



CITY *of* BOSTON

STRENGTHENING THE HEARTBEAT OF BOSTON

**Integrated Strategies to Support a
Thriving Small Business Community**

2024

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For a full list of acknowledgments, see page 104.

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Remarks from Mayor Wu



Dear Friends:

Small businesses touch every aspect of life in our city. They provide goods and services for our day-to-day lives, as well as the food, hospitality, and experiences that help us celebrate important occasions. They serve as gathering places that knit together our communities and are the cornerstone of the vitality and vibrancy of Boston's neighborhoods. Small businesses are also the lifeblood of Boston's economy: they support jobs, income, and asset generation for the city's entrepreneurs and workers; keep local dollars in the community; and drive the innovation that fuels the Boston economy. Our small businesses reflect the immense diversity of our city: small business owners are immigrants, children of immigrants, and folks who have been here for generations; they are people of color, women, LGBTQ+ persons, and veterans; and they come from every square and street of every neighborhood.

This report reflects our belief that the city should not be one more set of barriers to navigate but a resource to help businesses grow and plan for the future. It provides strategies that will enable the city to roll out a "small business-centric" operating model, with concrete, tangible supports for current and potential business owners looking to launch, scale, or keep a small business in Boston. These strategies seek to remove barriers that, all too often, cost business owners valuable time and energy. The report also charts a roadmap for working with the rich ecosystem of small business supports provided by the city and region's non-governmental partners, and how critical gaps in these resources can be filled.

The strategies are designed to meet the needs of all small businesses, including the smallest “micro-businesses” that are the foundation of the city’s commercial corridors. The plan is sensitive to the specific needs of under-represented entrepreneurs and addresses linguistic and cultural barriers facing our immigrant business owners, who make immense contributions to Boston’s economic and cultural life. This report and the strategies herein advance our broader mission of closing racial wealth, opportunity, and economic mobility gaps that continue to harm many Bostonians of color.

As a former small business owner, I have witnessed firsthand the power of small businesses to uplift and connect our communities and neighborhoods. I also know the hard work it takes to start and run a small business, and I understand that at its worst, the process can be rife with complications and challenges, often at the hands of the city. This report signals a commitment to improving and streamlining these processes in the City of Boston and supporting our current and future small businesses, as well as the entrepreneurs they represent, the jobs and wealth they create, and the communities they enrich.

I look forward to working with our community members and partners to support our city's small businesses.

Sincerely,

A handwritten signature in black ink that reads "Michelle Wu". The signature is fluid and cursive, with the first name "Michelle" written in a larger, more prominent script than the last name "Wu".

Michelle Wu

Mayor of Boston

Remarks from Chief Idowu, Office of Economic Opportunity and Inclusion



Dear Fellow Small Business Supporter:

I am delighted to share with you this updated review of the impact, growth, and importance of small businesses across the City of Boston. These entities are key economic drivers for our communities and important tools for building wealth—for the owners and their families, the employees, the neighborhood, and the city.

Our Cabinet was put together to serve the needs of small business owners. Whether you want to start your business (*Office of Small Business*), move your business into Boston or engage the startup community (*Office of Business Strategy*), obtain a liquor license (*Office of Consumer Affairs and Licensing*), seek a contract (*Office of Supplier Diversity*), expand to international markets (*Office of Global Affairs*), or host an event (*Office of Tourism, Sports, and Entertainment* and *Office of Late Night Economy*), the Economic Opportunity and Inclusion Cabinet has been working together to advance our vision of a resilient, equitable, sustainable, vibrant city that centers people and creates opportunities to build generational wealth.

Under the leadership of Mayor Michelle Wu—herself a small business owner—our Office, in collaboration with our partners across city government, has worked tirelessly to support, nurture, and scale small businesses in our neighborhoods. From the \$13 million in small business relief grants that our team awarded to close to 1,100 firms, to the launch of the most expansive Legacy Business program in the nation, to the \$5 million investment in our Main Streets organizations, to giving entrepreneurs the space for their dreams to grow with \$9 million via our SPACE grant program, to more than doubling the value of the contracts we awarded to businesses owned by people of color and women, the Wu Administration remains committed to strengthening our existing small business base and supporting residents with bold ideas who want to make their dream of business ownership a reality.

This report provides an important snapshot of the increasingly vibrant small business ecosystem. It also shares actionable next steps that the City can advance quickly, ensuring that this becomes a roadmap for the future rather than a bookend that will collect dust. I am excited for the future of small businesses in Boston and look forward to supporting the brilliance of our residents and giving dreams the space to grow.

Sincerely,

A handwritten signature in black ink, appearing to read 'Segun Idowu', with a large, stylized flourish at the end.

Segun Idowu

Chief, Economic Opportunity & Inclusion

Remarks from Director Porcena, Office of Small Business

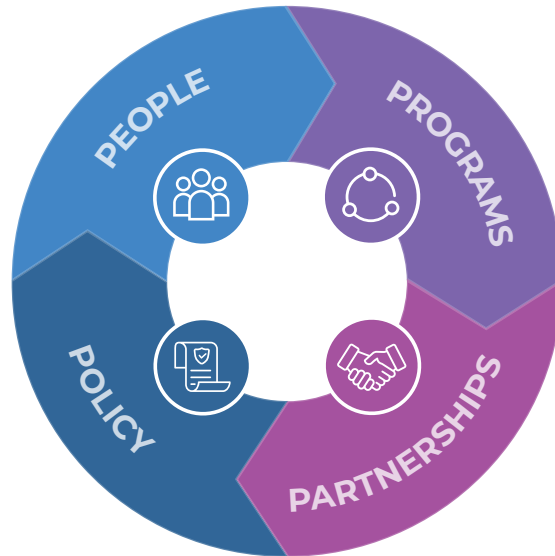


To the Boston Community:

Boston small businesses are the backbone of our city's neighborhoods and communities. As any business owner will tell you, the role of a small business is much bigger than the goods or services they provide. It's where we go for haircuts and hope, a cup of coffee, a feeling of comfort, and so much more.

Boston's small businesses and the wider Boston economic ecosystem are incredibly resilient. COVID-19 tested this resilience and allowed us to see what is possible, especially the true power of community when we work together and support one another. It has also taught us the importance of being ready and nimble for when emergencies happen. Over the past four years, we saw our businesses be resilient, time and time again. But this resilience came at a cost, leaving many businesses fragile and stretched thin. The City has reacted to the needs of our small business community by being responsive and supportive, with a focus on building the overall health and well-being of our business community. Today, this report represents a shift to the next phase of our work: building a sustainable small business community.

The sustainability of our small businesses is intertwined with the City's success. This report's data and recommendations have helped transform our understanding of how to support our residents and their small businesses, leading to our "4P" framework organized around Programs, Partnerships, People, and Policy. Our unified 4P Framework creates the foundation for the small business community, key stakeholders, and a pipeline for entrepreneurs who wish to start, build, and grow their small business in Boston.



This framework exemplifies our intention to uplift small businesses and proactively offer resources, including information, connecting businesses to opportunities, and, at times, providing direct services. I believe that this integrated approach will help us realize our brightest future where entrepreneurs and business owners find it easier to get answers, start and run their businesses, and get things done.

Sustainability succeeds through support and intention. Each stakeholder has a role to play in developing our small business community. Within the Office of Small Business, we are embracing the City's position as ecosystem lead. Our holistic approach will focus on the overall health of the small business community and help business owners continue to make a transformational impact in our communities.

I invite you to join us on this transformative journey as we move towards a sustainable future for Boston's small businesses. With our innovative 4P Framework and collective efforts, we are fostering an ecosystem where businesses not only survive, but thrive, in Boston.

Warmly,

Aliesha J. Porcena

Director, Office of Small Business

CHAPTER 1

INTRODUCTION

Boston's Small Businesses: Strong Today, with Opportunities for Growth



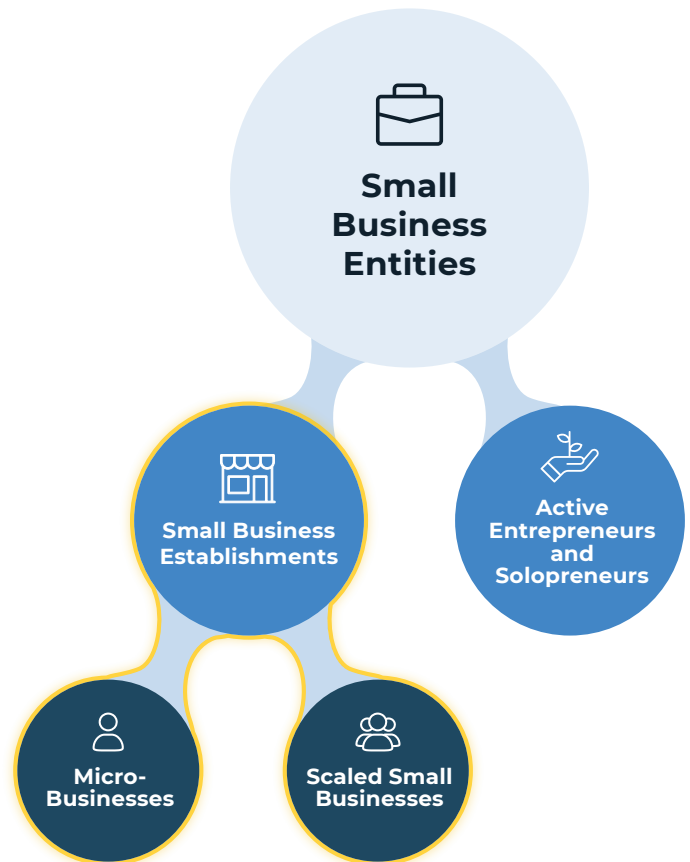
OVERVIEW

Small businesses play a vital role in making Boston an appealing place to live, work, and visit, offering essential goods and services that enhance the overall quality of life.

