

DRIVING GROWTH ECONOMIC EQUITY

2023 ECONOMIC IMPACT REPORT



Pacific Southwest
Minority Supplier
Development Council



ABOUT PSWMSDC

Pacific Southwest Minority Supplier Development Council (PSWMSDC) is the regional affiliate of the National Minority Supplier Development Council (NMSDC). We serve ethnic minority businesses in Arizona and San Diego County. Our certification is recognized nationally. PSWMSDC connects certified Minority Business Enterprises (MBEs) with corporate members representing many of America's largest publicly and privately owned companies. Our certified MBEs are part of a vast network of more than 1,700+ national corporate members and over 15,000+ certified MBEs.

Our Mission

The mission of PSWMSDC is to grow MBEs by providing certification, advocacy, development, and connections which directly contribute to business success.

Our Vision

The vision of PSWMSDC is to become the innovative leading organization in the NMSDC network by serving as a vital resource to our MBEs and corporate members with a focus on driving reductions in the economic disparity gap and positively impacting the communities we serve.

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FOREWORD

Economic Impact of Certified Minority Business Enterprises (MBEs)

Our task with PSWMSDC's first Economic Impact Report was to measure key characteristics of certified minority business enterprises in over 50 communities across Arizona and San Diego County ... and show that those metrics matter.

This report is a testament to the idea that "counting what counts" changes perspectives and perceptions. For example, 76% of the employees and contractors of PSWMSDC-certified MBEs are non-white. It's a significant statistic, but compared with nationwide non-white employment of just 22%, the number is startling.

MBEs also have a dramatic multiplier effect on the economic prosperity of their communities where they impact not just employment, but also personal income and tax revenues.

While they have always shown tremendous resilience and grit in the face of competitive pressures, economic downturns, and technological upheaval, MBEs were especially affected by the challenges of the recent pandemic. While most have rebounded and are thriving, our research shows that many are still recovering from its effects.

So, while this report does highlight past successes, its focus is squarely on the future. The fact is, there is still much work to be done. Work that counts. Work that matters.

Patricia Crenshaw

President and CEO
Pacific Southwest Minority Supplier
Development Council



The U.S. continues to struggle to level the playing field towards racial equity across many socioeconomic areas. Disparities between minority entrepreneurs and the broader economy persist. Access to capital, lower rates of home ownership and wealth accumulation, and a greater need for technical assistance remain the key areas to address. The pandemic placed these glaring disparities front and center in the American discourse, bringing increased awareness and growing impetus for action.

THE CHALLENGES OF MINORITY-OWNED BUSINESSES

IMPACT

As of June 2023, 368 businesses were minority business enterprises (MBE)-certified and in good standing through the Pacific Southwest Minority Supplier Development Council (PSWMSDC). These companies have a significant impact on their respective local and regional economies, employing 16,940 employees and 62,708 contract workers, and generating over \$13.4 billion¹ in revenue in 2021².

Data indicates that, on average, San Diego Metro MBEs are larger in scale relative to their Arizona counterparts. Although Arizona is home to 55% of PSWMSDC-certified MBEs, the state accounts for just 40% of employees and contract workers and 43% of revenue. Most PSWMSDC MBEs are in the Phoenix and San Diego metropolitan areas, but MBEs can be found in over 50 communities across Arizona and San Diego County.

	MBEs	TOTAL EMPLOYEES AND CONTRACTORS	MINORITY EMPLOYEES AND CONTRACTORS	% MINORITY EMPLOYMENT AND CONTRACTORS	ANNUAL REVENUE 2021
ARIZONA	203	33,232	29,845	90.1%	\$1.5 BILLION
SAN DIEGO METRO	165	48,560	32,344	66.6%	\$11.9 BILLION*
TOTAL	368	81,792	62,289	76.2%	\$13.4 BILLION

Source: PSWMSDC, 2023

*A single outlier company based in San Diego Metro contributed \$10 billion.

As the table above illustrates, MBEs are key drivers of minority employment. **The vast majority (76%) of PSWMSDC MBE employees and contractors are non-white, compared to nationwide employment where just 22% of the employed workforce is non-white³.**

¹\$10 billion of the combined \$13.5 billion in revenue was generated by a single San Diego Metro-based company. For subsequent revenue analyses in this report, the outlier data point has been omitted to better reflect MBE data trends and protect the privacy of the individual business.

