



MMSDC

Michigan Minority Supplier
Development Council

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ECONOMIC IMPACT REPORT
ON CERTIFIED MINORITY BUSINESSES IN THE
STATE OF MICHIGAN

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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?

For the first time in its history, the Michigan Minority Supplier Development Council (MMSDC) is examining the economic impact of its 860* certified Minority Business Enterprises (MBEs) on the state's 83 counties in Michigan, representing the MMSDC's footprint. The results of the study are that today, MMSDC MBEs have a total economic impact of over \$26 billion dollars in output that results in the creation of and/or preservation of more than 169,000 jobs held by persons who find themselves either directly or indirectly employed by MMSDC 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 nation 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 \$944 million to the tax base of a state that historically struggles 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 Michigan economy in particular. Simply put, Michigan's fledgling economy cannot reach its full and true potential unless the minority business community is growing and reaching its full and true potential and the MMSDC has a long-standing history as a being a catalyst for that growth.

** The number of certified MBEs as of 12/23/13*

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 is just now approaching pre-recession numbers (Lansing, 2011).

As per the Bureau of Labor Statistics the U.S. unemployment rate rose steadily from 5% in January 2008 to a peak of 10% in October 2009 before falling to 6.7% at the calendar year-end of 2013. During this same time period, the Michigan unemployment rate rose from 7.1% in January 2008 to a high of 14.2% in August of 2009. As of the end of 2013, the Michigan unemployment rate had fallen 5.8 points from its 14.2% high to 8.4%, but the state still remained 1.7% higher than the national average (Ross & Stansell, 2012).

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 MMSDC minority business community has on the Michigan economy by examining the economic effect and impact of variables job creation, income generation, and tax contribution.

METHODOLOGY AND SCOPE OF THE STUDY

The economic impact of the 860 MBEs certified by the Michigan Minority Supplier Development Council (MMSDC) was estimated using IMPLAN (Impact Analysis for PLANing), an econometric modeling system developed by applied economists at the University of Minnesota and the U.S. Forest Service. Globally recognized as the gold standard, IMPLAN has more than 1,500 active users including clients in the federal and State government, universities, and private sector consultants (Varshney & Tootelian, 2009).

MMSDC's footprint includes the following 83 counties:

| | | | | | |
|------------|----------------|------------|-------------|--------------|-----------|
| Alcona | Chippewa | Ingham | Mackinac | Ogemaw | Washtenaw |
| Alger | Clare | Ionia | Macomb | Ontonagon | Wayne |
| Allegan | Clinton | Iosco | Manistee | Osceola | Wexford |
| Alpena | Crawford | Iron | Marquette | Oscoda | |
| Antrim | Delta | Isabella | Mason | Otsego | |
| Arenac | Dickinson | Jackson | Mecosta | Ottawa | |
| Baraga | Eaton | Kalamazoo | Menominee | Presque Isle | |
| Barry | Emmet | Kalkaska | Midland | Roscommon | |
| Bay | Genesee | Kent | Missaukee | Saginaw | |
| Benzie | Gladwin | Keweenaw | Monroe | St. Clair | |
| Berrien | Gogebic | Lake | Montcalm | St. Joseph | |
| Branch | Grand Traverse | Lapeer | Montmorency | Sanilac | |
| Calhoun | Gratiot | Leelanau | Muskegon | Schoolcraft | |
| Cass | Hillsdale | Lenawee | Newaygo | Shiawassee | |
| Charlevoix | Houghton | Livingston | Oakland | Tuscola | |
| Cheboygan | Huron | Luce | Oceana | Van Buren | |

To qualify for and be included in the study, MBEs had to be certified and in good standing with MMSDC. This study examines three types of economic impacts:

1. **Output Effect:** The sum total of the revenue and/or sales generated by MMSDC certified MBEs.
2. **Income Effect:** A measure of total income generated by MMSDC certified MBEs within 48 counties in Michigan.
3. **Employment Effect:** A measurement of the total number of jobs generated by MMSDC certified MBEs within Michigan's economy.

The econometric models generated through the IMPLAN software will also allow for the examination of the direct, indirect, induced and value added impacts in each of the above three categories. The direct, indirect and induced impacts of the above categories are combined to reflect the total economic impact of the business activity of MMSDC MBEs.