They contribute to the creation of vibrant urban environments that attract residents, workers, students, and tourists. Small businesses foster a sense of community, connect people from all walks of life, and mirror the city's rich diversity across race and ethnicity, place of birth, and veteran status.¹

This report defines small businesses as ones with fewer than 50 employees or those with 50 or more employees but less than \$5 million in annual revenue (see Figure 1). We estimate that the City of Boston is home to about 58,000 small business entities, which is a broad term used to describe a variety of types, structures, and stages of businesses. Of these, this report focuses on a subset of 18,000 small business establishments, which are operating businesses that are generally accessible to the public through a virtual or physical storefront and have less than \$5 million in annual revenue or fewer than 50 employees. Often located along the city's commercial corridors and main streets, these small business establishments generate about 127,000 jobs.²

Figure 1. **Small Business Ecosystem**



Pictured on previous page. Mayor Michelle Wu helps unveil a street sign dedicated to William Hicks Sr., owner of Hicks Auto Body in Dorchester, whose business has been operating since the 1960's. [Mayor's Office Photo by Isabel Leon]

RECENT TRENDS AFFECTING SMALL BUSINESSES

The City of Boston's first small business plan was published in 2016. While the goals and findings of that report remain relevant, the world has changed dramatically since then—and the challenges facing small businesses have evolved, as well.

The COVID-19 pandemic left in its wake the shuttering of millions of businesses across the country. Emergency funds made available by the federal government helped keep some businesses open, but many businesses could not access these resources in time or at all. These and other challenges led to acute, lasting hardships for some small businesses and reinforced—and in some cases, deepened—racial and ethnic disparities in business ownership and wealth creation.³

Overall, Black and Latino business owners received just a fraction of deployed assistance during the pandemic,⁴ and research suggests that within Massachusetts, COVID-related business distress was highest in Boston and inner-ring suburbs.⁵

Micro-businesses, which are defined by the City of Boston as firms with less than \$500,000 in annual revenue and fewer than 10 employees, were hit especially hard.

Micro-businesses are an important focus of this plan because they anchor neighborhood commercial corridors, form the foundation of local economies, and provide critical pathways for inclusive entrepreneurship.



In Massachusetts, micro-businesses have faced significant financial hardship during, and in the aftermath of, the pandemic: they were more likely to have significant losses in the first half of 2020, less likely to report a recovery in revenue in 2022, and less likely to receive any COVID-related funding, such as Paycheck Protection Program (PPP) or Economic Injury Disaster Loans (EIDL) funds.⁶

In Boston and across the U.S., three other major trends are reshaping urban business activity. First, the rapid adoption of digital platforms, which accelerated in response to COVID shutdowns, has shifted demand away from brick-and-mortar businesses, especially smaller ones that have not adopted these new tools. These are worrying trends for small businesses that have not made the digital transition: not only does digital presence expand the potential customer base for a business, but e-commerce has captured an increasingly high share of total sales in recent years, topping 15% in the third quarter of 2023.⁷

Second, although Downtown Boston is considered one of the most iconic and vibrant downtowns in America, rising rates of remote work have pulled away energy and activity from traditional jobs centers and caused employers to rethink their office footprints. This has contributed to a dramatic shift in consumer spending at neighborhood businesses, particularly those located in Main Streets districts. Recent data suggest that foot traffic and transit ridership in Downtown Boston have risen from pandemic troughs,⁸ but the city's historic office districts are clearly undergoing a transition.⁹

Finally, sizable increases in inflation and interest rates have resulted in higher wage, supply, and borrowing costs, while businesses' ability to increase prices to compensate for higher costs has often not kept pace.

Pictured below (from left to right):
Opening of the Dorchester Food Co-op,
the Roslindale Market & Deli, the West
Roxbury Farmers Market.



While canvassing small businesses along commercial corridors across Boston in summer 2023, many micro-businesses—especially those serving consumers in low- and moderate-income areas—mentioned that reduced purchasing power of their customer base was affecting demand, which, combined with other factors, put acute pressures on sales and profitability. This stands in contrast to trends in e-commerce and knowledge-based industries, many of which have benefited from work-from-home (WFH) options; tech businesses, which have seen huge growth in funding and other supports; and professional services, which have grown rapidly in the post-COVID period.¹⁰

In addition to reducing the purchasing power of customers, high inflation has made capital investments and borrowing more difficult.¹¹

Rising interest rates, along with tightening lending standards, have contributed to a significant decrease in small business lending in Boston.

In 2022, bank lending was \$100 million lower than in 2014, which is surprising given the increase in the city's small business jobs and number of people engaged in self-employment. On a per jobs basis, lending declined about 27% from 2014 to 2022, seemingly part of a long-term trend. With the exception of 2020 and 2021, when lending volumes surged with Paycheck Protection Program (PPP) lending, small business lending by banks had been stagnant or declining for nearly a decade.

Despite trending upward through 2021, lending by credit unions has also declined, although their share of small business lending dollars was slightly higher in 2022 than in 2014.¹² These challenges are likely compounded for business owners of color, who face additional barriers in accessing capital and whose estimated unmet capital needs in Massachusetts exceed half a billion dollars.¹³

On the equity side, venture capital (VC) investments have exploded, setting records locally and nationally in 2021. Although VC dollars have declined from peak levels in 2021, the amount of VC deployed in the greater Boston combined statistical area in 2023 is well over twice as large as 2014 (in real terms).¹⁴ Unfortunately, data have shown that VC continues to be one of the least inclusive sources of small business funding,¹⁵ and recent reporting suggests that Black and Latino founders received even less VC funding in 2023 than they did in 2022.¹⁶ With its growing importance for financing businesses, this almost certainly means that racial, ethnic, and gender gaps in capital access have increased in the last decade. This points to a need to evolve the ways we see, engage with, and support small businesses, with an eye toward solutions that fill these gaps across and between groups.

**27%**

Decline in lending by large and community banks in the City of Boston from 2014 to 2022 (on a per jobs basis)

There are also longer-term concerns around capital availability. While inflation slowed in 2023 after annual rates of 7.0% in 2021 and 6.5% in 2022, recent projections suggest that inflation will not meet its historical target of 2.0% any earlier than 2026.¹⁷ Even under optimistic scenarios, interest rates for small businesses will remain high by the standards of the 2010s for the foreseeable future, keeping it challenging and expensive for them to borrow money.¹⁸ Adding to this, multiple factors, including the collapse of Silicon Valley Bank in March 2023, have driven hundreds of billions of dollars in deposits from community banks to larger banks, which historically have had lower approval rates for small businesses seeking capital.¹⁹

At the level of local supports, the picture is mixed. Small businesses and their support organizations praise the resources available in Boston's ecosystem—which became better connected during and in the aftermath of the pandemic—but believe that the system could be more effective if information were further centralized, support services better coordinated, and access points more clearly defined, customer-friendly, and designed to accommodate the range of linguistic and cultural backgrounds of Boston's entrepreneurs and small business owners.²⁰



2023 neighborhood business walk with members of Bowdoin/Geneva Main Streets, and OEI.

There are also resource gaps, particularly when it comes to equitable access to resources. Ecosystem actors identify a need for capital and targeted technical assistance to small businesses navigating the ongoing digitization of the economy, as well as comprehensive approaches to broadening access to the opportunities of the emerging economy, from AI to mobility to climatetech. If successful, these actions can create and sustain pathways to wealth creation for all small business owners, including for people of color, immigrants, veterans, women, and other under-represented communities.

In neighborhoods and commercial corridors experiencing growing investment, businesses confront additional challenges, including disruptions from construction, rising real estate costs, and the potential displacement of long-standing customers. To tackle these complex issues, strategies must be developed that not only fortify the resilience of neighborhood businesses but also address the specific threats spurred by the pandemic and gentrification.

However, there remain reasons for optimism.

In the course of drafting this report, hundreds of people—city staff, small business owners, capital providers, representatives from business support organizations—engaged in discussions about the small business ecosystem in Boston. While they identified a multitude of critical issues, most expressed a belief that there are significant opportunities to improve outcomes through better alignment of resources, and most organizations expressed a desire to participate in this type of collaboration.²¹ In addition, initiatives ranging from inclusive procurement to improved access to storefronts (e.g., the City of Boston’s SPACE program), relatively new ideas a decade ago, have evolved into programs that have achieved important results. These initiatives are proof points that intention and resources—including grants that meet the community where they are and provision of technical assistance—can move the needle on small business outcomes in Boston.²²



Greetings from Allston Village mural, painted by the Mayor's Mural Crew.

The broader national context of small business support has also evolved and improved. The past twenty years have seen the rise of national entrepreneurship and training organizations like Startup America and the EShip Summit, as well as programming from organizations like the International Economic Development Council (IEDC) and National League of Cities. The Biden-Harris U.S. Small Business Administration (SBA) published the Equity Action Plan in 2022, providing a roadmap for how it can better support under-served entrepreneurs when it comes to capital, public sector contracts, disaster-related assistance, and other business supports. In addition, some of the business support entities that have gained national prominence were formed in or near the City of Boston.

There have also been tremendous advances in the quality and availability of no- and low-cost tools to support entrepreneurship education and small business planning and strategy. These tools are sponsored by a variety of entities and sectors, such as economic development organizations, investors/investment organizations, colleges and universities, other educational institutions, government, philanthropies, consultancies, and businesses, and they are available through different channels and platforms, including accelerators or incubators, apps, online or Massive Open Online Courses (MOOCs), online DIY courses, or traditional in-person settings.

Furthermore, knowledge, research, and expertise on entrepreneurship have grown exponentially in recent years alongside the explosive growth in undergraduate and graduate entrepreneurship curricula and other offerings at colleges and universities.²³

Some of the city's most important economic policy objectives, such as neighborhood revitalization and shared prosperity, depend on the health of its small businesses. As such, the city's small businesses and their well-being are a priority for the City.