²2021 is the most recent year for which PSWMSDC has complete MBE revenue data.

³U.S. Bureau of Labor Statistics Current Population Survey (CPS), 2022.

DEMOGRAPHICS

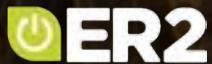
The diversity of PSWMSDC MBEs is reflective of the increasingly diverse population of the region PSWMSDC serves. Hispanic-owned businesses are well represented among MBEs. However, there are significant discrepancies between representation and revenue share, particularly for Black- and Native American-owned MBEs.

Black Americans make up 14% of non-White residents in Arizona and San Diego Metro⁴. In comparison, Black-owned companies are well-represented among PSWMSDC MBEs, accounting for 25% of companies. However, these companies accounted for just 6% of reported revenue among MBEs in 2021.

Along similar lines, Native Americans make up 11% of the non-white population in Arizona and San Diego Metro, yet Native American-owned companies make up just 5% of PSWMSDC MBEs and 5% of their revenue. In contrast, Asian Indian-, Asian Pacific-, and Hispanic-owned companies account for an outsized proportion of MBE activity, making up a combined 59% of MBEs and 76% of revenue.

⁴U.S. Census Bureau. 2021 American Communities Survey (ACS).

	MBEs	% OF MBEs	REVENUE 2021	% OF ANNUAL REVENUE
ASIAN INDIAN	43	12%	\$468,307,766	13%
ASIAN PACIFIC	40	11%	\$655,729,728	19%
BLACK	90	24%	\$216,082,433	6%
HISPANIC	176	48%	\$1,982,765,494	57%
NATIVE AMERICAN	19	5%	\$171,386,147	5%
GRAND TOTAL	368	100%	\$3,494,271,568	100%



Electronic Responsible Recyclers (ER2)
Mesa, AZ Est. 2010 MBE Certified since 2017

ER2 is a technology procurement, installation, and recycling services firm founded with the core values of constant improvement, service, humility, and relentless pursuit of excellence. Founders Chris Ko and Rick Krug wanted to start a business that welcomed and loved people for who they are and helped them reach their potential. Over the last 13 years, ER2 has grown into a successful business services and technology firm with over 100 employees across 8 locations and average year-over-year revenue growth of 35%.

"Helping build ER2 has been one of my greatest honors, because I get to witness everyday the power of believing and encouraging the human spirit and what that does for all of us. We get the unimaginable blessing of seeing people for who they are and who they have been created to be and it is truly magnificent. My hope for anyone who engages with ER2 in any way is simply this—that they feel special and valuable, because they ARE!"

