STRENGTH IN NUMBERS? LATINO REPRESENTATION AND ITS EFFECT ON LATINO-OWNED BUSINESSES

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The face of the United States is changing. By 2060, nearly 30 percent of the country is projected to identify as Latino. With this demographic shift, the strength of the United States' future economy is increasingly dependent on Latino-owned business success. The good news? Latinos are starting businesses at incredible rates. Over the past ten years, the number of Latino business owners increased by 34 percent compared to only 1 percent for all other groups. The bad news? Latino businesses are not growing at the same rate as non-Latino businesses. In fact, a 2018 report by the Stanford Latino Entrepreneurship Initiative found that if Latino businesses were to scale at the same rate as non-Latino businesses, the U.S. could add 650,000 new employer businesses and 5.3 million jobs to the economy.

If the U.S. wants a strong future economy, we must better understand Latino-owned businesses and the external forces that affect them. In an effort to understand how Latino demographic trends affects Latino-owned businesses, my colleagues and I studied how the percentage of Latinos in a county—and recent migration trends—affects Latino business ownership and growth.

Latino-Owned Businesses

Latinos are the largest ethnic minority group and compose about 18% of the U.S. population. Over the past several decades, Latinos have been a principal driver of U.S. population growth, and this is expected to continue into the future.

During this same time period, Latino-owned businesses have also increased at a rapid rate. The number of Latino-owned businesses in the U.S. has more than doubled since 1996—now totaling about 4.7 million businesses. However, Latino firms are not growing at an equivalent rate as non-Latino-owned firms. While 24 percent of all new startups and 13 percent of all businesses in the U.S. are Latino-owned, Latinos own only 6 percent of total *employer* businesses.

Past research in areas like Little Havana in Miami, Florida—an area with a strong Cuban presence—suggests that a robust Latino community can provide beneficial opportunities to Latino business owners which enable them to scale. However, few studies have researched these benefits more broadly or considered more recent demographic trends.

New Destination Migration

A critical demographic force affecting Latino-owned businesses is a phenomenon called "new destination migration." This is a demographic shift of the Latino population from established Latino destinations in states like Texas, Florida, California, and New York to "new destinations" that have experienced a large and rapid increase in Latino representation over the past several decades. New destinations are prominent in states such as North Carolina, Arkansas, Georgia, and Tennessee—all states that experienced more than 300 percent growth in the Latino population between 1990 and 2000. Although new Latino destinations lack a strong infrastructure and developed networks to fully support the Latino community, they do provide new opportunities for Latino-owned businesses due to lower levels of competition compared to communities with a well-established Latino presence.

Latino Representation and Latino Business Outcomes

My coauthors and I conducted a study of U.S. counties using the U.S. Census Survey of Business Owners, the most comprehensive database for ethnic minority business information in the United States. We tested how the percentage of Latinos in a county affected two relevant Latino-business outcomes: 1) the percentage of Latino-owned businesses in a county, and 2) the percentage of Latino-owned businesses that have at least one employee—a common barrier preventing Latino businesses from growing.

We found that counties with higher Latino percentages do, indeed, have increased percentages of Latino-owned businesses. This finding supports the benefits of a strong Latino community. However, while a higher Latino representation is associated with more Latino-owned businesses in the area, it negatively affects Latino-business growth.

When we look even deeper into demographic forces influencing Latinos, we found that in new destinations with relatively high percentages of Latinos, the opportunities outweigh the obstacles for Latino-owned businesses. In fact, these counties have roughly 5 percent higher rates of business ownership and about 2.3 percent more Latino-owned employer businesses.

Implications

When it comes to the old adage "strength in numbers," it isn't that simple for Latino-owned businesses. In areas with a high percentage of Latinos, more business opportunities exist resulting in more Latino-owned businesses. However, Latino business owners should be aware of potential growth difficulties in these areas. Based on our findings, one potential growth strategy is to expand to new Latino destinations where growth is more likely.

Further, governments should recognize the benefits of a growing Latino population. Specifically, by investing in Latino-owned businesses in their states and counties now, governments may help set up their communities for future success as the Latino population continues to grow in the U.S. The future U.S. economy is increasingly Latino, and creating ecosystems where Latino-owned businesses can form and grow will be critical for a healthy economy.

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