In a thriving small business economy, local businesses provide goods and services to residents while enhancing quality of life through their contributions to the unique social, community, and cultural environments that define Boston's neighborhoods.

Post-COVID conditions that undermine the strength of the small business community must be addressed as part of a strategy to reinvigorate those areas experiencing declines in business activity and/or increases in vacancy.

ADDRESSING LONGSTANDING BARRIERS AND INEQUITABLE OUTCOMES

Disparities in business outcomes and access to resources remains a significant issue in the city and region.

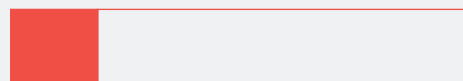
Presently in Boston, a noteworthy disparity exists in the ownership of businesses, especially those with employees, substantial revenues, or situated in industries with high potential for revenue and jobs growth, where the majority are disproportionately owned by white entrepreneurs. Among businesses with employees, only 19% qualify as minority-owned business enterprises (MBEs), a figure significantly below the demographic composition of the working-age (25-64 year old) population at the time of data collection, which stands at 51% people of color, 23% Black or African American, 9% Asian, and 18% Hispanic of any race (note: these demographic categories may overlap). Moreover, average revenues for MBEs are about 64% lower than for white-owned firms.²⁴ More broadly, by national standards, business ownership by women and people of color remains decidedly average in a city that usually demands excellence. Strategies that support diverse entrepreneurs and business owners from startup through growth can help close these gaps.

Even with the depth and experience of the Boston ecosystem, small business owners from under-represented groups received significantly less in terms of federal COVID supports, with the largest gaps in resources received by Black and Latino business owners.²⁵ Access to entrepreneurship education and tools remain difficult for non-English speakers (and, in some cases, impossible for those without working knowledge of English or Spanish).²⁶ And in 2022, equity investment, such as venture capital, deployed nearly \$1.2 billion in the City of Boston; this amount far exceeds total small business lending by banks (\$795 million),²⁷ and these investments rarely flow to Black and Latino founders.

People of color make up **51%** of Boston's working-age (25-64 year old) population



Yet own only **19%** of Boston's employer businesses



While many organizations were actively working to dismantle and reform inequitable systems and advance racial equity goals before 2020, the nationwide protests that followed the inequitable impacts of the pandemic and the murder of George Floyd both reflected and catalyzed a variety of supports and commitments to racial equity as a means of rectifying longstanding racial disparities and wealth gaps. Many Boston-based organizations developed and made public their racial equity commitments. Corporations, both individually and in coordinated efforts (e.g., the New Commonwealth Racial Equity and Social Justice Fund), committed millions of dollars toward racial justice initiatives. As part of the Boston Charitable Trust, the Boston Racial Equity Fund was formed, under the oversight of city staff; the Fund has since merged with the New Commonwealth Fund.

While important organizations and programs have been established or expanded in the past several years nationally, the recent spate of legal reverse discrimination challenges against organizations and programs focused on businesses owned by people of color threaten efforts aimed at promoting equitable entrepreneurship.

A comprehensive strategy for the city's small businesses is essential for closing the racial wealth gap in Boston—a cornerstone goal of Mayor Michelle Wu's economic agenda.

In 2022, the Wu Administration renamed its Office of Economic Development to the Office of Economic Opportunity and Inclusion (OEI), with a new vision for a resilient, equitable, sustainable, and vibrant city that centers people and creates opportunities to build generational wealth.

Within this vision, supports for small businesses, including those owned by under-represented entrepreneurs—whether immigrants, people of color, women, LGBTQ+, disabled, or veterans—are seen as critical for advancing broad-based income and wealth generation. With the post-COVID surge in entrepreneurship activity, the case for a comprehensive small business strategy becomes even more central to the realization of an equitable, high-growth economy.²⁸

The significance of redressing imbalances in business equity cannot be overstated—nationally, and likely in Boston as well, recent trends indicate that business equity as a proportion of household wealth is at its highest level in at least three decades, underscoring the urgent need for a more equitable distribution to help narrow the wealth gap.²⁹

GUIDE TO THIS REPORT

The strategies presented in this report have three primary goals:

- 1** Creating a thriving, diverse, and accessible small business sector in Boston and an ecosystem that centers small businesses;
- 2** Contributing to the eventual elimination of the city's racial/ethnic wealth gap; and
- 3** Stimulating the revitalization of the city's neighborhoods and major commercial hubs and corridors.

The purpose of this report is to provide the City of Boston with a roadmap of actionable strategies to support the vitality of the city's small businesses, while also offering comprehensive insights to aid implementation and execution of current and new policies and programs to support Boston's entrepreneurs.

This report also provides a rich description of Boston's small business economy and ecosystem for use in future program and policy development. OEI recognizes the importance of having up-to-date information about the state of the city's small business community and the unique challenges faced by our entrepreneurs in a post-COVID economy.

Pictured left: Boston skyline
[Photo by Boojum Rock]

Pictured right: East Boston
Open Streets 2023 [Photo by
City of Boston]



Special emphasis is placed on supporting the city's micro-businesses, which are a cornerstone of income and wealth generation for Boston's diverse population.

This document serves as a re-commitment to small businesses across Boston and is intended to be used by OEOL's Office of Small Business, as well as by other city staff and departments, the philanthropic community, private and non-profit partners looking to support small businesses in Boston, and, of course, the broader small business ecosystem in the city and region.

This report is the culmination of an intensive eight-month collaborative effort involving numerous organizations and individuals. The project consulting team gathered, integrated, and organized data on tens of thousands of small businesses, nearly 200 business support organizations (BSOs), and over 500 capital providers.

To ensure a thorough understanding of the landscape, the team also conducted detailed interviews with close to 100 representatives from more than 60 entities deeply involved in the local small business ecosystem, including 20 city staff members from critical departments, 18 Main Streets directors, and over 50 representatives from various support organizations (e.g., entrepreneurship and innovation support groups, business and trade associations, and anchor institutions, such as universities) and capital providers (e.g., banks, alternative/microlenders, CDFIs, impact investors).

In addition, a group of interns with proficiency in multiple languages commonly spoken in Boston (English, Spanish, Haitian Creole, Vietnamese, Cantonese, and Mandarin) canvassed small businesses along commercial corridors across Boston in the summer of 2023. Their conversations with small business owners delved into operational insights, neighborhood dynamics, and immediate, as well as long-term, challenges. This outreach effort resulted in approximately 520 businesses being approached, with about half actively engaging in meaningful conversations.



The project team has also undertaken a rigorous process of gathering and analyzing data from numerous sources. This comprehensive approach involved sourcing data from city departments like City of Boston Planning Department, private data vendors, as well as an extensive array of state and federal outlets, such as the Census Bureau (comprising the American Community Survey, Annual Business Survey, Business Formation Statistics, Nonemployer Statistics, Quarterly Workforce Indicators, and Statistics of U.S. Businesses), Bureau of Labor Statistics (Quarterly Census of Employment and Wages), federal capital providers (Community Development Financial Institutions Fund, Federal Financial Institutions Examination Council, National Credit Union Administration, Small Business Administration), and the Massachusetts Department of Economic Research (Employment and Wages ES-202 data). To ensure a comprehensive overview, the project team also invested in firm-level data from the University of Wisconsin's Institute for Business & Entrepreneurship, offering an annual snapshot of public and private establishments. These data provide a granular perspective, including precise business locations, industry classifications, sales figures, and employment statistics.

It is important to note that Your-economy Time Series (YTS) data exclusively capture establishments actively engaged in commercial activities. For a detailed description of the methodologies and estimation techniques employed, please see the appendix.

Insights gleaned from data analysis, interviews, and on-the-ground canvassing were supplemented by five roundtable discussions with seasoned ecosystem practitioners, each centering on a specific thematic area. These focused discussions delved into critical topics such as capital access for small businesses, equity and inclusion in the local innovation economy, the BSO ecosystem, immigrant-owned small businesses, and scaled small businesses. Each roundtable, spanning two hours, incorporated a strategic development component that played a pivotal role in shaping the conclusive recommendations presented in this report. Strategy recommendations that emerged from the roundtables were tested and refined during a series of working sessions with OEOI senior staff, as well as through presentations to the leaders of various City departments and agencies.

A NOTE ABOUT LANGUAGE: Unless otherwise stated, all dollar values in this report reflect real 2022 values. When describing groups of small business owners, we employ the language used by the underlying data source (e.g., “Black or African American,” “foreign-born”). In cases where we are not referencing a data source, we use language employed by the City of Boston (e.g., “LGBTQ+,” “Latino”). This allows us to most accurately describe the underlying counts in the data sources.



Small businesses foster a sense of community, connect people from all walks of life, and champion the city's rich diversity.

Pictured: Open Streets Allston 2023.

CHAPTER 2

THE CURRENT STATE OF BOSTON'S SMALL BUSINESSES



OVERVIEW

Small businesses are the foundation of Boston's economy, illuminating its vibrancy, diversity, and culture.

The following section describes the current state of Boston's small businesses. It provides the definition used by this report to identify small businesses, analyzes their smallest businesses ("micro-businesses"), assesses the inclusivity of and equity within entrepreneurship for under-represented

entrepreneurs (people of color, immigrants, women, veterans, and LGBTQ+ people), discusses the major industry segments in which small businesses operate, and describes the city's landscape of small businesses at a neighborhood level.



Pictured above: Opening of the Dorchester Food Co-op.

Pictured on previous page: Mayor Michelle Wu joins Eastie Farm and community members in a ribbon-cutting ceremony to open the new Eastie Farm Greenhouse.

IDENTIFYING AND COUNTING

SMALL BUSINESSES

There are various ways to identify a small business, and business owners may classify themselves based on factors such as annual revenue, number of employees, payment of business taxes, and whether the business activity is their primary source of income.