— Chris Ko, CEO and Co-Founder, ER2

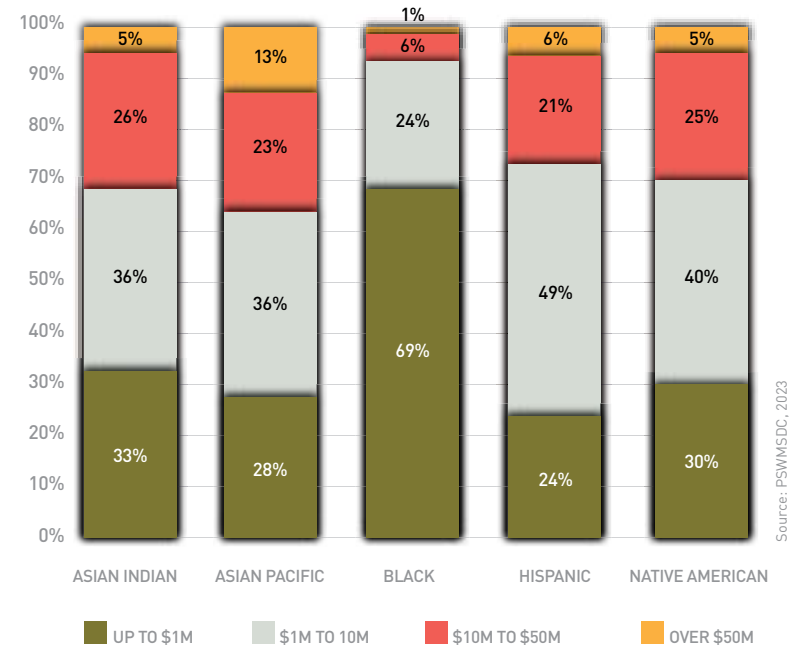
BLACK-OWNED BUSINESSES CONTINUE TO STRUGGLE

Digging deeper into the data yields further evidence that the Black business community continues to face persistent challenges. These businesses, on average, generate less revenue and are significantly younger than their peer minority-owned businesses. This could indicate a flourishing renaissance of Black entrepreneurship in recent years. However, evidence shows that Black Americans continue to have the lowest rates of entrepreneurship of any racial or ethnic demographic⁵. Therefore, a more likely explanation is that Black-owned MBEs are far more likely to face barriers as they attempt to scale.

The graph shows the breakdown of PSWMSDC MBEs by their annual revenue category. The revenue category distribution is consistent across nearly all owner ethnicities. However, a disproportionate number of Black-owned MBEs—69%—falls into the “up to \$1 million” category compared to a sample-wide average of 37%. Black-owned businesses are significantly younger than their counterparts, with a median age of seven years compared to 12 years for other MBEs.

⁵ Fairlie, Robert (2022). National Report on Early-Stage Entrepreneurship in the United States: 2021, Kauffman Indicators of Entrepreneurship, Ewing Marion Kauffman Foundation: Kansas City.

REVENUE CATEGORY BY OWNER ETHNICITY

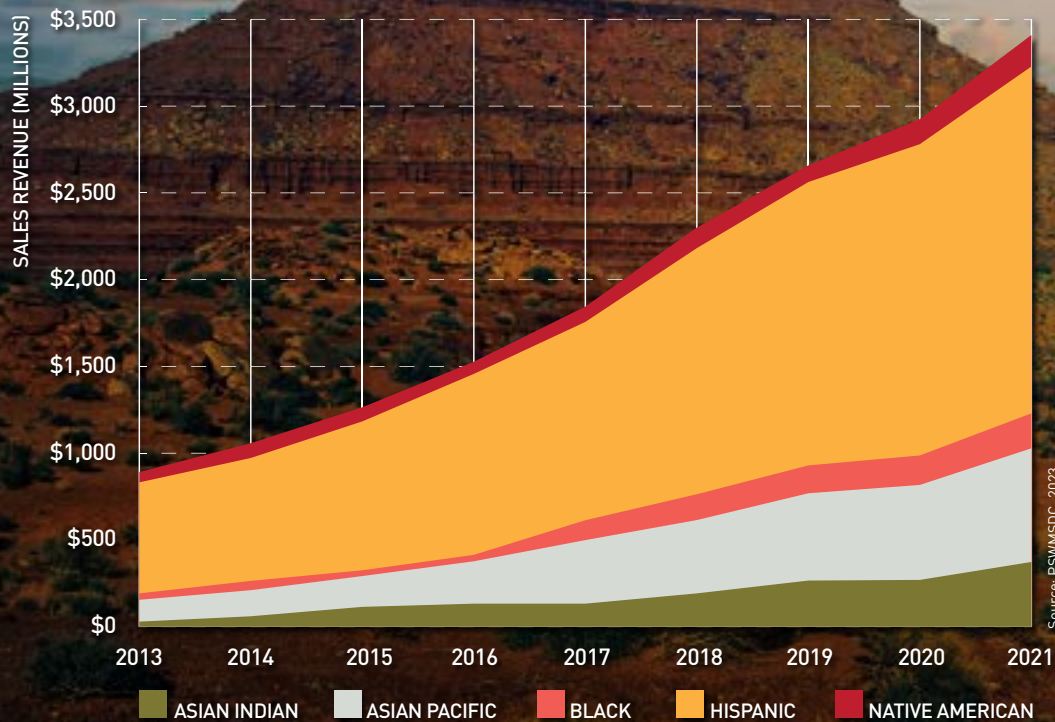


Source: PSWMSDC, 2023

OWNER ETHNICITY	LENGTH OF TIME IN BUSINESS (YEARS)
ASIAN PACIFIC	12.5
HISPANIC	12.5
ASIAN INDIAN	11.5
NATIVE AMERICAN	11
BLACK	7
COMBINED	11



