



A PLAYBOOK FOR SCALING LATINO-OWNED BUSINESSES

A Report of the Aspen Institute Forum on
Latino Business Growth

Compiled and Edited by Gwyn Hicks



This playbook is compiled and edited based on the notes of an informed observer at the second convening of the Aspen Institute Forum on Latino Business Growth. Content has resulted from contributions from Forum participants, conversations between the writer and participants and research. None of the comments or ideas contained in this playbook should be taken as embodying the views or carrying the endorsement of any specific participant at the Forum, the Aspen Institute Latinos and Society Program, or any of the supporting donors.

A Playbook for Scaling Latino-Owned Businesses

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We are pleased to share with you *A Playbook for Scaling Latino-Owned Businesses*, which details “plays” a variety of stakeholders can implement toward unlocking catalytic advancement for Latino entrepreneurs. The ideas put forth in this playbook reflect those developed by participants during the second Forum on Latino Business Growth convened in Aspen, Colorado in May of 2019. We are indebted to the participants from both the Forums on Latino Business Growth, whose year-round work, ideas, and thought leadership, as well as implementation and commitment to carry out recommendations, have made this endeavor possible. Whether you are in a position to set one of these plays into motion, access funding needed to move plays along, or share these ideas with those who can, we hope this playbook inspires you to join us in fostering supportive ecosystems that help Latino-owned businesses to grow and thrive.

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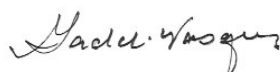
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Sincerely,



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EXECUTIVE SUMMARY

A Playbook for Scaling Latino-Owned Businesses is designed to support the scaling and continued growth of Latino-owned businesses (LOBs) by offering entrepreneur support organizations (ESOs), financial institutions, and other stakeholders actions they can take to offer Latino entrepreneurs greater access to financial capital, expanded markets, and support for rapid scale. In this publication, scale is defined as a business that earns \$1 million or more in revenue annually on a sustained basis. This playbook also features plays intended to counter the negative impact of prevailing narratives about Latinos and their businesses while promoting a more supportive operating environment that fosters the growth of LOBs and enables Latino entrepreneurs to reach their full potential. The plays are organized around four challenge areas.

INFLUENCE THE OPERATING ENVIRONMENT

The operating environment, as defined here, refers to the societal realities (vs. business conditions) that impact the business ecosystem that Latino-owned businesses must navigate to reach their full potential. This ranges from stereotypes about Latino entrepreneurs to a lack of awareness among venture capitalists, equity investors, and other stakeholders about the size and growth of the Latino market and the potential of LOBs. One play focuses on shifting prevailing negative or narrow narratives about Latino businesses. The other play works to change the system by addressing policies that impact Latino entrepreneurs' ability to scale.

- **Operating Environment Play 1:** Launch and support a viral social media and marketing campaign to change the narrative and perceptions about Latino entrepreneurs in the United States and inspire emerging Latino entrepreneurs to take their businesses to the next level by showcasing successful scaled Latino business owners.
- **Operating Environment Play 2:** Implement municipal zoning strategies, such as historical overlays and public-private partnerships, to ensure municipal regulations mitigate threats to LOBs and support their efforts to scale.

INCREASE ACCESS TO FINANCIAL CAPITAL

To increase their productivity, expand their reach, and improve their chances of long-term success, all businesses need access to financial capital. Yet, studies show that LOBs, along with other businesses of color, face additional challenges to accessing traditional sources of financial capital, such as bank business loans, venture capital, angel investments, and debt financing. These plays are designed to address these barriers and facilitate LOBs' access to the capital they need to scale.

- **Capital Play 1:** Launch a comprehensive online resource to help Latino business owners learn about opportunities to access capital, determine which capital tools and providers are best suited to meet their needs, and get advice for connecting with those capital providers.
- **Capital Play 2:** Improve the way commercial banks work with Community Development Financial Institutions (CDFIs) to ensure that more Latino business owners get the funding they need.
- **Capital Play 3:** Create and implement new investment vehicles and equity-like financing products to meet the needs of Latino business owners.
- **Capital Play 4:** Pair a variety of capital and strategic support resources to help promising high-growth potential Latino business owners develop a growth mindset and boost their trajectory.
- **Capital Play 5:** Increase the flow of venture capital to high-growth Latino entrepreneurs by increasing the number of Latino investors and fund managers.

EXPAND MARKET OPPORTUNITIES

To grow their businesses, entrepreneurs need access to wider markets. Some procurement programs—including government set-asides and commercial supplier diversity initiatives—were created to enhance the access of small business and minority entrepreneurs to government and commercial markets. Merging with or acquiring firms that already have a large customer base and expanding their reach through the digital marketplace can also help Latino entrepreneurs expand their customer base more quickly. The following plays are designed to help Latino business owners gain the access, knowledge, and resources needed to significantly increase their market share for growth.

- **Market Play 1:** Catalyze strategic supplier partnerships through direct matchmaking services.
- **Market Play 2:** Encourage large-scale growth through mergers and acquisitions (M&A).
- **Market Play 3:** Help Latino-owned businesses leverage existing tools and technology to access the global digital marketplace.

FAST TRACK HIGH-GROWTH OPPORTUNITIES

Despite being the fastest growing segment of small businesses in the U.S., a majority of the estimated 4.65 million LOBs start small and stay small.¹ These plays offer opportunities for Latino-owned businesses to leverage partnerships and technology to rapidly grow their networks and capacity to scale more quickly.

- **High-Growth Play 1:** Capitalize on corporate expansion or relocation opportunities to negotiate diversity requirements that foster rapid growth for LOBs through public-private partnerships.
- **High-Growth Play 2:** Drive accelerated growth for LOBs through joint ventures and vertical integration strategies.
- **High-Growth Play 3:** Improve internal systems and expand the external reach of LOBs through technology enablement.
- **High-Growth Play 4:** Create and promote an online boot camp to help Latino business owners master the skills and knowledge needed to scale their enterprises more quickly.

As the Latinos and Society Program continues to work with thought leaders to identify opportunities for more Latinos to harness their economic and political power and advance policies that support economic mobility, these plays provide promising action steps that a wide variety of stakeholders can use as a launch pad and continue to build upon. These plays do not represent the full spectrum of possible tactics; however, implementing all or even some of this robust suite of promising plays will put more LOBs on the path to scale. In fact, several Forum participants have already begun putting some of these plays into action, serving as examples and/or inspiring others to join. Other plays are primed for new stakeholders to adapt and execute. Some plays are geared toward the entrepreneur, while others aim to prompt those serving entrepreneurs.

Although LOBs contribute an incredible \$700 billion to the U.S. economy each year, just three percent of those businesses reach scale.²

We recognize that scaling is not right for all entrepreneurs. These plays are designed for those Latino business owners who are interested in scaling their businesses but who face challenges in securing the capital and other support and resources needed to do so. Some of the plays work for any-sized business—whether it is a small business looking to hit the \$1 million mark or a scaled business that wants to continue to grow. Other plays are designed with a specific growth potential in mind.

This playbook's approach aims to help Latino entrepreneurs increase their revenue, secure supply chain and procurement opportunities, and increase access to other important markets. If implemented, these ideas will help LOBs grow, create more jobs, increase revenue, build wealth, and become even greater drivers of the U.S. economy. For this to succeed to its fullest ability, we must also foster a more positive narrative about Latino business owners and the potential of their companies in the United States.

1 The Hispanic Small Business Report. 2019. Claritas

2 Mills, C. K., Battisto, J., Lieberman, S., Orozco, M., Perez, I., and Lee, N.S. (November 2018). "Latino Owned Businesses - Shining a Light on National Trends." Stanford Latino Entrepreneurship Initiative. Stanford Graduate School of Business. Available: <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/Report-on-Latino-Owned-Small-Businesses.pdf>

INTRODUCTION

As we enter a new decade, shifts at home and throughout the world have shaped our country into a dramatically different place than it was even one generation ago. Since 1980, the Latino population of the U.S. has more than doubled. Today, Latinos represent more than 18 percent of the population—a number that is expected to grow to nearly 30 percent by 2060—making them the largest ethnic group in the nation.³

This country's 4.65 million Latino-owned businesses (LOBs)—which generate an estimated \$700 billion per year—are primed to play a significant role in bolstering the U.S. economy and, if enabled, will become a major driver of wealth creation.⁴ Leveraging this opportunity requires new approaches and bold new frameworks and norms that are focused on advancing Latino-owned ventures.

