
Making the leap into the big leagues

By Erica Schlaikjer
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Entering the mainstream market requires size, scale and capacity. But most minority-owned firms remain small. Here are some common obstacles to growth and how to overcome them.

1 Lack of access to capital

Minority businesses are denied bank loans twice as often as white-owned firms. If they do secure financing, they often are charged a higher interest rate. It's no wonder they are more likely to use credit cards, in addition to personal savings, when starting up. But a better source of capital may be equity financing. For entrepreneurs who can't get a loan but don't want to swipe plastic, "the next best choice is your SBA guaranty loan," offered through the U.S. Small Business Administration, says Timothy Bates, professor of economics at Wayne State University in Detroit.

2 Concentration in low-growth sectors

Twenty-five percent of all minority-owned businesses — compared with 18% of white-owned firms — operate in six categories of typically low-growth sectors, like personal services, apparel and textiles, and food and drink establishments. One strategy for moving into more viable industries is forming alliances. "Most of the large businesses I have counseled are making giant steps by selling to major corporations," says James Lowry, a senior adviser at Boston Consulting Group in Chicago and a minority-business development expert.

3 Over-dependence on minority set-asides

Certified minority-owned businesses often rely on government procurement programs to grow. But many programs require firms to "graduate" into the private sector, based on size and time limits. "When it comes time for them to be competitive, they're not, because they haven't grown their business outside of federal and city contracts," says Eric Dobyne, Chicago regional director of the Washington, D.C.-based Minority Business Development Agency. "It's critical to have a diversity of revenue streams."

4 Fewer networking opportunities

"If you're not part of the mainstream, and you don't have an invitation to come in, then it's very hard to get in," says Sheila Hill, executive director of the Chicago Minority Business Development Council, which connects minority-owned firms with major corporate buyers through networking events and trade fairs. "The relationships may open the door for them."

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