When it comes to counting small businesses and estimating their impact on the local economy, different data sources have distinct strengths and weaknesses. Some public data sources rely on surveys, directly asking individuals about their employment status, including whether they are self-employed. Other public data sources are derived from administrative data, such as unemployment insurance programs, tax forms, or business applications, which can identify small businesses when paired with information on business size (i.e., number of employees or revenue). Non-public sources, lacking the reach or authority of government agencies, must be constructed using alternative methods. Nevertheless, even the best non-public sources aim to confirm data by directly gathering information from business owners.

In this report, small businesses are identified using a high-quality private dataset from the University of Wisconsin's Your-economy Time Series (YTS). YTS data cover business establishments engaged in commercial activities, providing information on operating location and industry, along with estimates of employment and revenue at each business. This offers a highly granular snapshot of small businesses in the City of Boston and serves as a proxy for the number of active small business storefronts across the city.

This report defines small businesses as those with fewer than 50 employees or those with 50 or more employees but less than \$5 million in annual revenue (see Figure 2).³⁰ **Small business entities** encompass a variety of types, structures, and stages of businesses, including small business establishments as well as offices of individual practices (e.g., healthcare providers, professional services), nonemployer businesses that represent the business owner's primary job, and self-employed workers that typically work from home. Using YTS data, we estimate that Boston is home to about 58,000 small business entities that are responsible for about 198,000 jobs.

This report focuses on **small business establishments**, which are a subset of small business entities. Small business establishments are defined as commercialized, operating businesses that are generally accessible to the public through

a virtual or physical storefront. Of its 58,000 small business entities, we estimate that Boston is home to over 18,000 small business establishments generating about \$28 billion in revenue that are responsible for more than 127,000 jobs.³¹ Small business entities that are not small business establishments consist mainly of individual, solo entrepreneurs (“solopreneurs”); nonemployer businesses that represent the business owner’s primary job; self-employed workers; and individual practitioners. In this report, we refer to this group as **active entrepreneurs and solopreneurs**; we estimate that at least

a portion of the entities in this group are temporary or part-time. Active entrepreneurs and solopreneurs are an important part of Boston’s small business landscape, but this report focuses on small business establishments, which, by definition, have a presence in the city’s neighborhoods and along its commercial corridors. However, it is worth noting that many of the strategies in this report also apply to active entrepreneurs and solopreneurs, and they are a key potential growth segment for future small business initiatives.

Figure 2. **Small Business Definition**



Throughout the rest of this report, we use the term “small business” to refer to small business establishments. (Please see the appendix for more information on the underlying data and methods behind small business entities compared to small business establishments.)

Micro-businesses—those with less than \$500,000 in revenue and fewer than 10 employees—make up 31% of Boston’s small businesses, 11% of jobs at small businesses, and 5% of their sales. Micro-businesses include firms both with and without employees (e.g., firms run by one person that have no employees). **Scaled small businesses** make up the remainder of small business activity (69% of business counts, 89% of jobs, and 95% of sales).³²

Small businesses are integral to all sectors of the city’s economy, as detailed in the following pages. They are predominantly concentrated in industries directly serving or engaging with consumers, such as retailers, restaurants and bars, local services (e.g., barber shops, beauty salons), arts/accommodation/entertainment, and healthcare, which collectively constitute 55% of all small businesses. Professional services, including lawyers, accountants, and insurance agents, make up 21% of small businesses. Approximately 13% of small businesses cater to a national or global clientele in industrial, creative, or software/tech industries. The remaining 11% of small businesses provide goods and services to other businesses locally, spanning warehousing, back-office work, and more across the city and region.³³

Although they are small, they have an outsized impact on Boston’s small businesses: **Micro-businesses**—those with less than \$500,000 in annual revenue and fewer than 10 employees—**make up 31% of Boston’s small businesses** and are a key part of Boston’s small business landscape.



Oxford Street in Chinatown. [Photo by Isidor Studio]

HOW HAS BOSTON'S SMALL BUSINESS LANDSCAPE CHANGED SINCE 2016?

The City of Boston's first small business report was published in 2016. For that report, the project team utilized National Establishment Time Series (NETS) data from 2012, which was the most current data available at that time. Using these data, in 2012, it was estimated that the City was home to 40,000 small businesses that generated \$15 billion in revenue and were responsible for 170,000 jobs.

This report, published in 2024, estimates that the City of Boston is home to about 58,000 small business entities, of which 18,000 are small business establishments that create \$28 billion in revenue and are home to 127,000 jobs. These estimates are based on data from the University of Wisconsin's Your-economy Time Series (YTS) from 2022 (the most current year of data available).

For at least several reasons, the number of small businesses (and their associated revenues and jobs) in the 2016 report cannot be directly compared to the number of small businesses in the 2024 report. As discussed above, the 2024 report uses YTS data while the 2016 report used NETS data, which has since been discontinued; these data are structurally similar but rely on different backend sources.

Although the data and methods used in the 2016 report were the best available at that time, the project team has refined and improved the underlying data and methods used for quality assurance/control checks tailored to specific business types (e.g., franchises), and the data provider has developed new algorithms to reduce the likelihood of duplicate entries in the underlying data. In addition, the universe of small business establishments on which this report focuses has been tailored to better capture small business activity throughout Boston, with particular attention paid to the types of small businesses located along its commercial corridors.

Other analyses, based on Census data that are more directly comparable over time, indicate that the number of small businesses (defined by employment size alone) in the City of Boston has grown since 2012, despite small downturns during the pandemic years of 2020 and 2021.

(See the Boston Planning & Development Agency's [Business Establishments in Boston: Detailed Industry Profiles](#).)



SPACE Grant Awardee Vico Vintage in Beacon Hill.

Direct comparisons are not possible, but it is important to explain conceptually why the number of small businesses in Boston is so much lower in the 2024 report than in the 2016 report while total small business revenues are nearly twice as high, in nominal terms. First, although the reports were published in 2016 and 2024, the years of data span a ten-year period, from 2012 to 2022; inflation over this period (27%) accounts for about \$4 billion of the difference. Second, average revenues per small business are far higher.

In this report's focus on small business establishments, rather than the broader universe of small business entities (which includes a variety of other business types such as nonemployers, self-employed workers, and individual practices reflecting active entrepreneurs and solopreneurs), revenues for small businesses (as defined in the 2024 report) are generally much higher than in the 2016 report.

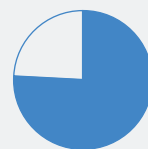
THE IMPACT OF BOSTON'S MICRO-BUSINESS ECONOMY

The smallest firms, referred to as micro-businesses in this report, are defined as small business establishments with fewer than 10 employees and less than \$500,000 in annual revenue. Micro-businesses are a crucial focus of this report: they make up 31% of the city's small business establishments, 11% of their jobs, and 5% of their sales; they form the backbone of the city's commercial corridors; and they are more likely to be owned by under-represented entrepreneurs.

Recent surveys at the national level indicate that 76% of Hispanic-owned and 90% of Black or African American-owned businesses with employees are micro-businesses (as determined on a revenue basis), in contrast to 53% of white-owned businesses. Furthermore, 41% of Hispanic-owned, 62% of Black or African American-owned, and just 18% of white-owned businesses are micro-businesses with employees with <\$100K in revenue.^{A,34} And even under ideal conditions, micro-businesses face unique challenges in terms of accessing capital, mentors, talent, and other critical resources.³⁵

A. Black or African American and white do not overlap with Hispanic ethnicity.

Percentage of all businesses with employees in the U.S. that are micro-businesses



76%

of Hispanic-owned



90%

of Black or African American-owned



53%

of white-owned




Stokes BBQ, a family-owned food truck in Boston.

Since 2020, conditions have been especially challenging for micro-businesses. Despite being over-represented in some consumer-facing segments that were severely impacted by the pandemic, micro-businesses were among the least likely to receive COVID assistance.

At the end of 2021, only 33% of micro-businesses (and 21% of micro-businesses with <\$100K in revenue) surveyed nationally reported being profitable compared to 56% of non-micro small businesses.³⁶

A year later, only 30% of micro-businesses (and 23% for micro-businesses with <\$100K in revenue) rated their financial condition as “good,” “very good,” or “excellent,” compared to 57% of non-micro small businesses.³⁷ In Massachusetts, smaller businesses, especially those with lower levels (<\$24K) of revenue, had a higher probability of receiving no COVID assistance and describing their current business conditions as “bad.”³⁸



Expanding resources and options available to micro-businesses in Boston is a key focus of this report, as these businesses empower Boston neighborhoods, and a main goal over the next two years is to support their growth into scaled small businesses.

Pictured: Roslindale Farmers Market.

In Boston, the majority of micro-businesses are consumer-facing, often serving markets as small as a single neighborhood. Specifically, just over 70% of micro-businesses operate in segments that interact directly with consumers, such as consumer-facing local services, retail, healthcare, restaurants and bars, or accommodation, arts, and entertainment.

These segments also account for 72% of micro-business employment and 66% of micro-business revenue.

On-the-ground canvassing and conversations provided insights into specific challenges facing micro-businesses in Boston. Apart from concerns about inflation, disruptions from construction, parking issues, real estate costs and availability, and the digitization of the economy, some micro-businesses highlighted challenges related to the seasonality of demand in Boston.

Boston is home to about 160,000 students and receives over 20 million visitors in a typical year, many of whom visit in the summer months and spend most of their time in a handful of neighborhoods. These trends can be a boon but also mean that some small businesses struggle to manage high-demand periods while surviving low-demand months.³⁹ Furthermore, although it is estimated that tourism spending in the City of Boston has increased (in nominal terms) from 2019 to 2023, overnight visits were still down 11% compared to pre-pandemic levels in 2019.⁴⁰

Due to financial and market constraints, micro-businesses often have limited strategic options to address emerging challenges. In response to a national survey question about actions taken in response to financial challenges, micro-businesses were least likely to report raising prices and most likely to report cutting staff or downsizing operations.⁴¹

Expanding resources and options available to micro-businesses in Boston is a key focus of this report, as these businesses empower Boston neighborhoods, and a main goal over the next two years is to support their growth into scaled small businesses.