At a time when the number of business start-ups is decreasing among white males, entrepreneurship among Latinos—along with African American women and women generally—is on the rise.⁵ Owning one in four of all new businesses in the U.S., Latino entrepreneurs are starting new companies at more than twice the rate of all other groups combined.⁶ Given the strong connection between entrepreneurship and economic prosperity, combined with the growth in size and entrepreneurialism of the American Latino population, the nation's financial health disproportionately rests on the success and growth of Latino-owned businesses.⁷ Yet, estimates show that just three percent of LOBs generate more than \$1 million or more in annual revenues, compared to six percent of white-owned businesses. If LOBs are able to scale at a rate similar to non-Hispanic white businesses, they could add another \$1.47 trillion to the U.S. economy.⁸

To address this opportunity gap, Americans and stakeholders of all types must re-imagine what supporting diverse-led enterprises looks like in 2020 and beyond. *A Playbook for Scaling Latino-Owned Businesses* describes a series of concrete actions that financial institutions, investors, economic developers, business leaders, policymakers, business and entrepreneur support organizations, and other stakeholders can take to unlock catalytic advancement for Latino entrepreneurs by enabling them to jumpstart opportunities for rapid scale. These policies and practices must be supported by a new narrative that highlights the true potential of LOBs in the U.S. while eliminating unhelpful stereotypes and negative narratives about Latinos that may prevent gatekeepers, lenders, and clients from seeing and investing in the true capacity and potential of Latino-owned businesses. Shifting the perception of service providers, funders, policymakers, businesses, and Latino business owners themselves will help harness the power of Latino entrepreneurs to propel the U.S. economy forward.

3 Colby, S. L., & Ortman, J. M. (March, 2015). "Projections of the Size and Composition of the U.S. Population: 2014 to 2060." United States Census. U.S. Dept. of Commerce. Available: <https://www.census.gov/content/dam/Census/library/publications/2015/demo/p25-1143.pdf>

4 Mills, C. K., Battisto, J., Lieberman, S., Orozco, M., Perez, I., and Lee, N.S. (November 2018). "Latino Owned Businesses - Shining a Light on National Trends." Stanford Latino Entrepreneurship Initiative. Stanford Graduate School of Business. Available: <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/Report-on-Latino-Owned-Small-Businesses.pdf>

5 Robert W. Fairlie et al. "The Kauffman Index 2015: Startup Activity National Trends" (see Figure 3), The Kauffman Foundation, 2015, <https://www.issuelab.org/resource/the-kauffman-index-2015-startup-activity-national-trends.html>

6 Maloney, Carolyn, Vice Chair, Joint Economic Committee. (2019). "The Economic State of the Latino Community in America." U.S. Congress. Available: https://www.jec.senate.gov/public/_cache/files/379f7a7c-e7b3-4830-b1a9-94c3df013b81/economic-state-of-the-latino-community-in-america-final-errata-10-15-2019.pdf

7 Orozco, M., Perez, I., Oyer, P., & Porras, J.I. (January 2019) "2018 State of Latino Entrepreneurship." Stanford Latino Entrepreneurship Initiative. Stanford Graduate School of Business. Available: <https://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2018>

8 Maloney, Carolyn, Vice Chair, Joint Economic Committee. (2019). "The Economic State of the Latino Community in America." U.S. Congress. Available: https://www.jec.senate.gov/public/_cache/files/379f7a7c-e7b3-4830-b1a9-94c3df013b81/economic-state-of-the-latino-community-in-america-final-errata-10-15-2019.pdf

Building upon the 2017 Forum on Latino Business Growth and the subsequent [*Unleashing Latino-owned Business Potential*](#) report that identified barriers and captured solutions, the Aspen Institute Latinos and Society Program convened a second Forum on Latino Business Growth in May 2019. There, a diverse group of entrepreneurs, entrepreneur support organizations, funders, and thought leaders worked together to develop a series of actions—or plays—that various stakeholders can take to help more LOBs access capital, expand into new markets, spur revenue generation, and change the current operating environment in order to accelerate the number of LOBs able to scale to \$1 million or more in revenue.

This playbook offers a series of concrete action steps participants in the second Forum identified that a variety of capital providers, procurement decisionmakers, economic developers, municipalities, corporations, government financial agencies, regulators, entrepreneur-support organizations, elected officials, and other stakeholders can take to close the LOB opportunity gap. Researchers and academics who are focused on minority-owned business trends, as well as on Latino business networks and associations, can also benefit from considering the plays described herein. This playbook also offers plays to foster an ecosystem more conducive for Latino business owners who want to increase their revenue and reach their full potential.

Recognizing that businesses do not operate in silos, these plays prioritize an ecosystem approach to addressing the challenges that often prevent LOBs from scaling. Some plays are intended to help all LOBs thrive, while others are focused on those poised to scale to a certain size. It is worth noting that the ultimate success of all of these plays depends on supportive business ecosystems that include the widespread adoption of new narratives about LOBs and the value of their existing and potential contributions to the U.S. economy.

THE CAPITAL LANDSCAPE

Capital providers and strategic resources available to LOBs, now or in the future, vary significantly. To understand the capital landscape and identify the right size and type of capital for different businesses at different stages, Forum participants segmented the Latino business universe according to size and scalability potential using the following taxonomy.



RABBITS

Rabbits are companies that are at \$1 million in revenue—or have a plan to get to \$1 million in revenue in the next three to five years—but do not intend to grow any higher than \$3 million. They are typically sole proprietors or have fewer than six employees with plans to hire as they expand. Rabbits access capital from:

- Personal funds
- Family and friends
- Credit unions and other community banks
- Angel investors
- Specialized lenders
- Lending platforms.



ZEBRAS

Zebras are companies with sound financial positioning that have already passed the \$3 million mark and have the potential to grow as big as \$10 million in revenue. Zebras access capital from:

- Community Development Financial Institutions (CDFIs)
- Banks
- Strategic partnerships
- Small business innovation and research grants.



GACELAS

Gacelas (the Spanish word for gazelles)⁹ are companies that represent the 0.1 percent of LOBs that are earning more than \$5 million in revenue per year and are on a high-growth trajectory.¹⁰ With the potential to quickly hit the \$10 million mark and grow as big as \$100 million plus, Gacelas are poised to have a significant impact on closing the \$1.47 trillion opportunity gap. Gacelas access capital from:

- Small Business Investment Company (SBIC) funds
- Middle market private equity funds
- Strategic partners
- Leveraged buy-outs (LBOs)
- Initial public offerings (IPOs).

⁹ The term “gacela” is used here in Spanish because participants who devised the capital landscape use this form in their own work and it refers to a particularly promising high growth segment of LOBs.

¹⁰ Orozco, M., Morales, A., Pisani, M.J., & Porras, J.I. (Eds). 2020. Advancing U.S. Latino Entrepreneurship: A New National Economic Imperative. West Lafayette, Indiana: Purdue University Press. Chapter 14, "The Great Gacela Theory" by Monika Mantilla.



UNICORNS

Technology and other high-growth companies that demonstrate the capacity to double in size from one year to the next and have a strategy for capturing a significant market share within five to seven years are known as Unicorns.¹¹ These companies have the potential to grow beyond \$100 million—possibly to \$1 billion or more. Unicorns access capital through:

- Pitch competitions
- Incubators and accelerators
- Venture capital
- LBOs
- IPOs.

Describing the capital landscape by type and amount of capital and identifying companies by size focuses the plays and guides stakeholders and service providers in how best to target their interventions.

¹¹ Unicorn is a term used in Silicon Valley to describe a startup with a valuation of more than \$1 billion. Fortune Magazine started keeping a list of companies with that exalted status. Techcrunch has a constantly updated “Unicorn Leaderboard.”

SECTION ONE:

INFLUENCE THE OPERATING ENVIRONMENT

CHALLENGE STATEMENT¹²

The prevailing system of established regulations and societal norms make scaling a business particularly challenging for Latino entrepreneurs. Explicit and implicit belief systems and systemic and structural barriers affect every aspect of business success in both subtle and overt ways. These barriers must be addressed in order for LOBs to thrive and grow.

The [Unleashing Latino-owned Business Potential report](#) identified three opportunities to discuss prevalent societal challenges that are impacting the environment in which LOBs operate and therefore affect their ability to achieve scale:

1. Build greater power and influence to affect existing power structures that affect LOB growth.
2. Counter unhelpful narratives and stereotypes that color perceptions about potential.
3. Build the social capital needed to navigate and access often opaque and exclusionary systems and networks.

Participants at the 2019 convening honed in on changing the current narrative around LOBs and addressing regulatory challenges that may prevent LOBs from scaling.

OPERATING ENVIRONMENT PLAY 1 | Launch and support a viral social media and marketing campaign to change the narrative and perceptions about Latino entrepreneurs in the United States and inspire emerging Latino entrepreneurs to take their businesses to the next level by showcasing successful scaled Latino business owners.

BEST SUITED FOR



THE STRATEGY

Traditional and entertainment media rarely portray Latinos as highly successful business owners or technology industry leaders; typically, they instead perpetuate harmful and often negative stereotypes of Latinos that persist in mainstream society. An over-representation of LOBs as small and sector-specific—think food trucks, cleaning services, and landscaping—leaves Latino contributions to high-growth industries such as health care, technology, and manufacturing out of the picture. Realizing the full economic opportunity of Latino businesses requires broadly socializing a new narrative that accurately portrays the significant financial power of Latinos, both as business owners and as consumers. Participants also recommended developing a viral social media campaign that would uplift Latino success stories and invite anyone to promote, join, and participate.

¹² At the 2019 Forum, participants received challenge statements and worked in groups to design plays to address these challenges.

KEY STAKEHOLDERS

- Entrepreneur support organizations (ESOs)
- Local and national government entities willing to champion this effort and contribute models
- Scaled and scaling Latino business owners willing to join the campaign, tell their stories, inspire others, mentor, and bring other LOBs along
- Advertising agencies willing to champion the campaign, potentially pro bono.
- Foundations with an interest in economic equity.