REVENUE OF CERTIFIED MBES



REVENUES

Certified MBEs have seen significant revenue growth over the last decade. In 2013, MBEs combined for just under \$1 billion in annual revenue. Over the next eight years, these firms sustained an average annual revenue growth rate of 18%, reaching a combined \$3.4 billion in revenue in 2021⁶.

A look at the annual revenue categories of MBEs shows remarkable stability and growth. In the same timeframe, no less than 182 out of 368 MBEs recorded increased annual revenues that bumped them into a higher revenue category while just five reported a shift into a lower revenue category.

REVENUE CATEGORIES 2021

		UP TO \$1M	\$1M TO \$10M	\$10M TO \$50M	OVER \$50M	GRAND TOTAL
REVENUE CATEGORIES 2013	UP TO \$1M	133	113	39	8	293
	\$1M TO \$10M	3	31	14	1	49
	\$10M TO \$50M		1	12	7	20
	OVER \$50M			1	5	6
	GRAND TOTAL	136	145	66	21	368

Green highlighted cells indicate businesses that moved into a higher revenue category.
Red highlighted cells indicate businesses that moved into a lower revenue category.

⁶ The \$3.4 billion in revenue does not include the \$10 billion in revenue generated by a single outlier company.

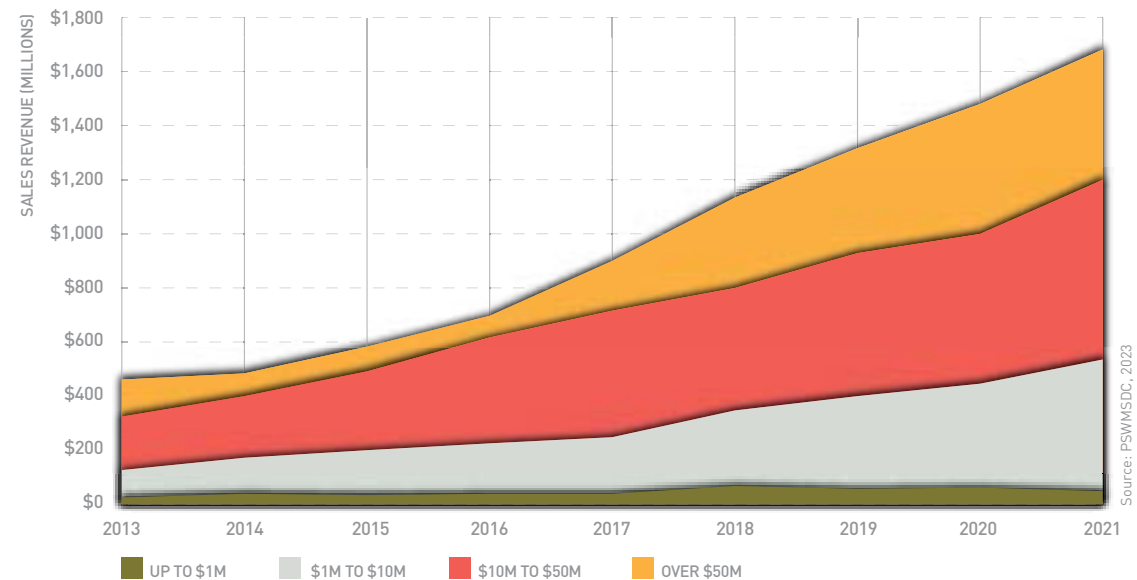
Source: PSWMSDC, 2023

Source: PSWMSDC, 2023

IMPACTS OF COVID-19

MBEs were certainly resilient, but likely not immune to the impacts of the pandemic. All but one revenue category has notched consistent growth over the past decade. Companies with annual revenues of \$1 million or less have struggled to break into the next category. Annual revenues in this category have been largely flat, with moderate swings from year to year. However, since 2018, cumulative revenues in this category have been on a steady decline. It is difficult to ascertain the cause(s) of this recent trend, although it's highly possible that the pandemic contributed to the downward pressure on revenues in 2020 and 2021.

