).

5,001 additional jobs have been maintained or created as a result of the Hawaii diverse suppliers.

Labor Income resulting from both the additional and current employees employed is estimated to be more than \$300 million, averaging out to more than \$822 thousand each day.

Finally, more than \$50.2 million in additional tax revenue will be created from the increased business activity of the Hawaii MBEs, which averages out to be approximately \$137,807 each day of the year. These are tax dollars generated from businesses, their employees and their households, benefiting from the heightened economic activity and the increased employment.

SUMMARY AND CONCLUSION

Relevance of Minority Businesses

According to a Department of Commerce study, the minority population will contribute to as much as 70% of the total increase in purchasing power from 2000 to 2045. A joint report from the Milken Institute and the Minority Business Development Agency (MBDA) suggests that the number of minority business owners in the U.S. (currently estimated at 3.3 million) is growing at a rate of 17% annually, a staggering six times faster than the growth rate of all firms. Overall, sales from diverse businesses are growing 34% a year, which is twice as fast as the national average. The report concludes that minority businesses are a driving force behind growth and will be a major segment of the U.S. economy in the 21st century as a transition to a more diverse demographic majority occurs (Hinson, 2009).

Ensuring the success of minority and women owned businesses, which combined are the fastest growing segment of small business, will have significant positive effects on all of the states within the WRMSDC as well as the overall US economy.

Economic Impact of WRMSDC

One of the primary goals of the WRMSDC is to promote minority business participation in the procurement process in order to create economic wealth in minority business communities throughout the three state footprint. This is important because wealth creation is the end result of successful businesses. Wealth-creating businesses hire more people, invest more in their communities and actively participate in philanthropic activities; thus delivering more social value. According to the “Cultures of Giving” report by the W.K. Kellogg Foundation, minorities, on average, are more prone to giving than their non-minority counterparts and in some cases, giving up to 25% more (Gravelly, 2014). The creation of healthy minority businesses that will in turn help their socio-economically challenged communities solve some of the existing problems is the core mission of the WRMSDC. However, without the empirical evidence provided by this study, it is almost impossible to determine whether or not the Council was, and is, successfully fulfilling its mission.

The results are in, and the empirical evidence is indisputable. Over \$10.8 billion in annual revenue comes from the activities of the WRMSDC certified MBE community. As a result, these same firms employ 54,704 people, both directly and indirectly, resulting in the dissemination of over \$3.5 billion in salaries and wages. Finally, when combined with the more than \$1.2 billion various tax revenues (local, state and federal) coming from the activities of the WRMSDC certified MBE suppliers, the total economic impact equates to over \$15.5 billion.

If the question is:

Is the WRMSDC successfully fulfilling its mission and having a significant positive economic impact on the local, state and national economies?

With over 15 billion reasons why, the answer is an emphatic,

YES!

REFERENCES

Duff & Phelps (2008). Acme Co., Inc. Economic Impact Analysis.

http://www.cost.org/uploadedFiles/Content/COST_Calendar/39th_Annual_Meeting_-_Materials/M.%20Press%20Article%20Economic%20Impact%20Report.pdf

Fairlie, R., & Robb, A. U.S. Department of Commerce, Minority Business Development Agency. (2010).

Disparities in Capital Access Between Minority and Non-Minority Businesses Non-Minority Owned Businesses: The Troubling Reality of Capital Limitations. Retrieved from U.S. Government Printing website: <http://www.mdba.gov/sites/default/files/DisparitiesinCapitalAccess-Report.pdf>

Grabowski, L. (2013, Sept-Oct). Pizza power: Little Caesars and Dominos Have a Different Mission. DBusiness Daily News, Retrieved from <http://www.dbusiness.com/DBusiness/September-October-2013/Pizza-Power/>

Gravelly, M. (2014). The Capacity to Succeed. (1st ed.). Cincinnati: Impact Group Publishers.

Jensen, K., Lambert, D., Menard, R., English, B., & Xu, W. (2011). Projected Economic Impacts of Green Jobs Development in the Appalachian Region. Informally published manuscript, Department of Agricultural & Resource Economics, The University of Tennessee, Knoxville, Tennessee. Retrieved from <http://beag.ag.utk.edu/pp/GreenJobsImpactARC2.pdf>

Lansing, K. (2011, July 11). Gauging the Impact of the Great Recession. FRBSF Economic Letter. Retrieved from <http://www.frbsf.org/economic-research/publications/economic-letter/2011/july/impact-great-recession/>

Tozzi, S. (2010, July 16). Minority businesses multiply but still lag whites. Bloomberg BusinessWeek: Small Business, Retrieved from http://www.businessweek.com/smallbiz/content/jul2010/sb20100715_469797.htm

Varshney, S., & Tootelian, D. (2009). Cost of State Regulations on California Small Business Study. Informally published manuscript, College of Business Administration, California State University, Sacramento, Michigan. Retrieved from <http://www.killcarb.org/AB32CostToBusiness.pdf>