- **Direct Impact:** The direct output effect represents the purchase of MBE goods and services by businesses in Michigan.
- **Indirect Impact:** The indirect effect represents business-to-business transactions. These transactions occur when the suppliers of MBEs purchase goods and services from other suppliers within the MMSDC footprint.
- **Induced Impact:** Employees of both MBEs and indirectly affected businesses purchase goods and services within the MMSDC footprint. These purchases create the second wave of economic impact commonly known as the induced effect.

One additional category of economic data that IMPLAN provides is Value Added. Four components comprise Value Added:

- Employee compensation
- Proprietors' income
- Other property type income
- Indirect business taxes

HOW MICHIGAN MBES CREATE JOBS AND INCOME

In order to truly appreciate the MMSDC MBE community's impact on job creation, it is crucial to have a solid understanding of exactly how minority businesses create jobs. This is important because if the MMSDC certified minority business community does not create jobs, then a large part of the reasoning for supporting the development of minority business as a way to hasten the economic recovery falls by the wayside.

Job creation is one of the primary components of almost every viable economic impact study. In essence, without an understanding of the mechanics of job creation, economic impact is difficult to determine much less be understood. Any discussions about the economic impact that minority businesses have on the community would therefore become empty and meaningless at best, and unnecessary at worst.

CIRCULAR FLOW OF GOODS, SERVICES AND DOLLARS

One of the most overused phrases in the English language is “a picture is worth a thousand words.” There are so many factors that can and do influence when, why and how a consumer or a business makes a purchase of goods and/or services that it would not be possible to create an all-encompassing model of how Michigan’s economy works. In today’s society, information is so readily available and easily accessible that when talking about the economy it is very easy to get lost in the extraneous details and lose sight of the bigger picture. At the same time it is imperative that readers understand exactly where they fit within the bigger picture of the Michigan economy.

To gain a better understanding of the different elements within the Michigan economy, it is indeed most convenient to start with a modified version of the circular flow diagram. The diagram is invaluable for several reasons, the primary one being that it allows the reader to

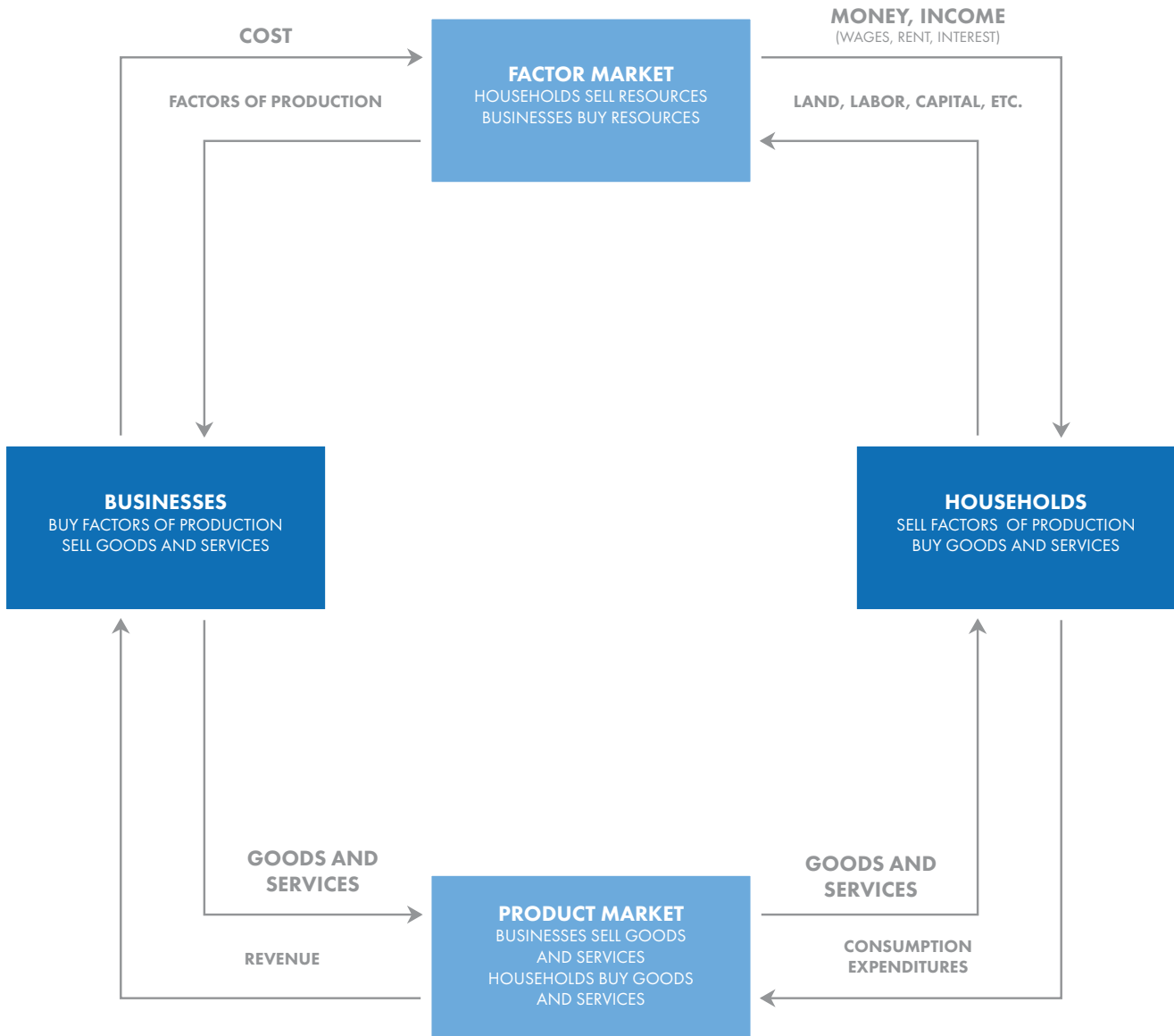
visualize (and thus better understand) the role that MMSDC MBEs play on job creation within Michigan’s economy.

