

# INVEST IN WOMEN ENTREPRENEURS

## WHAT DO WOMEN WANT IN GROWTH CAPITAL?

### Survey of Financing Needs of Women Business Enterprises

Conducted by Invest in Women Entrepreneurs Initiative in Partnership with  
WBEC-Pacific and WBEC-West

June 2019

#### **Background & Rationale**

Today there are 12.3 million women owned businesses and yet women receive only 4% of commercial loans and 18% of SBA- backed loans. Lack of appropriate, outside capital inhibits their ability to grow, and forces women entrepreneurs to rely on credit cards and personal assets. This reality reinforces the perception of women-owned businesses as too small to be considered commercially significant, thereby creating a vicious circle -no capital, suppressed growth, can't qualify, etc.

Lack of growth capital for women-owned businesses demonstrates a market failure, a lost opportunity to increase wealth and economic value in the US and particularly in local economies. In order to determine just what women want in terms of financing that will grow their future revenues, The Invest in Women Entrepreneurs Initiative surveyed established Women Business Enterprises (WBEs), who self-identified as poised for growth. We collaborated with WBEC-West and WBEC-Pacific, two affiliates of the national Women's Business Enterprise Network Council (WBENC), which certify Women Business Enterprises (WBEs) for corporate purchasing.<sup>1</sup>

Our study revealed that there is a "missing middle" of women owned businesses between \$250K and \$5 million in revenues who struggle to finance their business growth. Women- owned businesses are local: they hire, spend and donate locally. It follows that, by creating financial products that support women's business growth, there will be a direct and measurable benefit to the regional economy where her business is located.

We understand that these WBE women-owned businesses represent a specific, highly selective segment of the overall universe of women-owned businesses. We chose to survey them because they were established, sustainable and growth-oriented enterprises, and therefore potentially of more interest to lenders.

The WBEC-West and WBEC-Pacific certified WBEs are a representative sample of the over 14,000 WBEs certified by the national WBENC and their affiliates around the US. If we conservatively extrapolate from our sample findings to determine the economic impact from those WBEs actively seeking growth financing in the US, a total of \$500 million in financing is needed, and if secured, an additional 10,000

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<sup>1</sup> The Invest in Women Entrepreneurs Initiative, founded in 2018, is a network of women business leaders committed to increasing resources and capital for women-owned businesses. The WBEC-West and WBEC-Pacific organizations certify Women Business Enterprises (WBEs) as corporate suppliers and provide support and connections to contracting opportunities with their corporate members. WBEC-Pacific certifies WBEs in the region covering the SF Bay Area north through Washington State, including Idaho; WBEC-West, certifies WBEs in Southern CA, Arizona, Nevada, Colorado and Hawaii.

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jobs would be created. We believe the pent-up demand for growth capital could be twice this amount - \$1 billion- if the appropriate financial products were available.

This survey was undertaken intentionally to demonstrate to lenders, to policy makers and advocates for women's equity what financing products are actually in demand by presumably qualified women-owned businesses. Thus we hope to open up new market opportunities for banks and CDFIs to serve these entrepreneurs, and make a strong case for more government and private support for coaching and business assistance. We believe that supporting the growth of women entrepreneurs will generate significant economic value in our communities.

## **Survey Methods**

1800 WBEs certified through the WBEC-Pacific and WBEC-West organizations were emailed a brief survey asking if they were looking for financing and, if so, what type and size of loan. Forty-two percent (42%) of those surveyed were businesses of less than \$1million in revenues, one third had revenues between \$1 and \$5 million and 27% had revenues in excess of \$5 million (see Attachment A). According to reports from the WBEC partners, the average owner has been in business for 12 years. These are mature businesses and seasoned business owners who conceivably could be considered good customer prospects by lenders.

The financing categories were: Term Loan, Line of Credit, Purchase Order Financing, Equity, and Other. The categories for size of loans were: under \$50K, \$50-100K, \$100-250K, \$250-500K, and over \$500K. Respondents could indicate need for more than one type of loan, e.g. term loan and line of credit.

The amount of funding sought, as well as the reasons for not seeking financing, were controlled by size of business based on annual revenues.

To calculate the economic value that could be derived from financing the growth of these businesses, we extrapolated from our long-time experience in entrepreneurial development of small and micro businesses, using a conservative economic development metric of \$50,000 per job created,<sup>2</sup> applying this to the information provided by the two WBEC partners. To determine the total amount of financing sought, we took the midline of the ranges in each category and multiplied by the number of WBEs that reported seeking in that range.

