Minority Entrepreneurship in North St. Louis

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Executive Summary

This project examines and amplifies the experiences of minority business owners in North St. Louis, an area of St. Louis that suffers from ongoing population loss, extreme segregation, and concentrated poverty. It analyzes demographic, employment, and firm data for the area to contextualize their entrepreneurship. It finds that although North St. Louis is a jobs desert, the number of Black-owned firms in the City of St. Louis is growing at a stunning rate. It then reviews relevant research on minority entrepreneurship and identifies key themes and gaps in the literature. It draws on interviews conducted with North St. Louis business owners and economic development practitioners to highlight key aspects of the entrepreneurial experience. These interviews reveal an experience in which lack of financial capital appears to be due to lack of trust as well as lack of access, business owners frequently open businesses with little planning and learn on the fly, and the challenges of daily survival crowd out opportunities for strategic thinking. Based on this analysis, it recommends that those looking to support entrepreneurship in North St. Louis emphasize a personal approach, support diverse entrepreneurial paths, and target entrepreneurs in the post-start-up plateau. It concludes by offering broader lessons for those considering interventions in low-income minority communities, and suggesting directions for further research.

Acknowledgements

Special thanks to all those who gave me time for interviews, and who inspired me with their drive and passion. Thanks also to Professor Andrew Greenlee and Professor Marc Doussard, both of whom helped me to refine my ideas and helped me know when to stop refining my ideas.
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Introduction

The archetype of the striving entrepreneur is a core element of the American story. From European immigrants who bet everything on the idea of a place called America, to the “great men” who founded the industrial-era companies that would help propel the country to global leadership, to the modern tech entrepreneurs who have made words like “innovation” and “startup” part of our everyday vocabulary, visionary entrepreneurs embody national ideals like self-reliance, ambition, and boundless optimism. Those who bet on themselves in the hopes of making it big have always held a special appeal.

Entrepreneurship in America is also inextricable from the urban experience. Cities provide the resources, networks, and markets that allow companies to blossom. Recent research has highlighted the role cities serve as “innovation clusters,” where spatial proximity and agglomeration economies lead to increased productivity and new ideas (Moretti, 2012). In the modern political context, cities themselves increasingly behave entrepreneurially as they seek to attract investment and promote growth (Hall & Hubbard, 1996). The link between entrepreneurship, innovation, and cities have led many to champion innovation as a way to “save” declining cities, particularly in America’s Rust Belt. Numerous policy initiatives across the country turn to entrepreneurship as an economic development engine for cities. Within this context, the term “entrepreneurship” often refers to a specific type of entrepreneurship and a narrow subset of firms: startups that seek to achieve rapid growth by providing products and services that make use of emerging technologies. A 2016 Washington Monthly article that dubbed St. Louis an “entrepreneurial boomtown” used tech, bioscience, and craft beer startups to make its point (Stangler and Tomkins-Bergh, 2016). This limited conception of entrepreneurship has contributed to policies and strategies—gleaming innovation districts, stylish networking events, investor speed-dating—that leave out, either by neglect or by design, large swaths of entrepreneurs who fail to fit the target audience.

This report highlights the experiences of a group that does not feature prominently in the current excitement over entrepreneurship: minority business owners located in the declining neighborhoods of North St. Louis. Neighborhoods across North St. Louis exemplify the plight of the American inner city. They have suffered from decades of disinvestment, discriminatory lending and real estate practices, and population decline. The effects of these practices are evident today in countless vacant and crumbling buildings, high rates of poverty and crime, and limited opportunities for residents to break the cycle of intergenerational poverty. Yet even within this challenging context, entrepreneurs, predominantly racial minorities, are opening small businesses. In fact, firm-level data reveal that Black-owned businesses account for the majority of firm growth in the City of St. Louis. Many of these businesses manage to not only survive, but thrive. These seemingly miraculous businesses prompt the questions that guides this study: could minority entrepreneurs be a lever for sustainable, asset-based community development in North St. Louis? If these entrepreneurs received the same attention as tech startups, what should that look like?

To begin to answer these questions, the report presents an exploratory study of minority entrepreneurship in North St. Louis. First, it examines existing research on minority entrepreneurship and small businesses in minority neighborhoods. Next, it analyzes data on firm creation in the City St. Louis, and illustrates that African Americans are opening firms at a much faster rate than the city average. Finally, it presents findings from interviews with both North St. Louis business owners and St. Louis economic development practitioners whose work engages with the topic of minority entrepreneurship.
Drawing from each of these sections, the report concludes by presenting a framework for better understanding and supporting entrepreneurship in North St. Louis. It also offers broader lessons that are applicable in contexts other than North St. Louis.

Through the interview approach, it amplifies the voices of those who are running businesses and those who are trying to help these businesses succeed and grow in North St. Louis. Drawing from interviews with eight business owners and 10 economic development practitioners, it shines a light on remarkable successes and dispiriting challenges. In addition, it highlights common themes in these shared experiences that can enrich the discourse on entrepreneurship in the North St. Louis context, as well as providing recommendations for further research and policy experimentation. It provides insights for economic development practitioners and government officials who want to gain a clearer picture of entrepreneurship in North St. Louis, and offers a valuable accounting of the entrepreneur experience to existing and prospective entrepreneurs, who can benefit from the firsthand experiences of other business owners.

A Note on North St. Louis

“North St. Louis” commonly refers to the northern half of the City of St. Louis. As inner suburbs of Northern St. Louis County have begun to see increased African American populations, they too are frequently considered part of “North St. Louis.” The term is a construct, upon which it is easy to project stereotypes, fears, and agendas. It is at its worst a coded slur, and even at its best a highly reductionist phrase that compresses a diverse and distinct set of neighborhoods and communities into a (frequently pathologized) monolith. This study runs the risk of perpetuating the reductionist approach to North St. Louis by implying a unitary entrepreneurial experience. This is not its goal. Instead, it uses the popular conception to focus study and identify themes in the unique experience of entrepreneurs who work in North St. Louis. Although a construct, the idea of “North St. Louis” is a construct that has real consequences with which those who do business there must contend. Studying North St. Louis as a “separate” area could reinforce that very separateness, but it can also offer insights on contextually sensitive policies that can help break down this division.

Black-owned businesses account for the majority of firm growth in the City of St. Louis.
When discussing entrepreneurship in North St. Louis, context is everything. Traditional paradigms and understandings of entrepreneurs do not necessarily translate to a place facing as many challenges as North St. Louis. Additionally, any intervention that does not exhibit an awareness of the troubling history that produced a place like North St. Louis treads on dangerous ground. This section provides brief historical and demographic context for North St. Louis (Figure 1), which it defines as every census tract within the city limits located entirely north of Delmar Boulevard, the street that has historically served as a line of demarcation. North St. Louis is poorer and has higher minority populations than the rest of St. Louis. This is not an accident of geography; it is the result of historical processes that have facilitated the disinvestment and depopulation of a large segment of the city.

**Historical Context**

North St. Louis has become a common symbol for the urban decay that gripped industrial American cities after World War II and into the present day. St. Louis’ economic decline in the early and mid-20th century coincided with a major increase in African
American population (Gordon, 2008). As White residents fled for the suburbs, tools like restrictive deed covenants, discriminatory lending practices, and real estate steering combined to limit Black residents to certain parts of the city, and to undermine those areas by restricting lending and concentrating poverty (Gordon, 2013).

The federal government is complicit in this process: in addition to heavily subsidizing the urban highways that made suburban sprawl and long commutes a convenient choice for residents, the government did not offer subsidized Federal Housing Administration mortgages in areas determined to be at high risk. This assessment relied heavily on the presence of Black residents in the neighborhood to determine levels of risk (Ibid). Figure 2 shows a 1937 Home Owners’ Loan Corporation Map of “residential security” in St. Louis. Large swaths of North St. Louis are shaded in red to indicate their rating as the lowest grade neighborhoods (the term “redlining” is commonly used to describe discriminatory lending practices). More recently, white flight from North St. Louis has been followed by Black flight, as many Black residents with the means to do so seek more stable communities and better opportunities in the suburbs (Ibid). The distressed conditions of poor areas like North St. Louis are not a product of faceless market forces or the moral failings of its residents, but rather are the legacy of discriminatory policies that exacerbated, bolstered, and continue to perpetuate segregation and inequality.

Figure 2: 1937 Map Shows Extensive Redlining in North St. Louis

Source: University of Richmond Digital Scholarship Lab, Mapping Inequality Project: Redlining in New Deal America
Demographic Profile

The processes detailed in the previous section had a profound impact on the area’s demographic makeup. North St. Louis is overwhelmingly African American, and has higher rates of unemployment than the rest of the city, along with a lower median household income. North St. Louis continues to lose population while the rest of the city has gained residents in recent years, and is significantly less dense than the rest of the city. These characteristics combine to make North St. Louis a challenging setting for entrepreneurs.

The City of St. Louis has experienced major population loss since 1950, losing nearly two-thirds of its peak population. In recent years, sections of the city have enjoyed reinvestment and growing populations. However, North St. Louis continues to lose residents. Table 1 compares population changes between 2010 and 2015 in North St. Louis and the rest of the city. Excluding North St. Louis, the rest of the city is estimated to have gained population. However, North St. Louis is estimated to have lost over 10% of its already-diminished population in just this 5-year window. Due to depopulation, North St. Louis is far less dense than the rest of St. Louis. Its population density is 3,724.5 residents per square mile, compared to 6,042.3 in the rest of the city (Social Explorer, 2017).

