Access to Capital

Accelerating the Growth of Diverse- and Women-Owned Businesses

The Trillion Dollar Opportunity

Lawrence C. Manson, Jr.
About this White Paper

The National Association of Investment Companies, Inc. (NAIC) commissioned this report as part of a grant from the Minority Business Development Agency (MBDA) an agency within the United States Department of Commerce. The grant, received in October 2019 by the NAIC, was issued to facilitate the aggregation and deployment of $1 billion in growth equity capital to Diverse- and Women- Owned Business Enterprises (DWBEs). Access to capital remains the most important factor limiting the scaling of many of the nation’s 11 million DWBEs as recorded by the MBDA in 2019.1

In this report, Lawrence C. Manson, Jr., the Chairman and Chief Executive Officer of NexTier Consulting Solutions, LLC, documents the well-known funding challenges for DWBEs and examines potential solutions to enable the scaling of these businesses and quantifies the impact their success would have on the U.S. economy.

The NAIC (www.naicpe.com) was formed in 1971 as the American Association of MESBICs (AAMESBIC), Inc., under President Richard M. Nixon’s Black Capitalism program, which sought to ease access to capital for diverse business.2 During the 1980s, AAMESBIC lobbied successfully for legislation that would allow diverse firms to repurchase the preferred stock from the U.S. Small Business Administration (SBA) while raising funds that were not SBA regulated. AAMESBIC firms began approaching pension funds and other institutional investors to raise larger pools of capital.

In the next decade, the organization changed its name to the National Association of Investment Companies, Inc. as most members had turned from reliance on the SBA to become independent, institutional private equity firms. Today, the NAIC has a membership of more than 80 diverse private equity and hedge fund firms managing more than $165 billion in assets. Through education, advocacy and industry events, the NAIC is focused on increasing the flow of capital to high-performing diverse investment managers often underutilized by institutional investors. Additionally, NAIC produces unique and compelling research on the performance of diverse managers and executes initiatives to strengthen and position the industry for future success.

The MBDA (www.mbda.gov) is the only federal agency solely dedicated to fostering the growth and global competitiveness of DWBEs in the United States. In 2019, MBDA commemorated 50 years of economic empowerment through programs that better equip entrepreneurs to create jobs, build capacity and expand into new markets.

NexTier Consulting Solutions, LLC (NexTier), a wholly- owned subsidiary of NexTier Companies, LLC (www.nextiercompanies.com), is a consulting firm focused on helping investment organizations compete more effectively by providing strategic and tactical support services designed to reduce business risk and support growth. The company and its affiliates were founded in 2012 and is headquartered in Chicago with consultants located throughout the United States.
# Table of Contents

- **Executive Summary** 4
- **Surveying the Landscape** 5
- **Challenges Facing Diverse Businesses** 7
  - The Silver Lining for Diverse- and Women-Owned Businesses 8
  - DWBES Create Meaningful Economic Impact Throughout The United States 9
  - Growth Sector Opportunities 10
- **Solutions to Bridge the Capital Gap** 11
  - Diverse-Focused Funds, A History of Outsized Returns 11
  - Making the Case for Funds of Funds 12
  - Public, Private and Philanthropic Efforts 13
  - Emergent Alternative Financing Models 14
- **Conclusion: Investing in DWBES Matters** 15
- **About the Author** 16
- **Disclosures** 17
- **Works Cited** 18

## FIGURES:
- Figure 1, Collaborative Ecosystems 6

## TABLES:
- Table 1, Diverse and Women Businesses Based on Revenue 8
- Table 2, Diverse and Women Businesses by Market 8
- Table 3, State Distribution of Diverse and Women Businesses 9
Executive Summary

Diverse- and Women-owned Business Enterprises (DWBEs) are frequently overlooked by private equity investors, but this underserved market has significant potential to expand the United States economy. These entrepreneurs have increasing access to corporate supply chains and a strong presence in some of the fastest-growing market segments. There are tens of thousands of DWBEs that are potentially attractive investment candidates to private equity investors and others. With sufficient capital, these entrepreneurs have significant capacity to enhance economic growth for decades to come.

Entrepreneurs are a key driver of innovation, productivity and economic growth. Silicon Valley, lauded as a bastion of American innovation, is the recipient of billions of dollars of investment capital and has been a catalyst for growth of the United States economy, but it is not the only one. Often disregarded, the DWBE community is also a potential catalyst for economic growth. In the report titled, “Capitalizing Growth Among Ethnically Diverse and Women-Owned Business Enterprises,” Stanford University researcher Marlene Orozco calculates, based on data from the 2016 US Census Annual Survey of Entrepreneurs, that if MBEs were given the resources and opportunity to match the revenue generation of their non-diverse counterparts, they would add an incremental $1.37 trillion to the United States economy.