ANNUAL REVENUE BY REVENUE CATEGORY



Escondido, CA Est. 2006
MBE Certified since 2008

Diversified Hospitality Solutions is one of North America's largest suppliers of amenities, accessories, and eco-friendly wellness products for the hospitality industry. After a 35-year career with the U.S. Navy, founder David Garcia, his wife Erin Garcia, and business partner Mark Cole, started Diversified Hospitality Solutions out of the family home, leveraging strategic partnerships and opportunities presented by PSWMSDC and other organizations to drive success.

"Through persistence, exceptional customer service, knowledgeable partnerships, and God's blessings, we've expanded our infrastructure and staff throughout our 16-year journey. We're especially proud of being able to contribute to the global economy by employing people, paying taxes, and satisfying customer demands and expectations."

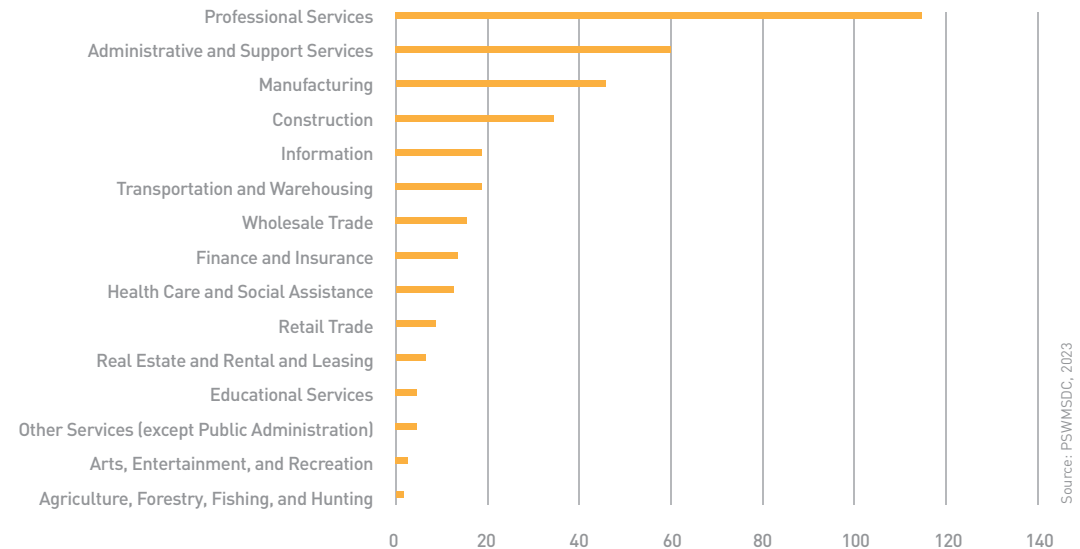
— David Garcia, Co-Founder, Diversified Hospitality Solutions