Table 1: North St. Louis Continues to Lose Population as Rest of the City Rebounds

<table>
<thead>
<tr>
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<th>2010</th>
<th>2015</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>North St. Louis</td>
<td>101,342</td>
<td>90,340</td>
<td>-10.9%</td>
</tr>
<tr>
<td>Rest of City</td>
<td>217,467</td>
<td>227,510</td>
<td>4.6%</td>
</tr>
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</table>

Source: Social Explorer (2017)

The two sections of the section also show stark differences in their racial compositions. St. Louis is very much a “Black/White” city racially: both sections have very little diversity outside of the “White Alone” and “Black or African American Alone” categories. North St. Louis is almost entirely Black or African American, with that group accounting for over 94% of its 2015 population. Only 0.7% of North St. Louis identified as Hispanic or Latino in 2015 (Social Explorer, 2017). While the rest of the city is over 60% White, it also includes a large proportion of Black or African American residents. Table 2 summarizes the racial composition of both parts of the city. The immigrant population in North St. Louis is minimal: 99% of residents are native born.

Table 2: 2015 Racial Composition

<table>
<thead>
<tr>
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<th>North St. Louis</th>
<th>Rest of City</th>
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<tbody>
<tr>
<td>White Alone</td>
<td>4.2%</td>
<td>62.3%</td>
</tr>
<tr>
<td>Black or African American Alone</td>
<td>94.3%</td>
<td>29.2%</td>
</tr>
<tr>
<td>American Indian and Alaska Native Alone</td>
<td>0.1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Asian Alone</td>
<td>0.2%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Native Hawaiian and Other Pacific Islander Alone</td>
<td>0.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Some Other Race Alone</td>
<td>0.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Two or More Races</td>
<td>1.0%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Source: Social Explorer (2017)
North St. Louis also fares poorly on economic indicators. While all parts of the city lag national averages, North St. Louis’ 2015 median household income of $22,221 is just over half that of the rest of the city. 38.9% of the population lived below the poverty level in 2015, far above city and national averages (Social Explorer, 2017). The combination of lower density and lower household incomes means that “neighborhood” retail businesses that rely on patronage from geographically proximate customers face a double challenge: lower density means there are likely to be fewer residents living close to their business, and lower incomes mean the residents that are there are likely to have low spending power. In addition to these economic and demographic factors, North St. Louis suffers from extremely high rates of crime, particularly violent crime (Park, 2013). These factors make North St. Louis a challenging setting for entrepreneurs.

**Employment and Entrepreneurship in North St. Louis**

North St. Louis offers limited economic opportunity for its residents. Its unemployment rate, 13.5%, is more than twice that of the rest of the city, despite a low labor force participation rate (Social Explorer, 2017). One possible explanation for low employment rates is access to jobs. Of the 226,479 jobs in the City of St. Louis in 2015, only 27,490 of them were located in the zip codes most closely associated with North St. Louis (U.S. Census Bureau, 2017). These data exclude sole proprietorships, and so do not capture all employment in the city.

Figure 3 highlights the lack of jobs in North St. Louis. This map shows the top 25 census tracts of employment for residents of North St. Louis. Of the top 25 tracts for employment, only one is within the boundaries of North St. Louis. Employment locations are instead concentrated in the city’s Central Corridor, and in mid- and north St. Louis County. This indicates that North St. Louis residents often have to travel far to find work. Considering that fewer than ¾ of North St. Louis residents travel to work via private vehicle (either alone or in a carpool), transportation could prove a major barrier to finding employment (Social Explorer, 2017).

The Census Survey of Business Owners (SBO) provides the most comprehensive view of small business characteristics. The most recent data available date to 2012, so they provide a slightly dated snapshot of what appears to be a dynamic sector. Comparing survey results from 2007 and 2012 shows that the City of St. Louis saw a major increase in the number of firms operating in this period, and that Black and African American-owned firms drove this firm growth. This growth in the number of firms is not matched by growth in revenue or payroll, which may indicate that the dramatic firm growth numbers are driven by large numbers of “marginal” firms. However, revenue and payroll growth over this period are still positive and significant. The data paint an overall picture of a burgeoning entrepreneurial scene.

* This counts the 2015 zip codes 63106, 63107, 63112, 63113, 63115, 63120, 63147. The following St. Louis City zip codes, which partially include the study area, were excluded: 63101, 63102, 63103, 63108. The following St. Louis County zip codes, which partially include the study area, were excluded: 63121, 63130, 63133, 63136, 63137.
The Survey of Business Owners universe includes “all nonfarm businesses filing Internal Revenue Service tax forms as individual proprietorships, partnerships, or any type of corporation, and with receipts of $1,000 or more.” Thus, the data include sole proprietorships, but do not include informal businesses that do not file tax returns. Leaving out informal enterprises could disproportionately affect minority-owned firms and firms in poorer neighborhoods. In addition, the SBO has high margins of error and extensive data suppression at smaller geographic scales. This analysis compares White- and Black-owned firms in the city of St. Louis as a whole. Due to the racial population patterns described earlier, this analysis assumes that the majority of firms locating in North St. Louis are Black-owned firms. Thus, looking at greater trends in Black or African American entrepreneurship offers some insight into likely trends in North St. Louis.

Table 3 details firm growth in the City of St. Louis between 2007 and 2012. The City saw the total number of firms increase 27% between 2007 and 2012. Disaggregating this into racial groups reveals highly uneven growth. White-owned firms outnumbered Black-owned firms by more than 3 to 1 in 2007, but Black-owned firms grew more rapidly in the subsequent five years, nearly doubling their overall number. The City’s impressive growth numbers are largely thanks to these Black-owned firms: of the 6,408 new firms formed between 2007 and 2012, over 75% of them were owned by Blacks or African Americans. This represents stunning growth in the number of Black-owned firms.
This growth in the total number of firms represents a tremendous amount of entrepreneurial activity, but underlying data suggest that it might not be having the economic impact the striking firm numbers suggest. Table 4 breaks down total sales, receipts, or value of shipments for firms in St. Louis over the same period. Revenue for Black-owned firms grew by 12% over this period, which is far slower than the growth in the number of Black-owned firms. In fact, revenue-per-firm decreased dramatically over this period, from approximately $98,000 to about $56,000 per firm. Not only did per-firm revenue decrease, it is far lower than that of White-owned firms. Total annual payroll for Black-owned firms also decreased slightly over this period after adjusting for inflation (U.S. Census Bureau, 2007, 2012). These declines suggest that many of the Black-owned firms formed in this period did not generate large amounts of revenue or employ many people. However, that there is revenue or firm growth at all in the context of an economic recession and population decline is notable.

Although these indicators may dampen the enthusiasm that the 95% growth in Black-owned firms inspired, they still represent some amount of growth. These unusual results are likely due in part to the fact that the period examined, 2007-2012, encompasses the Great Recession. During the recession, the probability of entering self-employment was higher, despite the challenging economic environment (Beckhusen, 2014). The Survey of Business Owners includes the self-employed, and it is likely that these sole proprietorships make up a large proportion of firm growth. New data may show a drop in firm numbers as workers transition back to wage employment in a healthier economy.

The data suggest that many new Black-owned firms are low-revenue, low-payroll firms—what which some might dismiss as “marginal.” This does not mean that those firms will always be marginal. After all, firms have to pass through being small before they

* Many firms, including publicly held firms, are not classified by owner race. This explains why White- and Black-owned firms make up such a low proportion of total revenue in the city.
become large, and have to have low payrolls before they have high payrolls. Those formed in the course of this study period have not had much opportunity to do so. Strategies that focus on the post-start-up growth phase could be extremely fruitful in this context. Data on growth by sector would offer important insights into just what is driving this growth. Unfortunately, low numbers of firms by sector mean that sector data is highly unreliable and plagued by suppression.

**Figure 4: The Number of Black-Owned Firms in St. Louis Has Exploded**

**Literature Review**

Various fields address minority entrepreneurship and inner-city business ownership, including economics, sociology, management, community development, criminology, and urban planning. The perspectives each add unique insights, but their diversity also means that there is no one definitive body of research. This review does not attempt to provide a comprehensive picture of minority or inner-city entrepreneurship, but rather highlights prominent themes that provide a useful basis for further exploration. These themes, drawn from research conducted across the United States, guided the interviews conducted with entrepreneurs and economic development practitioners. Although North St. Louis is overwhelmingly African American/Black, the review includes research that looks more broadly at the experience of all minority entrepreneurs, as well as research specifically focused on African American entrepreneurs.