At a time when entrepreneurship is on the decline, these “ethnically diverse” businesses are bucking the trend. Data from the United States Census Bureau shows that the number of Hispanic-, African-American- and Asian-owned businesses have increased significantly in the last decade, with Hispanic-owned businesses achieving the highest amount of growth at 46 percent. This increase in the number of DWBEs provides investors and policymakers with a unique opportunity to support and accelerate growth in this segment of the economy. The success and prosperity of these businesses is critical because, regardless of race or gender, small businesses represent approximately 50% of American jobs and are the key to economic vitality. To benefit from these trends, the investment community must engage with and support this segment of the population. Studies by Case Western University researchers William Bradford and Timothy Bates have shown that realized financial returns from equity capital investments in diverse businesses can exceed those from non-diverse businesses.

Despite the growing numbers of diverse entrepreneurs and their influence on the economy as a whole, investment in these businesses remains limited. Diverse and women business owners are much more likely than their white male counterparts to cite access to capital as an obstacle to their growth. This diversity gap in entrepreneurship ultimately costs the United States billions of dollars in lost business opportunities and millions of jobs. If ethnically diverse entrepreneurs started and owned businesses at the same rate as their counterparts, the United States economy would have more than one million additional employers and an additional 9.5 million jobs.

In this paper, we explore some of the reasons why traditional capital has not flowed into this promising portion of the market and the ways in which investors can leverage an existing network of industry advocates to identify high potential DWBEs. Further, we proffer other potential solutions to the capital challenges these businesses face. Most importantly, we make the case for investing in this ecosystem. Despite the financing challenges faced by millions of DWBEs, we estimate that there are approximately 11,000 businesses with annual revenues ranging from $5 million to over $1 billion that could be attractive investment targets. All of these companies are actual or prospective suppliers to corporate America.
There is an existing network of organizations, most founded about 50 years ago in the wake of the Civil Rights movement, that have been seeking to support the growth of DWBEs and direct traditional and non-traditional capital sources business opportunities towards the DWBE community. This network includes the following:

- **The NMSDC**, founded in 1972, is a 501(c)(3) certified, not-for-profit business development group that has a network of more than 1,400 corporate members representing some of the largest global enterprises, and more than 12,000 certified minority businesses. Its mission is to expand its membership, both corporate and certified minority businesses while expanding supply chain contracting opportunities for its members. An independent study from 2014 showed that the nearly 12,000 certified minority businesses produced more than $400 billion in annual revenue and actively employed more than 2.2 million people.

- **The MBDA**, founded in 1969, is the only federal agency solely dedicated to fostering the growth and global competitiveness of minority business enterprises in the United States. In 2019, MBDA commemorated 50 years of economic empowerment through programs that better equip entrepreneurs to create jobs, build scale and capacity, and expand into new markets.

- **The NAIC**, founded in 1971 as an advocacy organization, is a 501(c)(6) membership-based organization representing diverse-owned private equity and hedge fund firms. Combined, the firms manage more than $165 billion in assets, own 441 portfolio companies that employ over 410,000 people. Today, the NAIC has more than 80 members and its mission is to advocate for the increased allocation of capital by institutional investors to diverse alternative investment managers.

Despite this significant growth rate among DWBEs, traditional funding sources such as bank lenders, venture capital firms and angel investors, predominantly continue to capitalize non-diverse male-owned businesses. With limited access to capital, diverse entrepreneurs face greater challenges in scaling their businesses or entering industries with higher growth prospects that require more start-up capital. Understanding that non-diverse businesses that do not face these obstacles generate five times more in gross revenues, it is easy to surmise that if diverse businesses had the same access to capital, they would drive substantial economic growth in the United States. For instance, if just the subset of Black-owned businesses could reach employment parity with non-diverse privately-held firms in the United States, roughly 600,000 more jobs could be created, adding an estimated $55 billion to the United States economy.
It is incumbent upon the leadership of each of these organizations to consider collaboration to increase the success and scaling of DWBEs. Through these efforts, the scaling of DWBEs can be maximized. Further, if these organizations are working together, they can more effectively support greater wealth creation opportunities in diverse communities throughout the country. Figure 1. Collaborative Ecosystems highlights this model. These organizations were formed to support the expansion of diverse businesses, each from a different perspective. The BDR and NMSDC create business development opportunities with corporate America for diverse and women entrepreneurs, while the MBDA and the NAIC seek to increase access to capital for the same constituents in order to fund business growth.

Figure 1. Collaborative Ecosystems

**Purposeful Strategic Engagement**

merge business opportunities with advocacy, capital and technical support.