INDUSTRIES

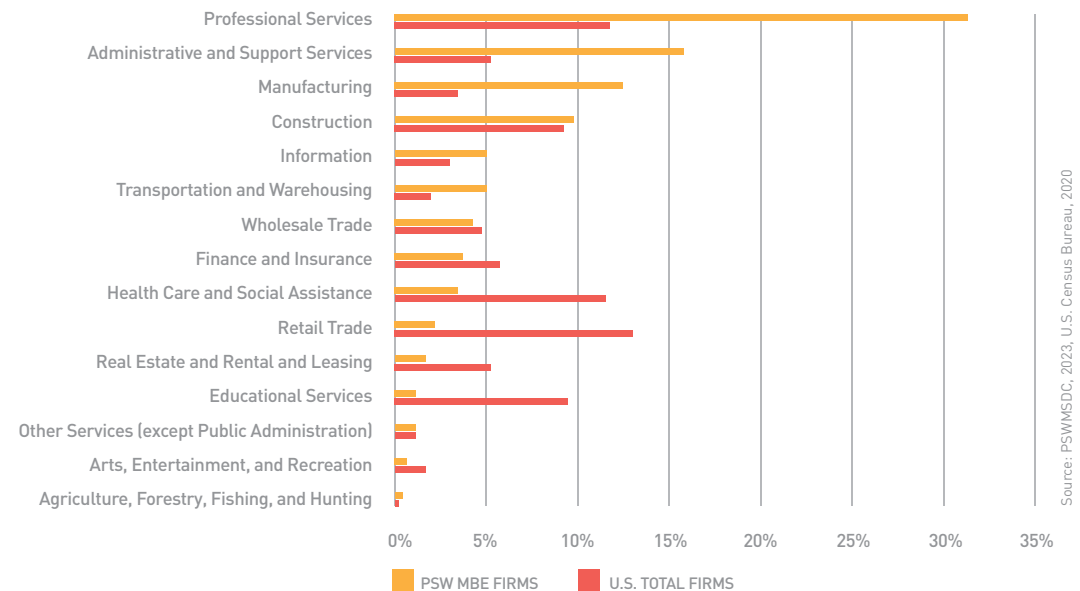
The pandemic resiliency of MBEs can be partially attributed to their industry composition, which differs significantly from those of the national business ecosystem and other demographic segments. MBE companies tend to be “B2B” (business-to-business) product suppliers and service providers as opposed to consumer goods. Consequently, they are highly concentrated in some industries—such as professional, administrative and support services, manufacturing, and information—that were highly resilient to the effects of the Covid-19 pandemic.

Companies in these sectors also provide significant multiplier effects for their local economies. MBEs are key drivers of regional employment, personal income, and tax revenues, contributing to the overall economic prosperity of their communities.

NUMBER OF MBEs BY INDUSTRY



PERCENTAGE OF COMPANIES BY SECTOR



PARITY

Discrepancies remain between minority-owned employer companies and the broader business ecosystem. On average, minority-owned employer companies in the U.S. have less than half of the employees and just 25% of the payroll expenses of the average company. Similar disparities exist for Arizona and San Diego Metro. These disparities can be attributed to several factors including the industry distribution of minority companies, unique barriers to attaining capital needed to scale, and other technical or knowledge-based challenges.

However, PSWMSDC MBEs shatter these data trends, boasting an average employment that is more than double the typical employer company. Additionally, revenues of MBEs are on average 41% higher than the typical U.S. employer company. The success of PSWMSDC certified MBEs demonstrates the economic value of efforts to support startups and SMEs from traditionally underserved communities.

	AVERAGE EMPLOYEE COUNT	AVERAGE ANNUAL REVENUE
NON-WHITE COMPANIES (U.S.)	9	\$1,413,323
ALL COMPANIES (U.S.)	22	\$6,711,742
PSWMSDC MBEs	52	\$9,495,303

Source: PSWMSDC, 2023; U.S. Census Bureau, 2020. Average annual revenues are calculated using 2020 revenue data. MBE employment average is based on aggregate employment totals excluding contract workers.

The untapped potential of underserved businesses is staggering. According to the latest Census data, 38% of U.S. citizens are non-white. Yet just 20% of U.S. employer companies are minority owned. Additionally, these companies, on average, employ half the staff and contribute just 25% of the payroll of the typical U.S. company. If minority-owned businesses accurately reflected the demographic composition of the broader population, the U.S. would have an additional 1.2 million minority-owned employer companies that employed an additional 40.3 million workers, contributed an additional \$2.3 trillion in payroll, and generated an additional \$13.4 trillion in annual revenue.

PSWMSDC'S IMPACT

For **30** years, the PSWMSDC has pursued entrepreneurial equity by providing technical assistance and professional development services for underserved minority-owned businesses.

Over the last **3** years, PSWMSDC has grown.
We have increased the number MBEs by **62%** and corporate members by **75%**.

Annually we have connected more than **3,500** MBEs to business opportunities and hosted over **85** connection and educational events. As of June 2023, approximately **105** MBEs pitched their businesses to corporate members and other MBEs through Cultivate & Pitch, a PSWMSDC program that prepares them to present to supplier diversity professionals, corporate end-users and other potential clients.



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