**The Persistent Bipartisan Allure of Minority Entrepreneurship**

Historically, minority businesses existed within a context of de jure or de facto segregation. This segregation limited the areas in which businesses operated and industries they entered, but, ironically, also had the effect of bolstering some minority businesses by insulating them from direct competition with White-owned businesses that might have had
more resources at their disposal (Bates & Tuck, 2014; Bates, 2006). Minority entrepreneurship entered policy discussions in the 1960’s, when the Kerner Commision, established to investigate the circumstances that led to race riots in urban areas throughout the country, promoted the idea of Black entrepreneurship as a means of addressing ghetto conditions. President Nixon institutionalized this recommendation with the Office of Minority Business Enterprise (Sutton, 2009). More recently, newly-elected Illinois Republican Governor Bruce Rauner proposed in his 2015 State of the State Address to create a Minority Enterprise Small Business Investment Program, while in the same speech promoting an agenda of streamlining government and cutting costs (Rauner, 2015). Politicians have also presented entrepreneurship as the antidote to limited economic opportunity in minority communities, encouraging citizens to create their own jobs. This approach often borders on dismissiveness. Former New York City Mayor Rudy Giuliani famously offered this advice to New Yorkers (quoted by Deparle, 1998): “If you can’t get a job, start a small business. Start a little candy store; start a little newspaper stand; start a lemonade stand.”

In the 2016 presidential election campaign, both Republican candidate Donald Trump and Democratic candidate Hillary Clinton made appeals to minority small business owners by promising improved conditions for them (Hillary for America, 2016; Kaye, 2016). This area of apparent agreement is just one example that illustrates the compelling bipartisan appeal minority entrepreneurship holds. The concept of minority entrepreneurship appeals to traditional liberal and conservative paradigms in different ways. For liberals, it can represent an opportunity to redistribute resources to historically marginalized minority populations. For conservatives, it can represent a way to intervene in needy communities that fits market-based paradigms. Its value as a political chip could be reason to view programs that tout minority entrepreneurship with skepticism, as their motivation might be more political than practical.

There are real reasons to believe that minority entrepreneurship could be an effective strategy for economic development in impoverished communities. Between 2002 and 2007, growth in the number of minority-owned businesses was twice that of the national average (Liu & Abdullahi, 2012). Black Americans have demonstrated higher entrepreneurial propensity than Whites, and are more likely to start a new business, although those businesses are also more likely to fail (Crump et al, 2015). Entrepreneurial activity could represent a real asset in communities whose deficits tend to be the focus of conversation. Any effort to promote minority entrepreneurship must investigate assumptions underlying its approach. Support for minority entrepreneurship is a promising asset-based approach to grassroots economic development, but it could do more harm than good if it is rooted in a narrative of heroic individualism and fails to recognize the historic and ongoing structural constraints minority entrepreneurs face.

Impacts of Minority Entrepreneurship

While entrepreneurship on its own is insufficient to “solve” the problems of disinvested minority communities, research has found a wealth of positive impacts. Minority entrepreneurship opens up opportunities for upward mobility to residents who might otherwise have few, can create jobs in areas with high unemployment, and can have positive neighborhood effects on the surrounding area.

Employment and Opportunity

Business ownership can provide a lucrative path for ambitious residents who might not find opportunity within the traditional employment market. Black entrepreneurs have
Literature Review

higher rates of upward mobility than Black workers in traditional employment (Bradford, 2014). By providing a path to upward mobility, entrepreneurship could help close racial wealth gaps. Self-employment can be particularly attractive for those with low levels of formal education. A 1992 survey found that 20.1% of self-employed minorities had not graduated from high school (Bates, 2005).

Small businesses can create jobs in addition to those of their owners, and work to reverse job sprawl, which finds employment centers far from inner-city minority neighborhoods (Bates, 2006). Black-owned firms are more likely to hire Black employees (Fratoe, 1988; Hyra, 2015; Bates, 2006). It is unclear to what extent minority-owned small businesses can affect large-scale unemployment. Although there are over 2.5 million Black-owned businesses that account for over 9% of firms in the US, many are sole proprietorships or “mom and pop” establishments—over 95% have no paid employees (U.S. Census Bureau, 2012). Bates (2006) found that the larger Black-owned firms, while far less numerous than small establishments, account for the vast majority of employment and payroll by Black-owned firms. He also found that the number of larger firms was growing much faster than the number of small establishments, which bodes well for employment figures. Table 5 summarizes employment and opportunity effects.

Table 5: Employment and Opportunity Effects of Minority-Owned Businesses

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<th>Opportunity Paths</th>
<th>Employment</th>
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<td>Black entrepreneurs more upwardly mobile than Black workers engaged in wage employment. (Bradford, 2014)</td>
<td>Black-owned firms are more likely to hire Black employees, but over 95% have no paid employees. (Hyra, 2015; U.S. Census Bureau, 2012)</td>
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Neighborhood Effects

Minority-owned businesses bring value not just as a source of employment, but through their place-based impact on the surrounding area. Many studies have found small businesses to have positive externalities for the neighborhoods in which they locate. The study of neighborhood effects focuses on neighborhood-based physical establishments. Minority-owned businesses could play a role in the process of physical revitalization, serve as an anchor or community space, and may reduce crime in the area.

The community economic development movement that arose in the 1960s saw minority entrepreneurship as a strategy to bring political and economic empowerment, which would lead to further neighborhood economic development (Sutton, 2010). Anecdotal evidence seems to suggest that small business growth can uplift a neighborhood, but there is little empirical basis for the proposition that retail growth leads to greater neighborhood development (Ibid). It is unclear whether growth in commercial enterprises is empowering existing residents at all, or whether it simply represents a gentrification process that displaces residents. While neighborhood revitalization and retail growth often go hand-in-hand, the direction of causality is less clear—it could actually be an improving neighborhood that is attracting retail (Chapple & Jacobus, 2009). However, a diversity of retail options has been shown to improve perceptions of a neighborhood and residents’ place attachment (Sutton, 2009). Overall, the empirical basis for revitalizing effects does not match its logical appeal. Unclear causal mechanisms could lead observers to ascribe revitalizing effects to neighborhood businesses, when those businesses are actually a symptom of revitalization.
Minority-owned businesses can also play an important sociological role as community institutions that are spaces for social interaction and organization (Sutton, 2010). In distressed communities that might have few assets, small businesses can be a “backbone” that stabilizes the neighborhood (Hyra, 2015). Racial business patterns could be a contributing factor in riots that have occurred in some minority neighborhoods (Fairlie, 1999). On a more practical level, minority-owned businesses can provide important goods and services in communities where residents might otherwise have to travel outside the neighborhood, preventing spending “leakage” and keeping that money in the community (Chapple & Jacobus, 2009).

There is evidence to suggest that minority-owned businesses can have an effect on crime rates in the area. This is reminiscent of Jane Jacobs’ (2011) conception of the shopkeeper as someone who provided “eyes on the street” and served as a mechanism of informal social control. A study that looked at Black-owned businesses and Black youth violence in multiple cities found that the presence of Black-owned businesses led to a significant reduction in youth violence in the 1990s and 2000s (Parker, 2015). The researcher also found that an increase in the number of Black-owned firms with paid employees did not significantly relate to a reduction in violence. This suggests that the relationship between Black-owned business and crime comes might be due to their role as community role models or stabilizing forces rather than as sources of employment (Ibid). Table 6 summarizes these neighborhood effects.

<table>
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<tr>
<th>Revitalizing</th>
<th>Stabilizing</th>
<th>Crime Reduction</th>
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### Motivations for Entrepreneurship

Motivations for starting a business can generally be categorized as either “pull” factors or “push” factors. Pull factors are the attractive elements of entrepreneurship—the potential to get rich, the freedom. Push factors are forces that might drive an individual away from traditional employment—lack of available jobs, labor market discrimination. The research suggests that “push” factors play a more prominent role for many minority entrepreneurs starting a business than they do for White entrepreneurs.

The opportunity to get rich could be less of a pull for some minorities who find their choice of entry sector constrained by finances or lack of formal education (Lofstrom, Bates, & Parker 2014). While minority entrepreneurs are disadvantaged in many ways, the ability to reach a specific ethnic population, which may be difficult for white business owners, offers opportunities that can pull them into starting a business (Hackler & Mayer, 2008).

It appears that for many minorities the factors pushing them into entrepreneurship outweigh the factors pulling them. Many minority entrepreneurs go into self-employment when unable to find traditional employment, due to some combination of education deficits and discrimination in the labor markets (Crump et al, 2015). This applies even to
some who would prefer traditional wage employment (Bates & Tuck, 2014). For many, self-employment appears to be the most secure path to consistent work after finding themselves unemployed. Entrepreneurs who fall into this category tend to pursue ventures with insufficient planning and little financial capital (Sutton, 2000). Table 7 summarizes understandings of motivations.

<table>
<thead>
<tr>
<th>Push Factors</th>
<th>Pull Factors</th>
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<tbody>
<tr>
<td>Many minority entrepreneurs start a business after struggling to find wage employment. This can lead to poorly planned and capitalized businesses. (Crump et al., 2015; Sutton, 2000)</td>
<td>May have an opportunity to serve a specific enclave. (Hackler &amp; Mayer, 2008)</td>
</tr>
</tbody>
</table>

### Barriers for Minority Entrepreneurs

Those who do choose to open their own businesses find that entrepreneurship is not an easy path. Minority-owned small businesses have higher closure rates than comparable white-owned businesses (Hyra, 2015). Black business owners exit entrepreneurship at a higher rate than other races (Fairlie, 1999). Unequal access to financial capital, lower levels of human capital, segregation, and sector choice are all factors that can influence the success of a minority-owned enterprise.