NMSDC Ecosystem  
NAIC Ecosystem

Diverse Communities  
Wealth Creation

BDR Ecosystem  
MBDA
Challenges Facing Diverse Businesses

Access to capital is critical to the success of any company. Businesses that start with strong financials are more likely to succeed. A strong financial condition may allow entrepreneurs to take advantage of opportunities to expand into new ventures or pursue acquisitions. An examination of young companies supported by accelerators that received financial and non-financial assistance showed that funded companies saw approximately 30% more revenue growth and approximately 50% more employment growth two years after raising capital, than those that did not raise capital.\(^\text{15}\)

Diverse and women business owners are disproportionately affected by these trends. To bridge the capital gap, for example, Black-owned banks have historically targeted their service to the Black community which has typically been overlooked by traditional banks. Due to consolidation, the number of Black-owned banks has dropped significantly in the last two decades, shrinking from 48 in 2001 to 21 in 2019.\(^\text{19}\) Given these trends, many DWBEs do not even apply for loans for fear of rejection. Among firms with gross receipts under $500,000, approximately 33 percent of minority firms did not apply for loans because of fear of rejection compared to roughly 17 percent of non-minority firms. For firms with gross receipts over $500,000, 19 percent of minority firms did not apply for loans because of a fear of rejection compared to 12 percent of non-minority firms.\(^\text{20}\)

As it pertains to venture capital funding in particular, the disparity is even more egregious. A study by Diversity VC and RateMyInvestor, for the period 2013 to 2017, reviewed 135 venture capital firms which made 4,475 investments which included 9,874 founders. Their findings showed that of the 4,475 investments made, only 6% were led by all-women teams, while approximately 1% and 1.8% were led by Black and Latino founders, respectively.\(^\text{18}\)

As a result of these challenges, diverse-owned businesses often turn to personal credit cards, which tend to have higher interest rates than bank loans. Recent trends in banking have created additional barriers to capital access. Since the global financial crisis in 2008, lending to small businesses has contracted across the board. Due to industry-wide consolidation, large banks are becoming bigger, while many small- to medium-sized banks have been acquired or closed.

Diverse business owners are disproportionately affected by these trends. To bridge the capital gap, for example, Black-owned banks have historically targeted their service to the Black community which has typically been overlooked by traditional banks. Due to consolidation, the number of Black-owned banks has dropped significantly in the last two decades, shrinking from 48 in 2001 to 21 in 2019.\(^\text{19}\) Given these trends, many DWBEs do not even apply for loans for fear of rejection. Among firms with gross receipts under $500,000, approximately 33 percent of minority firms did not apply for loans because of fear of rejection compared to roughly 17 percent of non-minority firms. For firms with gross receipts over $500,000, 19 percent of minority firms did not apply for loans because of a fear of rejection compared to 12 percent of non-minority firms.\(^\text{20}\)

To further illustrate this dynamic, maintaining our focus on Black entrepreneurs, in particular, limited access to capital has meant that they have concentrated on sectors that require the least amount of start-up and ongoing working capital, such as service businesses. Often, these businesses produce low growth and low margins.\(^\text{21}\) Creating parity in access to capital represents an opportunity to enhance not only diverse businesses but also their communities.
Despite the many financing challenges that DWBEs face, many have been able to achieve substantial success. More than 80,000 of these companies have identified themselves as suppliers to corporate America and are registered in a database managed by Diversity Information Resources, Inc. (DIR), a data provider used by supply chain professionals to source diverse vendors.22 Of the more than 80,000 DWBE companies in the DIR database, approximately 11,000 are businesses with revenues above $5 million, including approximately 1,600 with revenues in excess of $50 million. Of that total, almost 900 businesses have revenues exceeding $100 million and almost 250 have revenues over $500 million.23 In Table 1, Diverse and Women Businesses Based on Revenue, the approximate 80,000-company dataset can be divided into seven groups based on revenues of which the largest 2,957 companies in the cohort, all of which have revenues in excess of $25 million, are particularly well-positioned to attract the attention of growth equity investors:

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>more than $1 billion</td>
<td>135</td>
</tr>
<tr>
<td>more than $500 million and less than $1 billion</td>
<td>102</td>
</tr>
<tr>
<td>more than $100 million and less than $500 million</td>
<td>630</td>
</tr>
<tr>
<td>more than $50 million and less than $100 million</td>
<td>742</td>
</tr>
<tr>
<td>more than $25 million and less than $50 million</td>
<td>1,348</td>
</tr>
<tr>
<td>more than $5 million and less than $25 million</td>
<td>7,998</td>
</tr>
<tr>
<td>less than $5 million</td>
<td>69,298</td>
</tr>
<tr>
<td>Total</td>
<td>80,253</td>
</tr>
</tbody>
</table>

Source: Database managed by DIR, March 25, 2020. The database managed by DIR does not represent the millions of diverse and women companies tracked by the MBDA, but only those companies that have registered in the database as diverse and women suppliers.

