



# **The Economic Impact of NCMSDC Certified Minority Businesses on Northern California**

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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 a supplier diversity initiative 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?

For the first time in history, the Northern California Minority Supplier Development Council (NCMSDC) examines the economic impact of 758\* certified Minority Business Enterprises (MBEs) on 48 counties in Northern California that represent NCMSDC's footprint. Today, NCMSDC MBEs have a total economic impact of over \$11 billion dollars in output that results in the creation of and/or preservation of more than 76,000 jobs held by persons who find themselves either directly or indirectly employed by NCMSDC 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 in a time when unemployment is at an all-time high within many minority communities. These same individuals are also contributing \$687.7 million to the tax base of a state that historically struggles 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 business will have significant, positive effects on both the California economy in general and the Northern California economy in particular. Simply put, California's fledgling economy cannot reach its full and true potential unless the minority business community is growing and reaching its full and true potential.

\*This is the number of certified MBEs as of 12/31/11

## INTRODUCTION AND PURPOSE

Minority-owned businesses have been growing in number of firms, gross receipts, and paid employment nationwide at a faster pace than non-minority firms. If not for the employment growth created by minority firms, American firms (excluding publicly-held firms) would have experienced a greater job loss between 1997 and 2002. While paid employment grew by 4% among minority-owned firms, it declined by 7% among non-minority firms during this period. 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 minority business community has on the economy by examining the economic effect and impact of variables like job creation, income generation, and tax contribution.

## METHODOLOGY AND SCOPE OF THE STUDY

The economic impact of the 758 MBEs certified by the Northern California Minority Supplier Development Council (NCMSDC) was estimated using IMPLAN (IMPact Analysis for PLANing), an econometric modeling system developed by applied economists at the University of Minnesota and the U.S. Forest Service. Globally recognized as the gold standard, IMPLAN has more than 1,500 active users including clients in the federal and State government, universities, and private sector consultants (Varshney & Tootelian, 2009).

NCMSDC's Northern California footprint includes the following 48 counties:

- Alameda
- Alpine
- Amador
- Butte
- Calaveras
- Colusa
- Contra Costa
- Del Norte
- El Dorado
- Fresno
- Glenn
- Humboldt
- Inyo
- Kings
- Lake
- Lassen
- Madera
- Marin
- Mariposa
- Mendocino
- Merced
- Modoc
- Mono
- Monterey
- Napa
- Nevada
- Placer
- Plumas
- Sacramento
- San Benito
- San Francisco
- San Joaquin
- San Mateo
- Santa Clara
- Santa Cruz
- Shasta
- Sierra
- Siskiyou
- Solano
- Sonoma
- Stanislaus
- Sutter
- Tehama
- Trinity
- Tulare
- Tuolumne
- Yolo
- Yuba

To qualify for and be included in the study, MBEs had to be certified and in good standing with NCMSDC. This study examines three types of economic impacts:

1. Output Effect: The sum total of the revenue and/or sales generated by NCMSDC certified MBEs.
2. Income Effect: A measure of total income generated by NCMSDC certified MBEs within 48 counties in Northern California.
3. Employment Effect: A measurement of the total number of jobs generated by NCMSDC certified MBEs within Northern California's economy.

The econometric models generated through the IMPLAN software will also allow for the examination of the direct, indirect, induced and value added impacts in each of the above three categories. The direct, indirect and induced impacts of the above categories are combined to reflect the total economic impact of the business activity of MBEs.

- Direct Impact: The direct output effect represents the purchase of MBE goods and services by businesses in Northern California.
- Indirect Impact: The indirect effect represents business-to-business transactions. These transactions occur when the suppliers of MBEs purchase goods and services from other suppliers within the NCMSDC footprint.
- Induced Impact: Employees of both MBEs and indirectly affected businesses purchase goods and services within the NCMSDC footprint. These purchases create the second wave of economic impact commonly known as the induced effect.

One additional category of economic data that IMPLAN provides is Value Added. Four components comprise Value Added:

- Employee compensation
- Proprietors' income
- Other property type income
- Indirect business taxes

## 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 NCMSDC MBE community has on Northern California's 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 NCMSDC 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). The direct employment and sales data were taken directly from the documentation accompanying the certification applications each NCMSDC certified MBE submitted when applying for designation as a NCMSDC certified Minority Business Enterprise.

The secondary economic impact related to the market activities of NCMSDC MBEs can be found in the indirect and induced effects. These secondary effects are the direct result of the multiplier effect which occurs when the MBE owners and their employees use their wages and salaries to purchase goods and services from other businesses within the NCMSDC footprint.

The data input into IMPLAN from NCMSDC certified MBEs included annual revenues and number of employees for each business. The multiple regression models within the software allowed for the calculations of total output, income, employment and value added effects, the results of which can be seen below in Table 1.

**Table 1**  
**Economic Impact Summary**

<b><u>Impact Type</u></b>	<b><u>Employment</u></b>	<b><u>Labor Income</u></b>	<b><u>Output</u></b>	<b><u>Value Added</u></b>
Direct Effect	44,504	\$2,763,242,621	\$6,082,299,863	\$3,708,483,824
Indirect Effect	12,491	\$757,678,848	\$2,235,985,390	\$1,279,617,640
Induced Effect	19,315	\$1,007,320,861	\$2,989,726,645	\$1,827,148,786
<b>Total Effect</b>	<b>76,310</b>	<b>\$4,528,242,330</b>	<b>\$11,308,011,898</b>	<b>\$6,815,250,250</b>

### **Employment Effect**

As can be seen in the above table, NCMSDC certified MBEs were directly responsible for the creation of 44,504 jobs within Northern California. As a result of the activities of the 758 certified minority business owners, an additional 12,491 jobs were indirectly created to meet the business needs of the MBEs. The discretionary spending habits of the employees were responsible for the generation of an additional 19,315 jobs. In total the 758 certified NCMSDC MBEs were responsible for the creation of 76,310 jobs in Northern California.