ACTION STEPS

- Raise necessary funding and/or secure in-kind support for national and local campaigns.
- Identify a host organization to oversee this effort and staff appropriately.
- Secure a digital communications firm to develop, plan, and execute the campaign.
- Create a social media toolkit.
- Identify and secure partners.
- Launch the campaign and promote it through a variety of outreach channels to draw attention to the effort.
- Cross post and tag similar initiatives to increase visibility.

IN THE WORKS

Forum participants propose launching the 1 Million to 1 Million campaign (1Millionto1Million.com) aimed at dispelling misconceptions about Latino entrepreneurs in the United States by highlighting a range of Latino business owners while also giving Latino entrepreneurs the support and networking they need to scale. With a goal of supporting one million LOBs in scaling beyond the \$1 million mark, the effort should feature Latino business owners running innovative companies that are primed to scale and grow, as well as those that are already breaking barriers to lead high-growth businesses. Examples include: Dyan Gibbens, founder and CEO of Trumbull Unmanned, which operates automated aircraft systems for the energy sector, Ricardo Garcia-Amaya, CEO of VOIQ, an on-demand call app that uses artificial intelligence VoiceBots for sales and marketing calls; and Maria Rios, president and CEO of Nation Waste, Inc. (NWI), the first Latina-owned waste removal company in U.S. history and one of the largest minority-owned companies in Texas. Beyond Latino entrepreneurs, *1 Million to 1 Million* should feature Latino celebrities and leaders offering testimonials, as well as high-profile Latino investors offering insights about starting a business and why it is important to invest in Latino businesses.

OPERATING ENVIRONMENT PLAY 2 | Document and share the implementation of municipal zoning strategies, such as historical overlays and public-private partnerships, to ensure municipal regulations mitigate threats to LOBs and support their efforts to scale.

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THE STRATEGY

Municipal regulations have a profound effect on a business' growth potential. City policies, such as land use and zoning, are often the only tools municipalities have to incentivize the protection and retention of small businesses and cultural institutions. Historically, zoning designations, such as Empowerment Zones and Redevelopment Zones, have used zoning tools to incentivize investment that leads to the revitalization of under-invested communities, which are often communities of color. When this happens, LOBs are left at the mercy of rising commercial real estate trends that are leading to gentrification and displacement pressures, which further threaten business growth in major Latino business hubs.

All business owners but especially Latinos, will benefit from understanding zoning laws and knowing what strategies they can apply to protect their businesses. People who work in municipal offices, as well as advocates, can capture, learn from and share zoning strategies. Ideally, these could be captured in a playbook for municipal zoning. Then, in collaboration, stakeholders such as representatives from local and state government planning offices – and Latino business owners – can implement successful land use and zoning policies for their municipalities.

KEY STAKEHOLDERS

- Existing LOBs threatened by rising prices
- Cities and mayoral/municipal offices attempting to manage gentrification
- State and city economic development offices
- Building and planning department staff
- Advocates of inclusive development strategies.

IN THE WORKS

The City of Oakland, California is working with Oakland's Fruitvale District Unity Council, a local Latino Community Development Corporation - to explore the creation of a commercial acquisition fund to ensure LOBs are able to buy the properties where their businesses are located. The hope is that owning the space where the business is based, will ensure long-term sustainability for the business.

ACTION STEPS

- Research and uplift examples of successful zoning to support diverse business owners.
- Develop a playbook capturing the successes and pitfalls from cities around the U.S. working on this.
- Share widely at U.S. Conference of Mayors and/or other fora that reach large groups of policymakers.
- Share widely with Economic Development Officers.

SECTION TWO: INCREASE ACCESS TO FINANCIAL CAPITAL

CHALLENGE STATEMENT

Different types of businesses require different types of capital at different stages of their growth cycle. LOBs face particular difficulties accessing capital across this cycle due to a variety of well-documented challenges. This is especially true of LOBs that are poised to scale. There is a short supply of “right-sized” or “right-type” of capital products to meet the needs of these businesses, and many Latino business owners face barriers to accessing the capital that does exist. Creative matchmaking, new capital tools, hybrid tools, and adaptations to existing tools are needed to close the gap between demand and supply.

Whether launching a new business or expanding an established business, entrepreneurs need financial capital to increase their productivity, expand their reach, and improve their chances of long-term success. Yet, studies show that LOBs, along with other businesses of color, face significant challenges to accessing traditional sources of financial capital, such as bank business loans, venture capital, angel investments, and debt financing.¹³

According to the most recent numbers from the Stanford Latino Entrepreneurship Initiative (SLEI), for 70 percent of Latino entrepreneurs in the United States, the most common source of capital is personal savings, followed by credit cards, personal bank loans, and a loan from a family member or friend.¹⁴ Just six percent of the Latino business owners who SLEI surveyed finance their businesses with a commercial loan, and only one percent of all LOBs created between 2007 and 2012 received venture capital or angel investments.

Latino business owners report difficulty accessing credit to help manage cash flow or fund expenses related to expansion and procurement. Unscaled firms report having low credit scores as the likely reason their funding was not fully approved, while scaled firms report having insufficient collateral as the likely reason their funding was not fully approved. And, even when they are eligible, LOBs and other businesses of color often face challenges that white-owned businesses do not face; for example, they must provide more documentation, are rejected more often, and, when they are given a loan, are often given less than they requested compared to their white peers.¹⁵

The racial and ethnic wealth gap in the U.S. further compounds these challenges. The median wealth for Latinos is \$13,730—about 10 percent of the median wealth of white Americans.¹⁶ The pool of available financial capital for a group that largely draws on loans from relatives and friends is significantly smaller than it is for groups that are more likely to draw from financial institutions.

According to SLEI, over 50 percent of scaled firms—regardless of the measure of scale—use two or more sources of capital, compared to 50 percent or less among unscaled firms. This is the case for firms at the startup stage and at the growth stage. Scaled Latino firms using more sources than average suggests that using more capital sources is related to firm growth.¹⁷

13 Hwang, V., Marion, E., Desai, S., & Baird, R. (2019). “Access to Capital for Entrepreneurs: Removing Barriers.” Ewing Marion Kauffman Foundation. Available: https://www.kauffman.org/-/media/kauffman_org/entrepreneurship-landing-page/capital-access/capitalreport_042519.pdf

14 The 2019 State of Latino Entrepreneurship report includes responses from more than 5,000 Latino-owned companies around the U.S. and Puerto Rico. The annual report is designed to identify business growth potential as well as obstacles to entrepreneurship among Latinos.

15 Ibid.

16 Fetsch, E. (2016). “Including People of Color in the Promise of Entrepreneurship.” Entrepreneurship Policy Digest. Kauffman Foundation. Available: <https://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/including-people-of-color-in-the-promise-of-entrepreneurship>

17 Rivers, D., Porras, J., Ott, N.R., Pompa, P., & Chap, E. (2017). “State of Latino Entrepreneurship 2016.” Stanford Latino Entrepreneurship Initiative. Stanford Graduate School of Business. Available: <https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/report-slei-state-latino-entrepreneurship-2016.pdf>

To help Latino businesses thrive and create a more inclusive economy, Latino entrepreneurs need a better understanding of and access to the size and type of financial capital that best meets their business needs. Financial institutions also need to do a better job of meeting the needs of the nation's new business drivers.

CAPITAL PLAY 1 | Launch a comprehensive online resource to help Latino business owners learn about opportunities to access capital, determine which capital tools and providers are best suited to meet their needs, and get advice for connecting with those capital providers.

BEST SUITED FOR



THE STRATEGY

For some Latino business owners, a lack of knowledge about the various sources of available financing may prevent them from accessing the capital they need to scale. An interactive, community-owned online business support site where Latino entrepreneurs can access objective, aggregated information about the different types of financing available; a list of capital providers that are focused on funding Latino entrepreneurs; and prompts to help them assess which choices are the best fit for the size and stage of their company will make it easier to identify possible funding streams. Adding technical support to help users apply for loans or access other funding support, such as a detailed Frequently Asked Questions (FAQ) or a web-based chat function will enhance the user experience, foster a stronger business network, and potentially lead to new resources.

Offering links to existing local and national resources in a single hub will help Latino entrepreneurs explore a wide range of options as they work to determine what source of capital will work best for them. There are a variety of resources out there, such as [Fundera](#) and [Camino Financial](#), offering web-based lending; CDFIs that serve geographic-specific LOBs, like [LiftFund](#) and the [Latino Economic Development Center](#); as well as national organizations such as the [United States Hispanic Chamber of Commerce \(USHCC\)](#), [Small Business Administration \(SBA\) Centers](#), and [Minority Business Development Agency business centers](#), which offer users a comprehensive set of additional resources.¹⁸ Organizing this information into a single site will make it easier for Latino entrepreneurs to access the information they need to assess various types of capital and determine which options are right for them.

To be sustainable and effective, this type of electronic resource hub needs long-term management and funding, as well as an ongoing marketing strategy to engage and attract new users. We acknowledge that this resource alone will not be sufficient for allowing a LOB to scale, but it will provide a targeted one-stop resource for Latino business owners with a focus on helping them grow.