Altogether, in Table 2, Diverse and Women Businesses by Market, the dataset can be divided into four traditional market segments based on size:

<table>
<thead>
<tr>
<th>Market Revenue Range</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>more than $1 billion</td>
<td>135</td>
</tr>
<tr>
<td>more than $50 million and less than $1 billion</td>
<td>1,474</td>
</tr>
<tr>
<td>more than $5 million and less than $50 million</td>
<td>9,346</td>
</tr>
<tr>
<td>less than $5 million</td>
<td>69,298</td>
</tr>
</tbody>
</table>

Source: Database managed by DIR, March 25, 2020. The database managed by DIR does not represent the millions of diverse and women companies tracked by the MBDA, but only those companies that have registered in the database as diverse and women suppliers.
Subject to vetting and assuming sophisticated financial and corporate governance infrastructure, there are over 1,700 companies that would likely be considered attractive equity investment candidates by traditional leveraged buyout or growth-oriented institutional investors. Additionally, there are approximately 9,000 lower-middle market businesses that also represent a potentially attractive market segment for smaller traditional leveraged buyout or growth-oriented institutional investors. For the micro-cap market of which there are almost 69,000 companies, for the vast majority of the DWBEs in the cohort, the investor audience is likely wealthy individuals, small family offices or selected venture capital firms depending on the industry and growth phase of the company.

Given the opportunities in these various market segments, the prospect of deploying billions of dollars in capital is a conservative estimate, especially when considering the largest 1,700 large-cap and middle-market businesses. Billions more could be deployed to meet the capital demand of the lower-middle and micro-cap markets.

### DWBEs create meaningful economic impact throughout the United States

DWBEs are located in and contribute to local economies throughout the United States, with concentrations in California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania and Texas, according to the DIR database. In California, Florida, Georgia, New Jersey, New York and Texas, the concentration of minority and women businesses is correlated to the size of the diverse population. In other states such as Illinois, Michigan, Ohio and Pennsylvania, the concentration is tied specifically to diversity and inclusion initiatives in the automotive industry which has strong Tier I and Tier II diverse supplier programs.

As noted in Table 3, State Distribution of Diverse and Women Businesses, the companies in the approximate 11,000-company dataset are distributed throughout the United States:

<table>
<thead>
<tr>
<th>State</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>127</td>
</tr>
<tr>
<td>Alaska</td>
<td>25</td>
</tr>
<tr>
<td>Arizona</td>
<td>147</td>
</tr>
<tr>
<td>Arkansas</td>
<td>18</td>
</tr>
<tr>
<td>California</td>
<td>1,726</td>
</tr>
<tr>
<td>Colorado</td>
<td>190</td>
</tr>
<tr>
<td>Connecticut</td>
<td>120</td>
</tr>
<tr>
<td>Delaware</td>
<td>32</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>63</td>
</tr>
<tr>
<td>Florida</td>
<td>576</td>
</tr>
<tr>
<td>Georgia</td>
<td>509</td>
</tr>
<tr>
<td>Hawaii</td>
<td>19</td>
</tr>
<tr>
<td>Idaho</td>
<td>16</td>
</tr>
<tr>
<td>Illinois</td>
<td>706</td>
</tr>
<tr>
<td>Indiana</td>
<td>208</td>
</tr>
<tr>
<td>Iowa</td>
<td>43</td>
</tr>
<tr>
<td>Kansas</td>
<td>70</td>
</tr>
<tr>
<td>Kentucky</td>
<td>80</td>
</tr>
<tr>
<td>Louisiana</td>
<td>67</td>
</tr>
<tr>
<td>Maine</td>
<td>6</td>
</tr>
<tr>
<td>Maryland</td>
<td>249</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>186</td>
</tr>
<tr>
<td>Michigan</td>
<td>669</td>
</tr>
<tr>
<td>Minnesota</td>
<td>242</td>
</tr>
<tr>
<td>Mississippi</td>
<td>26</td>
</tr>
<tr>
<td>Missouri</td>
<td>172</td>
</tr>
<tr>
<td>Montana</td>
<td>13</td>
</tr>
<tr>
<td>Nebraska</td>
<td>22</td>
</tr>
<tr>
<td>Nevada</td>
<td>48</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>33</td>
</tr>
<tr>
<td>New Jersey</td>
<td>581</td>
</tr>
<tr>
<td>New Mexico</td>
<td>35</td>
</tr>
<tr>
<td>New York</td>
<td>615</td>
</tr>
<tr>
<td>North Carolina</td>
<td>258</td>
</tr>
<tr>
<td>North Dakota</td>
<td>13</td>
</tr>
<tr>
<td>Ohio</td>
<td>497</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>69</td>
</tr>
<tr>
<td>Oregon</td>
<td>57</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>354</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>53</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>12</td>
</tr>
<tr>
<td>South Carolina</td>
<td>115</td>
</tr>
<tr>
<td>South Dakota</td>
<td>4</td>
</tr>
<tr>
<td>Tennessee</td>
<td>140</td>
</tr>
<tr>
<td>Texas</td>
<td>988</td>
</tr>
<tr>
<td>Utah</td>
<td>38</td>
</tr>
<tr>
<td>Vermont</td>
<td>7</td>
</tr>
<tr>
<td>Virginia</td>
<td>354</td>
</tr>
<tr>
<td>Washington</td>
<td>181</td>
</tr>
<tr>
<td>West Virginia</td>
<td>8</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>162</td>
</tr>
<tr>
<td>Wyoming</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>10,955</td>
</tr>
</tbody>
</table>