No matter where one begins within the Circular Flow Diagram, it is easy to follow the flow of dollars through the system and see exactly how it impacts the creation of jobs. It goes without saying that the employees filling these jobs are being compensated for their efforts in the form of wages and salaries. Wages and salaries are the earnings of the people and constitute the core element in income for the majority of those making up today’s workforce. In many instances a portion of the income the workers receive may be in the form of fringe benefits, but the primary portion is usually in the form of money.

With that in mind the purpose of this section of the paper is to focus on the real “needle movers” within the Michigan economy and how they relate to jobs being created and maintained, as well as the resulting flow of revenue and income; you will see that in this case a picture truly is worth a thousand words.

Figure (1) is a diagram of the circular flow of goods and services in the free-market economy. It presents pictorially how MMSDC certified MBEs positively impact the Michigan economy through job creation and income generation. In the discussion that follows, the viewpoint (unless otherwise indicated) will always be that of the MMSDC MBE.

Figure 1: Circular Flow of Goods and Services in a Free-Market Economy



HOUSEHOLDS

Households are the consumers of goods and services that come from the product market. The households in this context are particularly relevant for two reasons. First, they create the demand for goods and services provided by the product market. Second, households provide the labor for MMSDC MBEs or any company serving as a supplier. Households may also provide other resources including, but not limited to, entrepreneurial ability. As can be seen in this example, households can be made up of consumers, MBEs or anyone providing labor, property, money or any other factors of production necessary for businesses to deliver the goods and services that households consume (Piorkowsky, 2011).

FACTOR MARKET

The factor market is a conceptual term. Whereas households (i.e. consumers) do exist, the factor market is where households go to sell their labor, land, capital and entrepreneurial talent and, in reality, it does not exist. In other words, there is no single place where businesses gather to meet potential employees, lease land or borrow money directly from households.

For example, if a business needs to borrow money for working capital, the business may choose to go to a bank. The bank will lend the money the household has already deposited into the bank as part of its savings. In return for lending the money to the business, the bank will charge the company interest. The bank in turn pays the household a portion of this interest collected from the borrowing entity, in exchange for depositing their money. This, in turn, will enable the bank to have a supply of funds from which to draw. From this pool of funds, the lending institution can then loan these funds to the businesses. In this case, the households are lending the prospective business money indirectly through their relationship with the bank. In reality, however, the household did not meet the company at the factor market to make the exchange (McConnell, Brue & Flynn, 2009).

BUSINESSES

This section is where the proverbial rubber meets the road, and as such is arguably the most important to understand conceptually. In most instances, the MMSDC certified MBE is a supplier to a corporate customer. Very rarely do MMSDC certified minority businesses sell directly to the public (households in this scenario). As a result, most of the MBEs can be found in this category (businesses).

The role of businesses in this component of the circular flow diagram is either to produce the goods and services that will be sold by others in the product market, or to help support the infrastructure needed to maintain the product market (McConnell, Brue & Flynn, 2009).