A substantial body of research highlights the importance of financial capital for minority entrepreneurs, and discrimination in access to that capital. Due to the racial wealth gap in the United States, Black households have much lower wealth on average than white households (Hamilton & Darity, 2010). Researchers have not achieved a consensus on how much differences in asset levels affect decisions to pursue self-employment (Fairlie, 2007). However, as discussed later, asset levels do appear to impact sector choice. Black business owners are more likely to see their businesses’ profitability hurt by a lack of financial capital (Robb & Morelix, 2016). Studies of minorities applying for business loans have found that, on average, they are more likely to be rejected, and are approved for smaller amounts of money and at higher interest rates when they do get approved (Bates & Robb, 2013; Fairlie & Robb, 2010). These higher rejection rates and smaller loan amounts exist even when researchers control for creditworthiness (Bates & Robb, 2016). In addition to discrimination based on the race of the loan applicant, both White and Black applicants have a harder time getting loans for a business located in a minority neighborhood.

Not only do minorities face higher rejection rates, but also many, discouraged by historical discrimination in the banking sector, do not apply for loans at all (Bates & Robb, 2016; Fairlie & Robb, 2010). Microenterprise lending programs seeking to reach disadvantaged groups have encountered low demand, possibly because of this learned distrust of the formal financial sector (Bates, Lofstrom, & Servon, 2011). In the 2014 Census Bureau Annual Survey of Entrepreneurs, 58.5% of Black entrepreneurs who did not seek follow-on financing even though they needed it said they declined to do so because they did not think they would be approved (Robb & Morelix, 2016). Possibly because of challenges with financial institutions, Black entrepreneurs are more likely to rely on credit cards for startup capital than any other racial group (Ibid.). Bates (2006) highlights three effects financial discrimination has on Black entrepreneurs:
“First, some potential entrepreneurs never take the plunge because they are unable to assemble sufficient financial capital to start their firms…. Second, capitalization at startup affects firm size, and since Black firms are often under-capitalized, they are also smaller than optimal in many instances. Third, insufficiently capitalized small firms often shut down after a few years of operation.”

In addition to financial capital, Black entrepreneurs may also face deficits of social capital that make their path more challenging. Close exposure at an early age to an entrepreneur family member can be a predictor of successful entrepreneurship. Black business owners have been found to be less likely than other racial groups to have close family members who were business owners or self-employed (Fratoe, 1988; Fairlie, 1999).

Segregation can also have detrimental effects on minority-owned businesses. As mentioned previously, some amount of segregation can lead to business opportunities for minorities to serve an enclave population. High degrees of segregation likely harm minority entrepreneurs because the relationship between race and income means that there is a high likelihood that segregation will also concentrate poverty (Fischer & Massey, 2000). Businesses that are located in neighborhoods perceived to be unsafe by the mainstream can struggle to get customers and clients to visit their establishments (Dayanim, 2011). In Philadelphia, certified businesses located in predominantly minority neighborhoods won city procurement contracts at a lower rate than businesses located in less segregated areas (Fischer & Massey, 2000). Porter (1995) claims that inner-city neighborhoods can offer a competitive advantage. He argues that these neighborhoods are frequently strategically located next to central business districts to which they can “export” goods and services, and that many inner-city markets are poorly served by businesses, leading to retail leakage as residents leave the neighborhood to purchase necessary goods. However, Porter cites Boston in his study, and bases his argument on the fact that increased density in low-income neighborhoods compensates for lower household incomes. These arguments do not transfer well to a place like St. Louis, where the central business district itself is struggling, and the poor neighborhoods of North St. Louis are actually less dense than the rest of the city due to widespread vacancy and sprawl.

A final factor that appears to limit the growth potential of minority entrepreneurs is their sector choice. Minority entrepreneurs frequently open businesses in sectors that feature intense competition with limited opportunity for significant growth. The financial capital and education levels of entrepreneurs influence this sector decision. Entrepreneurs with high wealth levels and advanced educational credentials are more likely to enter high-barrier fields, like manufacturing or financial and business services, that are potentially more lucrative (Lofstrom, Bates, & Parker, 2014). Minority entrepreneurs might also be actively discouraged by “entrenched business networks” from entering certain fields, like construction (Lofstrom & Bates, 2011).

These factors impacting sector entry decision combine to push minority entrepreneurs into less lucrative, lower-barrier fields like small-scale retail, food services, or child care. Firms established by minority owners who have low levels of education and financial capital are characterized by low annual sales (Bates, 2005). These entrepreneurs often find themselves stuck in a business “caste system” where they compete aggressively for a limited (and impoverished) client base in saturated markets (Bates & Tuck, 2014; Bates & Robb, 2016). Minority firms struggle to find a larger customer base, possibly influenced by white customers’ reluctance to purchase from Black firms (Lofstrom & Bates, 2011). This paints a picture of entrepreneurship that is less romantic than the popular conception of
ambitious individuals striking out on their own to make their fortunes. Bates & Tuck (2014) encapsulate this disconnect:

“A vibrant and growing small-business community is one where talented individuals are pulled into entrepreneurship by attractive opportunities. Blacks, in contrast, historically were more often pushed into marginal firms by constraints limiting their alternatives in both small-business fields and salaried employment.”

This is not to say that all minority entrepreneurs end up operating marginal businesses. Entrepreneurs who move beyond serving an enclave in order to reach a larger market will face greater risks, but also potentially greater rewards (Fischer & Massey, 2000). Males operating construction companies also form a common profile of successful minority entrepreneurs (Bates, 2005). Table 8 summarizes key barriers minority entrepreneurs face.

<table>
<thead>
<tr>
<th>Financial Capital</th>
<th>Social Capital</th>
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<tbody>
<tr>
<td>Minority business owners less likely to be approved for loans than White entrepreneurs. When approved, they are approved for less money.</td>
<td>Black business owners less likely to have close family members who were entrepreneurs.</td>
</tr>
<tr>
<td>(Bates &amp; Robb, 2016)</td>
<td>(Fairlie, 1999)</td>
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<table>
<thead>
<tr>
<th>Segregation</th>
<th>Sector Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harm of concentrated poverty likely outweighs benefit of enclave market. Perception of unsafe neighborhood limits customer base.</td>
<td>Lack of wealth or formal education can push entrepreneurs into highly competitive, less remunerative, low-barrier sectors.</td>
</tr>
<tr>
<td>(Fischer &amp; Massey, 2000; Dayanim, 2011)</td>
<td>(Lofstrom, Bates, &amp; Parker, 2014)</td>
</tr>
</tbody>
</table>

Supporting Minority Entrepreneurs

Programs to support minority entrepreneurs aim to address some of the barriers described above. One type of successful approach is the use of preferential procurement and contracting policies that aim for greater inclusion of minority entrepreneurs. These policies generally operate by awarding minority-owned businesses extra points in competitive bidding processes, or by setting a minimum quota for minority involvement in contracting. When implemented effectively, they can help Black entrepreneurs move into high-barrier lucrative fields like construction, engineering, and financial services by lowering barriers to their participation (Bates, 2015). Sometimes emerging minority-owned firms do not have the financial capacity to take on larger government contracts. “Unbundling” larger contracts into multiple smaller contracts can help minority-owned firms compete with more established or larger firms (Bates, 2006). Even as minority business owners move toward closing education and human capital gaps, these preferential policies remain necessary to level the playing field, because “skills acquisition does not solve the problem of old-boy networks (Bates, 2015).” Table 9 summarizes perspectives on effective supports for minority entrepreneurs.
Although this review does not take an exhaustive approach to research on minority entrepreneurs, this reading of the literature does reveal some limitations. First, while studies that look at the growth potential and financial characteristics of minority businesses take into account multiple sectors, those studies that examine neighborhood effects and the role of businesses in communities tend to focus on retail and storefront businesses. Study of the neighborhood effects with different types of businesses--the growing financial services industry, for example--would be worthwhile. In addition, the diversity in researcher fields leads to studies that highlight different facets of the entrepreneurial experience, but rarely are these facets brought together to form a comprehensive understanding. For example, sociological approaches to studying minority entrepreneurship might focus on structural constraints faced by entrepreneurs, whereas management literature might focus on more micro firm decisions. The varied nature of the entrepreneur experience calls for research that can incorporate multiple approaches to paint a clearer picture of this experience.

Table 9: Supporting Minority Entrepreneurs

<table>
<thead>
<tr>
<th>Preferential Procurement and Contracting</th>
<th>Unbundling Contracts</th>
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<tbody>
<tr>
<td>Effective procurement and contracting policies can help minority entrepreneurs enter high-barrier fields, overcome “old-boy” networks.</td>
<td>Breaking large contracts into multiple smaller pieces can allow smaller minority-owned firms to compete.</td>
</tr>
</tbody>
</table>

“Blacks... historically were more often pushed into marginal firms by constraints limiting their alternatives in both small-business fields and salaried employment.”
Interview Population and Sampling Approach

The review of relevant literature offers insights into the topic of minority entrepreneurship, and the analysis of Census SBO data show that there is indeed noteworthy entrepreneurial activity occurring in the city, but these do not reveal what the entrepreneurial experience looks like in St. Louis. In-person interviews serve to ground these findings in the real-life experiences of those who work in the field. This report includes an analysis of ten interviews with economic development practitioners whose work relates to small businesses in North St. Louis, and eight interviews with entrepreneurs who own businesses in North St. Louis. While the researcher made efforts to interview a range of participants, the sample was not randomly selected. Initial contact with business owners typically involved either walking into a business or contacting owners using contact information found online. This skews the sample towards “brick and mortar” establishments and those with some level of web presence. Some participants were identified using a snowball sampling method, in which participants were asked to recommend others for interviews. In some cases, economic development professionals recommended business owners with whom they had worked. This can bias the sample toward those who receive these services, and may influence the responses of those contacted in this manner.