## **Key Findings**

Of the 1800 WBEs surveyed, 400, or 22%, responded to the survey. 46% of respondents indicated their active interest in obtaining business growth financing. 54% of respondents were not seeking financing, for reasons including: I Have All I Need (43%). Self-Financing (44%), Don't Believe I Would Qualify (15%), and Other (9%).

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<sup>2</sup> [www.opensesame.com/site/blog/how-much-does-it-cost-create-job/](http://www.opensesame.com/site/blog/how-much-does-it-cost-create-job/) calculates a cost of \$61,000 including costs of health insurance, hiring & training, etc. (2011)

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- A significant majority (65%) of those WBEs seeking financing are looking for Line of Credit financing, almost 30% seeking over \$500K and 24% seeking between \$250K- \$500K in financing. (See Attachment B)
- 55% of WBEs with revenues under \$1M are seeking Lines of Credit. (See Attachment C)
- 35% seek Term Loans, with the greatest number needing either less than \$100K (39%) or more than \$500K (33%), including one who indicated need for a real estate loan.
- 30% are seeking Equity financing, most indicating more than \$500,000, with most of this cohort consisting of larger businesses with over \$5m in revenues. Because the industries represented by WBEs are traditionally not prospects for venture-type financing, we did not include this cohort in our Profile of Potential Borrower below. However, because this cohort is significant, i.e. 27% of WBEs reporting, and because they show high potential for growth, some form of investment capital should be targeted to this group. (Note that we did not ask whether the WBE had considered crowdfunding as a strategy for raising Equity.)
- Of those who were not actively seeking financing, the largest cohort--44%-- cited that they were Self-Financing through credit cards, savings, etc. However, a significant number who were not seeking--21%-- stated that they were unsure if they qualified, or cited "Other", indicating possible need for more education or coaching. (see chart, Attach D)

### **Projected Economic Impact from Increased Capital Access**

The 1800 certified WBEs served by the two WBEC organizations represent an estimated 54,000 jobs – an average of 30 jobs per business.

If the total 154 businesses actively seeking debt financing were able to access these funds, the total amount of financing secured would equal \$54,400,000

Estimated jobs created (@\$50K/job) = 1,088 jobs

Primary industries represented are Professional, Scientific and Technical Services, Construction, and Wholesale Trades.

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### **Profile of Potential Borrower**

- **The vast majority of WBEs surveyed are seeking Lines of Credit:** 30% of those businesses with under \$1m in revenues seek \$100-250K and 15% seek \$250-\$500K; 39% of businesses with revs between \$1 and \$5m seek \$250-\$500K.
- A larger proportion of the larger WBEs are actively seeking financing and a larger proportion of the smaller businesses are self-financing or feel they don't qualify for a loan (see Attach. D). Therefore, marketing to women-owned businesses should differentiate strategies. Credit

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technical assistance should be offered to smaller businesses as an enhancement to the relevant loan products.

- Forty- two (42%) percent of WBEs with revenues exceeding \$5 million seek \$500K or more in term loans, which could include real estate acquisition.

### **Conclusion: Some Implications to Consider**

More than half (55%) of WBEs under \$1m seek Lines of Credit (LOC), while 94% of businesses with \$1-5m seek LOCs, as do 62% of those with revenues over \$5m. This implies that WBEs have business opportunities they cannot access due to lack of appropriate capital products. For example, WBEs need to staff up or increase inventory in order to fulfill purchase orders, which often do not pay until 180 days after delivery of services or products, thus necessitating a LOC to cover cash flows.

Why is this a market failure? Our experience shows that banks often do not understand the needs of WBEs because these businesses are primarily service industries, without significant collateral, e.g. equipment or property assets. Nonprofit CDFIs do not offer LOCs because of the additional management complexity and a perceived risk that smaller businesses will tend to max out their lines of credit, and therefore should be given term loans instead.

The preponderance of WBEs under \$1m in revenues are self-financing through credit cards and savings and many reported being unsure if they should seek growth financing. These businesses represent a potential, elastic market for financing, if the right product were available. These businesses would particularly benefit from financial advice and coaching.