Source: Database managed by DIR, March 25, 2020. The database managed by DIR does not represent the millions of diverse and women companies tracked by the MBDA, but only those companies that have registered in the database as diverse and women suppliers.
Growth sector opportunities

Transitioning to higher revenue, higher-margin sectors would boost the productivity and growth of diverse businesses. Access to capital is the key driver. Here are some of the high-growth sectors that are poised for high returns, but lack a prevalence of diverse businesses:

- **Technology/Biotech:** In the fast-growing tech industry, fewer than one in ten businesses are diverse. The United States Bureau of Labor Statistics estimates a 17% increase in science and technology jobs over the next decade, compared to approximately 12% for other industries. Only 9.9% of all diverse-owned businesses are in the professional, scientific and technical services sector.

- **Health and Wellness:** Driven by an aging population and increased willingness to spend on health improvement, the health and wellness sector grew by approximately 6.4% annually from 2015 to 2017, reaching an estimated $4.2 trillion. The fast-growing industry is starting to acknowledge its lack of diversity, with some businesses now seeking to foster greater inclusivity to align with the demographic shift. Statistics show that only 13.2% of diverse-owned businesses are in what is categorized more broadly as the healthcare and social assistance sector.

- **Automotive and Transportation:** With few exceptions, traditional automakers have been stagnant, but there is growing interest in hybrid or electric vehicles as well as micro-mobility vehicles such as e-bikes, e-scooters and e-skateboards, which are useful in urban settings where a growing segment of the population lives. Global investors put $3.7 billion into e-scooter and e-bike companies during the first 10 months of 2018, up from $2.8 billion in all of 2017 and $343 million in 2016, according to data from CB Insights. Global e-bike revenues are expected to grow to $24.3 billion by 2025, up from $15.7 billion in 2016, according to Navigant Research. The "go-to-market" strategies for this urban audience represent an opening for DWBEs. Automotive statistics for DWBEs were not available, but in the related transportation and warehousing sectors, only 6.6% of diverse-owned businesses are concentrated here.

- **Sustainable Food:** Consumer purchasing power and the growing popularity of local and organic foods are also driving the sustainable food industry. Globally, the market value of ethically labeled packaged foods is projected to reach $873 billion by 2020, up from $793 billion in 2015. Given the scale, growth and strength of this sector based on the demographic trends, this is a promising space for DWBEs to stake a claim and collaborate with industry leaders to drive growth.
Solutions to Bridge the Capital Gap

America’s changing demographics will exacerbate the existing funding gap between DWBEs and their non-diverse counterparts unless investors take meaningful steps to expand their deal sourcing efforts to capitalize on this shift in market dynamics. Fortune 1000 corporations, in particular, should take an active role in bridging the capital gap. Over the last five decades, many corporations have displayed an increasingly heightened sensitivity to disparities faced by DWBEs and have built programs to address those disparities by targeting various diversity metrics.

First, many corporations have addressed employment diversity from the bottom up, especially companies with a B2C marketing strategy. Second, many of these same companies have also made substantial progress in increasing the diversity of their senior leadership ranks while diversifying their supplier base with greater access to their corporate supply chain. According to a recent study, 68% of corporate respondents cited corporate social responsibility and cultural alignment with workforce inclusiveness as the primary drivers of doing business with DWBEs through their supplier diversity programs.

By 2017, the 29 members of the Billion Dollar Roundtable reported $77 billion in corporate spending with DWBEs. This increased exposure has, in many instances, created a stronger awareness of and connection with diverse communities, and perhaps an appreciation of the trade imbalance with diverse communities.

These facts suggest that corporate America could an important champion as a source of capital focused on scaling DWBEs. That capital could be sourced from their balance sheets or through their corporate pension funds. More than many other participants in the economy, corporations have a natural connection to diverse communities and stand to benefit immensely from the growth and scaling of DWBEs, especially those companies in their supply chains and those in the communities in which they operate.

In 1999, Cvent, Inc. (Cvent) the leader in meetings, events and hospitality management technology, was founded by Reggie Aggarwal, its current Chief Executive Officer. Mr. Aggarwal’s vision was to make meeting planning easier for his peers in the business community. After spending years painstakingly planning hundreds of events for the Indian CEO Network in his role as their president, Mr. Aggarwal decided to start Cvent with a single colleague. The company achieved early success as a pioneer in the event technology space but had to lay off nearly 80% of his employees during the dot.com burst in the early 2000s. During this time, approaching bankruptcy and facing the possibility of failure, Mr. Aggarwal and the core executive team focused on the two things that mattered most for any successful business, its employees and customers.