The practitioners worked in a variety of fields that touched on entrepreneurship in multiple ways, including business development and finance. The business owners included those who had both traditional storefront locations and those who did not have a physical location, and represented a range of industries. The sample did not include any failed entrepreneurs. This makes the analysis vulnerable to survivorship bias, as the perspectives of those entrepreneurs interviewed are not reflective of the views of practices of the greater population of those who have attempted to run a business. For example, the surviving entrepreneurs might simply not have encountered barriers that led to the closure of other firms. Interviews took place over a 6-month period. Interview subjects were assured anonymity, to increase the likelihood of candid responses.

While guided by a set of questions (included in the appendix), the interviews took a conversational approach. The researcher used the interview questions as a starting point to allow space for subjects to share their personal experience, and to guide the conversation towards particular aspects of that experience. The analysis grouped responses and identified key themes that arose throughout the conversations. While the researcher made efforts to maintain an objective frame, this subjective approach is vulnerable to bias by personal perspective. With that in mind, the themes identified do not represent a consensus view on the part of participants, and do not claim to be definitive or broadly representative. Instead, the information gained from the interviews can enrich and occasionally challenge conceptions of the entrepreneur experience, and provide insight into how understandings of entrepreneurship translate to the North St. Louis context.

Practitioner Interviews

Practitioners answered questions about the characteristics of entrepreneurs with whom they work, barriers to small business success, and their perspective on successful interventions to support entrepreneurs. Through the ten interviews, themes emerged around motivations for entrepreneurship, the importance of financial capital, common
characteristics of successful entrepreneurs, and approaches to supporting small businesses. Table 10 summarizes practitioner perspectives on key topics

**Pushed Into Entrepreneurship**

Many practitioners agreed that “push” factors heavily influence the decision to pursue entrepreneurship in North St. Louis. Contrary to the notion of the visionary entrepreneur, one practitioner named the most common motivation for starting a business as “desperation.” Others mentioned the ability to “create their own jobs” to circumvent barriers present in the corporate sector: “They want to work and open their own businesses because they don’t want to deal with the political racist bullshit of corporate America.” One participant specifically mentioned the challenge formerly incarcerated individuals have finding traditional wage employment, and posited that this could push them toward creating their own jobs. Barriers to wage employment can push people who might have preferred a more traditional job over undertaking the challenge of starting a business. One respondent described this dynamic: “Entrepreneurship isn’t easy; it’s the toughest job I’ve had to do. But what else do you have to do?”

This does not mean that all entrepreneurs in North St. Louis are pushed by lack of other options. Other responses that arose included a desire for independence and control over one’s own path, a desire to improve the community and meet community needs, and the opportunity to make more money. Each entrepreneur has their own unique combination of motivations when deciding to start a firm.

**Barriers Abound, Especially Capital**

Access to capital came up in nearly every interview as a key barrier to entrepreneurs starting and successfully operating small businesses. As described in the literature review, this can be a byproduct of a “push” into entrepreneurship, which can limit opportunities to obtain capital. Respondents also connected the issue of capital to historic (and ongoing) racial discrimination in financial institutions, and one complained “the lack of trust (of financial institutions) is certainly inhibiting.” Answers went beyond discriminatory practices to highlight other issues that did not come up in the academic literature. Multiple respondents mentioned the role of credit scores. One practitioner described how even entrepreneurs who are not poor suffer from “credential poverty”—meaning they lack strong credit histories that allow them access to financial services. This itself is a product of the fraught legacy of banking institutions in minority communities. A respondent described how even the paperwork involved in securing a loan can be a barrier for entrepreneurs who are not comfortable interacting with the banking system or who may lack formal education. These kinds of invisible barriers could be missed in attempts to reform banking structures.

Multiple respondents spoke of entrepreneurs turning to alternative financial institutions, like payday loan operations, to seek financing. The predatory practices of these institutions can force entrepreneurs into a debt spiral in which they end up paying more in interest than the value of their original loan. One of these respondents worried that the rapid growth of alternative financial options online would increase their use among entrepreneurs.

Other respondents mentioned that a lack of formal education—both a traditional education and in how to run a business—can be a barrier to growth and success. The importance of a support network and “having someone in your corner” arose multiple times as well. In total, respondents described a difficult path. In addition to all of the specific barriers, discrimination is an issue that can arise in every context for minority entrepreneurs.
As one summarized: “Take all the obstacles facing typical entrepreneurs, and add discrimination.”

**Successful Entrepreneurs are Persistent, Strategic in the Face of Scarcity**

The single most common response when asked to identify characteristics of successful business owners in North St. Louis was “persistence.” This is not surprising, given the obstacles they face. Other similar responses included “stubbornness,” “urgency to succeed,” and that they “never give up.” These responses emphasize that entrepreneurship in North St. Louis is not a path to get rich quick, and the road to success is paved with more than a few failures. Another respondent spoke of a willingness to “reinvent themselves” to find their niche.

Another theme was that successful entrepreneurs maintain the ability to think and act strategically in the face of all they must manage. One respondent spoke of business owners who get so caught up in the day-to-day of running their business that they do not spend time on initiatives, like marketing and customer acquisition, that would lead to sustainable growth. This is reminiscent of the Scarcity Trap concept (Mullainathan and Shafir, 2013): in situations of scarcity, humans tend to focus in on short-term goals, even if that comes at the cost of longer-term thinking. Mullainathan and Shafir use this example of flower vendors in India to illustrate this idea. If they could only save a small amount each day, they would no longer have to borrow at high interest rates to purchase their daily inventory of flowers. Soon, they would not have to borrow at all, and would effectively double their income. Yet vendors go for years without taking this seemingly obvious approach, because they focus narrowly on urgent shorter-term goals. This seemingly counterintuitive behavior is the vicious cycle of the scarcity trap.

Small business owners face many types of scarcity: time, energy, and financial. This context can prevent them from doing the things that will help them over the long term. Working in North St. Louis can lead to even more draws on these scarce resources: one professional mentioned business owners dealing with issues like drug dealing and illegal dumping near their business. A practitioner spoke of entrepreneurs who try to do everything instead of focusing on what they do best: “A plumber shouldn’t be doing his own books; an accountant should be doing his books.” This inability to focus on larger goals and think strategically about core capacities can cause problems for business owners over the long run. Another respondent spoke about how entrepreneurs need to move from “low-hanging fruit to providing a real value proposition.” Others wished business owners would think more expansively about their customer base and work to attracting customers regionally. Many small businesses in North St. Louis do not have even a basic web presence to help them bring in customers. All of these things: focusing on core competencies, developing a clear value proposition, thinking expansively about a customer base, are strategies that stand to pay off in the long term but may be difficult in the short term. Given their struggle just to keep their business afloat, many business owners may not feel they have the luxury to think this way, thus perpetuating a cycle of struggle.

**Effective Support is Personal**

Multiple practitioners spoke of the role personal connection plays in supporting entrepreneurs. One described “working with people where they are” and putting business vocabulary into terms that are more accessible. Another described their organization being willing to work with businesses even if they were still in the informal sector: “We legitimize hustle.” That same practitioner described how many people, especially those living in poverty with limited credit or work history, “fall outside the boxes” of institutional
processes. Another spoke of taking the time to work with entrepreneurs on their personal finances at the same time they are discussing business finances. Overly rigid policies that might make sense from an institutional perspective can come at the cost of discouraging budding entrepreneurs. One practitioner spoke of how many business support programs require owners to be current on all licenses and taxes, which can exclude those who need help the most. Entrepreneurs who might have a mixed financial history or lack a strong understanding of the financial system could become embarrassed when discussing finances if that conversation is not built on a foundation of trust. Effective interventions actively work to bring people in, and look for reasons to say “yes” instead of reasons to say “no.” These steps to make their clients feel more comfortable, while small, are a crucial component of effective support, according to these practitioners.

Supplier Diversity Programs and Preferred Contracting Offer Growth Paths

Procurement processes, supplier diversity, and opportunities for minority-owned firms to win contracts came up often regarding policies that can help business growth. However, even when such programs are in place, small businesses may struggle to participate. This topic came up in light of the impending construction of the National Geospatial-Intelligence Agency (NGA) West headquarters, a massive project that represents a major opportunity for local businesses in construction and other fields. One practitioner mentioned how “the Hartsfield Airport created a class of Black millionaires in Atlanta,” referring to the effect of the aggressive preferred contracting policy for minority-owned businesses instituted for the airport’s expansion in the 1970s. This respondent wondered if minority-owned firms in St. Louis would be able to capitalize on the NGA facility in the same way.

These types of contracts could offer opportunities for minority-owned businesses to grow to a larger scale. Another described how, independent of race, small businesses “do not have a level playing field” to win procurement contracts when the awarding companies already have established supplier networks. For small businesses that do win contracts, they may struggle to fulfill larger contracts on their own if they have not built up that capacity. These businesses can also struggle to maintain sufficient cash flow if they have to wait a long time to receive payment on the contracts they do fulfill. Respondents named the city’s minority bonding program and construction loan fund as policies that can help minority small businesses win larger contracts. However, they also described the process for certifying minority-owned businesses in order to qualify for minority preference programs as unnecessarily confusing.