PRODUCT MARKET AND THE CIRCULAR FLOW OF THE DOLLAR

Although unlikely, it is not unheard of for MMSDC MBEs to provide goods and services directly to the public. There are several staffing firms, caterers, insurance brokers, and other businesses that may also be suited to compete in the product market in this scenario. The product market is where consumers go to spend their hard earned dollars, some of which they earned as employees of MMSDC MBEs.

A percentage of the dollars collected by merchants selling their wares in the product market are used to pay their expenses, which include employees and suppliers. These suppliers could very well be MMSDC certified Minority Business Enterprises. These MBE suppliers will use a portion of the dollars that they collect from merchants in the product market to pay wages to their employees, who come from households within the Michigan community. These employees receiving wages and salaries will then return to the product market to spend a percentage of dollars they have just received as MMSDC MBE employees, and thus the cycle begins again (Pordeli & Wynkoop, 2009).

ECONOMIC IMPACT SUMMARY

The results generated from the econometric model can be seen in table format, followed by detailed explanations of the results contained therein. In order to present the most comprehensive examination of the economic impact the MMSDC MBE community has on Michigan’s economy, it is necessary to review the three levels of impact (direct, indirect and induced). These three levels of economic impact combine to provide the most accurate depiction of the overall total economic impact.

DIRECT, INDIRECT AND INDUCED IMPACTS

The direct economic impact is derived from the revenue generated by MMSDC MBEs. The indirect impact comes from the purchase of goods and services made by businesses from suppliers within their supply chain. These are purchases made by the suppliers of their suppliers. The induced impact represents the dollars put back into the economy as a direct result of the consumption patterns of the employees of these inextricably interconnected businesses (MBEs, suppliers and suppliers’ suppliers). The direct employment and sales data were taken directly from the documentation accompanying the certification applications each MMSDC certified MBE submitted when applying for designation as a MMSDC certified Minority Business Enterprise.

The secondary economic impact related to the market activities of MMSDC MBEs can be found in the indirect and induced effects. These secondary effects are the direct result of the multiplier effect which occurs when the MBE owners and their employees use their wages and salaries to purchase goods and services from other businesses within the MMSDC footprint.

The data input into IMPLAN from MMSDC certified MBEs included annual revenues and number of employees for each business. The multiple regression models within the software allowed for the calculations of total output, income, employment and value added effects, the results of which can be seen below in Table 1.

Table 1 Economic Impact Summary

| Impact Type | Employment | Labor Income | Output | Value Added |
|---------------------|------------------|------------------------|-------------------------|-------------------------|
| Direct Effect | 84,479.1 | 5,793,986,084.2 | 14,666,375,015.7 | 6,754,504,842.7 |
| Indirect Effect | 33,683.8 | 1,762,903,980.4 | 5,243,623,611.8 | 2,779,412,375.7 |
| Induced Effect | 51,320.1 | 2,067,285,805.2 | 6,417,601,778.9 | 3,698,072,847.0 |
| Total Effect | 169,483.1 | 9,624,175,869.8 | 26,327,600,406.4 | 13,231,990,065.4 |

EMPLOYMENT EFFECT

As can be seen in the above table, MMSDC certified MBEs were directly responsible for the creation of 84,479 jobs within Michigan. As a result of the activities of the 860 certified minority business owners, an additional 33,684 jobs were indirectly created to meet the business needs of the MBEs. The discretionary spending habits of the employees were responsible for the generation of an additional 51,320 jobs. In total the 860 certified MMSDC MBEs were responsible for the creation of 169,483 jobs in Michigan.

INCOME EFFECT

The 860 MMSDC certified MBEs disbursed \$5.8 billion in salary, wages and benefits to the 84,479 employees measured in direct labor income. This direct labor income produced \$1.8 billion in indirect income to the 33,684 employees of other businesses. It is necessary to remember that these businesses had to hire these additional employees to meet the business demands of 860 certified MBEs. The induced income is estimated to be a little more than \$2 billion, bringing the total labor income effect to more than \$9.6 billion.

OUTPUT EFFECT

The results of the data gathered from the 860 MMSDC certified MBEs indicate that the minority business enterprises were directly responsible for more than \$14.7 billion in sales of their products and services offered to customers. The indirect output effect of \$5.2 billion is representative of the procurement efforts of the suppliers of MMSDC MBEs. This is the additional amount of goods and services needed to meet the increase in demand coming from the MBEs. The \$6.4 billion induced output effect is the total dollar amount of goods and service purchases made by the employees of MMSDC certified MBEs from other merchants within Michigan. The total of the direct, indirect and induced effects combine to make the total output effect \$26.3 billion.