THE STATE OF UNDER-REPRESENTED BUSINESS OWNERS

A key focus of this report is to assess the needs of under-represented entrepreneurs and business owners and develop supportive strategies that reflect and address their specific needs.

There are significant disparities in business outcomes for different demographic groups, by race/ethnicity, sex, nativity, LGBTQ+ identity, and veteran status.

This section discusses outcomes for businesses that are located in the City of Boston and for business owners in different demographic groups; then, it discusses the prevalence of incorporated (formalized) businesses among self-employed residents of Boston by demographic group.



Opening of a new immigrant-owned business Nubian Markets in Roxbury.



Workers in the Financial District patronize North East of the Border Mexican food truck in an area designated by the city's food truck program outside of South Station.

BUSINESSES LOCATED IN THE CITY OF BOSTON

BUSINESSES OWNED BY PEOPLE OF COLOR

Data on self-reported minority-owned business enterprises (MBEs^B) from the most recent Annual Business Survey in 2017 indicate that 19% of Boston's privately-held employer businesses identified as minority-owned, a designation used by the underlying data provider that is based on a business owner's response to the survey. These businesses employed almost 20,000 people and generated \$3.0 billion in revenue.⁴²

B. Note that MBEs, as discussed in this section, are identified through the business owner's response to the ABS. MBE reflects a business owner that identifies as a racial or ethnic minority (i.e., not white, non-Hispanic). These categories do not necessarily overlap with or correspond to the MBE certification provided by the City of Boston through its Supplier Diversity Program.

While these figures are impressive, they fall short of proportional representation compared to the city's population. According to the U.S. Census, working-age (25-64 years old) people of color—comprising all racial/ethnic groups other than non-Hispanic whites—constituted 51% of the city's population in 2017 (selected to align with the year of data available from the Annual Business Survey).⁴³ In 2017, there were approximately 12 minority-owned firms in Boston per 1,000 working-age people of color; for this measure, Boston ranks 62nd among the top 100 cities (of which 99 have data). Boston ranks slightly higher for average revenue per firm (47th) and lower for average employees per firm (77th) at MBEs.⁴⁴

Due to challenges ranging from capital access to market size, MBEs, on average, tend to be smaller than white, non-Hispanic-owned firms, and many have struggled to recover from the economic crises brought on by the pandemic.

Even by national standards, self-reported MBEs in Boston tend to be small. As of 2017, among firms with employees, MBEs had only about one-third (35%) the average revenue per firm of non-MBEs. Black or African American-owned businesses averaged about \$900,000 in revenue per firm (ranking 45th among large U.S. cities), Asian-owned businesses averaged \$1.2 million (ranking 61st), compared to \$3.5 million for white-owned firms (ranking 16th). Hispanic-owned firms ranked 15th among U.S. cities in average revenue; however, even these firms had only half of the average revenue (\$1.8 million) of white-owned firms.⁴⁵

Overall, on a per population basis, Boston ranks in the bottom half of large U.S. cities in terms of ownership of employer businesses by people of color.⁴⁶

There are multiple sources of information on the self-employed and other nonemployer firms, and based on these, we estimate that about 34% are minority-owned, and these businesses generate \$0.6 billion in revenue (approximately 19% of revenue).⁴⁷



Pictured left. Mayor Wu with Irene Li, a co-founder of Mei Mei Dumplings in South Boston.
Pictured right. Daphne Walker, founder of Canvas Studio in Hyde Park.



WOMEN-OWNED BUSINESSES

About 18% of privately-held employer firms in Boston are owned by women, according to the business owner's response to the Annual Business Survey. In terms of the number of women-owned business enterprises (WBEs)^c per capita, Boston ranks 69th out of the 100 largest U.S. cities, with about 12 firms per 1,000 working-age (25-64 years old) women. By national standards, WBEs in Boston are relatively large, ranking 40th in terms of employees per firm and 12th in terms of revenue per firm.⁴⁸

LGBTQ+-OWNED BUSINESSES

Although there are no Boston-specific data on firms owned by LGBTQ+ individuals, national surveys provide a snapshot of firm characteristics and challenges. Across the U.S., firms headed by LGBTQ+ individuals tend to be younger and less likely to have over \$1 million in revenue. These firms are as likely to apply for loans or lines of credit but less likely to report receiving "most" or "all" of the requested amount. LGBTQ+ businesses are more likely to report using personal savings or funds from friends and family to finance their businesses in the last five years.⁴⁹

C. Similar to MBEs, WBEs are identified through the business owner's response to the ABS and do not necessarily overlap with or correspond to the WBE certification provided by the City of Boston.

VETERAN-OWNED BUSINESSES

Approximately 4% of the City of Boston's privately-held firms are owned by veterans. For every 1,000 veterans between the ages of 25 and 64, there are approximately 62 veteran-owned businesses, ranking 20th among the 100 largest U.S. cities (of which 91 have data on veteran business ownership). This exceeds the national average (37) considerably. Although Boston ranks high in terms of its rate of veteran-owned businesses, its veteran-owned businesses rank lower in terms of average employees and revenue per firm, ranking 44th in employees per firm and 47th in revenue per firm; however, payroll per firm and average wages rank higher (30th and 23rd, respectively).⁵⁰ At the national level, veteran-owned firms have a similar age profile as other small businesses but are less likely to have annual revenues exceeding \$250,000. They are as likely to seek funding but less likely to secure "some," "most," or "all" of the requested funding. One exception is SBA loans, where veteran-owned firms are much less likely to report receiving "none" of the requested financing and much more likely to report having received "all" of their requested funding. These businesses are more inclined to report using personal savings to finance their businesses in the last five years.⁵¹

IMMIGRANT-OWNED BUSINESSES

Boston's immigrant population is highly diverse. Although nearly one-in-three of Boston's foreign-born population originated from the Dominican Republic, China, or Haiti, more than 40% of its foreign-born population comes from countries outside of the city's ten most common countries of origin. Foreign-born people reside in all of the city's neighborhoods; the neighborhoods with the highest shares of foreign-born residents are Chinatown (52%), East Boston (45%), Mattapan (38%), and Dorchester (33%) (see Figure 3).⁵² Both in Boston and nationally, growth in the number of foreign-born adults has outpaced growth in the number of native-born adults from 2010 to 2022.⁵³

Throughout Boston's history, immigrants have played a pivotal role in the local economy, and this remains true today.



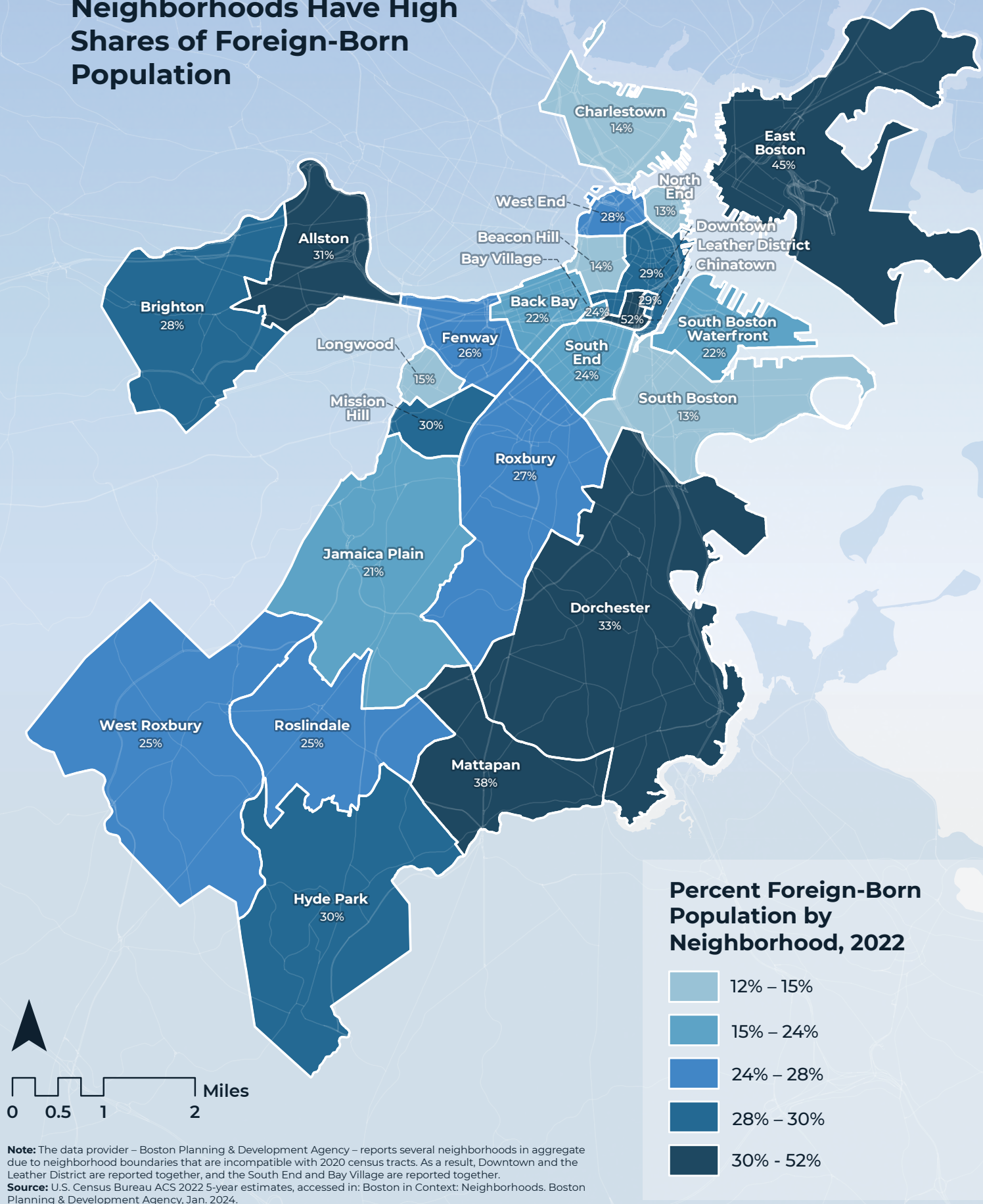
Mora Bouzidi, founder of Mo'Rockin Fusion, located in the Boston Public Market.

