



Economic Impact Report

Mid-States Minority Supplier Development Council

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EXECUTIVE SUMMARY

One of the reasons most often given for major buying entities (corporations, hospitals, universities, state and local government, etc.) to have a supplier diversity initiative and engage in minority business development is that by promoting greater vendor participation, they are helping to support the economic base of the communities in which they do business. This sounds good, but is it accurate?

In 2015 the Mid-States Minority Supplier Development Council retained The Institute for Thought Diversity (ITD) to assist the Council in conducting a study to assess the economic impact the Mid-states MSDC certified MBE community has on the three (3) states covered by the Mid-States MSDC, namely Indiana, Eastern Missouri and Central Illinois. This impact includes the increased business activity created by the 184* Mid-States MSDC certified Minority Business Enterprises (MBEs), the jobs that are maintained/created as a result of this activity throughout the various sectors of state's economies, and the incremental business taxes that are generated.

The results of the study are that today, Mid-States MSDC MBEs have a total economic impact of over \$4.5 billion dollars in output that results in the creation of and/or preservation of more than 41 thousand jobs held by persons who find themselves either directly or indirectly employed by Mid-States MSDC certified MBEs. These are jobs that not only support individuals, but also contribute to the economic well-being of their families, their communities, and the three (3) state region as a whole. This is particularly striking in a time when unemployment is at an all-time high within many minority communities. These same individuals are also contributing over \$198 million to the tax base of states that have historically struggled with enormous budget deficits.

In many circles, with the rapidly changing demographics of the United States, the minority business sector is arguably the fastest growing segment of small business. Therefore, it stands to reason that ensuring the success of minority business will have significant, positive effects on both the United States economy in general and the Indiana, Missouri and Illinois economies in particular. Simply put, the economies of the three (3) states under the jurisdiction of the Mid-States MSDC cannot reach their full and true potential unless the minority business community in each of the states is growing and reaching its full and true potential and the Mid-States MSDC, in its various iterations, has a long-standing history as being a catalyst for that growth.

* The number of certified MBEs as of 12/31/15

INTRODUCTION AND PURPOSE

Minority-owned businesses have been growing in number of firms, gross receipts, and paid employment nationwide at a faster pace than non-minority firms. If not for the employment growth created by minority firms, American firms (excluding publicly held firms) would have experienced a greater job loss during the Great Recession, which according to the National Bureau of Economic Research (NBER) was officially from December 2007-June 2009. Despite the fact that the recession officially ended in 2009, many areas of the United States continued to struggle with high unemployment, foreclosures and consumer consumption nation-wide and are just now approaching pre-recession numbers (Lansing, 2011).

While the overall impact of the recession was most definitely felt within the minority business community, according to Minority Business Development Agency (MBDA), Minority Business Enterprises (MBEs) continue to be the engine of employment in emerging and minority communities (Fairlie & Robb, 2010).

The purpose of this study is to present empirical evidence demonstrating the positive impact that the Mid-States MSDC minority business community has on the state economies of Indiana, Eastern Missouri and Central Illinois. This will be done by examining the economic impact of the Mid-States MSDC's MBE community through the lens of job creation, income generation and tax revenue.

METHODOLOGY OF THE STUDY

The full economic impact of the 184 MBEs certified by the Mid-States MSDC on the US economy, was estimated using classic input-output model methodology in combination with regional specific Social Accounting Matrices and Multiplier Models. In this input-output model, the business sectors of the economy being examined are organized according to who makes what outputs and who uses what inputs (imagine a matrix).

The benefit of using input-output methodology is that it helps evaluate the effects of Mid-States MSDC MBEs on each other and all other industries within the territory covered by the Mid-States MSDC, in this case Indiana, Eastern Missouri and Central Illinois. This interrelatedness between and among all businesses within the Mid-States MSDC footprint is rooted in the supposition that all businesses use the outputs of each other as inputs. An input-output model makes it possible to examine economic relationships between businesses as well as between business and consumers. It will measure changes in any one or several economic variables on all of the territories covered by the Mid-States MSDC.

Strictly speaking, each industry that produces goods and services has an influence on, and in turn is influenced by, the production of goods and services of other industries. These interrelationships are captured through a multiplier effect as the demand and supply from various industries trickle over from business to business. This allows for the quantification of the cumulative total economic impact, which includes output, compensation, employment, local, state and federal tax revenue (Varshney & Tootelian, 2009).

THE MULTIPLIER EFFECT

Having a workable understanding of the multiplier effect mentioned in the previous section is crucial to having a better grasp of the methodology of this study and thus to having a better understanding of the results being reported. The multiplier effect in this study is based on the data extracted from the Mid-States MSDC certified MBEs and reflects the increased economic activity that comes from sales being generated, and expenses being incurred, by the Mid-States MSDC certified businesses.

