



Economic Impact Report

**The Effects of NMSDC Certified Minority
Business Enterprises on the U.S. Economy**

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EXECUTIVE SUMMARY

One of the reasons most often given for major buying entities (corporations, hospitals, universities, state and local government, etc.) to have supplier diversity initiatives and engage in minority business development is that by promoting greater vendor participation, they are helping to support the economic base of the communities in which they do business. This sounds good, but is it accurate?

The answer to this question is unequivocally yes as the activities of the minority business community generate significant economic benefits for not only the local communities in which they exist, but also the nation as a whole. Unfortunately these benefits may not have been fully understood by all of the key stakeholders...until now.

Early in 2014, the National Minority Supplier Development Council (NMSDC) retained The Institute for Thought Diversity to conduct a study to assess the economic impact that the NMSDC MBE community has on the United States economy (and Puerto Rico). This impact includes the increased business activity created by the 11,978* NMSDC certified Minority Business Enterprises (MBEs), the jobs that are maintained/created as a result of this activity throughout the various sectors of the US economy, and the incremental business taxes that are generated.

The results of the study illustrate that today, NMSDC MBEs have a total economic impact of over \$400 billion dollars in output that results in the creation of and/or preservation of more than 2.2 million jobs held by persons who find themselves either directly or indirectly employed by NMSDC 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 nation as a whole. This is particularly striking at a time when unemployment is at an all-time high within many minority communities. These same minority suppliers are also generating close to \$49 billion in tax revenue for the benefit of local, state, and federal governments.

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 the minority business community will have significant, positive effects on both the United States economy in general, and each of the 50 states covered by the NMSDC in particular. Simply put, the fledgling economies of many of the states under the jurisdiction of the NMSDC 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 NMSDC, in its various iterations, has a long-standing history as a catalyst for that growth.

* The number of certified MBEs as of 8/1/14

INTRODUCTION AND PURPOSE

Minority-owned businesses have recently been growing in terms of the number of firms, gross receipts, and paid employment at a faster pace than non-minority firms nationwide. 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 and are 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 National Minority Supplier Development Council's certified minority business community has on the economy of United States. This will be accomplished by examining the economic impact of the NMSDC MBE community through the lens of job creation, income generation and tax revenue (see appendix).

METHODOLOGY OF THE STUDY

The full economic impact of the 11,978 MBEs certified by the National Minority Supplier Development Council (NMSDC) 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 NMSDC MBEs on each other and all other industries within the territory covered by the NMSDC, in this case the entire United States. This interrelatedness between and among all businesses within the NMSDC 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 NMSDC.

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 is crucial to gaining a better grasp of 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 sales employment and industry data extracted from the NMSDC certified MBEs and reflects the increased economic activity that comes from sales being generated, and expenses being incurred, by the NMSDC certified businesses.

When an NMSDC MBE generates sales, it must use a portion 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 NMSDC MBE are representative of sales to other firms who must then also purchase goods and services and hire people to meet their new demand derived from the MBE community. The additional hiring to meet this increased demand means that more people 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 NMSDC MBE sales dollars are being recycled in the community through this process of sales once again requiring additional purchases and increased employment, which result in sales for other businesses who must use that money to make their own purchases and hire additional people.

SCOPE OF THE STUDY

To qualify for and be included in the study, MBEs had to be certified and in good standing with NMSDC. The certification process usually takes anywhere from thirty to ninety days depending on the complexity of the certification application submitted by the minority business in question. Regional Minority Supplier Development Councils (RMSDC), which are affiliate councils of the NMSDC, are responsible for conducting a thorough review of the certification application in accordance with the standards and practices established by the NMSDC. Certification lasts for one year from the date of approval and as such, each application is subject to review for any material changes to the ownership and control of the company on an annual basis.

One of the primary advantages in having an independent third party in charge of the certification process is that the burden of proof that the MBEs are bona fide minority owned enterprises rests on the shoulders of the RMSDCs. Currently there are 24 regional councils authorized by the NMSDC to grant MBE certification status to the company in question. Corporations using NMSDC certified MBEs can rest assured that the company's ownership, management and operations are under the jurisdiction of one of the five minority groups designated as eligible for certification.