However, there appears to be great potential for supporting more and higher-revenue businesses. **According to data from the 2017 Annual Business Survey, about one in four employer businesses in Boston is owned by foreign-born entrepreneurs**, which is less than their representation among the working-age (25-64 year old) population (34%). There were approximately 18 foreign-born-owned firms in Boston per 1,000 working-age foreign-born people in 2017; for this measure, Boston ranked only 45th out of 50 large U.S. cities (of which 48 have data). However, because Boston has a large foreign-born population compared to other large cities in the country, it ranks 15th of the 50 largest U.S. cities in terms of the percent of employer firms owned by the foreign-born population (26%).⁵⁴

These overall figures do not fully capture the positive impact of diverse residents' business ownership on the quality of life in Boston and the fact that Boston's small businesses are a key part of Boston's diversity and vitality, from its street segments to squares to neighborhoods to the city overall. While canvassing neighborhoods across the city, our project team observed firsthand the pivotal role played by immigrant-owned businesses in fostering lively corridors and vibrant neighborhoods. This was evident from Chinatown to East Boston to Fields Corner to Jamaica Plain to Mattapan and the North End.

We use "foreign-born" to refer to the immigrant population in order to be consistent with the language used by the underlying data, which often ask about people's nativity, or place of birth.

Figure 3. **Some Neighborhoods Have High Shares of Foreign-Born Population**





In 2023, City staff and officials participated in a neighborhood business walk in East Boston and stopped to admire the recent new signage of Globos and Fiestas, that was supported through the Office of Small Business Restore program.

Given the important role that business ownership plays in wealth generation for immigrants who might face labor market challenges because of immigration status, lack of employment authorization, barriers to higher education, or linguistic, skill, credential, or even discrimination factors,⁵⁵ increasing opportunities for micro- and small-business ownership among the city's foreign-born population can be a cornerstone

of realizing Mayor Wu's commitment to economic equity. Improving the conditions for equitable prosperity, including opportunities to become a small business owner, could help in attracting and retaining the foreign-born population in Boston, whose share of the city's population remained largely stagnant from 2010 to 2022, growing from 30.6% to 31.1% of Boston's population 18 years or older.⁵⁶

BUSINESS OWNERSHIP AMONG BOSTON RESIDENTS

The previous sections discussed the demographics of business owners for businesses located in the City of Boston, but it is also important to understand business ownership among Boston residents in these demographic groups. In this section, we discuss business owners that live in the City of Boston whose businesses may or may not be Boston-based.

Owners Jose and Michelle Lora of 1 More Rep Athletics in Roxbury celebrate the opening of their boxing gym with staff and community members.

Recent reports offer insights on how immigrants in greater Boston engage in entrepreneurship. In 2024, Boston Indicators and the Immigration Research Initiative published ***Global Greater Boston: Immigrants in a Changing Region***, which provides a profile of immigrants residing in the Boston region and includes a section on small business ownership. The report finds that immigrants living in the Boston region have disproportionately high representation in the labor force and among business owners, particularly among business owners in “main street” businesses that serve local, neighborhood-level needs (e.g., local retailers, restaurants, barber shops, beauty salons, etc.).⁵⁷



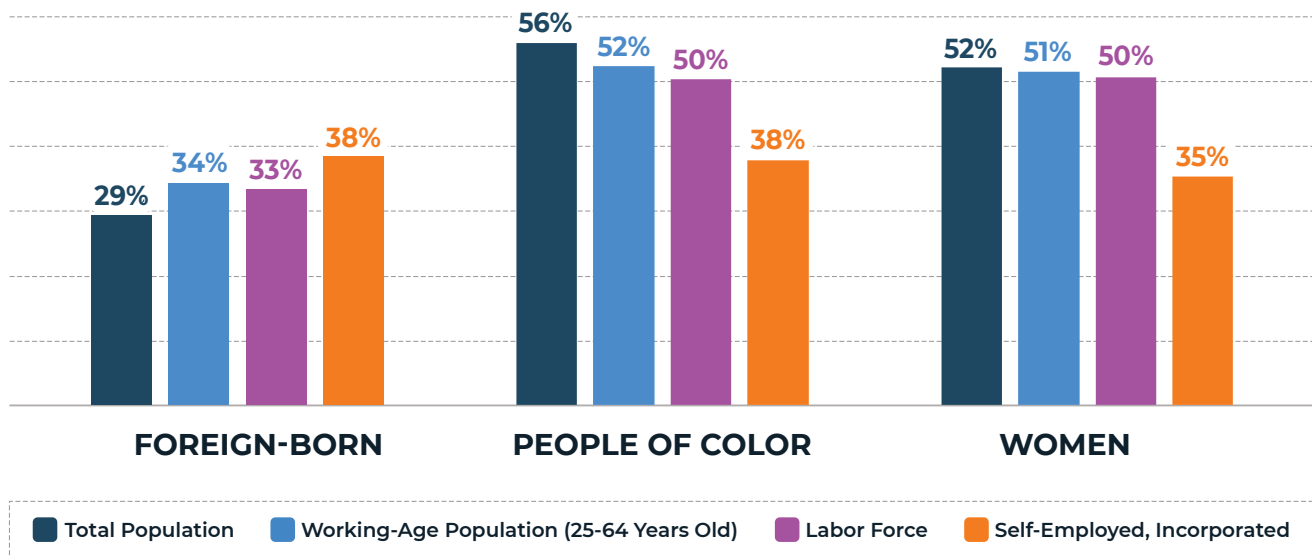
Using the same data source as that report, it is possible to conduct a similar assessment for different demographic groups residing in the City of Boston. For the groups for which data are available and sample sizes permit—the foreign-born population, people of color, and women—business ownership among residents varies widely.⁵⁸ People of color and women each represent more than half of the City of Boston’s total and working age (25-64 years old) population, but they are less likely to be self-employed with incorporated (formalized) businesses. However, the foreign-born

population is more likely to be self-employed with incorporated businesses than their share of the total and working-age population and labor force would suggest (see Figure 4).

As in most places in the U.S., rates of foreign-born Bostonians’ self-employment are higher than those of native-born residents (8.0% versus 5.3%). The self-employed, foreign-born population incorporates, or formalizes their business as a legal entity, at a slightly lower rate than native-born entrepreneurs (33% and 40%, respectively).⁵⁹

Figure 4. Bostonian’s Representation in Self-Employment Varies Across Under-Represented Groups

Share of Boston’s Total Population, Working-Age Population, Labor Force, and Self-Employed, Incorporated Residents, 2022



Note: Groups overlap. Working-age population refers to people ages 25-64 years old. Labor force and self-employed, incorporated residents reflect the working-age population.

Source: U.S. Census Bureau ACS-IPUMS 2022 5-year estimates, accessed through IPUMS USA at the University of Minnesota; Mass Economics analysis.

SMALL BUSINESS SEGMENTS

No two businesses are alike, but firms in the same industry or of comparable size often share similar characteristics, needs, and challenges.

A startup faces very different growth challenges than a scaled small business looking to expand into global markets. A growing industrial business has different real estate and talent needs than a new restaurant. Furthermore, capital needs, in terms of amounts and types, vary widely by industry, size, and stage of business. For example, many startups or established companies in the life sciences need significant capital investment, and these needs are different from, say, a professional services firm that requires considerably less upfront capital. Given these differences, one way to better understand Boston's small business landscape is by categorizing firms according to size and industry.

We create a segmentation for micro-businesses (less than \$500,000 in annual revenue and fewer than 10 employees) and scaled small businesses (\$500,000-\$5 million in revenue or 10 to 49 employees) reflecting the key industry segments in which they are represented. Market areas vary by segment, with e.g., restaurants and retail primarily serving neighborhood market areas; local services (business-facing) serving customers across the city, and in some cases, metro; and industrial and software/tech firms selling into national or even global markets.⁶⁰

City and state officials, as well as staff visit Mattapan Square during a Neighborhood Business walk in 2023.



This report uses the following industry segments:

(Shown in descending order by number of small businesses)



PROFESSIONAL SERVICES includes establishments in architectural, research and development, media, law, accounting, financial and insurance activities, and professional, scientific, and technical services.



LOCAL SERVICES (CONSUMER-FACING) includes establishments in consumer-facing service, e.g., travel services, laundries, pet care, and personal services, such as beauty salons and barber shops).



RETAIL includes all establishments that engage in the sale of goods to individual consumers. This covers a wide variety of businesses, ranging from those that sell food or related products (e.g., grocery stores, bodegas, and corner stores), to clothing, home furnishings, appliances, cars or car-related products (e.g., car dealers, gas stations), as well as other miscellaneous products.



RESTAURANTS/BARS includes all food services and drinking place establishments.



HEALTHCARE includes all health care establishments, including ambulatory health care services (e.g., doctors, dentists, other health practitioners, outpatient care centers, medical laboratories, home health care services, and ambulances) and nursing and residential care facilities.



LOCAL SERVICES (BUSINESS-FACING) includes establishments that provide services to businesses, including facilities support, janitorial, landscape, equipment or facilities rental and leasing, real estate rental or management, and equipment repair and maintenance.



INDUSTRIAL/TRADED includes establishments in the physical economy including: manufacturing, wholesaling and logistics, warehousing and storage, heavy and civil engineering construction, and industrial services (e.g., waste management and remediation).



