



The Economic Impact
of the
Western Regional Minority Supplier
Development Council (WRMSDC)

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EXECUTIVE SUMMARY

Since its inception in 1977, the Western Regional Minority Supplier Development Council (WRMSDC) incorporated has been:

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

Originally WRMSDC covered Northern California and Hawaii only, but in 2013 it added the state of Nevada to bring its footprint to the 3 state area the Council currently covers today.

Early in 2020 the Western Regional Minority Supplier Development Council (WRMSDC) retained The Institute for Thought Diversity to assist the Council in conducting a study to assess the economic impact the WRMSDC certified MBE community has on the three (3) state region covered by the WRMSDC, namely Northern California, Hawaii and Nevada. This impact includes the increased business activity created by the 921* WRMSDC certified Women Business Enterprises (MBEs), the jobs that are maintained/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 are that today, WRMSDC MBEs have a total economic impact in excess of \$18.1 Billion (versus \$15.5B in 2017). A major component of the total economic impact is the generation of over \$12.5 Billion dollars in output that results in the creation of and/or preservation of close to more than 63 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 wellbeing of their families, their communities, and the three (3) State region as a whole resulting in over \$4.1B in wages and benefits being paid out to all business related to WRMSDC, their supply base and the communities in which they live). These same individuals are also contributing over \$1.4 Billion to the tax base of states (including local, state, and federal) that have historically struggled with enormous budget deficits.

In many circles, with the rapidly changing demographics of the United States, minority-owned businesses are arguably one of the fastest growing sectors of small business segment. This is particularly significant given that it has been well documented that it is the small business segment that is responsible for the majority of the new jobs created in the United States over the past few years. Thus, it stands to reason that ensuring the success of Minority-owned businesses will have significant, positive effects on both the United States economy in general and Northern California, Hawaii and Nevada economies 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-owned business community in each of the states is growing and reaching its full and true potential and WRMSDC, in its various iterations, has a long-standing history as a being a channel for that growth.

** The number of certified WBEs as of September 2019

METHODOLOGY OF THE STUDY

The full economic impact of the 921 MBEs certified by the Western Regional Minority Supplier Development Council (WRSDC) 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 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 states covered by the WRMSDC.

In other words 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 in order to gain a better appreciation of both the methodology of this study and of the results being reported. The multiplier effect in this study is based on the sales and employment data extracted from the WRMSDC certified MBEs and reflects the increased economic activity that comes from sales being generated, and expenses being incurred, by the WRMSDC certified businesses.

When an WRMSDC MBE generates sales, it must use some of that money to purchase other goods and other services as well as 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 coming from the MBE community. The additional hiring to meet this increased demand means more people will have income, which they 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 being recycled in the community through this process of sales which in turn result increased activity within the supply chain in the form of both additional purchases and increased employment. The net result of this increased activity sales for other businesses who must then use that money to make their own purchases and hire people.

Economic Impacts

This research mainly focuses on the economic impact of WRMSDC certified minority business enterprises on the tri-state economy and is comprised of several components. Specifically the report analyzes three types of economic impacts:

Output Effect: The output effect is the most extensive measure of economic impact. It is a measure of sales or revenues generated by WRMSDC certified MBEs.

Income Effect: A measure of total income generated within the WRMSDC footprint by certified MBEs.

Employment Effect: A measure of the number of jobs created within the United States as a result of the business activities of WRMSDC certified minority business enterprises.

Direct

The direct effect represents the impact created directly by the business activities of the 921 WRMSDC certified MBEs. For example, if an WRMSDC certified MBE opens a new production facility in a new territory and records \$5 million in sales, the direct impact of the facility is additional sales of \$5 million. In essence, the total gross output of the territory in question (all other things being equal) is greater by \$5 million. In addition this new production facility will likely have hired employees to produce the goods needed for \$ 5 million in sales. These new jobs are a direct result of the facility's business activity.

Indirect

The indirect impact represents business-to-business transactions. These transactions (also sometimes known as second round impacts) occur when the suppliers of WRMSDC MBEs purchase goods and services from other suppliers. In the above example of the new production facility generating \$5 million in sales buys the supplies and/or services needed for production, its supplier must in turn hire the appropriate number of people and goods and services needed to meet the demands of the WRMSDC certified MBE. These business activities by the supplier to the MBE are indirect in nature in this scenario. **It is important to note that these second round impacts would not occur if it were not for the business activities of the WRMSDC certified MBEs.**

Induced

The induced effect occurs as a result of the spending patterns of the families of the employees of both WRMSDC MBEs and the employees of the indirectly affected businesses supporting WRMSDC MBEs. Examples of purchases comprising the induced impact include but are not limited to retail purchases, housing, banking and medical services and insurance.