ECONOMIC IMPACTS

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

1

Output Effect

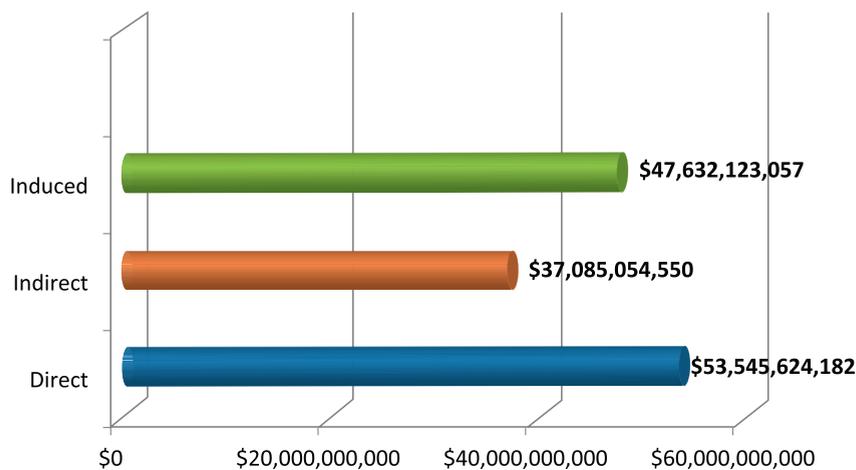
This is the most extensive measure of economic impact. It is a measure of states or revenues generated by certified MBEs.

2

Income Effect

A measure of total income generated within the NMSDC footprint by certified MBEs.

Income Effect - Salaries and Benefits
NMSDC MBEs - \$138B



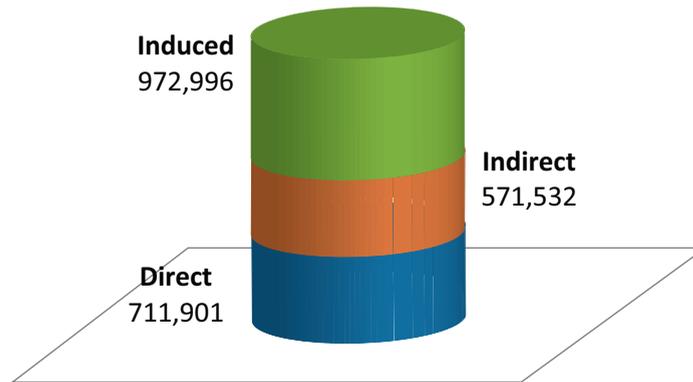
Economic Impacts (continued)

3

Employment Effect

A measure of the number of jobs created within the United States as a result of the business activities of certified MBEs.

Jobs Attributable to NMSDC MBEs
2.25M



Economic Impacts (continued)

DIRECT

The direct effect represents the impact created directly by the business activities of the 11,978 NMSDC certified MBEs. For example, if an NMSDC certified MBE opens a new production facility in a new territory and records \$5 million in sales, the direct impact of the facility is an additional sale of \$5 million. 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.

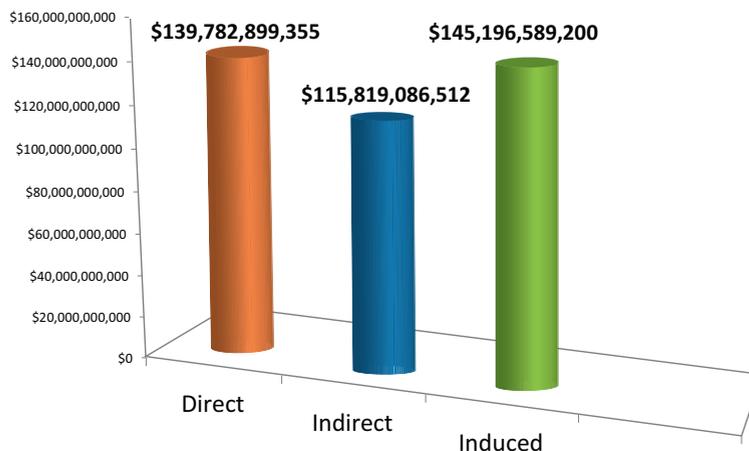
INDIRECT

The indirect impact represents business--to--business transactions. These transactions (also known as second round impacts) occur when the suppliers of NMSDC MBEs purchase goods and services from other suppliers. In the above example, if 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 NMSDC certified MBE. These business activities by the supplier are indirect in nature. It is important to note that these second round impacts would not occur if it were not for the business activities of the NMSDC certified MBEs.