IN THE WORKS

To advance this play, Forum participants secured and registered [WhereLatinosGetFunding.com](#) and are looking for financial support and other resources to build out the site. They plan to offer content in English and in Spanish. Although the site is envisioned as a collaborative, community-owned toolbox, it will require someone to “own” and regularly vet and update content. The ownership and updating model should ideally comprise Latino business advocates, researchers, technical assistance providers, and local chambers of commerce, who can bring the critical mass and co-ownership necessary for success. Real-time technical support and a built-in feedback loop will help the site manager ensure the updates are meeting the users’ needs.

¹⁸ The mention of specific brands and organizations is to provide examples and is in no way intended to be an endorsement of said entities.

KEY STAKEHOLDERS

- Latino entrepreneurs
- ESOs serving Latino businesses
- Chambers of commerce
- Municipalities
- Economic development professionals
- Funders/capital providers
- Government programs (CDFIs, Community Development Corporations, SBICs, and other financing and capital vehicles).

ACTION STEPS

- Secure funding to hire a full-time site manager/content aggregator.
- Collect and collate available information on an ongoing basis.
- Determine a process for vetting resources.
- Draft content and build a website.
- Create a process for integrating resources into WhereLatinosGetFunding.com to keep it current.
- Develop and implement a marketing strategy to promote the resource.
- Connect to the One Million to One Million campaign (see page 16) to let Latino entrepreneurs and other capital providers know the site exists and encourage more people to use and populate the resource.

CAPITAL PLAY 2 | Improve the way commercial banks work with CDFIs to ensure more Latino business owners get the funding they need.

BEST SUITED FOR



THE STRATEGY

This play builds the loan referral recommendation presented in [Unleashing Latino-Owned Business Potential report](#) that called for banks to send applicants to a CDFI rather than turning them down altogether.

By offering more flexible credit requirements in loan applications, CDFIs are set up to provide alternative loan options (ranging from \$5,000 to \$500,000) to start-ups and existing businesses that have difficulty obtaining credit from mainstream financial institutions. Often providing needed wrap-around support services to these businesses to ensure that they can meet their loan obligations, CDFIs are a viable alternative to traditional banks, which often have high revenue and/or collateral baseline requirements that Rabbits may be unable to meet.

In recognition of this important opportunity for businesses that do not meet their loan requirements, several commercial banks have implemented loan referral programs to offer denied applicants alternative financing through CDFIs. However, banks seeking to implement referral programs on a large scale have encountered challenges, including a reluctance on the part of the discouraged applicants to pursue the bank referral to a CDFI.

To address the lack in referral uptake, this play encourages banks to use the eligibility and underwriting criteria of participating CDFIs to underwrite, originate, and approve the loan—and then sell the loan to the CDFI for servicing. To be successful, the bank must first ensure the CDFI partner has the capacity to absorb the bank's underwritten loans. The bank and CDFI must then work together to set the loan requirements.

By working with CDFIs to set parameters for which business owners are likely to get a yes, banks can ensure they are only putting forward eligible or qualified borrowers. Banks also get a win by supporting client relationships. Once these business owners progress beyond CDFI funding, they may come to the bank to meet future funding needs. At that point, these businesses may be eligible for commercial bank funding, which often comes at a lower cost and with more flexibility in terms of the range of products, such as credit lines and letters of credit.

This is one example of ways banks can partner with CDFIs to expand access to capital for LOBs. Another example includes providing funding (e.g., grants and loans) to CDFIs through programs such as Wells Fargo's Diverse Community Capital program and JPMorgan Chase Foundation's Entrepreneurs of Capital Funds. The Aspen Institute's Business Ownership Initiative is researching ways that both bank-CDFI referral programs and other bank-CDFI partnerships can be strengthened to expand the provision of capital to Latino business owners and to other entrepreneurs who cannot access bank financing.

KEY STAKEHOLDERS

- Entrepreneurs seeking capital but who are ineligible for commercial bank loans
- Commercial banks willing to innovate upon existing referral systems
- CDFIs seeking more eligible qualified loan candidates who meet their criteria.

ACTION STEPS

- Pilot a loan referral program in a commercial bank.
- Identify commercial banks willing to pilot the revised loan referral effort.
- Identify CDFI partners in target Latino markets.
- Capture and assess each partners' loan criteria and requirements.
- Establish memorandums of understanding (MOUs) between banks and CDFIs.
- Track success of projects and adjust where needed.
- Assess lessons learned from this pilot and capture best practices.

IN THE WORKS

The new Acceso Loan Fund, supported by a \$10 million grant from Wells Fargo, is designed to help diverse entrepreneurs scale to a greater size – expanding their revenue, impact on the economy, and ability to provide jobs. Sharing the grant funds equally, a network of Latino-led non-profit business lenders in the National Association of Latino Community Asset Builders (NALCAB) Network including, the [LiftFund](#), [Latino Economic Development Center \(LEDC\)](#), and nine other CDFI's who serve as co-partners. The Acceso Loan Fund will provide small business loans in the range of \$50,000–\$500,000. The fund will engage in two related lines of business:

1. Lending directly to small businesses that have been referred by members of the NALCAB Network that provide small-business development services, targeting an average loan size of \$160,000.
2. Purchasing portfolios of small-business loans, of similar size and character, from NALCAB Network lenders.

CAPITAL PLAY 3 | Create and implement new investment vehicles and equity-like financing products that meet the needs of Latino business owners.

BEST SUITED FOR



THE STRATEGY

When taking on a share in a business, investment firms often replace the CEO or change the direction of the company. Understandably, this leaves many Latino entrepreneurs reluctant to give up equity in their businesses. Furthermore, business owners who give up too much equity in their companies risk losing their minority-business enterprise status, which would make it even harder to access contracting and supplier diversity programs that can help them scale their business. Creating new, equity-like finance products that allow Latino business owners to access capital when starting or growing a business—while maintaining majority ownership—can address these challenges. This play aims to raise awareness of how financial engineering can look at a wide variety of capital structures and flexible capital solutions and continue to work with certifying entities, such as the National Minority Supplier Development Council, to help LOBs protect their minority status.

For example, demand dividends are designed to enable investors to generate a reliable, reasonable return while allowing entrepreneurs to maintain control of their business and efficiently deploy capital. An investor buys shares in the business, sets a redemption period, and then allows the business to buy back the shares over a predetermined length of time. Payments to the investor are typically based on a percentage of free cash flow. Demand dividends account for the fact that an enterprise can grow revenue without generating cash. Payments are made after a honeymoon period that allows the capital to go to work.

For early-stage ventures, another option is revenue-based financing, which offers businesses the flexibility to pay back the money as the business grows. Payback is typically based on a percentage of the topline revenue of the business. Payments continue until the initial investment and a pre-determined return are returned to the investors. Alternatively, flex equity (also known as entrepreneur redemption) gives the investor equity in return for their investment, but the entrepreneur has the option to buy back some or all of that equity after a given period of time for an agreed-upon return. Once a business buys back its shares or pays back the loan, it will have a stronger credit history and will be more likely to secure additional funding if needed in the future.

Yet another type of flexible capital that has proven to be a successful financing product and is a potential formula for this play is royalty-based financing (RBF). Under RBF, investors earn money each month from the gross revenue of the company in which they have injected capital.

These investment vehicles do not depend on credit scores or years in operation the way traditional business loans do, making them favorable options for small companies trying to scale. However, because funding is often tied to a proven record of past sales, this approach may not be the best option for entrepreneurs seeking start-up funding. Furthermore, a large percentage of Latinos lack credit scores, which creates serious hurdles to obtaining loans from banks and other financial institutions. Equity tools designed to address these challenges have not yielded much improvement, due largely to the fact that indicators used to measure credit scores can be discriminatory or prejudicial to people of color and those with low income.¹⁹

Demand dividends and revenue- and royalty-based financing are just a few of the ways investors can meet LOBs where they are and pursue creative opportunities to invest in their potential. Creative approaches such as these will help Latino entrepreneurs overcome some of the challenges they face in accessing equity capital, and they help minority business owners understand the financial engineering and adequate capital structures needed to better

¹⁹ For a more in-depth discussion, see “Unscorable: How the Credit Reporting Agencies Exclude Latinos, Younger Consumers, Low-Income Consumers, and Immigrants,” by Brown, Jennifer. February 26, 2019. Accessed December 24, 2019, at <https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-wstate-brownj-20190226.pdf>.

control their businesses. These innovative investments must be coupled with a stronger understanding among Latino business owners of how equity investments can benefit their businesses in the long run.

KEY STAKEHOLDERS

- Latino business owners
- CDFIs (both as debt and equity providers)
- Alternative funds (e.g., [Founders First Capital Partners](#), [Fledge](#))
- Investors (including angel investors and investors in funds)
- Funders willing to provide support for capacity building.

ACTION STEPS

- Recruit partners to build a map for investors who fund Latino entrepreneurs.
- Create financial structures, such as revenue-based financing and flex equity (entrepreneur redemption), that support investment in Latino businesses.
- Establish a support network of mentors and advisors.
- Identify investors.

CAPITAL PLAY 4 | Pair a variety of capital and strategic support resources to help promising high-growth potential Latino business owners develop a growth mindset and boost their trajectory.