### **Income Effect**

The 758 NCMSDC certified MBEs disbursed \$2.8 billion in salary, wages and benefits to the 44,504 employees measured in direct labor income. This direct labor income produced \$757.7 million in indirect income to the 12,491 employees of other businesses. It is necessary to remember that these businesses had to hire these additional employees to meet the business demands of 758 certified MBEs. The induced income is estimated to be a little more than \$1 billion, bringing the total labor income effect to more than \$4.5 billion.

### **Output Effect**

The results of the data gathered from the 758 NCMSDC certified MBEs indicate that the minority business enterprises were directly responsible for more than \$6.1 billion in sales of their products and services offered to customers. The indirect output effect of \$2.2 billion is representative of the procurement efforts of the suppliers of NCMSDC MBEs. This is the additional amount of goods and services needed to meet the increase in demand coming from the MBEs. The \$2.9 billion induced output effect is the total dollar amount of goods and service purchases made by the employees of NCMSDC certified MBEs from other merchants within Northern California. The total of the direct, indirect and induced effects combine to make the total output effect \$11.3 billion.

## Value Added Effect

The value added effect is the difference between the total output of the 758 NCMSDC certified MBEs and the cost of their intermediate input. Included in the total value added effect are the wages paid by MBE owners to employees; 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 sum of the direct, indirect and induced effects combine to make the total value added effect \$6.8 billion (Jensen, Lambert, Menard, English & Xu, 2011).

## TAX IMPACT

California has over 37 million residents and is the eighth largest economy in the world. It exhibits tremendous economic and demographic variation and has substantial and diverse demands in such areas as education, health care, and infrastructure. It is not surprising, therefore, that its public sector is one of the largest and most diversified in the world. Like most governments, California relies primarily on taxes to fund the public services that it provides to its individuals and businesses. California’s state and local governments raise well over \$200 billion annually in revenues to provide public services, with roughly 60% of this from taxes (Ingenito, O'Malley, Stanley, Taylor & Vasche, 2007).

Given these facts it stands to reason that an economic impact study must touch on the impact that NCMSDC certified MBEs have upon the California tax base. Table 2 details the additional \$687.7 million in tax revenue generated for the California Government from Employee Compensation, Proprietor Income, Indirect Business Taxes, Households, and Corporations based on the modeled impact by the 758 NCMSDC certified MBEs. It should be noted that these tax types are combined and cannot be separated into state vs. local within the IMPLAN software.

*Table 2*  
**State/Local Tax Impact**

<b>Description</b>	<b>Employee Compensation</b>	<b>Indirect Business Tax</b>	<b>Households</b>	<b>Corporations</b>
Dividends				\$52,205,717
Social Insurance Tax- Employee Contribution	\$5,794,783			
Social Insurance Tax- Employer Contribution	\$14,393,500			
Indirect Business Tax: Sales Tax		\$187,584,469		
Indirect Business Tax: Property Tax		\$210,228,772		
Indirect Business Tax: Motor Vehicle License		\$4,304,158		
Indirect Business Tax: Other Taxes		\$36,897,365		
Corporate Profits Tax				\$25,956,436
Personal Tax: Income Tax			\$110,223,949	
Personal Tax: NonTaxes (Fines-Fees)			\$32,751,594	
Personal Tax: Motor Vehicle License			\$5,115,955	
Personal Tax: Property Taxes			\$2,193,493	
<b>Total State and Local Tax</b>	<b>\$20,188,283</b>	<b>\$439,014,764</b>	<b>\$150,284,991</b>	<b>\$78,162,153</b>

## 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, MBE sales are growing 34% a year, twice as fast as the national average. The report concludes that MBEs 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).

Small businesses in California account for 99.2% of all employer firms and in essence drive the economic engine of the State. Ensuring the success of minority business, the fastest growing segment of small business, will have significant positive effects on both California in general and the Northern California economy in particular. Simply put, California's economy cannot grow and prosper unless minority businesses are growing and prospering.

### Economic Impact of NCMSDC

One of the primary goals of NCMSDC is to promote minority business participation in the procurement process in order to create economic wealth in minority business communities in Northern California and the nation. However without the empirical evidence provided by this study, it was impossible to know if NCMSDC is indeed successful in fulfilling its mission. The purpose of this study, therefore, was to assess the economic impact of NCMSDC on Northern California's economy.

There are many programs offered in both the public and private sectors, many of which are geared toward individuals who want to start a business. There is no doubt that these programs are important and meet a need. The results are in, and the empirical evidence is indisputable. Over \$11.3 billion dollars in annual revenue comes from the activities of NCMSDC certified MBEs. As a result, more than 76 thousand people are employed directly and indirectly by these same firms. Finally the \$687.7 million in various tax revenues gained by California again proves that minority-owned firms are not a small, niche market but major contributors and players in both Northern California's economy and the overall US economy. If the question is "how do we reinvigorate a stagnant economy, create sustainable jobs, and positively contribute to the tax base?" then the answer is evident: support the Northern California Minority Supplier Development Council.

**If you would like a complete copy of the Economic Impact Study in its entirety (over 30 pages), please visit the NCMSDC website at [www.ncmsdc.org](http://www.ncmsdc.org).**

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