INDUCED

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

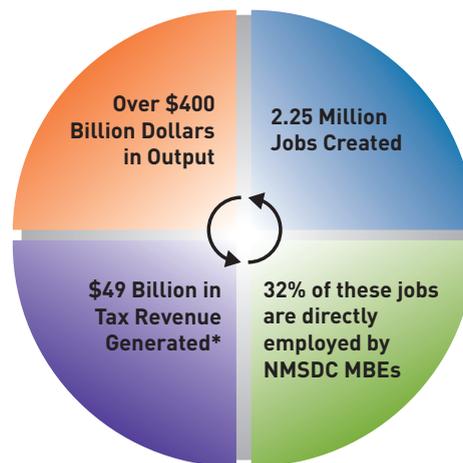
Economic Impact - Sales of Goods and Services \$401B



ECONOMIC IMPACT SUMMARY

The economic impact analysis in this study was conducted for the total expenditures of 11,978 NMSDC certified MBEs. In order to qualify for and be included in the study, the MBEs had to be certified and in good standing with NMSDC. It should be noted that this analysis based on annual revenues of NMSDC MBEs, measures the impact expected to occur each year in which such spending with the MBE community occurs.

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



Output

The overall output, or the amount of overall business activity created by NMSDC MBEs, is nearly \$401 billion, which equates to over \$1.1 billion per day. This includes the direct spending with the NMSDC MBE community ("Direct"), the amount of additional business activity created by that spending ("Indirect"), and the amount of additional business activity created by discretionary spending as a result of the incremental labor income ("Induced") (See appendix II).

Employment

There are 2,256,428 jobs that are created or maintained within the United States and Puerto Rico as a result of the activities of the NMSDC MBE community. 711,901 of these jobs or 32% are people that are directly employed by NMSDC MBEs. The remaining 1.5 million jobs would not be possible without the expenditures of either the MBE companies or their employees.

Labor Income

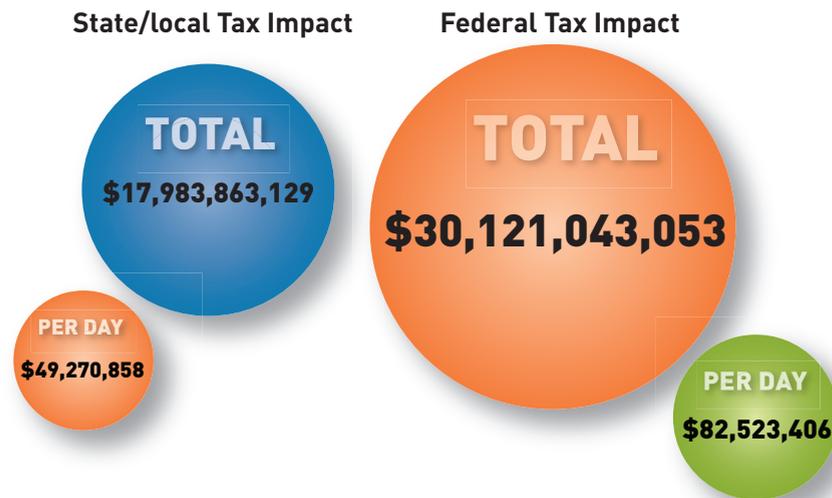
The 11,978 NMSDC certified MBEs disbursed over \$53 billion in salary, wages and benefits to the 711,901 employees as measured in direct labor income. This direct labor income served as a catalyst for the \$37 billion in indirect income paid to the non-MBE supplier community. It is necessary to remember that these businesses had to hire these additional employees to meet the business demands of 11,978 certified MBEs. The induced income is estimated to be a little less than \$48 billion bringing the total labor income effect to more than \$138 billion, which equates to \$379 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 NMSDC certified MBEs, and the assumption of 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 NMSDC certified MBE community.