When a Mid-States MSDC MBE generates sales, it must use some of that money to purchase other goods and other services and hire people to meet the demand for its products and services. Purchases made by the Mid-States MSDC MBE are representative of sales to other firms who must then also purchase goods and services and hire people to meet their new demand. The additional hiring to meet this increased demand means more people will have income which they will use to purchase goods and services for their households and families. All of this brings added sales to businesses in the community. The net effect is that Mid-States MSDC MBE sales dollars are recycled in the community through this process of sales requiring additional purchases and employment, which result in sales for other businesses who must use that money to make their own purchases and hire people.

SCOPE OF THE STUDY

This research mainly focuses on the economic impact of Mid-States MSDC certified minority business enterprises on the regional economy (and ultimately the U.S. economy) and is comprised of several components. Specifically the report analyzes three types of economic impacts:

1. Output Effect: A measure of total sales or revenues generated by Mid-States MSDC certified MBEs.
2. Income Effect: A measure of total income generated within the Mid-States MSDC footprint by certified minority business enterprises (MBEs).
3. Employment Effect: A measure of the number of jobs created within Indiana, Eastern Missouri and Central Illinois by Mid-States MSDC certified minority business enterprises (MBEs).

In addition, the direct, indirect and induced impacts of the above categories are also examined. The full range of economic impacts includes direct, indirect and induced impact.

- Direct impacts consist of economic activity contained exclusively within the designated sector(s). This includes all expenditures made and all people employed by the diverse suppliers.
- Indirect benefits define the creation of additional economic activity that results from linked businesses, suppliers of goods and services, and provision of operating inputs.
- Induced benefits measure the consumption expenditures of direct and indirect sector employees. Examples of induced benefits include employees’ expenditures on items such as retail purchases, housing, banking, medical services, and insurance.

ECONOMIC IMPACT SUMMARY

The economic impact analysis in this study was conducted for the total expenditures of 184 Mid-States MSDC certified MBEs. As a result, in order to qualify for and be included in the study, the MBEs had to be certified and in good standing with the Mid-States MSDC. It should also be noted that this analysis is based on annual revenues of Mid-States MSDC MBEs, meaning that this impact is what is expected to occur each year that such spending with the MBE community occurs.

The Output, Employment, Labor Income, and Indirect Business Taxes for the Mid-States MSDC MBEs is summarized and presented in the table below.

SUMMARY FOR TOTAL ECONOMIC IMPACT	TOTAL	PER DAY
Output	\$4,546,591,106	\$12,456,414
Employment	41,035	N/A
Labor Income	\$1,356,440,166	\$3,716,274
Local and State Tax Impact	\$198,731,997	\$544,471

Output

The overall Output, or the amount of overall business activity created by Mid-States MSDC MBEs, is more than \$4.5 billion, which equals nearly \$12.5 million per day. This includes the direct spending by the Mid-States MSDC MBE community (“Direct”), the amount of additional business activity created by that spending (“Indirect”), and the amount of additional business activity created by people’s spending caused by the incremental labor income (“Induced”).

Employment

There are 41,035 jobs that are created or maintained within the (3) state Mid-States MSDC footprint as a result of the activities of the Mid-States MSDC MBE community. 17,998 of these jobs, or 44%, are people that are directly employed by Mid-States MSDC MBEs while the remaining 23,036 are made possible by the expenditures of either the MBE companies or their employees.

Labor Income

The 184 Mid-States MSDC certified MBEs disbursed \$804 million in salaries, wages and benefits to the 17,998 employees measured in direct labor income. This direct labor income served as a catalyst for the \$282 million in indirect income paid to the non-MBE supplier community. It is necessary to remember that these businesses had to hire these additional employees to meet the business demands of 184 certified MBEs. The induced income is estimated to be a little less than \$270 million bringing the total labor income effect to more than \$1.36 billion, which equates to \$3.7million per day.

State and Local Taxes

Finally, more than \$198 million in additional business taxes will be created from the business activities of the Mid-States MSDC MBEs, equating to nearly \$544,471 each day of the year. These are tax dollars generated from businesses benefiting from the heightened economic activity and the increased employment. Like most state governments, Indiana, Missouri and Illinois rely primarily on taxes to fund the public services that they provide to the individuals and businesses located in each of the states.

Economic Impacts for Each State

To arrive at the total economic impact for the Mid-States MSDC, impact analyses were conducted for Indiana (144), Eastern Missouri (32) and Central Illinois (8). It is important to note that these estimates are based on the annual revenues of the MBEs headquartered in Indiana, Eastern Missouri and Central Illinois respectively. The economic impacts of the revenues generated by the Mid-States MSDC certified diverse suppliers in each state are presented in the following tables on an annual and daily basis and summarized below.

SUMMARY PER YEAR	INDIANA	EASTERN MISSOURI	CENTRAL ILLINOIS
Output	\$4,546,574,681	\$1,212,358,668	\$1,080,059,792
Employment	24,610	5,964	6,081
Labor Income	\$1,356,423,740	\$349,584,736	\$401,517,129
Tax Impact <small>(local and state)</small>	\$129,144,615	\$31,807,521	\$37,779,861



SUMMARY PER DAY	INDIANA	EASTERN MISSOURI	CENTRAL ILLINOIS
Output	\$12,456,369	\$3,321,531	\$2,959,068
Employment	N/A	N/A	N/A
Labor Income	\$3,716,229	\$957,766	\$1,100,047
Tax Impact <small>(local and state)</small>	\$353,821	\$87,144	\$103,506

Indiana

The Output, or the amount of overall business activity created, is estimated to be more than \$4.5 billion within Indiana, which equates to more than \$12.4million each day of the year. This includes the revenues generated by the 144 Mid-States MSDC MBEs headquartered in Indiana (“Direct”), the amount of additional business activity created by those revenues (“Indirect”), and the amount of additional business activity created by people’s spending caused by the incremental labor income (“Induced”).