SOFTWARE/TECH includes establishments in software publishing, telecommunications, computer infrastructure and data processing/web hosting, web search portals, and professional, scientific, and technical services related to computer programming and systems design.



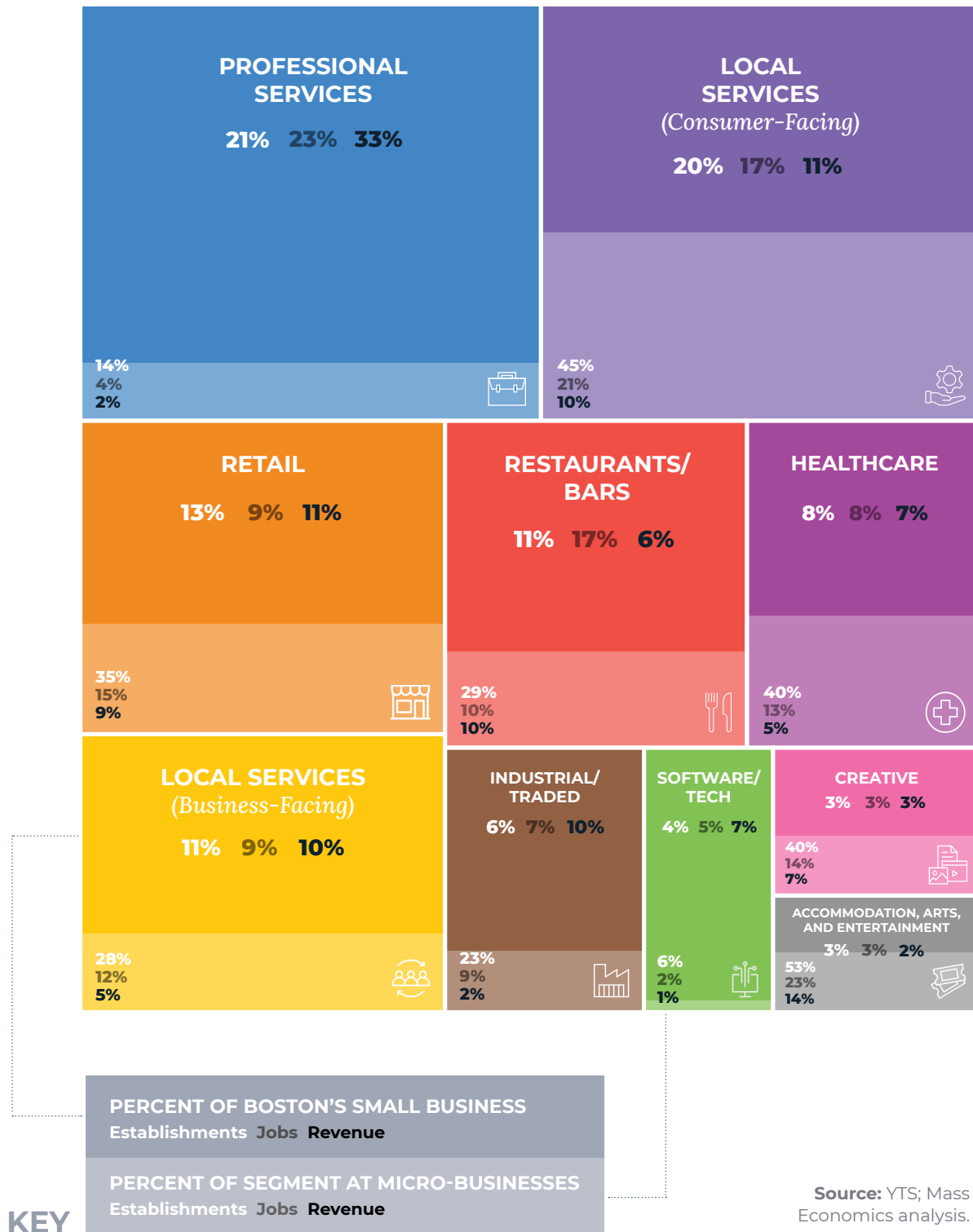
CREATIVE includes establishments in motion picture and sound recording; broadcasting and content providers; and professional, scientific, and technical services related to interior/graphic/other specialized design, marketing, advertising, public relations, and photography.



ACCOMMODATION, ARTS, AND ENTERTAINMENT includes establishments in accommodation or lodging; amusement, gambling, and recreation; museums, historical sites, and similar institutions; performing arts, spectator sports, and related industries.

Figure 5. **Professional Services and Consumer-Facing Local Services are the Two Most Common Industry Segments for Boston Small Businesses**

Small Business Industry Segments



The two biggest segments, professional services and consumer-facing local services, account for 41% of Boston's small businesses (see Figure 5). Professional services, the single-biggest segment, accounts for more than one-fifth of small businesses (21%) and small business jobs (23%), and a disproportionately higher share (33%) of small business revenues. Consumer-facing local services are an additional one-fifth of small businesses and comparatively smaller shares of small business jobs (17%) and revenue (11%). Micro-businesses are a relatively small share of professional services, accounting for just 14% of its establishments, but they make up nearly half (45%) of consumer-facing local services establishments.

Just over one-third of Boston's small businesses can be classified as retail, business-facing local services, or restaurants/bars. Retail establishments make up 13% of the city's small businesses and slightly smaller shares of its small business jobs (9%) and revenues (11%). More than one-third (35%) of small business retailers are micro-businesses. Business-facing local services, such as warehousing and back-office functions, make up 11% of the city's small businesses and similar shares of its small business jobs (9%) and revenues (10%). 28% of business-facing local services are micro-businesses. Restaurants and bars, about 11% of the city's small businesses, reflect a considerably higher share of its small business jobs (17%) and a disproportionately lower share of its small business revenues (6%). Less than three out of ten (29%) restaurants and bars are micro-businesses.

About 10% of Boston's small businesses are industrial/traded or software/tech. Industrial/traded establishments are 6% of the city's small businesses and almost twice this share of its small business revenues (10%). They are also responsible for about 7% of its small business jobs. Less than one-quarter (23%) of these establishments are micro-businesses. Software/tech establishments are 4% of the city's small businesses and nearly twice this share of its small business revenues (7%). They are home to about 5% of the city's small business jobs. Just 6% are micro-businesses, the smallest share of any segment.

Creative and arts, accommodation, and entertainment are the two smallest segments. Both contribute 3% of the city's small businesses. Creative establishments are also home to about 3% of the city's small business jobs and revenue, and four out of ten are micro-businesses. Arts, accommodation, and entertainment makes up 3% of small business jobs in Boston and 2% of small business revenues. Over half (53%) of arts, accommodation, and entertainment establishments are micro-businesses.

Finally, healthcare providers make up about 8% of Boston's small businesses and jobs and 7% of small business revenues. About 40% of small businesses in the healthcare segment are micro-businesses.

Across the segments, accommodation, arts, and entertainment; local services (consumer-facing); and healthcare have the highest shares of micro-businesses.

NEIGHBORHOOD LOCATIONS OF **SMALL BUSINESSES**

Boston is home to 25 distinct neighborhoods.⁶¹ While small businesses are a feature of every Boston neighborhood, their distribution is not uniform across the city.

Based on the most current neighborhood boundaries, as defined by the City of Boston, Downtown stands out as the neighborhood with the largest share of the city's small businesses, closely followed by Dorchester and Back Bay (see Figure 6).

These three neighborhoods are collectively home to about 40% of the city's small businesses—no other neighborhood surpasses a five percent share of small businesses—with

professional services and consumer-facing local services being the dominant segments in these neighborhoods. Micro-businesses are more evenly distributed across the city, with eight neighborhoods—Downtown, Dorchester and Back Bay, as well as East Boston, South End, Brighton, Roxbury, and Jamaica Plain—all having at least five percent of these businesses (see Figure 7).

Aerial of Blue Hill Avenue.



Figure 6. **About 4 in 10 of the City's Small Businesses are in Back Bay, Dorchester, and Downtown**