### **Recommendations:**

- 1) Banks and CDFIs should partner with organizations that support and certify women suppliers, such as WBENC and/or its regional affiliates, PTACs (Purchasing Technical Assistance Centers), etc. to actively market financial products to this pre-qualified segment of businesses.**
- 2) Financial institutions, including CDFIs, should create Lines of Credit loan products for the “missing middle” of women entrepreneurs.**
- 3) The US SBA’s budget for the Office of Women Owned Businesses should be increased to \$50 million, to exponentially expand services to enable growth of women entrepreneurs through training, coaching and credit technical assistance.**

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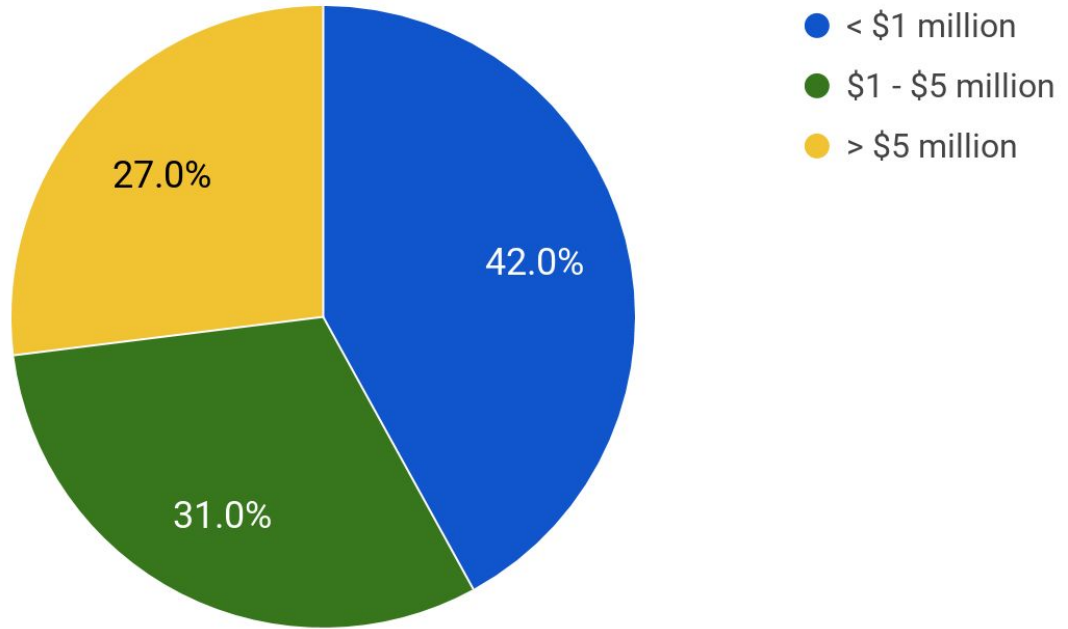
**ATTACHMENTS**

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**Attachment A** - CHART: “Range of annual revenue” ..... 1  
**Attachment B** - CHARTS: “Type of financing sought” and “Amount of financing sought” ..... 2  
**Attachment C** - CHART: “Type of financing by annual revenue” ..... 3  
**Attachment D** - CHART: “Reasons for not seeking growth financing” ..... 4

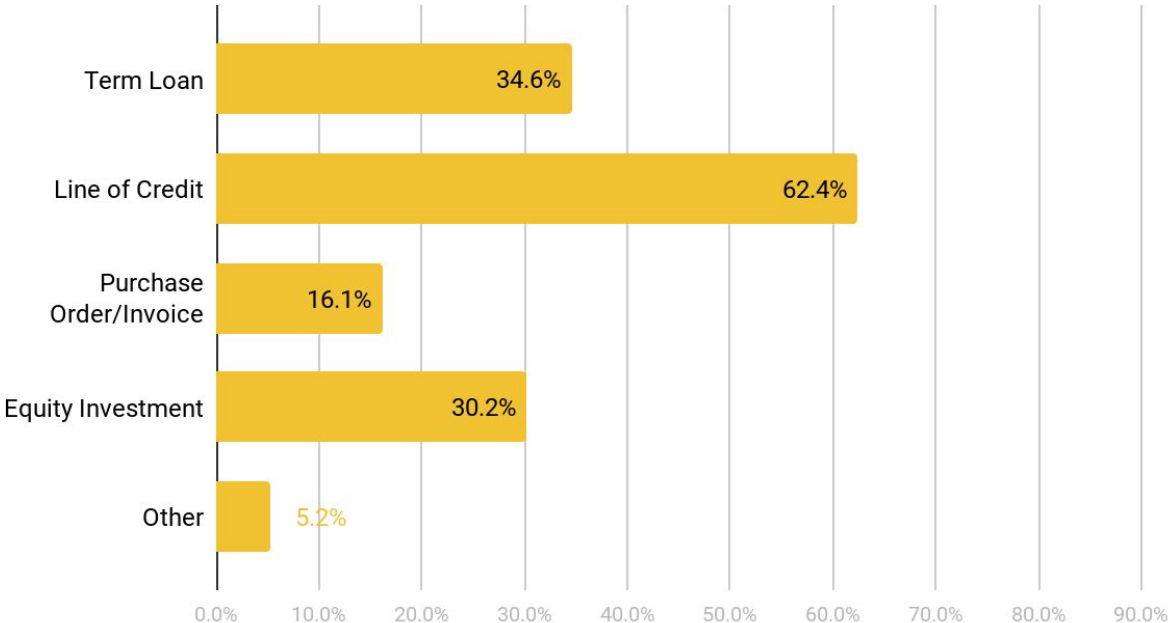
**ATTACHMENT A – Size of WBEs by Annual Revenue**