ECONOMIC IMPACT SUMMARY

The economic impact analysis in this study was conducted for the total expenditures of 921 WRMSDC certified MBEs. As a result in order to qualify for and be included in the study, the MBEs had to be certified and in good standing with WRMSDC. Lastly it should be noted that this analysis is based on annual revenues of WRMSDC MBEs meaning this impact is what is expected to occur 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	\$12,534,317,489	\$34,340,595
Employment	63,842	N/A
Labor Income	\$4,105,783,144	\$11,248,721

OUTPUT

The overall Output, or the amount of overall business activity created by WRMSDC MBEs, is over \$12.5 billion, which equals over \$34.3 million per day. This includes the direct spending by 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 63,842 jobs that are created or maintained as a result of the activities of the WRMSDC MBE community. 29,021 of these jobs or 45% are people that are directly employed by WRMSDC MBEs while the remaining 34,821 would not be possible without the expenditures of either the MBE companies or their employees.

LABOR INCOME

The 921 WRMSDC certified MBEs disbursed over \$2.1 Billion in salary, wages and benefits to the 29,021 employees measured in direct labor income. This direct labor income served as a catalyst for the \$1.1 Billion in indirect income paid to the non-MBE supplier community. It is necessary to remember that these businesses had to hire and or maintain these employees to meet the business demands of 921 certified MBEs. The induced income is estimated to be a little more than \$906 Million bringing the total labor income effect to more than \$4.1 Billion, which equates to \$11.2 million per day.

TAX IMPACT

The tax results presented in this study represent estimates of the total tax revenues associated with the all of the business activities related to the WRMSDC certified MBEs, with the assumption of the current tax laws and policies in place. More specifically the estimated taxes are generated from the direct, indirect, and induced spending activities linked with the continued business activities of the WRMSDC certified MBE community.

It should also be noted that these direct and indirect tax estimates are the immediate taxes (e.g., sales taxes) generated by the retail sectors in the scenario. The total impact of the taxes is summarized and presented at the federal level and the state/local levels in the table below.

TAX IMPACT: Federal, State, Local

SUMMARY FOR TAX IMPACT	TOTAL	PER DAY
State/Local	\$531,597,515	\$1,456,432
Federal	\$951,254,701	\$2,606,177

Federal

Finally, more than \$951 Million in additional federal tax revenue will be created from the business activities of the WRMSDC MBEs, equating to more than \$1.4 Million each day of the year. These are tax dollars generated from businesses benefiting from the heightened economic activity and the increased employment.

State/Local

Most, if not all, state governments rely primarily on taxes to fund the public services that they provide to the individuals and businesses located in them. Given these facts it stands to reason that an economic impact study must touch on the impact that WRMSDC certified MBEs have upon the state and local tax base. As this is an aggregate look at the state and local tax impact, it goes without saying that the exact effect felt by each state will be determined by the WRMSDC certified MBEs head-quartered in the state in question.

Economic Impact by State

Economic impact analyses were conducted for Northern California, Hawaii and Nevada. It is important to note that these estimates are based on annual revenues as reported by WRMSDC annual diverse suppliers headquartered in Northern California (706 MBEs), Hawaii (38 MBEs) and Nevada (169) respectively. The economic impacts of WRMSDC expenditures with diverse suppliers in each state are presented as follows:

SUMMARY PER YEAR	Northern California	Hawaii	Nevada
Output	\$9,535,725,800	\$1,225,665,951	\$1,772,925,738
Employment	47,584	5,048	11,210
Labor Income	\$3,197,213,550	\$302,942,161	\$605,627,433
Tax Impact (local, state and federal)	\$1,166,941,420	\$118,040,103	\$197,870,693

SUMMARY AND CONCLUSION

Relevance of Minority Businesses

According to a Department of Commerce study, the minority population will contribute as much as 70% of the total increase in purchasing power between 2000 and 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 the growth and will be a major segment of the U.S. economy in the 21st century as a transition to a diverse demographic majority occurs.

Economic Impact of WRMSDC

One of the primary goals of the supplier diversity efforts of WRMSDC is to promote minority-owned business participation in the procurement process to support socio-economically challenged communities that have been historically under-represented within corporate supply chains. The empirical evidence provided by this study illustrates the significant impact that WRMSDC has on communities within its footprint as a direct result of the fulfillment of its broader supplier diversity mission.

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