It should also be noted that these direct and indirect tax estimates include 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 below:

TAX IMPACT: Federal, State, Local



Federal

More than \$30 billion in additional federal tax revenue will be created from the business activities of the NMSDC MBEs, equating to greater than \$82 million each day of the year. These are tax dollars generated from businesses benefiting from the heightened economic activity and 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 NMSDC certified MBEs have upon the state and local tax base. As this is an aggregate look at the state and local tax impact, the exact effect felt by each state would be determined by examining the impact of the local NMSDC certified MBEs head-quartered in the state, which is not in the scope of this study.

Summary and Conclusion

Relevance of Minority Business Enterprises:

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, MBE sales are growing at a rate of 34% per year, nearly twice as fast as the national average. The report concludes that MBEs are a driving force behind economic growth and will be a major segment of the U.S. economy in the 21st century as the transition to a more diverse demographic majority occurs (Tozzi, 2010).

Economic Impact of NMSDC

One of the primary goals of the NMSDC is to promote minority business participation in the procurement process in order to create economic wealth in minority business communities throughout the nation. 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 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 NMSDC. However, without the empirical evidence provided by this study, it is impossible to determine if the NMSDC is indeed successfully fulfilling its mission.

There are many programs offered in both the public and private sectors, geared toward individuals who want to start a business. Undoubtedly these programs are important and meet a need. However in terms of return on investment (ROI), this study provides indisputable empirical evidence of the significant impact of the NMSDC and its certified MBEs on national and local economies and helps distinguish NMSDC as the premiere minority business development entity versus the other noteworthy organizations. Over \$400 billion dollars in annual revenue is generated from the activities of NMSDC certified MBEs. As a result, more than 2.2 million people are actively employed both directly and indirectly by these same NMSDC certified MBE firms.

Finally the more than \$48 billion in combined local, state and federal tax revenues proves that minority-owned firms are major contributors to both their local economies as well as the overall US economy. The results are in. Sustained support of the National Minority Supplier Development Council and its 24 regional affiliates reinvigorates stagnant economies, creates sustainable jobs and positively contributes to the tax base of the United States of America.

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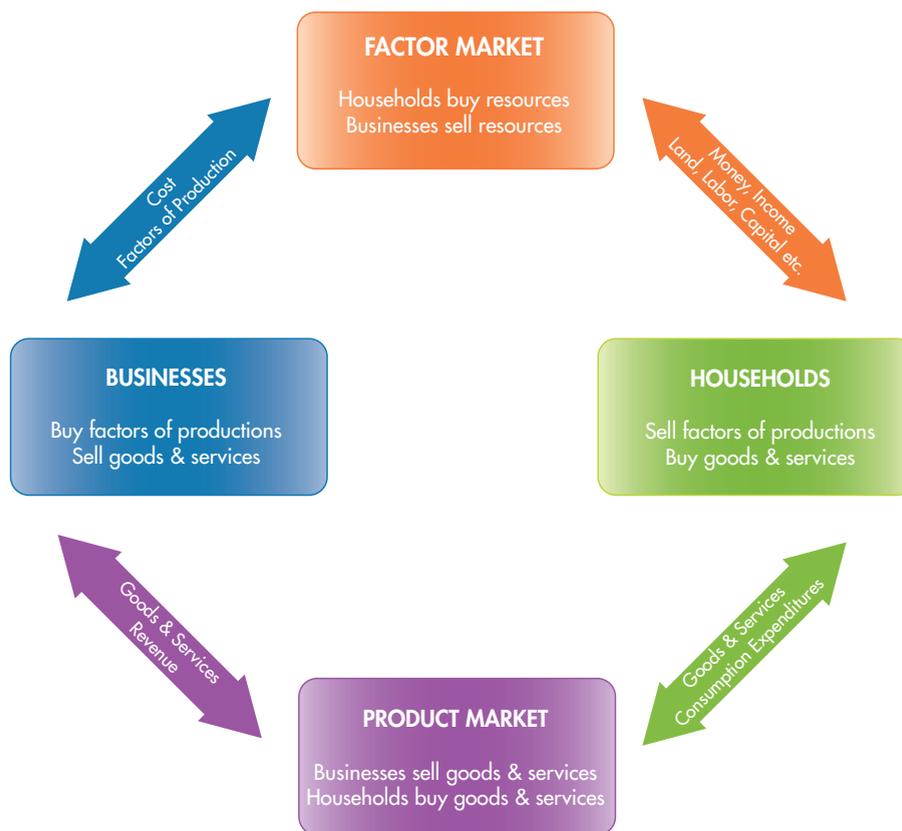
APPENDIX I

CIRCULAR FLOW OF GOODS, SERVICES AND DOLLARS

To gain a better understanding of the different elements within the US economy, it is most convenient to start with a modified version of the circular flow diagram. The diagram is invaluable for several reasons, but primarily because it allows the reader to visualize (and thus better understand) the role that NMSDC MBEs play on job creation within the US economy.