Mr. Aggarwal said, “It was during these times that growth equity capital was a critical part of our survival. We received sufficient capital to weather the storm, giving us the opportunity to focus on continuing to expand our platform and delivering best-in-class technology to our customers. That strategy paid off and we haven’t looked back since.”

Driven by the desire to transform the meetings and events industry, Cvent has grown to more than 4,000 employees under Mr. Aggarwal’s leadership, with 30,000 customers and 300,000 users worldwide. In 2013, Cvent went public (NYSE:CVT) boasting a $1 billion plus market capitalization. In 2016, Cvent was taken private by Vista Equity Partners for $1.65 billion, providing a 70% premium for Cvent stockholders.

Cvent is certified as a minority business enterprise by the National Minority Supplier Development Council, Inc.
Diverse-focused funds, a history of outsized returns

Investing in DWBEs offers upside potential despite the many obstacles facing these entrepreneurs. As mentioned earlier, studies by Case Western University researchers William Bradford and Timothy Bates have shown that realized financial returns from equity capital investments in diverse businesses can exceed those from non-diverse businesses.

Diverse-focused funds performed well throughout the 1990s and early 2000s. Financial returns for diverse-focused venture investments between 1989 and 2000 showed mean internal rates of return on realized investments of approximately 31% and a median return of approximately 20%. Because of the favorable returns, investment in diverse-focused funds jumped in 1999 and 2000, fueled by public pension funds. By the end of 2006, more than 50% of financial capital in diverse-focused funds came from public pension funds.

In 2008, the global financial crisis had devastating effects on the performance of all funds, including diverse-focused venture capital and private equity funds. When markets turn, there is a tendency to shift back to middle of the road, a flight to perceived quality. In the wake of this turbulence, many diverse-focused firms were shuttered and of those that remained, many shifted their interests to non-diverse and high-tech investment strategies.

Results show, however, that funds that took this approach did not fare well. Diverse-focused funds that shifted strategy saw declining returns. By contrast, funds that invested in diverse-owned businesses in old-economy industries made larger investments and stayed actively involved in the company’s long-term planning and strategy performed better than those that did not.

In 2010, Roda Carter formed Carter-Health Disposables, LLC (CHD) to provide personal protective equipment (PPE) including gowns, gloves, wipes, shoe covers, face masks, coveralls, disinfectants and other cleanroom supplies to the acute care hospital and compounding pharmacy marketplaces. Soon thereafter, CHD landed contracts with the related GPOs (group purchasing organizations) and distribution agreements with wholesalers, like Cardinal Health and AmerisourceBergen.

In 2014, CH Disposables achieved is first $1 million in sales and has been positioned to scale ever since. With solid long-standing partnerships with off-shore manufacturers and vast importing experience and knowledge, Ms. Carter was well positioned to keep up with the drastic increase in demand for PPE since the beginning of the COVID-19 pandemic. Unlike new market entrants, CHD has vetted products used by numerous top-rated healthcare systems. In 2020, the company is expected to achieve more than $50 million in revenue with less than 10 employees with a clear path to reaching $100 million in 2021 with less than 30 employees. The unprecedented demand for PPE has dramatically increased sales for CHD, yet because of efficient processes and procedures, CHD has been able to keep up by making slight adjustments in their operations.

Ms. Carter stated, “These are dynamic times for our businesses, and we’ve been able to self-fund our growth, however with $10 million of grow equity capital, I can transform the sourcing and delivery of PPE, by implementing an innovative, green manufacturing concept using domestic and alternate production channels, reducing the carbon footprint of the bulk raw material used in the manufacturer of PPE.”

Carter-Health Disposables is certified as a minority business enterprise by the National Minority Supplier Development Council, Inc. and is certified as a women business enterprise by the Women’s Business Enterprise National Council, Inc.
Making the case for funds of funds

As we consider solutions for bridging the capital gap for DWBEs, it is important to understand historical approaches that have been effective in driving capital to them. For example, throughout the 1990s and early 2000s, there existed a significant population of venture and growth equity investors who specifically focused on DWBEs as investment targets. Unfortunately, over time this critical category of investors has eroded due to a variety of reasons including, a shift of manager attention from DWBE companies to more mainstream investments, a disregard for the growth and talent resident in the DWBE market segment and, most importantly, a decrease in the number of institutional investors willing to directly fund strategies that specifically target the DWBE market segment.

As a result, funds of funds with a demonstrated commitment to diverse communities have come to play a more pivotal role in the deployment of capital to firms willing to focus on DWBE investments. These funds of funds have done an outstanding job of quantifying investment managers exist, assessing their team composition, track record, historical performance and the strength of their investment strategies. Funds of funds serve as a critical capital source for investment firms, especially the smaller and medium-sized firms. In addition to being an allocator of capital, funds of funds also perform due diligence, monitor investments and provide additional resources to the underlying managers. Lastly, funds of funds ensure that the selected investment firms deploy capital as prescribed.