Range of Annual Revenue

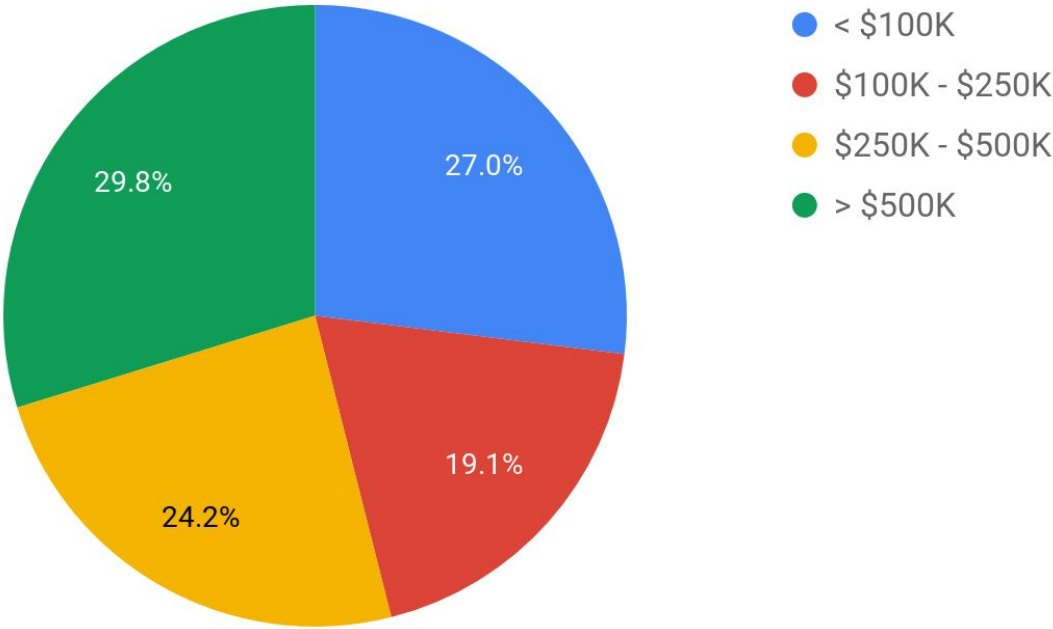


**ATTACHMENT B – Type and Amount of Growth Financing Sought**

Type of financing sought

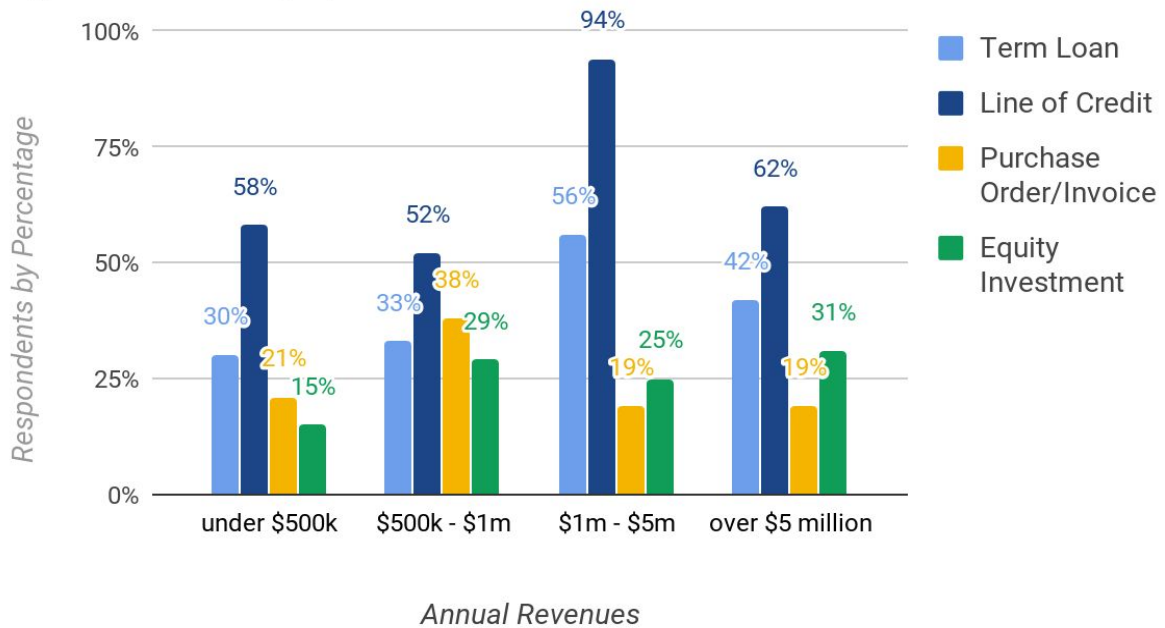


Amount of funding sought



## ATTACHMENT C – Type of Financing by Annual Revenue of Business

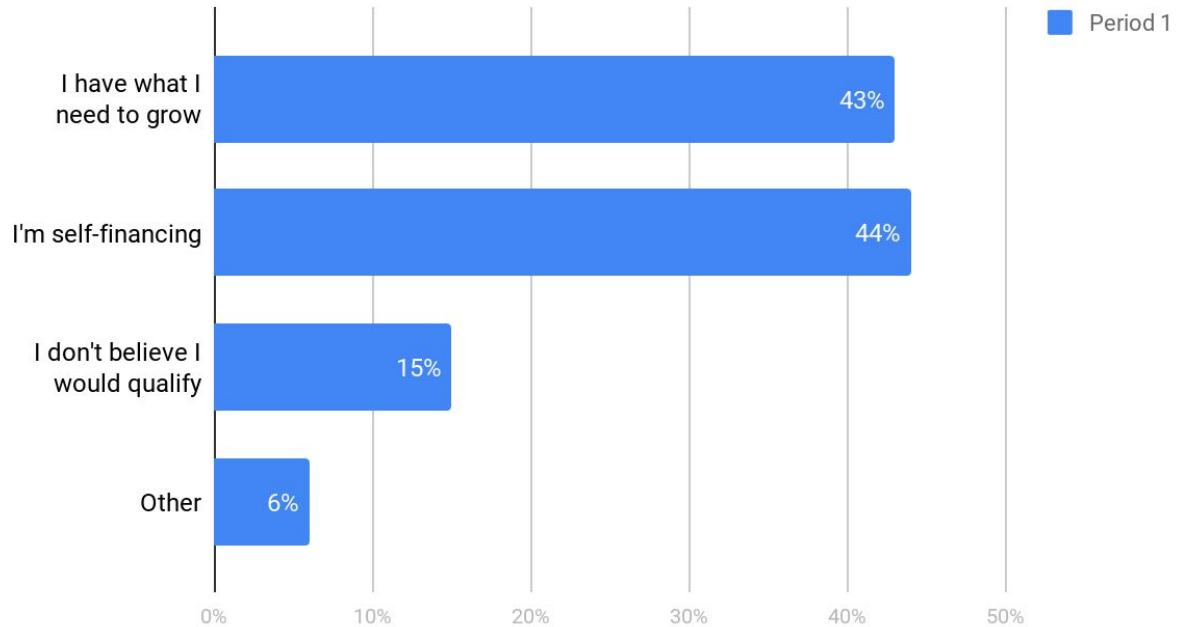
Type of financing by annual revenue:





## ATTACHMENT D - Not Seeking Growth Financing

### Reasons for not seeking growth financing



“Other” responses include: a lack of knowledge on products and services, uncertainty around eligibility for the specific products they need, they already have some financing and aren’t sure that they want to or are able to take on additional debt, and in the process of evaluating their business, among other reasons. Overall, most of the “other” responses were related to a need for more education and lack of availability of the types of products needed.