24,610 additional jobs have been maintained or created as a result of the sales revenue from the Indiana-based MBEs.

Labor Income resulting from the additional people employed and current employees earning more is estimated to be \$1.36 billion, equating to more than \$3.7 million each day of the year.

Finally, more than \$129 million in additional tax revenue will be created from the increased business activity caused by Mid-States MSDC diverse suppliers, equating to approximately \$353,000 each day of the year. These are tax dollars generated from businesses, their employees and their households, benefiting from the heightened economic activity and the increased employment created by the MBE community.

Eastern Missouri

The Output, or the amount of overall business activity created, is estimated to be more than \$1.27 million within Eastern Missouri, or more than \$3.3 million each day of the year. This includes the sales revenue generated by the activities of the 32 Mid-States MSDC Missouri based diverse suppliers (“Direct”), the amount of additional business activity created by that revenue (“Indirect”), and the amount of additional business activity created by people’s spending caused by the incremental labor income (“Induced”).

5,964 additional jobs have been maintained or created as a result of the Eastern Missouri diverse suppliers.

Labor Income resulting from the additional people employed and current employees is estimated to be almost \$350 million, equating to more than \$957,000 each day.

Finally, more than \$31 million in additional tax revenue will be created from the increased business activity of the Eastern Missouri MBEs, which averages out to approximately \$87,144 each day of the year. These are tax dollars generated from businesses, their employees and their households, benefiting from the heightened economic activity and the increased employment. These tax dollars can be used for programs that further benefit the communities within Eastern Missouri.

Central Illinois

The overall Output coming the Central Illinois Mid-States certified MBEs is estimated to be more than \$1 billion, \$2.9 million each day of the year. This includes the sales revenue generated by the 8 Mid-States MSDC Illinois based diverse suppliers (“Direct”), the amount of additional business activity created by that revenue (“Indirect”), and the amount of additional business activity created by people’s spending caused by the incremental labor income (“Induced”).

6,081 additional jobs have been maintained or created as a result of the Central Illinois diverse suppliers.

Labor Income resulting from both the additional and current employees employed is estimated to be more than \$401 million, averaging out to more than \$1.1 million each day.

Finally, almost \$38 million in additional tax revenue will be created from the increased business activity of the Central Illinois MBEs, which averages out to be approximately \$103,506 each day of the year. These are tax dollars generated from businesses, their employees and their households, benefiting from the heightened economic activity and the increased employment.

SUMMARY AND CONCLUSION

Relevance of Minority Businesses

According to a Department of Commerce study, the minority population will contribute to as much as 70% of the total increase in purchasing power from 2000 to 2045. A joint report from the Milken Institute and the Minority Business Development Agency (MBDA) suggests that the number of minority business owners in the U.S. (currently estimated at 3.3 million) is growing at a rate of 17% annually, a staggering six times faster than the growth rate of all firms. Overall, sales from diverse businesses are growing 34% a year, which is twice as fast as the national average. The report concludes that minority businesses are a driving force behind growth and will be a major segment of the U.S. economy in the 21st century as a transition to a more diverse demographic majority occurs (Hinson, 2009).

Ensuring the success of minority and women owned businesses, which combined are the fastest growing segment of small business, will have significant positive effects on all of the states within the Mid-States MSDC as well as the overall US economy.

Economic Impact of Mid-States MSDC

One of the primary goals of the Mid-States MSDC is to promote minority business participation in the procurement process in order to create economic wealth in minority business communities throughout the (3)state footprint. This is important because wealth creation is the end result of successful businesses. Wealth-creating businesses hire more people, invest more in their communities and actively participate in philanthropic activities; thus delivering more social value. According to the “Cultures of Giving” report by the W.K. Kellogg Foundation, minorities on average are more prone to giving than their non-minority counterparts and in some cases, giving up 25% more (Gravely,2014).

The creation of healthy minority businesses that will in turn help their socio-economically challenged communities solve some of the existing problems is the core mission of the Mid-States MSDC. However, without the empirical evidence provided by this study, it was impossible to determine if the Council was indeed successfully fulfilling its mission.

The results are in, and the empirical evidence is indisputable. Over \$4.5 billion in annual revenue comes from the activities of the Mid-States MSDC certified MBE community. As a result, these same firms are employ 41,035 people both directly and indirectly resulting in the dissemination of over \$1.34 billion in salaries and wages. Finally when combined with the more than \$198 million in various tax revenues coming from the activities of the Mid-States MSDC certified MBE suppliers, this brings the total economic impact to over \$6.1 billion.

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