“We legitimize hustle.”
Table 10: Practitioner and Scholarly Perspectives on Key Topics

<table>
<thead>
<tr>
<th>Motivations</th>
<th>Academic Literature</th>
<th>Practitioner Perspectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Many minority entrepreneurs start a business after struggling to find wage employment. This can lead to poorly planned and capitalized businesses. (Crump et al., 2015; Sutton, 2000)</td>
<td>• Desperation is a key motivator.</td>
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<tr>
<td>• Black entrepreneurs more upwardly mobile than Black workers engaged in wage employment. (Bradford, 2014)</td>
<td>• Barriers and discrimination in traditional wage employment are “push” factors.</td>
<td></td>
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<tr>
<td>• Money and independence are “pull” factors.</td>
<td>• Money and independence are “pull” factors.</td>
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<tr>
<th>Barriers</th>
<th>Academic Literature</th>
<th>Practitioner Perspectives</th>
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</thead>
<tbody>
<tr>
<td>• Minority business owners less likely to be approved for loans than White entrepreneurs. When approved, they are approved for less money. (Bates &amp; Robb, 2016)</td>
<td>• Legacy of discrimination in financial markets hurts entrepreneurs.</td>
<td></td>
</tr>
<tr>
<td>• Lack of wealth or formal education can push entrepreneurs into highly competitive, less remunerative, low-barrier sectors. (Lofstrom, Bates, &amp; Parker, 2014)</td>
<td>• Barriers to capital are both institutional and psychological.</td>
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<tr>
<td>• Legacy of discrimination in financial markets hurts entrepreneurs.</td>
<td>• Education levels and lack of social networks are challenges for some entrepreneurs.</td>
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<tr>
<td>• Barriers to capital are both institutional and psychological.</td>
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<tr>
<td>• Education levels and lack of social networks are challenges for some entrepreneurs.</td>
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<tr>
<th>Practices of Successful Entrepreneurs</th>
<th>Academic Literature</th>
<th>Practitioner Perspectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Entrepreneurs who move beyond serving an enclave in order to reach a larger market will face greater risks, but also potentially greater rewards. (Fischer &amp; Massey, 2000)</td>
<td>• Persistence in the face of adversity is essential.</td>
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<tr>
<td>• Avoid distractions and “scarcity traps,” work toward long-term goals.</td>
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<tr>
<td>• Consciously develop value proposition, customer base.</td>
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<tr>
<th>Effective Support</th>
<th>Academic Literature</th>
<th>Practitioner Perspectives</th>
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</thead>
<tbody>
<tr>
<td>• Procurement and contracting policies can help minority entrepreneurs enter high-barrier fields, overcome “old-boy” networks. (Bates, 2015)</td>
<td>• Meet entrepreneurs where they are.</td>
<td></td>
</tr>
<tr>
<td>• Unbundling large contracts can allow smaller minority-owned firms to compete. (Bates, 2006)</td>
<td>• Overly rigid processes can exclude and discourage.</td>
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<tr>
<td>• Supplier diversity and preferred contracting open up paths to firm growth.</td>
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Entrepreneur Interviews

Business owners answered questions about how they got started, their operating practices, challenges they face, and plans for the future. These eight interviews revealed pragmatism as a key factor in deciding to open a business, mixed attitudes towards financial institutions and loans, and challenges with building a customer base and dealing with the breadth of responsibilities small business ownership entailed. Table 11 summarizes entrepreneur perspectives on key topics.

Motivations: Pragmatism over Passion?

Many of the business owners described being “pushed” into entrepreneurship, which is in line with perspectives of practitioners and with the academic literature. Three of the entrepreneurs either opened their businesses or decided to go full-time with their businesses immediately after a layoff. One of these entrepreneurs specifically described business ownership as a path to greater job security after experiencing multiple layoffs in the corporate sector. One described how he “got into it almost by accident.” In addition to job security, business owners also named flexibility and greater earning potential as draws for opening a business.

In addition to these pragmatic considerations, respondents named more altruistic motivations. Some talked about wanting to serve a need in their neighborhood or in the Black community. Some mentioned choosing to locate in North St. Louis because of a desire to serve that area, while others cited low rent costs or the ability to reach an underserved market as the driving factor.

Wariness Toward Loans, Banks

One question dealt with businesses’ startup phase and the role of capital. Although practitioners and the academic literature speak at length about business owners struggling to access credit, the majority of the business owners interviewed claimed that they not only had not received a loan for their business, they had no desire for a loan. All of the entrepreneurs opened their business without outside financing, and fewer than half had received loans since them. Those who did take out loans used both traditional bank loans and microlending programs.

Both personal preference and structural constraints appear to be driving these financing decisions. Some entrepreneurs said they never needed a loan, while others spoke of simply not wanting debt or not wanting to feel like they owe anybody anything. One mentioned taking satisfaction in the fact that if her business were to close tomorrow, she could walk away without owing anybody anything. Other entrepreneurs sought loans but were turned down by banks. One described not having the credit score to get a loan, but not wanting a loan even if she did qualify. Another was approved but at rates that were too high. Those who did eventually take out loans did so to finance a significant business transition—either expanding or changing locations. One eventually got a loan through a microlending program after being turned down by banks twice.

These responses regarding financing indicate a disconnect between how entrepreneurs view the financing issue and how it is addressed in economic development literature. The expressed desire to operate without loans could be due to simple preference, or could reflect a mistrust of formal financial institutions in minority communities. This disconnect suggests differences in how entrepreneurs in minority communities
conceptualize financial capital and its role in starting and running a business. Many of those interviewed seemed to view loans as something to be avoided if at all possible, rather than a critical step in growing their business.

**Challenges: Customers, Marketing, and Cash Flow**

Participants shared their biggest challenges starting a business. Their most frequent answer was establishing a customer base. Several described dealing with slow business and resultant cash flow struggles as they were starting out. One described how cash flow issues made daily operations difficult: “If you don’t have cash flow, you don’t operate smoothly. You’re always going to have some level of setback or some challenge that is just directly related to cash flow.” Some survived this cash flow struggle by relying on a second source of income, either through a second job or through a spouse who worked. One of the business owners works as an Uber driver to make ends meet. One described surviving by “robbing Peter to pay Paul” at first, and not feeling above water until the fourth or fifth year, while another admitted that she was behind on some of her city taxes. A business owner who had several employees spoke of how much late invoices affected him in his early years, so that “half the time I had to pay my help, and I didn’t get paid.”

One entrepreneur shared that “the first big challenge of starting up was mainly just getting the customers,” which was a common sentiment among those interviewed. Business owners took a number of approaches to finding customers. The most frequent approach was word of mouth/referrals. One found customers through contacts at his previous job before striking out on his own. Two respondents mentioned paying for advertising in either local publications or the Yellow Pages, but did not feel like this was worth the cost. One offered a Groupon, but described this as a bad experience. Some received walk-in business, but none described this as their primary source of customers. One business owner spoke of local news stories on her business, and believed this brought a significant number of new customers.

Owners had varied approaches to internet presence and web advertising. The most common online presence was a Facebook page, and some were on other social media platforms. Two businesses had their own websites up and running. Others had no deliberate web presence at all, and relied on information that auto-populated on search engines like Google. Some complained of inaccurate information about their business online, and were unsure of how to address it. One described how hard it was to get her business to show up on Google Maps. Several business owners felt like they were not doing enough to market their business online and through social media. The most common reason cited for this was lack of time.

Businesses had a mix of local and regional customer bases. One service-provider specialized in working “in West County,” and had more business there than in the city. The other business owners spoke of either a mix or a mostly local customer base. Two spoke of the challenge of bringing customers to a place that was perceived as dangerous. One complained that “people are afraid of North St. Louis,” and another described meeting clients at a coffee shop in an upscale neighborhood if they did not want to come to her physical location. None of the entrepreneurs wanted to have a business that only served the immediate neighborhood, but they described varying levels of success in attracting a more regional customer base.
Entrepreneur Perspectives

**Keys to Success: Improvement on the Fly, Avoiding Distraction**

Participants were asked to share what they viewed as their own reasons for success, and what advice they would give to emerging entrepreneurs based on their experience. One respondent recommended doing as much planning as possible. However, most either did not have a written business plan before starting their business, or had one but did not feel like it was a meaningful tool to guide their work. Overall, extensive planning before opening a business was not highly emphasized. This is consistent with the heavy influence of “push” factors for many of the entrepreneurs, as those who are pushed into business ownership likely do not have the luxury of extensive time to plan.

Many responses talked about how easy it is to get pulled in too many different directions. This can lead to business owners spreading themselves too thin and neglecting their core business. An entrepreneur described fellow business owners as “so busy running the rat race,” and advised that they need to “work a little smarter, not as hard, and achieve more.” One advised the importance of focusing on what you know and are good at in the face of pressure to do otherwise: “Don’t let the business run you.”

