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Hispanic-Owned Businesses in West Michigan¹

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Many vibrant neighborhoods in West Michigan have large, growing Hispanic populations. In fact, Hispanics are one of the fastest growing segments of West Michigan's population, due to high immigration and birth rates. According to the U.S. Census, over 94,000 Hispanics lived in Kent, Ottawa, Muskegon, and Allegan Counties in 2006—a little more than 7% of the total population—and that population has doubled since 1994. But the population of Hispanic individuals is not all that is growing. The number and variety of Hispanic-owned or Hispanic-focused businesses in Kent County is also increasing, evidenced by block after block of colorful retail storefronts on south Grandville Avenue (a.k.a. “Cesar E. Chávez Boulevard” for the legendary leader of migrant workers), on the west end of Bridge Street, and on South Division to 44th Street. There you will find an array of stores and services, from accountants and beauty shops to restaurants and supermarkets, most of which appear to be targeted to Spanish-speaking customers.

Hispanic-owned businesses are growing quickly in the United States, in Michigan, and in West Michigan. According to the U.S. Census, between 1997 and 2002, the number of Hispanic-owned businesses in the U.S. grew 31%: three times the national average for all businesses. Hispanics owned 1.6 million nonfarm U.S. businesses in 2002, employing 1.5 million people and generating \$222 billion in revenues. This represents nearly 7% of all nonfarm businesses in the U.S., 1.4% of employment, and 1% of receipts. Of the 50 states, Michigan was 16th in the number of Hispanic-owned businesses (over 9,800), and 12th in sales (over \$3.1 billion) by Hispanic-owned businesses. This represents about 1.3% of all firms in Michigan. Hispanic-owned firms in the state employed almost 16,000 people.

In 2002, there were about 1,400 Hispanic-owned firms in the West Michigan Combined Statistical Area (WMCSA) that generated \$163 million in sales. But little else is known about the nature and characteristics of Hispanic-owned businesses in this area. This paper reports results of a preliminary study of Hispanic-owned businesses in Kent County. It describes some interesting characteristics about these businesses: how they began, with what kinds of resources, how large they are, how successful they are, who they employ, and characteristics of the people who own them.

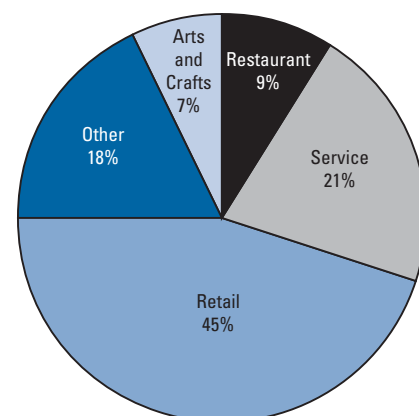
The project began in February 2007 as a partnership with the West Michigan Hispanic Chamber of Commerce, GVSU's Small Business and Technology Development Center, and the

International Business Program at GVSU's Seidman College of Business. We conducted over 100 interviews with owners of Hispanic businesses in West Michigan to determine how Hispanic-owned firms in West Michigan were founded, in what industries, how they are financed, what knowledge, experience, skill, and other resources they brought to the table, and what markets they serve. The interviews were conducted in Spanish by GVSU students who are native Spanish speakers, at the owner's place of business. The questionnaire was first tested on 20 business owners, modified to correct errors, and then used in interviews with the other 80 respondents.

Two of the most striking findings are that these firms are quite young and very small. Nearly half of the Hispanic-owned firms started four years ago or less. Most of them are family-owned firms, but most report no employees aside from the owner. Sales are relatively low, with nearly half reporting annual revenue of less than \$48,000. Most owners started their businesses with their own savings. Given that Kent County's population has declined and has lost about 10,000 jobs since 2000, this suggests that this robust new business start-up rate may be driven by a lack of alternative jobs and a strong need to provide some supplemental, if not primary, income for the owners' families. Some firms reported strong growth in the past few years, but most are not growing as they would like. Although a significant number of business owners have college degrees and claim to have an acceptable or good command of English, over three-quarters report less than \$100,000 in assets.

Another interesting finding is that the majority of Hispanic-owned businesses (nearly 45%) are retail operations, followed by services (about 21%). Only a small percentage (8%) is restaurants, perhaps contrary to a stereotype that restaurant is the most prevalent type of business owned by Hispanics (see Figure 1). Other results of the study are summarized below.

Figure 1 Type of Hispanic-Owned Business



¹ Thanks to GVSU students Andrés Ortiz, Orlando Bonifacio, Selene Lacayo, Adriana Piñeda, Ben Warolin, and Dennis Glandon for their help conducting interviews, coding, and entering data.

Age and Ownership

Most Hispanic-owned businesses are young, with 45% of them four years old or less, and another 28% between four and eight years old. Nearly 98% are family owned businesses, and 99% were started by the current owners, thus they are first generation businesses. When asked about succession planning, over 66% of owners said that when he or she retired from the business, a family member would take over the business. Yet, another 30% said they had no succession plan. Only one percent said that the business would likely be sold when they retired.