BEST SUITED FOR²⁰



THE STRATEGY

Given the proven track record and high-growth trajectory for Gacelas (Gazelles), there is an abundance of capital and strategic resources in private equity and private debt markets available to help them expand. However, many Gacelas lack the awareness and resources needed to identify the correct value maximization path through capital investment, leveraged acquisition, divestiture, or strategic partnerships to accelerate growth. Solving this challenge can catapult these promising high-growth LOBs to higher enterprise value and a long-term sustainable business.

Supporting the belief that Gacelas are capable of generating more than half of the revenue needed to close the \$1.47 trillion opportunity gap, this play suggests offering these entrepreneurs three levels of one-on-one support to develop the business sense and networks needed to maximize both the human potential and value creation that can build generational wealth for their company's management, employees, families, and communities.²¹ Through mentoring and support—as well as wrap-around services such as coaching, peer support, strategy, investment banking, and legal resources—this play is designed to help Gacelas believe in, achieve, and sustain their high-growth potential.

To help Latino business owners develop a growth mindset, business experts will coach, mentor, and educate entrepreneurs on growth mentality as they work to shift their thinking from a scarcity mindset to an abundance mindset. Then, as the LOBs grow, a team of bankers, consultants, and business development advisors will help

²⁰ This play is specifically intended for firms that are already on a high-growth path.

²¹ The authors of this play believe that given Gacelas' job creation, revenue expansion, and EBITDA multiplier potential, they are the segment with the best chance of closing the Latino opportunity gap.

entrepreneurs think through acquisitions, corporate divestitures, mergers, conversions, and accelerated growth. Once these Latino-owned businesses have achieved their goals, coaches, advisors, and C-Suite corporate advisors will continue to offer support as these businesses achieve long-term prosperity. For this play to succeed, coaches and advisors at all levels must ensure the entrepreneurs understand industry norms and the rationale for this approach.

KEY STAKEHOLDERS

- Capital providers (e.g., private equity funds, private debt funds, such as Small Business Community Capital/ Altura Capital)
- High-growth potential Latino entrepreneurs
- Foundations focused on economic development
- Investment bankers
- Value-added services (e.g., McKinsey externs, mission-aligned business leaders)
- Fortune 1000 corporations
- Mission-aligned business leaders.

ACTION STEPS

- Establish a non-profit entity to manage the services.
- Identify Gacelas and encourage them to accept help.
- Organize convenings between entrepreneurs and capital providers where capital providers set expectations about their thresholds for investing.
- Partner Gacelas with corporations that become their champions and help them unlock larger contracts.
- Secure capital funding to support the teams that will provide the mentoring needed to help entrepreneurs change their mindset and prepare them for growth.
- Connect Gacelas to affinity networks of mentors and advisors.
- Develop a template for due diligence and deal documents that reflect industry norms while also acknowledging the range of investors through founder-friendly terms and fee structures.

CAPITAL PLAY 5 | Increase the flow of venture capital to high-growth Latino entrepreneurs by increasing the number of Latino investors and fund managers.

BEST SUITED FOR



THE STRATEGY

Latino fund managers tend to invest in Latino firms at higher rates than non-Latino fund managers. Yet, despite there being great Latino talent in venture capital and in the finance and private equity field more broadly, multiple barriers to advancing in this particular career result in very few Latino fund managers. For example, Latinos represent just 1.3 percent of all senior venture capitalists.²² A low number of Latino fund managers results in fewer investments

22 Lerner, J., Leamon, A., Sessa, R., Dewan, R., & Holt, S. (January 2019). "2018 Diverse Asset Management Firm Assessment." Bella Private Markets. Available: <https://knight.app.box.com/s/5l2s2pi75b6qoip5uo47zsiawk133vud>

in LOBs. Latino business owners also hire Latino applicants at a higher rate than non-Latino business owners. When high-growth companies go public or are purchased for a sizeable buy-out, the founder(s) and early employees sometimes enjoy a substantial increase in wealth and often continue to invest in and even go on to launch other companies. Because of the small numbers of Latinos able to move into this investor role, many Latino entrepreneurs are unable to capitalize on this virtuous cycle.

This play calls for the establishment of a Latino-led and a Latino-focused fund-of-funds that taps existing large pools of capital in the market and directs resources toward equity investments in the high-growth companies of Latino entrepreneurs. The new fund will not only commit to funding the first round of funding, but, if the entrepreneur is successful, fund managers will be able to support a second and even third round of funding—either through available upfront capital or by raising a second fund (pending demonstrated ability to meet industry benchmarks and receive investment support).

Forum participants recommend housing this fund-of-funds within a mission-aligned bank. The play also requires the engagement of partner organizations dedicated to training, building networks, and funding emerging Latino fund managers across multiple asset classes, including venture capital, early-stage private equity, debt, and alternative structures.

Ultimately, this play has the potential to build a pipeline of Latino fund managers who will push more capital to high-growth Latino entrepreneurs. The catalytic nature of funding for high-growth businesses will allow Latino business owners to grow their businesses to remarkable scale at a rapid rate.

KEY STAKEHOLDERS

- Institutional investors
- Small business investment funds (such as Small Business Community Capital)
- Family offices (e.g., Melinda Gates/Pivotal)
- Public pension funds
- Other fund-of-funds
- High net-worth individuals
- Angel investors
- Partner organizations tasked with recruiting, networking, and training emerging Latino fund managers (e.g., [All Raise](#))
- Investment trade associations (e.g., [National Venture Capital Association](#), [National Association of Investment Companies](#))
- University endowments.

ACTION STEPS

- Identify a bank or other entity (such as an asset management firm or financial institution) to house the fund.
- Identify someone to manage the fund-of-funds.
- Identify and actively develop Latino fund managers to participate.
- Identify and secure fund investors.
- Strengthen and support the angel investing ecosystem focused on women and minority-owned businesses and pursue opportunities for collaboration.

SECTION THREE: EXPAND MARKET OPPORTUNITIES

CHALLENGE STATEMENT

Access to new and expanded markets is a key barrier to minority entrepreneurs achieving scale. While there is little aggregated data to tell us precisely how LOBs are performing regarding corporate and government procurement opportunities, we know that both the public and private sectors struggle to achieve their supplier diversity goals, and that Latino business owners struggle to access these promising market opportunities. Navigating procurement opportunities can be onerous and challenging. Many Latino businesses are not well capitalized, have cash flow challenges, or their owners may not have built the relationships or networks needed to identify and understand how to secure appropriate procurement opportunities. While procurement offers a significant market opportunity that Latinos could capitalize on to scale, other promising areas for exploration include opportunity zones, international trade, and the digital marketplace.

To grow their businesses, all entrepreneurs need to increase demand for their product or services, and that means gaining access to a wider market. Latinos may face additional hurdles and barriers if they don't have access to important networks, relationships, or market-growing programs. Some procurement programs—including government set-asides and commercial supplier diversity initiatives—were created to enhance the access of small business and minority entrepreneurs to government and commercial markets. Under section 8(a) of the Small Business Act, five percent of all federal contract dollars are set aside for “disadvantaged businesses,” which, by the government’s definition, includes Latino-owned small businesses. These programs have proven to be highly beneficial to those who are able to capitalize on them, but they are underused by Latino business owners due to a lack of knowledge about these funds, as well as due to high barriers to access.

An increasing interest among both the private and public sectors in accessing more minority-owned businesses represents a promising opportunity for Latino entrepreneurs. However, the requirements to qualify for and access procurement opportunities can create insurmountable barriers for many Latino companies. Since large corporations and many supplier diversity decision makers often select well-known companies with a proven track record, Latino businesses may increase access to procurement contracts by working with established supplier firms and by strengthening their networks and relationships. Formal membership in business organizations, such as chambers of commerce or trade associations, can help Latino entrepreneurs gain the social capital needed to access markets through referrals, gain access to information, and take advantage of other business opportunities. According to the 2018 Stanford Latino Entrepreneurship Initiative (SLEI) survey of Latino Business owners, scaled firms are more likely to be well-networked than average LOBs.²³

Latino entrepreneurs can also scale more quickly by looking beyond procurement and exploring merging with or acquiring firms that already have a large customer base. Latino business owners can also expand their reach—and customer base—through the digital marketplace.

The following plays are designed to help Latino-owned businesses gain the access, knowledge, and resources needed to significantly increase their market share for growth.

23 Mills, C. K., Battisto, J., Lieberman, S., Orozco, M., Perez, I., and Lee, N.S. (November 2018). “Latino-Owned Businesses – Shining a Light on National Trends.” Stanford Latino Entrepreneurship Initiative. Stanford Graduate School of Business. Available: <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/Report-on-Latino-Owned-Small-Businesses.pdf>

BEST SUITED FOR



THE STRATEGY

Corporate supply chains and procurement are proven pathways for rapidly scaling LOBs. However, many corporations lack the strategic supplier partnerships that could help increase their competitive advantage by pursuing new business opportunities with Latino businesses. Likewise, Latino business owners do not have easy access to the information and networks needed to effectively identify corporate purchasers for their products and services. A more deliberate, coordinated brokering process to connect Latino business owners to corporate procurement opportunities and forge strategic supplier partnerships will enhance the competitiveness of corporations, LOBs, and the U.S. economy.