There is a tremendous opportunity to generate alpha in smaller, more growth-oriented firms, but the work can be painstaking and time-consuming. Funds of funds can do the heavy lifting for institutional investors looking for selected investment that are dedicated to investing in DWBE portfolios creating a lower risk way to diversify across strategies to build a multi-manager, portfolios focused on investing in DWBEs.

Funds of funds have the requisite experience, data and manager relationships, as such they are well-positioned to be effective partners to institutional investors who desire to see capital flow to DWBEs. As such, they represent a critical solution to increasing the supply of capital to DWBEs.
Public, private and philanthropic efforts

Over the last several decades, governmental and private funding initiatives have been launched to address the access to capital gap for DWBEs. Unfortunately, few of these programs succeeded for a variety of reasons, including a lack of non-financial resources and the friction between social responsibility and investor return benchmarking in validating their purpose.

Traditionally, small and local banks were the providers of capital for local entrepreneurs allowing government stimulus to reach DWBEs through these providers. These local banks knew the communities well and funded DWBEs based on the depth of their insight and the strength of their relationships. Unfortunately, many of these banks were either acquired or did not have strong enough balance sheets to survive the 2008 recession, thereby removing a key source of capital for DWBEs.

Dating back to President Nixon’s efforts to support DWBE firms, the MESBIC program, and other government efforts to stimulate growth in minority businesses were launched. The MESBIC program, for example, offered venture capital to support the launch of new DWBEs. A primary lesson garnered from the MESBIC program was that in addition to receiving capital, new entrepreneurs also need coaching, and mentorship to support their vitality and growth. Similar programs have since grown in popularity such as Block Grants, Opportunity Zones, and HUBZones. Nevertheless, the policy and governance issues which failed to ensure the viability of DWBEs persist in these programs as well.

When analyzing the landscape of Opportunity Zones, HUBZones and Block Grants, the specific purpose to enable the growth of DWBEs is also notably absent from policy guidelines. Opportunity Zones, for example, provide access to capital and tax breaks in geographic areas with very diverse populations but do not require the investment of capital in businesses owned by people of color. Similarly, Block Grants provide states with pools of capital that are targeted for DWBEs, but they, too, lack the strict guidelines preventing the redirecting of these funds by the states to other priorities.

Recently, there has been an uptick in investor interest in DWBEs. New venture capital firms have launched with the specific purpose of achieving high returns through investing in DWBEs and providing other key non-financial resources. Lastly, foundations have played a growing role in the provision of capital to DWBEs through an increased focus in social impact investing and accelerator programs. The levels of capital in the financial markets are at an all-time high, it is time that the percentage of capital provided to DWBEs rise proportionately as well.
Emergent alternative financing models

New models are emerging to bridge the gap between the needs of diverse and women entrepreneurs and private investors. These alternative financing models give smaller entrepreneurs more options.

Online platforms such as crowdfunding are giving diverse and women entrepreneurs another pathway to access capital. Crowdfunding has helped companies and individuals raise approximately $3.5 billion since 2011 through platforms such as Kickstarter or Indiegogo. Due to the recent emergence of this form of funding, it is still too early to say whether entrepreneurs can rely on crowdfunding as a long-term, viable alternative to traditional venture capital.

In addition to crowdfunding, there are a growing number of online lenders, such as PayPal, SoFi and OnDeck, that are underwriting small business loans. Online lenders rely on big data and algorithms to make decisions. It is yet to be seen what this increase in online lenders means for diverse and women entrepreneurs. Online lenders show more geographic distribution of capital than venture capital firms or banks, but there is not yet enough data to show whether or not the algorithms are beneficial to diverse and women entrepreneurs. Traditional credit rating models have also been obstacles in the past. Another approach is revenue-based investing, in which companies raise capital by pledging a portion of future revenue.

In all of these new financing models, however, there continues to be a pattern recognition bias that needs to be addressed and overcome. Further, there needs to be an ecosystem of people who become successful leveraging these and other financing tools, and subsequently reinvest in the system to maintain the vitality of the ecosystem.
Conclusion: Investing in DWBEs matters

Of the millions of DWBEs in the United States, there are more than 80,000 companies that are potentially attractive investment candidates that have identified themselves as actual or potential suppliers to corporate America. Approximately 11,000 are significant businesses with revenues above $5 million, and there are roughly 1,600 companies with revenues in excess of $50 million that represent viable investment opportunities. Corporate investors, especially, should take note and provide capital to fund the growth and expansion of diverse participants in their supply chains. Investing in these entrepreneurs, not only benefits them and their communities, but also helps support overall economic growth in the United States.