VALUE ADDED EFFECT

The value added effect is the difference between the total output of the 860 MMSDC certified MBEs and the cost of their intermediate input. Included in the total value added effect are the wages paid by MBE owners to employees; income coming from self-employed businesses; dividends, rent, interest, profit payments and royalties; and ultimately each individual's sales taxes flowing to and through the businesses. The sum of the direct, indirect and induced effects combine to make the total value added effect \$13.2 billion (Jensen, Lambert, Menard, English & Xu, 2011).

TAX IMPACT

Michigan has over 9.8 million residents making it the 9th most populous state in the United States. As a result of being the home to the country's three major automobile manufacturers, to many outsiders the state is widely regarded only as the epicenter of the U.S. automotive industry. However the state exhibits tremendous economic and demographic variation and has substantial and diverse demands in such areas as education, health care, and infrastructure. For example, Michigan is the home to two of the country's top four pizza chains (Domino's and Little Caesars) and is the third leading grower of Christmas trees.

Like most governments, Michigan relies primarily on taxes to fund the public services that it provides to its individuals and businesses. Michigan's state and local governments raise over \$47 billion annually in revenues to provide public services, with roughly 48% of this from taxes (Citizens Research Council of Michigan, 2012).

Given these facts it stands to reason that an economic impact study must touch on the impact that MMSDC certified MBEs have upon the Michigan tax base. Table 2 details the additional

\$687.7 million in tax revenue generated for the Michigan Government from Employee Compensation, Proprietor Income, Indirect Business Taxes, Households, and Corporations based on the modeled impact by the 860 MMSDC certified MBEs. It should be noted that these tax types are combined and cannot be separated into state vs. local within the IMPLAN software.

Table 2: State/Local Tax Impact

| | |
|-------------------------------|-------------------------|
| Employee Compensation | \$17,881,024.00 |
| Tax on Production and Imports | \$687,161,032.00 |
| Households | \$201,753,418.00 |
| Corporations | \$37,266,012.00 |
| TOTAL | \$944,061,486.00 |

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, MBE sales are growing 34% a year, twice as fast as the national average. The report concludes that MBEs 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 (Tozzi, 2010).

Small businesses in Michigan account for more than 51% of the states private sector jobs, made up 98.3% of the states employers and as such, in essence, drive the economic engine of the State. Ensuring the success of the minority business sector, the fastest growing segment of small business, will have significant positive effects on both Michigan in general and the Michigan economy in particular. Simply put, Michigan’s economy cannot grow and prosper unless minority businesses are growing and prospering.

ECONOMIC IMPACT OF MMSDC

One of the primary goals of MMSDCs to promote minority business participation in the procurement process in order to create economic wealth in minority business communities in Michigan and the nation. This is important because wealth creation is the end result of having successful businesses. In addition, wealth-creating businesses hire more people, invest in their communities and actively participate in philanthropic activities, thus also delivering more social value. According to “Cultures of Giving” report by the W.K. Kellogg Foundation, minorities on average are more prone to giving than their non-minority counterparts, in some cases, according to the report, giving up 25 percent more (Gravely, 2014).

This was and is the core mission of NMSDC, to create healthy minority businesses that will in turn help their communities that are socio-economically challenged solve some of the problems than exist. However without the empirical evidence provided by this study, it was impossible to know if MMSDC is indeed successful in fulfilling its mission. The purpose of this study, therefore, was to assess the economic impact of MMSDC and its certified MBE community on the Michigan’s economy.

There are many programs offered in both the public and private sectors, many of which are geared toward individuals who want to start a business. There is no doubt that these programs are important and meet a need. However, with this study, the results are in, and the empirical evidence is indisputable. Over \$26 billion dollars in annual revenue comes from the activities of MMSDC certified MBEs. As a result, more than 169 thousand people are employed both directly and indirectly by these same MBE firms. Finally the \$944 million in various tax revenues gained by Michigan again proves that minority-owned firms are not a small, niche market but major contributors and players in both Michigan's economy and the overall US economy. If the question is "how do we reinvigorate a stagnant economy, create sustainable jobs, and positively contribute to the tax base?" then the answer is evident: support the Michigan Minority Supplier Development Council.

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