Accelerating the number of LOBs that are corporate strategic supplier partners will produce a core of corporations ready to champion LOB suppliers to other firms. The Latino Business Action Network (LBAN), as well as state and local chambers of commerce, can support this approach by brokering these relationships. Optimally, corporations will begin adopting structures that encourage small LOBs (less than \$1 million in revenue) to latch on as Tier 2 suppliers with Tier 1 suppliers.²⁴

Promoting partnerships between LOBs that offer similar services will make these firms more competitive by ensuring they have the bandwidth to service the needs of major corporations. For example, Latino-owned engineering firms could bid together on a particular project rather than separately. This bridging among LOBs would set the stage for larger contracts, more contract awards, and better competitive bids in the supply chain for corporate business. These strategic partnerships will allow LOBs to use their competitive advantage and build the scale necessary to compete. This may include, but need not be, a merger or acquisition.

The Billion Dollar Roundtable (BDR) is one organization working to address this challenge through its [BDR Triad](#), an initiative aimed at helping diverse businesses scale while achieving corporate supplier diversity goals. The BDR Triad brings large corporations together to collaborate with enablers and capital providers to identify high-potential, diverse suppliers and help them obtain the financing they need to scale and grow.

CASE STUDY

In Minnesota, [Meda](#), an ESO, provides business consulting, access to capital, and market opportunities for minority entrepreneurs. Under a cooperative agreement with the U.S. Department of Commerce's Minority Business Development Agency (MBDA), Meda also operates a business development center that connects Minnesota Minority Business Enterprises (MBEs) with business opportunities. As part of its work with the Minnesota Chamber of Commerce, Meda supports the [MN Supplier Match](#), an initiative of the Minnesota Chamber's Grow Minnesota!® Partnership program, which seeks to highlight and expand the state's supply chain by playing matchmaker between Minnesota businesses and suppliers. The program features a database of more than 1,000 vetted Minnesota suppliers, organized by product or service. It also works with those suppliers to help them access new contracts. In addition to helping buyers tap the needed services—and to help suppliers access new opportunities—MN Supplier Match keeps more dollars in the state and makes both the suppliers and the buyers more competitive. Adapting and implementing this model in other states will help Latino entrepreneurs access more procurement opportunities.

²⁴ Mills, C. K., Battisto, J., Lieberman, S., Orozco, M., Perez, I., and Lee, N.S. (November 2018). "Latino-Owned Businesses – Shining a Light on National Trends." Stanford Latino Entrepreneurship Initiative. Stanford Graduate School of Business. Available: <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/Report-on-Latino-Owned-Small-Businesses.pdf>

KEY STAKEHOLDERS

- Latino entrepreneurs
- Corporate partners and anchor institutions committed to supply chain diversity (e.g., Bank of America, Best Buy, Cargill, General Mills, JPMorgan Chase, Target, Walmart))
- Economic development offices
- ESOs such as [LBAN](#), Meda, BDR Triad and others
- [MBDA](#).

ACTION STEPS

- Compile a compelling problem statement and opportunity overview, informed by data drawn from existing local or national LOB data sources.
- Engage key advocacy, entrepreneur support organizations, and academic groups to address the challenges identified in the problem statement.
- Explore partnership opportunities with the BDR, made up of corporations that spend at least \$1 billion with minority- and woman-owned suppliers.
- Meet with existing motivated corporations to assess their procurement needs and secure their engagement.
- Work with ESOs (such as LBAN, Meda and others) that serve LOBs to assess the capacity of LOBs across the country to meet the supplier needs of a select group of large corporations.
- Launch a demonstration pilot to catalyze strategic national supplier partnerships between motivated buyers (i.e., large corporations looking for services) and qualified LOBs sellers (i.e., the LOBs that can provide these services).
- Document and assess outcomes, revise approach as needed, and expand to additional sites.

MARKETS PLAY 2 | Encourage large-scale growth through mergers and acquisitions (M&A).

BEST SUITED FOR



THE STRATEGY

A large proportion of LOBs that scale do so by organic customer sales channels, an approach that may not be enough to scale a business above the \$1 million threshold.

Merging with or taking over another firm—a practice known as M&A—could be a catalyst for rapid expansion for Latino businesses. Unfortunately, these strategies are rarely covered in programs designed to build the growth capacity of minority businesses, due in part to the lack of M&A expertise or awareness of this strategy by technical assistance providers. Often, technical assistance providers for LOBs are adept at helping individuals start a business, but they lack the expertise or capacity to help businesses scale to higher levels. As a result, Latino business owners may overlook this key strategy for accessing new markets and expanding their capacity to grow more quickly.

Building the capacity of technical assistance providers to encourage and support more Latino business owners to employ M&A strategies will, in turn, encourage more Latino entrepreneurs to take advantage of this strategy.

The increasing number of Baby Boomers expected to retire and sell their companies over the next several years may offer significant opportunities for Latinos to acquire existing firms. In addition to customer acquisition, these types of M&A approaches could represent more opportunities for leveraging financing (owner financing or institutional) and accessing business mentoring (from a retiring owner) on successfully operating the business.

This play can be fast-tracked through a partnership with the [Department of Commerce's MBDA](#), which already runs a program committed to expanding the use of M&A strategies by minority-owned businesses. Leveraging the M&A proficiency of the MBDA program—and the national networks and centers it already has in place—and engaging additional private-sector partners that specialize in this space will build the capacity of technical assistance providers while producing research on best practices.

Piloting the effort through MBDA will also create a model that philanthropy, non-profits, and other community development organizations can adapt and integrate into the services they provide to Latino business owners. Once there is a model in place, financial institutions that have M&A departments and work with business owners to build their business acumen could then integrate this approach into their programming.

KEY STAKEHOLDERS

- Latino business owners
- [MBDA](#)
- SBA
- Banks with an expertise in M&A
- Chambers of commerce and/or Association of Business Brokers in target cities
- Researchers/academics who study trends among minority-owned businesses
- Local leaders who can incentivize acquisition and business transactions to preserve community wealth
- National Association of State Development Agencies (NASDA)
- Federal Reserve Bank of San Francisco's Community Development Department
- Philanthropy to help fund the pilot.

ACTION STEPS

- ESOs partner with MBDA to co-create a program to build the capacity of local MBDA centers to assist Latino business owners with M&A support as a strategy to scale their companies.
- Pilot the effort in MBDA centers within regions that have high LOB concentrations (e.g., California, Florida, Illinois, New York, Texas).
- Assess outcomes of pilot effort and develop strategy and toolkit to duplicate effort in other cities.
- Encourage other capacity assistance providers to build the capacity of LOBs in their programs to replicate this approach to growing their businesses.
- Secure a panel discussion on supporting M&As for minority-owned businesses at the next Federal Reserve System Community Development Research Conference (Spring 2021).
- Repackage toolkits such as the [M&A section of the SBA website](#) to include English and Spanish versions and distribute to Latino business owners.

MARKETS PLAY 3 | Help LOBs leverage existing tools and technology to access the global digital marketplace.

BEST SUITED FOR



THE STRATEGY

Online sales in the United States are increasing by double digits every year and will continue to grow at a rapid velocity for the foreseeable future. To compete in today's increasingly global economy, businesses must have the capacity to effectively sell their products or services online. Many Latino business owners lack the knowledge, know-how, and networks needed to leverage online tools and take full advantage of this significantly expanding global online market segment, despite the fact that language and connections to countries of origin indicate favorable positioning for doing business with international markets. As a result, they are missing a critical economic opportunity.

To participate in the global marketplace and scale, Latino business owners need knowledge of and access to an existing infrastructure with connections to strategic partnerships with corporate America for business to business, or B2B, sales (the selling of products and services from one business to another) and business to consumer, or B2C, sales (the selling of products to an individual). Access to this infrastructure would create a major opportunity to reduce the digital divide in this space and level the playing field for this important community.

This play encourages developing greater knowledge of how to engage Latino business owners seeking to scale in becoming more tech savvy and able to use a variety of online market resources to launch, grow, manage, and win business.

KEY STAKEHOLDERS

- Latino business owners seeking to expand international markets
- Companies that support or facilitate international trade and commerce
- Government agencies that promote trade such as [SBA](#), [U.S. Department of Commerce](#), and the [Trade Development Agency](#).

ACTION STEPS

- Develop a compelling problem statement and opportunity overview, informed by data drawn from existing LOB data sources.
- Facilitate a bridge between LOBs and support corporations.
- Invite SBA, chambers of commerce, and LOB business development providers to facilitate these opportunities.
- Socialize the challenge and possibilities of LOBs accessing the global marketplace with an eye to scale.
- Establish an Emerging Markets Advisory Group to create, implement, and champion a \$1M+ LOB e-commerce initiative.

SECTION FOUR: FAST TRACK HIGH-GROWTH OPPORTUNITIES

CHALLENGE STATEMENT

A majority of Latino business owners find themselves in low-barrier-to-entry, high-rate-of-failure businesses. High-growth industries have been a promising pathway for many businesses to scale faster, yet not enough Latinos are in those industries or in the sectors within them that would enable them to experience high or fast growth. The challenge is to enable more existing LOBs to transition into high-growth businesses and to develop the pipeline of emerging Latino entrepreneurs prepared to capitalize on promising high-growth opportunities.