No matter where one begins within the Circular Flow Diagram, it is easy to follow the flow of dollars through the system and see exactly how it impacts the creation of jobs. Employees are compensated for their efforts in the form of wages and salaries. Wages and salaries constitute the core element of income for the majority of today's workforce. While a portion of the income the workers receive may be in the form of fringe benefits, the primary portion is usually in the form of money. Figure (1) is a diagram of the circular flow of goods and services in the free-market economy. It presents pictorially how NMSDC certified MBEs positively impact the US economy through job creation and income generation.

Figure 1: Circular Flow of Goods and Services in a Free-Market Economy



HOUSEHOLDS

Households are the consumers of goods and services that come from the product market. The households in this context are particularly relevant for two reasons. First, they create the demand for goods and services provided by the product market. Second, households provide the labor for NMSDC MBEs or any company serving as a supplier. Households may also provide other resources including, but not limited to, entrepreneurial ability. As can be seen in this example, households can be made up of consumers, MBEs or anyone providing labor, property, money or any other factors of production necessary for businesses to deliver the goods and services that households consume (Piorkowsky, 2011).

FACTOR MARKET

The factor market is a conceptual term. Whereas households (i.e. consumers) do exist, the factor market is where households go to sell their labor, land, capital and entrepreneurial talent. In reality, it does not exist. In other words, there is no single place where businesses gather to meet potential employees, lease land or borrow money directly from households.

For example, if a business needs to borrow money for working capital, the business may choose to go to a bank. The bank will lend the money the household has already deposited into the bank as part of its savings. In return for lending the money to the business, the bank will charge the company interest. The bank in turn pays the household a portion of this interest collected from the borrowing entity, in exchange for depositing their money. This, in turn, enables the bank to have a supply of funds from which to draw. From this pool of funds, the lending institution can then loan these funds to the businesses. In this case, the households are lending the prospective business money indirectly through their relationship with the bank. In reality, however, the household did not meet the company at the factor market to make the exchange (McConnell, Brue & Flynn, 2009).

BUSINESSES

This section is where the proverbial rubber meets the road, and is arguably the most important to understand conceptually. In most instances, the NMSDC certified MBE is a supplier to a corporate customer. NMSDC certified minority businesses overall are less likely to sell directly to the public (households in this scenario) although some do. As a result, most of the MBEs can be found in this category (businesses).

The role of businesses in this component of the circular flow diagram is either to produce the goods and services that will be sold by others in the product market, or to help support the infrastructure needed to maintain the product market (McConnell, Brue & Flynn, 2009).

PRODUCT MARKET AND THE CIRCULAR FLOW OF THE DOLLAR

Although not as common, it is not unheard of for NMSDC MBEs to provide goods and services directly to the public. There are a myriad staffing firms, caterers, insurance brokers, and other businesses that may also be suited to compete in the product market in this scenario. The product market is where consumers go to spend their hard earned dollars, some of which they earned as employees of NMSDC MBEs.

A percentage of the dollars collected by merchants selling their wares in the product market are used to pay expenses, including employees and suppliers. These suppliers could very well be NMSDC certified Minority Business Enterprises. These MBE suppliers use a portion of the dollars that they collect from merchants in the product market to pay wages to their employees- many of whom come from households within the US community. Employees receiving wages and salaries return to the product market to spend a percentage of dollars received as NMSDC MBE employees, and thus the cycle begins again (Pordeli & Wynkoop, 2009).

APPENDIX II

ECONOMIC IMPACT SUMMARY

The results generated from the econometric model can be seen in table format, followed by detailed explanations of the results contained therein. In order to present the most comprehensive examination of the economic impact the NMSDC MBE community has on the United States' economy, it is necessary to review the three levels of impact (direct, indirect and induced). These three levels of economic impact combine to provide the most accurate depiction of the overall total economic impact.