A longtime restaurant owner credited never straying from providing “quality at a low price,” along with quality customer service. While this approach seems obvious, the constraints of operating in a low-income neighborhood can lead business owners to cut corners on quality. Cutting costs could increase short-term profits, but it could also undermine long-term efforts to build a customer base. This restauranteur described passing on opportunities to reduce his food costs through providing lower-quality meat. One service provider felt that her level of “individual customer service” provided her with an advantage over competitors in other areas. Another entrepreneur, whose business had grown significantly over the years, summed up his approach succinctly: “Do quality work. Be honest. Be on time.” The majority spoke of informal mentors who they could turn to for advice and help with problems. One talked about how “You don’t have the time to research everything. You need someone you can pick up the phone and call.” A restaurant owner spoke of asking questions of other restauranteurs he met while buying supplies for his business. Overall, respondents credited their success more to the fundamentals of operating a business than they did to innovation or creativity.

“Don’t let the business run you.”
### Table 11: Entrepreneur and Scholarly Perspectives on Key Topics

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<thead>
<tr>
<th>Academic Literature</th>
<th>Entrepreneur Perspectives</th>
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<tbody>
<tr>
<td><strong>Motivations</strong></td>
<td></td>
</tr>
<tr>
<td>• Opportunity to serve a specific enclave can be a “pull” factor.</td>
<td>• “Push” factors are prevalent. Several started businesses after layoffs.</td>
</tr>
<tr>
<td>(Hackler &amp; Mayer, 2008)</td>
<td>• Entrepreneurship provides better job security, earning potential.</td>
</tr>
<tr>
<td>• Some entrepreneurs would have preferred wage employment if it were available.</td>
<td>• Some want to serve their community.</td>
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<tr>
<td>(Bates &amp; Tuck, 2014)</td>
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<tr>
<td><strong>Loans and Financial Capital</strong></td>
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<tr>
<td>• Learned distrust of formal financial sector may undermine efforts to address financial disparities. (Bates, Lofstrom, &amp; Servon, 2011)</td>
<td>• Most expressed no desire for startup financing.</td>
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<td></td>
<td>• Wary of going into debt, dealing with banks.</td>
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<tr>
<td></td>
<td>• Some received loans for expansion or relocation.</td>
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<tr>
<td><strong>Challenges</strong></td>
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<tr>
<td>• Harm of concentrated poverty likely outweighs benefit of enclave market. Perception of unsafe neighborhood limits customer base. (Fischer &amp; Massey, 2000; Dayanim, 2011)</td>
<td>• Establishing and growing a customer base.</td>
</tr>
<tr>
<td>• Minority-owned small businesses have higher closure rates than comparable white-owned businesses. (Hyra, 2015)</td>
<td>• Cash flow, especially in early years.</td>
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<td></td>
<td>• Perceptions of North St. Louis scare off potential customers.</td>
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<tr>
<td><strong>Keys to Success</strong></td>
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<tr>
<td>• Entrepreneurs who move beyond serving an enclave in order to reach a larger market will face greater risks, but also potentially greater rewards. (Fischer &amp; Massey, 2000)</td>
<td>• Formal planning not highly emphasized.</td>
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<td>• Maintaining focus on quality, service.</td>
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</table>
Synthesis and Recommendations

Personal accounts from practitioners and business owners highlight some aspects of the entrepreneurial experience in North St. Louis that are particularly pertinent and may not have been the focus of much academic research. This section uses these perspectives as a basis for offering a preliminary framework that could inform future efforts to support small business in the area. This framework will primarily be of use to those looking to support entrepreneurship, but also holds value for entrepreneurs and those considering entrepreneurship. The report concludes by offering insights that likely prove valid for those looking to support minority entrepreneurship outside of the North St. Louis context, and suggesting topics regarding entrepreneurship in North St. Louis that merit further investigation.

Multiple overlapping agencies and programs seek to support small businesses in North St. Louis in different ways. This analysis does not evaluate existing efforts beyond sharing the perspectives of interview subjects. The framework presented here does not seek to supplant or repudiate these efforts. Instead, it offers insights that could prove valuable to any existing or new efforts in this arena. The framework has four tenets, each of which has multiple facets. Those looking to better support entrepreneurs in North St. Louis should emphasize the personal, support a diversity of entrepreneurship paths, and target support for entrepreneurs in a post-startup plateau. Table 12 summarizes these insights for practice and their analytical basis.

1. Emphasize the Personal

Starting one’s own business is a highly personal endeavor. Every business represents a dream and a story. Support for these entrepreneurs should be equally personal. Offering both business owners and practitioners the space to share their own stories highlights how important these personal connections are. Approaches that emphasize the personal are asset-based: recognizing the agency and knowledge of entrepreneurs rather than trying to remediate deficiencies. They critically examine any policy that might exclude or discourage a budding entrepreneur. One example of this in action is organizations that do not require entrepreneurs to own formally licensed businesses before they start working with them. The process of formally registering a business is opaque and carries not-insignificant costs. Those looking to support businesses can avoid making this a barrier early in the process.

The role of the personal is very evident when it comes to accessing financial capital. Both practitioners and the academic literature emphasized the importance of financial capital in business success. However, the majority of entrepreneurs interviewed had not taken out loans and claimed that they did not even want loans. This disconnect could be explained by a distrust of financial institutions that is due, at least in part, to discriminatory lending practices (historic and ongoing) by banks. These entrepreneurs did not seem to conceptualize accessing finance as a desirable (and maybe necessary) component of growing their business. This distrust of financing could limit their growth potential. While the barriers to fair financial access are very real, it appears that the financing gap is also a trust gap. Merely improving access to financial services by opening a bank branch or changing the requirements for a loan type will likely be insufficient if the target client still feels distrustful or unwelcome. What may have started as simply an issue of access has over time evolved into a deeper alienation. Thus, ongoing discrimination has created psychological and cultural barriers that are too big to be addressed through simply modifying standards.
Effective practitioners can help to bridge this gap by building trusting relationships with clients. Trust is an important factor in other areas, as well. Business owners in North St. Louis operate outside of mainstream markets, and can feel marginalized by mainstream institutions. Those looking to support small businesses must proactively build relationships and overcome distrust as part of their substantive support. Examples of this can include learning clients’ names early in the process, and examining their processes for the subtle barriers, like confusing paperwork, that could be keeping entrepreneurs away. This could also mean reflecting on their location, hours, the layout of their office, and their own customer service in light of how they might affect a client’s comfort level.

These steps seem small, especially as a remedy for structural challenges, but should be important parts of a holistic approach to supporting entrepreneurs. Those seeking to open businesses in North St. Louis may not fit the traditional profile of an entrepreneur. This should be seen as something to be embraced. After all, the challenges they face will be far from typical as well. Supports for entrepreneurs in North St. Louis should eschew cookie cutter approaches and instead focus on meeting clients where they are and helping to unlock their potential.

2. Support Diverse Entrepreneurship Paths

No two entrepreneurs who participated in interviews shared a common story. Business owners came to entrepreneurship at different stages of their lives and with varying levels of preparation. This is especially true considering how many entrepreneurs were pushed toward entrepreneurship by circumstances outside of their control. Building on the personal approach of the previous section, efforts to support entrepreneurs should embrace their diverse paths and circumstances. This can include reframing the business plan as it relates to starting a business and supporting “incremental” entrepreneurship.

Any boilerplate entrepreneurship advice will likely start with writing a business plan. Typically, this includes, at a minimum, a description of the company and its products or services, an analysis of the market for these products or services, and a preliminary budget. Business plans played a remarkably small role for the entrepreneurs interviewed. Only one reported having a useful business plan when starting her business. It appears that the written business plan is less of a crucial step toward a successful business than many might assume. Written business plans may be a formality, but the idea of writing can also discourage prospective entrepreneurs. One practitioner complained of entrepreneurs who “wake up and start a business” without telling anyone. This could be due to discomfort with rigid support processes. “Plans” do not always connote planning. Small business support programs might see results from shifting emphasis from formal to functional planning. This could mean deemphasizing standard written business plans and designing processes for entrepreneurs to engage with the questions that are most likely to affect their business.

Incremental approaches to entrepreneurship can allow budding entrepreneurs to test a concept, refine products and services, and build a customer base before going full-time. Aspiring entrepreneurs may benefit from coaching that steers them towards one of these paths before taking the full-time plunge. Examples of incremental entrepreneurship include selling a product through online platforms like Etsy or at special events, or providing services outside of the schedule of a traditional job. Pursuing an entrepreneurial “side gig” while maintaining another job provides a reliable stream of income during the challenging
early stages of a business. One respondent validated her product by selling out of her car before going full-time and opening a physical location. Others spoke of how having another source of income — through a second job or a spouse who worked — was crucial in the early stages of their business. The incremental approach can also help keep overhead low by not locking business owners into expensive leases. This can also involve counseling potential entrepreneurs out of going full-time with a business idea if it proves unlikely to provide them with a living. Many of the entrepreneurs in this study did not have the luxury of steady employment before starting their business, but this incremental approach should be encouraged when possible.

3. Target the Post-Start-Up Plateau

The data show that African Americans in St. Louis have successfully opened businesses at a stunning rate. However, opening businesses is only part of the story. Successfully opening a business is not the same as successfully running one, and keeping one’s head above water and the bill collectors at bay is not the same as earning a real livelihood. Entrepreneurs that have successfully started a business but not achieved sustainable growth could represent a real opportunity for targeted support.