Despite being the fastest-growing segment of small businesses in the U.S., a majority of the estimated 4.65 million LOBs start small and stay small. In an analysis of data from the U.S. Bureau of Labor Statistics, market research firms, and investment firms, the top industries that are expected to generate high levels of job growth, revenue, and output in the next decade include technology, health, energy, media, retail, and construction (in that order).²⁵ Many Latino business owners are in these industries, but they are often sole proprietors and lack the resources needed to scale.

Small businesses have an opportunity to partner with other small businesses to increase their capacity and become more eligible for large procurement contracts. Improved tech integration—internally and externally—can also bolster a business's success. Steps toward tech enablement can help build efficiencies into project management, which will garner increased revenue to help grow the business. Externally, technology can fuel a more aggressive sales and marketing strategy.

Latino-owned businesses that are operating in a sector with high-growth potential but are not in the high-growth added value subsector of the business may be able to leverage networks or a M&A play to move to an adjacent subsector with more growth potential.

Entering public-private partnerships, teaming up with other small businesses, and strengthening relationships with corporate entities can also accelerate the growth of LOBs.

Successful execution of the following plays will help Latino business owners gain business know-how and dramatically increase their revenues while building a pipeline of Tier 1 LOB suppliers for large corporations and creating economic opportunities for the entire local ecosystem.

HIGH-GROWTH PLAY 1 | Capitalize on corporate expansion or relocation opportunities to negotiate diversity requirements that foster rapid growth for LOBs through public-private partnerships.

BEST SUITED FOR



25 Prakash, P. (2018). "10 Businesses to Start Now to be Rich in a Decade." Fundera blog post. Available: <https://www.fundera.com/blog/business-to-start-to-be-rich>

THE STRATEGY

LOBs in high-growth industries can have a substantial impact in their communities in the form of job creation and contributing to a flush economy. Businesses that have scaled to at least \$1 million have the basic business DNA. However, an inability to access capital or tap high-growth talent can prevent even those LOBs that manage to reach the \$1 million mark from meeting the minimum requirements for large procurement opportunities in high-growth categories.

Local elected officials are uniquely positioned to help Latino business owners overcome this challenge by making economic development more equitable and inclusive; building in incentives to encourage companies to include and develop Latino suppliers; and promoting effective coordination between developers, employers, and community leaders. As cities seek to attract large-scale investment opportunities, encouraging incoming corporations to establish public-private partnerships with local LOBs can help established LOBs grow while the corporation benefits from tax incentives and builds a positive reputation in the community.

KEY STAKEHOLDERS

- Elected city officials
- Large corporations looking to expand or relocate to a new city
- Economic development agencies at the state and local level
- [MBDA](#)
- [National Minority Supplier Development Council \(NMSDC\)](#)
- Capital providers.

ACTION STEPS

- Engage city leaders and economic development entities in pushing for public-private partnerships that invest in the local diversity leadership and business potential.
- Request lists of certified LOBs from the NMSCD and [SLEI-Scaling Program at LBAN](#), and build an affordable database to make it easier to match these businesses with potential partners.
- Develop a communication strategy to help LOBs understand this approach and their value proposition.
- Expand the participation of corporate procurement executive councils.

CASE STUDY: TOYOTA SAN ANTONIO

In the late 1990s and early 2000s, Toyota Motor North America was looking to establish a new plant. After researching where its market was likely to grow—and encouraged by former San Antonio Mayor Henry Cisneros—Toyota ultimately settled on San Antonio, Texas. Recognizing that the selected site for its new plant was a majority-Latino community, and lacking local automotive suppliers, Toyota sought out successful Latino business leaders and prepared them to supply the new plant. Toyota partnered each supplier-in-training with Tier 1 suppliers to form joint ventures. Working with the local chamber of commerce, they identified and fast-tracked the Latino business owners to become Tier 1 suppliers. Many of them had no supplier diversity experience. Rosa Santana was one of several Latino business leaders selected to start a company that would become a direct Tier 1 supplier of, in her case, fully assembled truck beds. Santana had no experience running a manufacturing operation, but she had more than 36 years of experience in the staffing industry and had spent the nine previous years providing human-capital services to Toyota as a Tier 2 supplier.

This approach represents an investment in building the capacity of local Latino business owners and leaders and enabling them to become suppliers in a relatively short amount of time, in an industry they might not have otherwise entered. Companies invested in ensuring supplier diversity can follow Toyota's San Antonio example, which demonstrates that this approach is not only possible but also profitable.

Adapted from Hispanic Executive, Toyota's Five Compadres of San Antonio, Kathy Kantorski, January 15, 2019.

HIGH-GROWTH PLAY 2 | Drive accelerated growth for LOBs through joint ventures and vertical integration strategies.²⁶

BEST SUITED FOR



THE STRATEGY

Leveraging corporate procurement across corporate America to define subcontracting and accountability requirements in the contracts for Tier 1 suppliers will help double the supply of Tier 2 LOBs. It will also provide a blueprint on how to move LOBs from Tier 2 to Tier 1 through vertical integration.

For example, ACME corporation needs to buy 100,000 units of laptops and related services (a \$100 million opportunity). ABC Computer Corp. is a Tier 1 provider to ACME and qualifies for the procurement opportunity.²⁷ A LOB may be too small to meet the Tier 1 supplier requirements of ACME, but, through a local business network, they learn they are qualified to be a supplier to ABC Computer Corp. By becoming a supplier to ABC Computer Corp., the LOB becomes a Tier 2 supplier of ACME. Over time, through its work with ABC Computer Corp., the LOB builds a relationship with ACME while networking with other Tier 2 suppliers to ABC Computer Corp. The LOB can become a Tier 1 provider by partnering with other Tier 2 suppliers or vertically integrating to offer several stages of the production process to ACME and other large corporations in the future.

KEY STAKEHOLDERS

- Large corporations seeking to increase their supplier diversity spend
- Tier 1 companies interested in increasing their supplier diversity directly contracted with large corporations
- Tier 2 LOBs with services or products needed by Tier 1 companies
- Local business networks that can introduce Tier 2 LOBs to Tier 1 suppliers and offer resources to help Tier 2 LOBs register with corporate procurement databases of Tier 1 suppliers (i.e., play matchmaker)
- Conveners who can facilitate meaningful, value-added relationships between LOBs and corporations (e.g., [USHCC](#), [Latino Business Action Network](#), [The Latino Coalition](#), or a non-profit entity).

IN THE WORKS

In 2019, The Latino Coalition launched an online procurement tool called [TLC MatchPoint](#), a cloud-based portal that bridges sourcing needs between qualified, procurement-ready small-business owners and business opportunities. MatchPoint offers small-business owners a free platform to access contracts by connecting buyers with minority sellers more efficiently than traditional procurement events or conferences. The tool is intended for small business owners, corporate and government procurement officers. The system finds the best match for procurement officers from its database, allowing refined searches using contracting experience, years in business and other characteristics.

²⁶ Vertical integration is the combination in one company of two or more stages of production normally operated by separate companies.

²⁷ Example features fictional companies used for demonstrative purposes only.

ACTION STEPS

- LOBs engage corporate procurement representatives through conferences and trade fairs (such as the USHCC National Convention, supplier registration portals of large corporations, matchmaking apps (such as the Latino Coalition's MatchPoint), or local chambers and other business networks.
- Through channels described above, LOBs reach out to corporate procurement departments of large corporations and build relationships with those procurement officers in order to secure Tier 2 supplier opportunities.
- Corporate procurement departments evaluate the capabilities of the LOB and, based on size, capacity, and skill set, introduce the LOB to a current Tier 1 LOB supplier or another Tier 1 supplier interested in increasing its supplier diversity.
- An organization such as USHCC, LBAN, or The Latino Coalition convenes representatives from the corporation, Tier 1 supplier, and LOB Tier 2 supplier; facilitates a discussion about expectations and risk tolerance; and helps put a joint venture agreement in place.
- The convener tracks the progress of the LOB Tier 2 supplier and connects that company to other LOB Tier 2 suppliers, while also offering ongoing support through counsel and training.
- The large corporation documents and shares learning and promotes successful outcomes to inspire other large companies to follow this approach.

HIGH-GROWTH PLAY 3 | Improve internal systems and expand external reach of LOBs through technology enablement.

BEST SUITED FOR



THE STRATEGY

Whether it sells goods or provides services, a successful business must be able to serve the needs of the market. In today's increasingly tech-driven economy, this requires entrepreneurs to integrate the latest technologies across their businesses—from streamlining internal systems like tracking inventory, payroll and billing, and human resources (HR), to improving the customer experience by making it easier to browse and purchase products and services online to supply chain optimization.

Internally, technology integration can help businesses ensure all of their data is centralized, allowing multiple departments to draw from, share, and communicate about elements of the business and eliminate redundancy. For example, managers and the HR department will have access to the same employee data.

Externally, technology can help streamline services and leverage online marketing opportunities, allowing businesses to reach more customers faster while promoting their products or unique niche.

Failure to integrate technology into a business can end up costing a company revenue through inefficiencies, the potential for human error, and missed opportunities. Internal finance tools and payment processors along with “point of sale” external-facing products are also powerful additions to strong businesses that are poised to grow. To avoid being at a competitive disadvantage, the nation's four million+ LOBs must become tech-enabled or risk sacrificing growth opportunities.