This unmet demand presents an opportunity for investors to invest billions of dollars, and generate attractive returns. Tackling the barriers to capital that these entrepreneurs face will create greater wealth in underserved communities while providing investors with attractive returns.

Investing in DWBEs is not a social initiative, it is a national economic imperative. As population diversity continues to expand, these entrepreneurs must be positioned to take on a more critical role in the growth of the United States economy. In order to maximize the country’s future productivity, these obstacles to accessing capital for DWBEs must be addressed and eliminated.
About the Author

LAWRENCE C. MANSON, JR.
Chairman and Chief Executive Officer
NexTier Consulting Solutions, LLC

Experience
Lawrence C. Manson, Jr. is the Chairman and Chief Executive Officer of NexTier Consulting Solutions, LLC, a wholly-owned subsidiary of NexTier Companies, LLC. He has more than 30 years of business experience, including more than 25 years of private equity experience prior to forming NexTier. During his career, Mr. Manson has evaluated thousands of leveraged buyouts, recapitalizations, joint ventures or other types of investment transactions, invested more than $530 million of equity or subordinated debt in various transactions, arranged debt financings in excess of $2 billion, closed more than 30 merger, acquisition or divesture transactions, participated in the underwriting of public equity offerings in excess of $250 million, managed several hundred employees, created and executed numerous strategic plans and provided consulting advice to many business owners.

In the past, he held leadership roles with NexGen Capital Partners, LLC and Performance Trust Capital Partners, LLC including several private equity firms, Foundation Equity Investors, LLC, PENMAN Partners and Prudential-Bache Interfunding Inc., a subsidiary of the former Prudential-Bache Securities, Inc., an entity absorbed into Wells Fargo Bank, N.A. through a series of acquisitions.

Education
Mr. Manson received an AB degree in economics from Princeton University and an MBA degree in finance from the Columbia University Graduate School of Business.

Disclosures

This white paper is intended for general information purposes only and should not be construed as investment advice, an offer or solicitation to purchase or sell any security or commodity, or opinions on any specific facts or circumstances. Each investor should consult his or her own advisors regarding the legal, tax and financial suitability of the investment products or managers described herein. No person should invest in any of those products who is not, either alone or with his or her advisors, able to evaluate the merits and risks of the investment. Any reference to past performance does not guarantee future returns. Further, the opinions in this white paper are based upon the authors' preliminary analysis of publicly available information. The information in this document has been obtained from sources believed to be reliable, but the accuracy and completeness of such sources are not guaranteed. The content of this document is made available on an "as is" basis, without warranty of any kind by NexTier or the author. NexTier disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on the content herein. The opinions expressed herein are subject to change without notice and NAIC reserves all rights to the content of this document.
Works Cited

1. NAIC Press release, MBDA Awards NAIC Million Dollar Grant to Raise $1 Billion for Investment in Minority Entrepreneurs, October 4, 2019
2. MESBICs represents a Minority Enterprise Small Business Investment Company
4. The term "ethnically diverse" is synonymous with "minority" although it is projected that the "ethnically diverse" population will likely be the majority within 40 years in the United States.
5. Henry Childs and Wilbur Ross, The Hill, Celebrating the Rise of Minority-owned Businesses, March 5, 2019
16. SBA Office of Advocacy, Access to Capital among Young Firms, Minority-Owned Firms, Women-Owned Firms, and High-Tech Firms, April 2013, page 31
18. Diversity VC and RateMyInvestor, Diversity in U.S. Startups, 2017, p.8
19. American Banker, "Is time running out to save black-owned banks?", November 14, 2019
22. DIR manages and validates the certification data. Founded in 1968, DIR is a non-profit that is dedicated to offering supplier diversity expertise and is recognized as one of the preeminent companies in the United States tracking supplier diversity participation.
23. Diversity Information Resources, Inc.
28. US Energy Information Administration, US electricity generation from renewables surpassed coal in April, June 2019
30. The Solar Foundation, Solar Industry Releases New Diversity & Inclusion Reports, May 2019
32. Deloitte, 2020 Media and Entertainment Industry Outlook, 2019
34. CNBC, U.S. Retail Sales Unexpectedly Decline in a Sign that Consumer Economy Could be Cracking, October 2019
36. ibid
37. Statista, Sustainable Food Industry - Statistics & Facts, May 2018
38. CVM, 2019 State of Supplier Diversity - Supplier Diversity Programs, March 2020
39. Membership Center, Billion Dollar Roundtable
43. Pinsky, Mark A. and Keith Mestrich, Opinion: Opportunity zones are all sizzle, fizzle and the abuse of good intentions, November 22, 2019
44. Center on Budget and Policy Priorities, The Problems with Block-Granting Entitlement Programs
45. Kauffman Foundation, Access to Capital for Entrepreneurs: Removing Barriers, April 2019, page 26
46. ibid