Direct, Indirect and Induced Impacts

The direct economic impact is derived from the revenue generated by NMSDC certified MBEs. The indirect impact comes from the purchase of goods and services made by businesses from suppliers within their supply chain. These are purchases made by the suppliers of their suppliers. The induced impact represents the dollars put back into the economy as a direct result of the consumption patterns of the employees of these inextricably interconnected businesses (MBEs, suppliers and suppliers' suppliers).

Table 1: Economic Impact Summary

| Impact Type | Employment | Labor Income | Output | Value Added |
|---------------------|--------------------|------------------------|------------------------|------------------------|
| Direct Effect | 711,900.7 | 53,545,624,182.3 | 139,782,849,555.4 | 74,133,871,943.0 |
| Indirect Effect | 571,532.2 | 37,085,054,549.6 | 115,819,086,512.4 | 61,525,090,057.8 |
| Induced Effect | 972,995.5 | 47,632,123,056.8 | 145,196,589,199.7 | 85,196,044,370.1 |
| Total Effect | 2,256,428.4 | 138,262,801,789 | 400,798,525,268 | 220,854,966,371 |

Employment Effect

As can be seen in the above table, NMSDC certified MBEs were directly responsible for the maintenance/creation of 711,900 jobs within United States. As a result of the activities of the 11,978 certified minority business owners, an additional 571,532 jobs were indirectly created to meet the business needs of the NMSDC certified MBEs. The discretionary spending habits of the employees and their families were responsible for the generation of an additional 972,995 jobs. In total the 11,978 NMSDC MBEs were responsible for the maintenance/creation of 2,256,428 jobs in United States.

Labor Income Effect

The 11,978 NMSDC certified MBEs disbursed \$53 billion in salary, wages and benefits to the 711,900 employees measured in direct labor income. These business activities and increased need resulting from those receiving the direct labor income produced \$37 billion in indirect income for the 571,532 employees of other businesses. It is important to remember that these businesses had to hire these additional employees to meet the business demands of 11,978 certified MBEs. The induced income is estimated to be a little more than \$47 billion, bringing the total labor income effect to more than \$138 billion.

Output Effect

The results of the data gathered from the 11,978 NMSDC certified MBEs indicate that certified MBEs were directly responsible for more than \$139 billion in sales of products and services offered to customers. The indirect output of \$116 billion is representative of the increased procurement required from the suppliers of NMSDC MBEs. \$145 billion in induced output is the total dollar amount of goods and services purchased by the employees and families of certified MBEs from other merchants within the United States. The total of the direct, indirect and induced effects combined make the total output effect more than \$400 billion.

Value Added Effect

The value added effect is the difference between the total output of the 11,978 NMSDC certified MBEs and the cost of their intermediate inputs. Included in the total value added effect are income coming from self-employed businesses; dividends, rent, interest, profit payments and royalties; and ultimately each individual's sales taxes flowing to and through the businesses. The sums of the direct, indirect and induced effects combine to make the total value add effect over \$220 billion (Jensen, Lambert, Menard, English & Xu, 2011).



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Scott A. Vowels, PhD is recognized as a leading expert in the field of Supplier Diversity and is a frequent speaker and panelist on industry issues. Dr. Vowels currently manages the Supplier Diversity Program for Apple and is widely known within the supplier diversity network for successfully leading both the Northern California and Alabama Minority Supplier Development Councils to national prominence as President & CEO. While leading the Alabama Council, Vowels also simultaneously operated a federal Minority Business Opportunity Center for the U.S. Department of Commerce Minority Business Development Agency.

Early in his career, Vowels managed procurement and sourcing processes for manufacturing environments within General Motors and has over 20 years of procurement and 10 years of supplier diversity experience. Before entering the corporate workforce, Vowels was on an entirely different career path and traveled extensively as a world-ranked professional tennis player. He still counts travel among his greatest passions, but when he's not on the road, Scott resides in Oakland, California.

His latest book, *Don't Be Afraid to Call the Baby Ugly* reached #1 on Amazon in both 'Supplier Diversity' and 'Minority Business' categories.