To help Latino business owners adopt the technology they need to streamline internal services and market their services externally, lenders, ESOs, philanthropists, corporations, and government business support agencies need to support enabling LOBs with smart technologies adapted to their business needs through education, technical support, and cost-effective products.

KEY STAKEHOLDERS

- Latino business owners
- MBDA coaches
- SBA Centers
- ESOs
- CDFIs and other lenders
- Corporations with digital offerings that serve businesses of all stages.

ACTION STEPS

- Provide ESOs with internal and external tech training resources.
- Encourage philanthropic investments to support tech integration as part of alternative loan agreements.

HIGH-GROWTH PLAY 4 | Create and promote an online boot camp to help Latino business owners master the skills and knowledge needed to scale their enterprises more quickly.

BEST SUITED FOR



THE STRATEGY

New business owners often lack the necessary knowledge to manage their businesses in a way that offers the greatest opportunity for growth and increased revenue. Beyond capital, small business owners and entrepreneurs need convenient and culturally competent business training—from local chambers of commerce, business and academic networks, or local entrepreneur networks—to build the business acumen needed to increase their revenue. This play addresses this challenge by offering specific guidance, particularly around how to grow and compound revenue, how to manage human and capital resources, and how best to structure a business for maximum return on investments—as well as training to help businesses use this resource to scale. To address this need, a Forum participant is developing an online program aimed at helping Latino business owners build the knowledge they need to reach more customers in a culturally competent way.

IN THE WORKS

Using the web app [Finhabits](#), this play proposes to build the knowledge and skills of Latino business owners through a series of four modules that offer step-by-step training on issues critical to successfully managing and scaling a business. With cultural consideration of Latino entrepreneurs built in, this online business training boot camp will help jumpstart the rapid scale of LOBs by addressing specific challenges Latino business owners face, such as how to grow and compound revenue, how to manage human and capital resources, and how best to structure a business to secure maximum return.

Finhabits is currently developing its first set of modules for business owners who want to continue to grow. The curriculum, under development in Spanish with plans to roll out in English at a later date, will cover questions such as:

- Are you hiring the right people?
- Do you have an effective marketing plan in place?
- Are you certified as a minority business?
- How effective is your management style?
- Are you structured appropriately (i.e., should you be a LLC, a C-Corp, or something else?)?

Users will be charged a small fee to access the modules.

KEY STAKEHOLDERS

- ESOs
- Latino business owners
- Banks and other lending institutions.

ACTION STEPS

- Partner with FinHabits to translate the modules from Spanish to English.
- Find bank partners that can help share information about this tool to their clients.
- Partner with ESOs that can use the tool.

CONCLUSION

Latino business owners are in a unique position to contribute an estimated \$1.47 trillion in additional economic benefit to the United States—if they are empowered to scale similarly to non-Latino white-owned businesses. Realizing this opportunity requires policies and systems that enable Latino business owners to access needed capital, expand their market share, and scale more quickly. Additionally, these entrepreneurs need strong business networks, as well as training and resources to help strengthen their business acumen. Building understanding and addressing cultural considerations unique to Latino communities is also crucial to overcoming the specific barriers Latinos face in moving up the economic ladder.

The ideas presented in this playbook are intended to help more Latino business owners scale by inspiring intermediaries, capital providers, procurement decisionmakers, economic developers, municipalities, and others to leverage their existing resources and capacity in innovative ways that allow more LOBs to thrive while building a pipeline of emerging Latino entrepreneurs. Forum participants have already started putting some of these plays into action. Other plays have strong momentum but need additional resources, including funding and capacity.

Understanding that addressing the challenges Latino business owners face requires an ecosystem approach, the Aspen Institute Forum on Latino Business Growth hopes stakeholders across sectors and organizations will work together to implement these plays, adapting them as needed to work in the local context. We encourage you to take, use and share the plays offered here to advance the field. Fostering supportive ecosystems that help Latino businesses to thrive will not only help close the Latino wealth gap in the U.S. but will also benefit the economic health of the entire country.

SUMMARY CHART OF STAKEHOLDER PLAYS

STAKEHOLDERS	PLAYS															
	Operating Environment		Capital					Markets			High-Growth					
	1	2	1	2	3	4	5	1	2	3	1	2	3	4		
GOVERNMENT (LOCAL AND NATIONAL)																
Elected officials, mayors	✓	✓	✓								✓					
State and city economic development offices		✓						✓			✓					
Government programs (CDFIs, CDCs, SBICs, MBDA, SBA)				✓	✓			✓	✓	✓			✓			
Federal Reserve Bank									✓							
CORPORATE ENTITIES																
Fortune 1000 companies						✓				✓		✓				
Corporate partners and anchor institutions committed to supply chain diversity; corporations looking to expand								✓			✓		✓			
CAPITAL PROVIDERS																
Private equity/private debt funds			✓		✓	✓					✓					
Commercial banks				✓										✓		
Angel & Institutional Investors; High-net-worth individuals & Family offices					✓		✓									
Investment bankers						✓										
Small business investment funds							✓									
Public pension funds & other fund-of funds							✓									
SUPPORT/SERVICES TO LOBs																
Entrepreneur Support Organizations -ESOs	✓		✓			✓		✓		✓			✓	✓		
Chambers of Commerce/US Hispanic Chamber of Commerce			✓						✓			✓				
Investment, trade or business associations							✓		✓							
National Association of State Development Agencies									✓							
National Minority Supplier Development Council											✓					
ENTREPRENEURS, BUSINESSES AND COMPANIES																
Latino business owners/entrepreneurs	✓			✓	✓	✓		✓	✓	✓			✓	✓		
Tier 1 companies												✓				
Tier 2 LOBs								✓				✓				
PHILANTHROPY																
Program officers/Decision-makers	✓					✓			✓							

GLOSSARY

Equity investor: An individual who invests in a company in exchange for a share of ownership of said company.

Family Offices: Offices that provide wealth management services to ultra-high-net-worth-investors.

Operating Environment: The societal realities (vs. business conditions) that impact the business ecosystem that Latino firms must navigate to reach their full potential.

Opportunity Zones: An economically distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as opportunity zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury via his/her delegation of authority to the Internal Revenue Service.²⁸

Procurement: The process of finding and agreeing to terms—and acquiring goods, services, or works from an external source—often via a tendering or competitive bidding process.

Scale: A business that earns \$1 million or more in revenue annually on a sustained basis.

Supply Chain: A network (made up of producers, vendors, warehouses, transportation companies, distribution centers, and retailers) between a company and its suppliers to produce and distribute a specific product or service.

Tier 1 Supplier: In supply chain management, a Tier 1 company is the biggest piece of the supply chain. Tier 1 companies provide product or services directly to the business that issues the main contract. Tier 1 companies often subcontract pieces of the purchase order or service agreement to smaller Tier 2 companies. Tier 1 suppliers are the most immediate gauge of supplier diversity.

Tier 2 Supplier: Tier 2 companies are subcontracted by a Tier 1 supplier that is performing the work (i.e., Tier 2 companies provide services or supplies to Tier 1 companies).

Venture Capitalist: A private equity investor who provides capital to a business entity with high growth potential, under the condition that the investor is granted some equity of the business's equity.

Vertical Integration: Vertical integration is the combination in one company of two or more stages of production normally operated by separate companies.

²⁸ <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions#general>

ACRONYMS

- B2B:** Business to business
- B2C:** Business to consumer
- BDR:** Billion Dollar Roundtable
- CDC:** Community Development Corporations
- CDFI:** Community Development Financial Institutions
- EBITDA:** Earnings before interest, taxes, depreciation, and amortization
- ESO:** Entrepreneur support organizations
- IPO:** Initial public offering
- LBAN:** Latino Business Action Network
- LBO:** Leveraged buy-outs
- LEDC:** Latino Economic Development Center
- LOB:** Latino-Owned Business
- M&A:** Mergers and acquisitions
- MBDA:** Minority Business Development Agency
- MBE:** Minority Business Enterprise
- NALCAB:** National Association of Latino Community Asset Builders
- NASDA:** National Association of State Development Agencies
- NMSDC:** National Minority Supplier Development Council
- RBF:** Royalty-based financing
- SBA:** United States Small Business Administration
- SBIC:** Small Business Investment Company
- SLEI:** Stanford Latino Entrepreneurship Initiative
- USHCC:** The United States Hispanic Chamber of Commerce

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ABOUT THE ASPEN INSTITUTE LATINOS AND SOCIETY PROGRAM

The Aspen Institute Latinos and Society Program (AILAS), founded in 2015, provides a non-partisan, unbiased platform for shared learning across communities of influencers on the critical barriers preventing greater Latino achievement, and jointly surfaces new, innovative, and actionable solutions for a more prosperous future for all Americans.

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ABOUT THE ASPEN INSTITUTE

The Aspen Institute is a global nonprofit organization committed to realizing a free, just, and equitable society. Since its founding in 1949, the Institute has been driving change through dialogue, leadership, and action to help solve the most critical challenges facing communities in the United States and around the world. Headquartered in Washington, DC, the Institute has a campus in Aspen, Colorado, and an international network of partners.

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