Types of Hispanic-owned businesses

Most of the businesses—nearly 45%—operate in the retail industry, including grocery, clothing, and other non-clothing items. The next largest segment is services, at about 21%, which include tax, accounting, and other services such as beauty salons. Only 8.5% of the businesses are restaurants, 7.5% sell arts and crafts items, and the remaining 18% declared “other.”

Firm size

Number of employees

Over 60% reported that they employed either none or just one employee, suggesting that most business owners are self-employed. Only a very small number hired more than ten employees: only 5.7% hired between 10 and 25 employees, and only 4.3% hired between 25 and 135 employees. When asked about paid employees, 50.5% reported they paid none, and 13.5% pay one person. Over 19% pay between 2 and 5 people, and 17% pay between 5 and 135 people. Most employees are of Hispanic origin, including those in firms with a relatively large number of employees. Surprisingly, 44% reported that no other family members worked in the business. Just over 38% said one or two family members worked in the business.

Sales and Assets

These businesses are quite small. About half of the firms generate less than \$48,000 in annual sales, and 20% generate \$12,000 or less, suggesting that these businesses may be a supplemental source of family income. Over three-quarters, or 76.4%, have less than \$100,000 in assets. Just over 19% have between \$100,000 and \$1 million in assets, and only 4.5% are worth more than \$1 million. We compared sales and assets and found that firms with greater assets were associated with stronger sales figures. We also compared English language ability with assets and found that firms with greater assets were associated with owners with better English language ability.

Financing the Business

Over 89% said they used their own savings to start their businesses, compared with only 4.3% who used bank financing. Another 2% used other funds such as capital from outside investors. Perhaps not surprisingly, owners of firms with the smallest asset value were those who used their savings to start them. A few firms with small asset value

started their businesses with bank financing, but this suggests that bank financing did not help them grow. Interestingly, three firms with quite high asset levels—between \$1 million and \$2.5 million—were started with the owners’ savings. The firm with the highest asset value used “other” funding to start the business, presumably capital from external investors.

Organization of the Business

Most businesses (81%) are organized as sole proprietorships, further supporting the finding that most business owners are self-employed. Just 17% of the businesses are incorporated, either as inc. (9.5%) or as limited liability corporations (7.5%).

Social factors

Educational level

Among the business owners interviewed, 35.6% did not complete high school, and 20.7% achieved a high school education only. On the other hand, 43% studied some college, and 26.5% earned associates, bachelors, or graduate degrees. This is particularly interesting, given that only 14.1% of Hispanics in the WMCSA have college degrees (compared with 38.4% of the general population). Curious as to the possible relationship between educational, asset, and sales levels, we found that education was not associated with greater assets. However, there was a strong positive correlation between education and sales. This may suggest that as business owners attain a higher level of education, they become more risk averse and reluctant to make investments in fixed assets. However, the better educated they are, the more effective and motivated they are at selling.

English language ability and clientele

Nearly 80% of Hispanic business owners report that they speak English “well” (49%) or “OK” (30%), and 20% say they speak it poorly. Over half of the business owners say that 90 to 100% of their clients are Hispanic. They also serve other clients, including African-Americans, Asians, Caucasians, and others, but the numbers of these clients are surprisingly low given the diverse ethnicity of the populations that live in the neighborhoods in which the businesses are located.

Success factors

When asked to what they attribute the success of their business, 78% of owners said that their success was due to micro or internal, firm-level factors under their control, such as honesty, understanding their customers, quality products, quality service, and good prices. This response is typical of entrepreneurs who tend to attribute their business success to their own choices and initiatives. It also suggests that these owners belong to social networks unique to Hispanics that lead to financing, customers, suppliers and other advantageous relationships. Only 9% attributed their success to the economy, and 2% to the presence of other businesses nearby.

Limits to growth

While the numbers of Hispanic-owned businesses and Hispanic consumers in West Michigan are growing, the

individual businesses may not be experiencing strong growth. Most have not borrowed money commercially, suggesting they have limited experience dealing with commercial banks, and probably no credit history. In addition, many businesses are in high risk industries, such as retail. This can make it difficult for them to obtain commercial loans for legitimate expenses such as long-term assets. Jorge González of Macatawa Bank says traditional banking practices may ignore the fast-growing Hispanic market. “There is a need for more flexible banking guidelines so we can serve these companies,” he said. “We have to educate our banks about the unique characteristics of these potential customers.” On the other hand, Hispanic businesses are not likely to use accounting, marketing, legal, and other business support services. Owners often do not look for help in these areas: they may be unaware of what is available, feel intimidated by professionals, or not know how to find the right consultant or specialist.

Frank Coronado, past president of the West Michigan Hispanic Chamber of Commerce, thinks more research is needed to determine how successful these businesses are, because they are important to business growth in the region. “We need to help Hispanic business owners grow their businesses more aggressively, leverage their assets, and look for expert help when they need it,” he said. Tom Almonte, City of Grand Rapids’ Supplier Diversity officer, agrees. “The City can change its policies and practices. If we know what services people use most often, we’ll work to improve them,” he remarked.

“Suppose Hispanic business owners need special help on zoning matters, but that most help is available only in English. We can then justify an effort to deliver services in Spanish.” Coronado notes, “Hispanic businesses are the foundation of the Hispanic community in West Michigan. People are learning that Hispanic business owners are significant and positive contributors to our community.”

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