Many of the business owners described cash flow as their number one problem in the early years. Low levels of operating finances limit options and provide an ongoing source of stress. One business owner described the excess capacity that she had, but lamented not having the resources to hire a salesperson to increase demand for her services. This is an illustration of a scarcity trap: her short-term cash scarcity is preventing her from taking steps to increase demand and revenues, so she remains stuck in a cycle of scarcity. Better-capitalized firms can better weather cash flow issues in their early years and focus on long-term growth, but minority-owned businesses are frequently undercapitalized. Support for entrepreneurs in this situation could take the form of cash grants to alleviate the short-term scarcity coupled with support in planning how to use that cash strategically to achieve sustainable growth.

While many business owners and practitioners emphasized the “nuts and bolts” of running a business, there appears to be a particular need for strategic planning on the demand side of the business. Multiple business owners named their ability attract customers from across the region as a key component of their success. Others expressed the desire to attract a regional customer base, but were unsure how. On balance, the entrepreneurs interviewed relied more on word of mouth than on a cohesive marketing strategy. Few of them paid for advertising, and those that did were skeptical of its effectiveness. One “low-hanging fruit” for most of the entrepreneurs interviewed is establishing an effective basic web presence. Most cited lack of time or technological capacity as preventing them from doing more online. One possible solution would be pairing North St. Louis entrepreneurs with local college students who are interested in marketing. Alternatively, a business support agency could create a toolkit detailing the bare minimum in setting up and maintaining an online presence. The payoff for marketing is indirect and long-term, making it a hard investment for a business owner who is struggling to stay afloat. However, in conjunction with support to ease some of the scarcity effects, effective marketing could pay major dividends over the long run.
Synthesis and Recommendations

Table 12: Key Insights for Practice

<table>
<thead>
<tr>
<th>Academic Scholarship</th>
<th>Support Diverse Paths</th>
<th>Target Post-Start-Up Plateau</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasize the Personal</td>
<td>Minority entrepreneurs often wind up pushed into less lucrative, low-barrier sectors. (Bates, 2005)</td>
<td>95% of Black-owned firms have no employees. (U.S. Census Bureau, 2012)</td>
</tr>
<tr>
<td>Entrepreneur Perspective</td>
<td>Wary of rejection by banks and other institutions.</td>
<td>Formal business plans not useful for most.</td>
</tr>
<tr>
<td>Practitioner Perspective</td>
<td>Entrepreneurs might not “fit” the boxes of overly rigid processes.</td>
<td>Important for entrepreneurs to understand their value proposition and customer base.</td>
</tr>
<tr>
<td>Insight for Practice</td>
<td>Interventions should emphasize trust and personal connection, and work to identify and eliminate subtle barriers to increase comfort among entrepreneurs.</td>
<td>“Incremental entrepreneurship” allows concept validation and refinement while maintaining a source of income.</td>
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</table>

Broader Lessons

This study has focused on a specific geographic context. While contextualizing any intervention is important, some of the insights contained here would likely prove of value to someone looking to support minority entrepreneurship in a different setting. Any approach to support minority entrepreneurship should do so in a historically conscious manner, and should be wary of interventions that view increased access as the most effective method to address disparities.

As described previously, the conditions of low-income minority communities like North St. Louis are not an accident. They are the product of a history of harmful policy and discriminatory practices. Any intervention in these communities must contend with this history. Low-income minority communities do not have large proportions of unbanked residents simply because those residents prefer cash. Minority-owned businesses do not enjoy being under-capitalized. These conditions exist because of historical (and ongoing) discrimination in the banking sector. Interventions to bring residents into the mainstream banking system must recognize the historic basis for these phenomena and address the
issue accordingly. Likewise, investigations into sector choice for minority businesses must recognize that, historically, minority entrepreneurs chose sectors based not just on opportunity, but on de facto and de jure segregation laws that restricted the industries they could pursue. Funeral homes and personal services like hair care are examples of sectors that African Americans were traditionally allowed to enter. This does not mean that minority entrepreneurs should still be restricted to these sectors, but rather that interventions in this area should be sensitive to its historical basis if they want to bring about lasting change. For a topic like sector choice, this could mean recognizing the cultural and historic ties to certain sectors, while still steering aspiring entrepreneurs towards sectors that might be more promising.

This history of discrimination explains why “increasing access” as a policy response to disparities is often insufficient. Minority small businesses are under-capitalized, at least in part, due to discriminatory lending practices and lack of access. However, simply wiping these issues clean by ensuring fair treatment and increasing access is no longer sufficient to solve the problem. Distrust of financial institutions has become culturally engrained and entangled with other issues, like credit scores. Opening a bank branch in a low-income neighborhood might satisfy the requirements of the Community Reinvestment Act, but it will not bring about real change. Similarly, building more grocery stores is not enough to immediately resolve the issue of food deserts. Lack of access to fresh, affordable, healthy food has influenced the cooking and eating practices in these areas. Suddenly increasing access will not erase those practices. Interventions to address disparities must move beyond access and move toward more holistic and contextually sensitive approaches.

Directions for Further Investigation

The framework above suggested the three most promising directions for understanding and supporting entrepreneurship in North St. Louis, but these are far from the only insights that are worth additional consideration. Some other topics that could prove fruitful include how entrepreneurs recognize opportunities and make decisions on what sector they enter (particularly given dwindling brick and mortar retail demand), networking and social learning between business owners, making supplier diversity programs and preferential contracting more robust and accessible, and the role businesses can play in making neighborhoods perceived as dangerous more legible and attractive to outsiders.

North St. Louis stands to undergo major changes in coming years. There are few signs that its population loss is slowing. Ongoing population loss, coupled with the rise of online shopping and concurrent decline of neighborhood retail, offers a challenging outlook for entrepreneurs. However, the relocation of the NGA West headquarters will create many jobs associated with its construction and operation, which is a prime opportunity for preferred contracting and diversity programs. NGA West also appears to be catalyzing new residential construction in North St. Louis, and its many employees will bring increased demand for retail in the area. This presents real opportunities for those ready to capitalize on them.
Conclusion

It is important to acknowledge the fraught nature of studying and promoting minority entrepreneurship. Too often, treatments of minority entrepreneurship view it as a panacea for broken communities without acknowledging the pervasive and persisting structural disadvantages that led to those communities becoming broken in the first place. Any examination of minority entrepreneurship that focuses on the individual traits that lead to success without recognizing the context of structural disadvantage is naïve at best, and bolsters structures of inequality at worst.

This report examines the experiences of minority entrepreneurs in North St. Louis, and amplifies their voices. It attempts to paint a hopeful but realistic picture of an entrepreneurial experience that is often glorified or used to support a political agenda. Give the numerous barriers minority entrepreneurs face, one might ask: is support for minority entrepreneurs even worth pursuing? The answer to this question is a tentative “yes.” Although entrepreneurship is a path rife with obstacles and likely not leading to riches, it may simply represent the best option for those who have few. In addition, the remarkable growth of the number of Black-owned firms in the City of St. Louis—even though that growth comes with caveats—would be foolish to ignore.

The report offers practical guidance on how to best support these entrepreneurs. The entrepreneurs who shared their experiences deserve recognition for their passion, hopefulness, and persistence in the face of adversity. Entrepreneurship, at its core, is about creating something out of little more than an idea and hard work. That these entrepreneurs have done so in the face of countless obstacles is inspiring. They are a real asset to their community, but they are not the answer. Entrepreneurship cannot solve the disparities many minority communities in America face. While entrepreneurs may “disrupt” old ways of doing things, entrepreneurship ultimately operates within the constraints the market and political system provide. Disruption must occur at a systems level in order to address structural disadvantage. Entrepreneurship can be one of many tools in this effort, but it will always be an inadequate response to the challenges of a place like North St. Louis. Silver bullets will not save communities like North St. Louis, no matter how innovative those silver bullets may be. True change requires political will, broad coalitions of committed stakeholders, and ongoing investment in contextually sensitive interventions. There remains much work to do.
Appendix

Appendix Item 1: Questions for Small Business Owners

1. What is your business? How long have you been in business?
2. Can you tell me about how you decided to start a business? Why did you decide to go into this field? What was your first product?
3. What were your first years starting a business like? What were your biggest challenges? (Prompt on capital)
4. For geographically fixed: How did you pick this location? Or: What area do you serve/work in?
5. How did you find customers? How do you find new customers now? Online presence/advertising?
6. How did you go about hiring employees?
7. Who are your main competitors? How do you stay ahead of them?
8. What are your plans for the future? Are you planning to grow?
9. What were the biggest lessons you learned starting out? What advice would you give someone starting a new business around here?
10. What has been your secret to success?
11. Where could you have used more support?
12. Did you have a business plan?
13. Did you have a mentor or someone you would go to for advice?
14. Any questions for me? Anything else to share?

Appendix Item 2: Questions for Economic Development Practitioners

1. Can you share about the work you do and how it relates to small businesses?
2. Where are the common motivations you see from people starting small businesses?
3. What do you think is preventing people from starting more businesses?
4. What types of people do you see successfully operating small businesses? What types of practices do you see in successful small businesses?
5. What would help existing businesses to grow?
6. What policies are in place that help or hurt small businesses?
7. What programs are most effectively supporting small businesses?
8. How does locating in neighborhoods that are losing population affect small businesses? Do you see them making different decisions because of this?
9. How do you see the landscape of small businesses changing in the future?
10. Are there any businesses or types of businesses might I be missing that I should look into?
Works Cited


Bates, T. & Robb, A. (2013). Greater access to capital is needed to unleash the local economic development potential of minority-owned businesses.