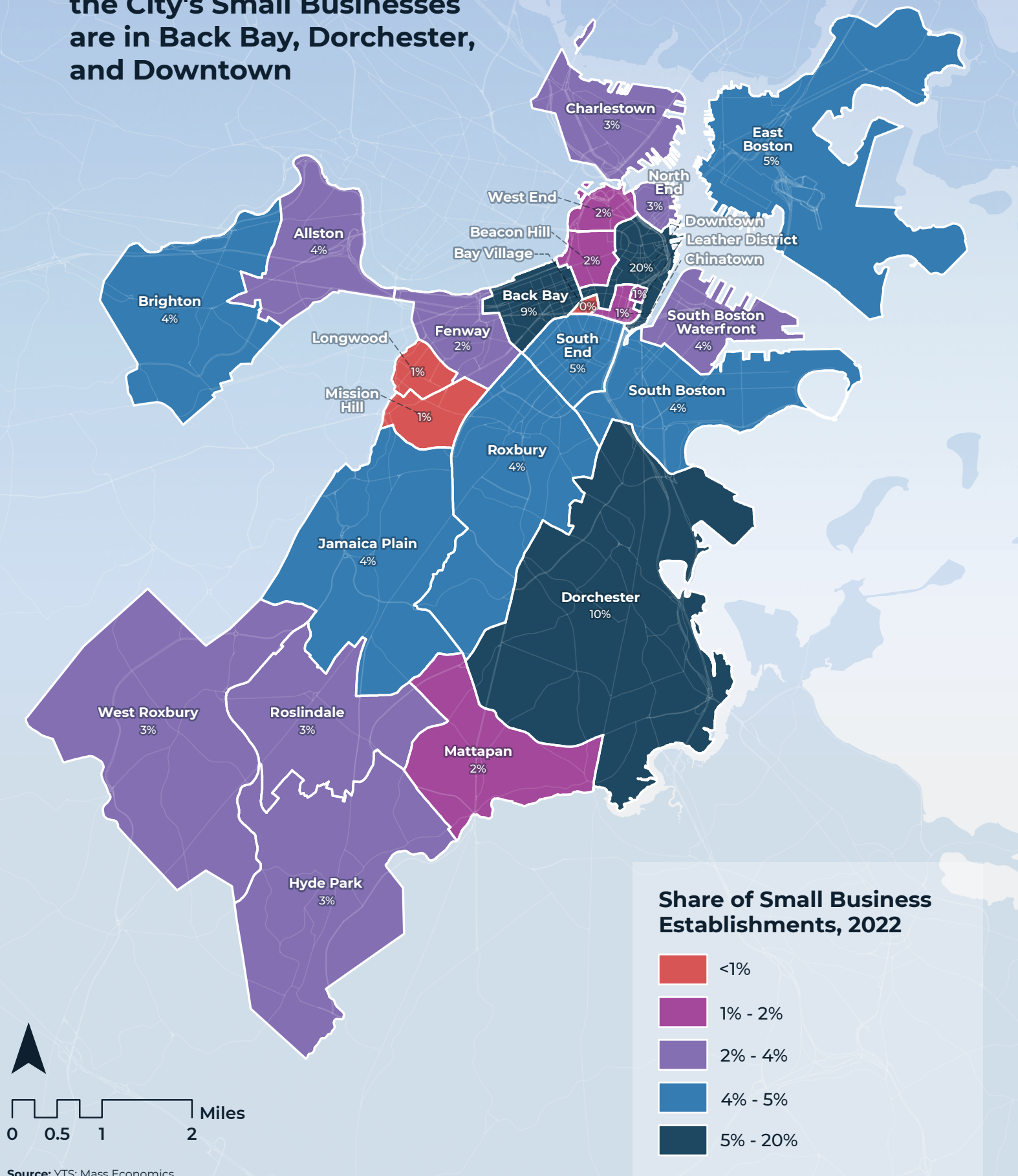
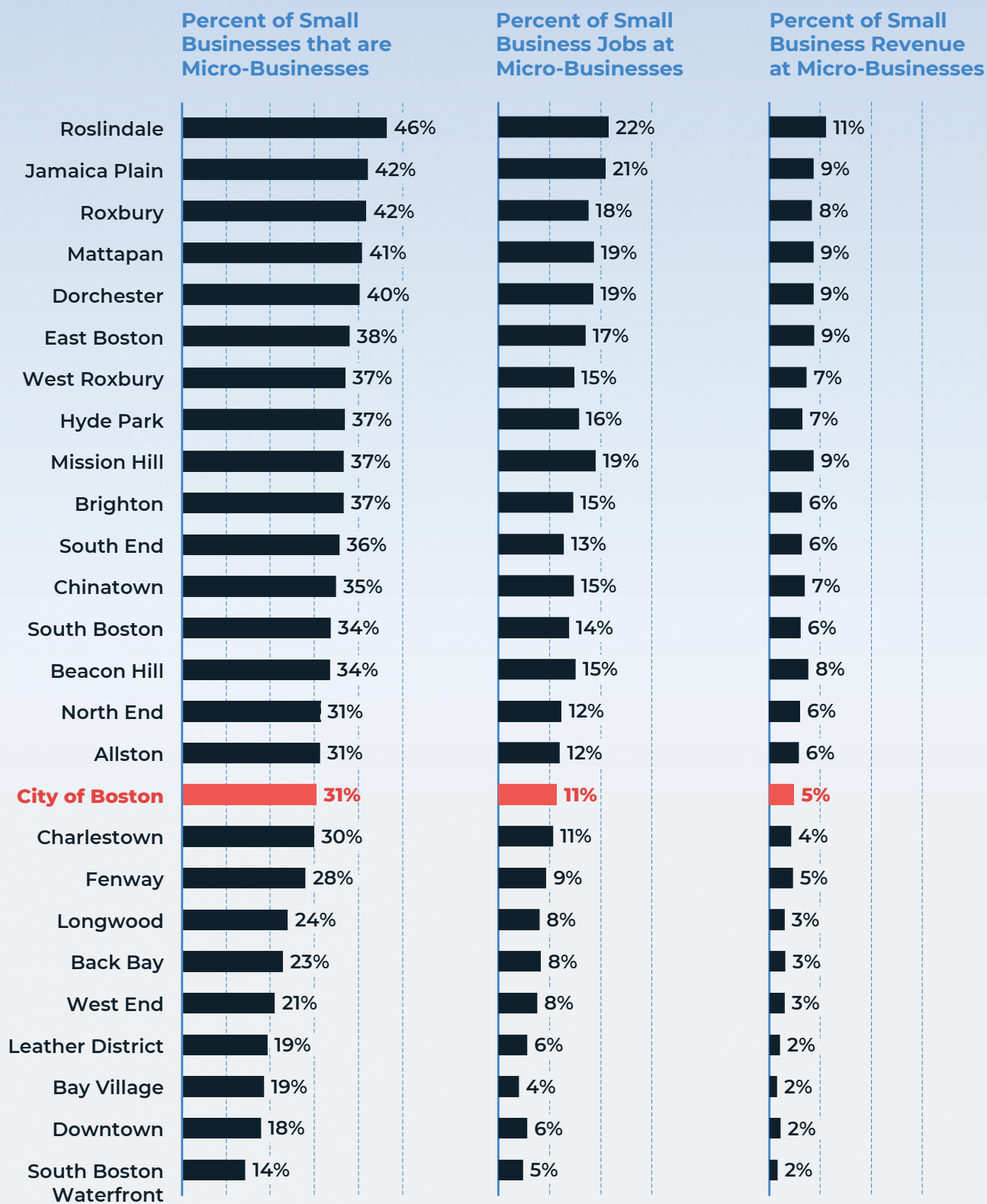


Figure 7. **Neighborhood Contribution to Boston's Small Business Activity**

Neighborhood	SMALL BUSINESSES			MICRO-BUSINESSES			SCALED SMALL BUSINESSES		
	Count	Jobs	Revenue	Count	Jobs	Revenue	Count	Jobs	Revenue
Downtown	19.7%	23.2%	27.5%	11.6%	11.3%	12.8%	23.3%	24.8%	28.3%
Dorchester	10.5%	8.3%	7.7%	13.8%	13.4%	13.7%	9.0%	7.6%	7.4%
Back Bay	9.0%	10.3%	10.9%	6.7%	7.4%	7.1%	9.9%	10.6%	11.0%
East Boston	4.8%	4.0%	3.6%	5.9%	5.9%	6.5%	4.2%	3.7%	3.4%
South End	4.7%	4.7%	4.1%	5.4%	5.2%	5.4%	4.3%	4.6%	4.0%
Brighton	4.3%	4.0%	3.8%	5.2%	5.1%	5.0%	3.9%	3.9%	3.7%
Roxbury	4.2%	3.5%	3.2%	5.7%	5.4%	5.5%	3.5%	3.3%	3.1%
Jamaica Plain	4.1%	3.0%	3.0%	5.7%	5.6%	5.3%	3.4%	2.7%	2.9%
South Boston	4.0%	4.0%	3.7%	4.5%	4.8%	4.6%	3.9%	3.9%	3.6%
Allston	3.6%	3.5%	3.1%	3.7%	3.7%	3.6%	3.6%	3.5%	3.1%
South Boston Waterfront	3.6%	4.9%	5.5%	1.7%	2.0%	1.8%	4.4%	5.3%	5.6%
West Roxbury	3.3%	2.9%	2.4%	3.9%	3.8%	3.6%	2.9%	2.8%	2.3%
Hyde Park	3.2%	2.9%	2.9%	3.9%	3.9%	3.9%	2.9%	2.7%	2.9%
Charlestown	2.8%	2.8%	3.2%	2.8%	2.6%	2.8%	2.8%	2.8%	3.2%
Roslindale	2.8%	2.2%	1.8%	4.3%	4.1%	4.0%	2.2%	1.9%	1.6%
North End	2.6%	2.6%	2.2%	2.7%	2.8%	2.7%	2.5%	2.5%	2.2%
Fenway	2.5%	2.8%	2.2%	2.3%	2.3%	2.1%	2.6%	2.9%	2.3%
West End	1.9%	2.3%	2.2%	1.3%	1.5%	1.3%	2.2%	2.4%	2.2%
Mattapan	1.9%	1.5%	1.3%	2.6%	2.5%	2.3%	1.6%	1.4%	1.3%
Beacon Hill	1.7%	1.4%	1.2%	1.9%	1.8%	1.9%	1.6%	1.3%	1.2%
Chinatown	1.5%	1.4%	1.0%	1.7%	1.8%	1.5%	1.4%	1.4%	1.0%
Leather District	1.4%	1.9%	1.8%	0.9%	0.9%	0.8%	1.7%	2.0%	1.8%
Mission Hill	0.9%	0.7%	0.6%	1.0%	1.2%	1.1%	0.8%	0.7%	0.6%
Longwood	0.8%	1.0%	0.9%	0.6%	0.7%	0.5%	0.9%	1.0%	0.9%
Bay Village	0.2%	0.3%	0.3%	0.1%	0.1%	0.1%	0.3%	0.3%	0.3%
City of Boston	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: YTS; Mass Economics analysis.

Figure 8. **Micro-Business Contribution to Small Business Activity Within Neighborhoods**



Source: YTS; Mass Economics analysis.

The micro-business share of all small businesses is highest in Roslindale, where micro-businesses make up nearly half (46%) of small businesses (see Figure 8). In four other neighborhoods—Jamaica Plain, Roxbury, Mattapan, and Dorchester—micro-businesses make up at least 40% of all small businesses. Conversely, the Leather District, Bay Village, Downtown, and South Boston Waterfront have the lowest shares of micro-businesses, accounting for less than one-fifth of the small business presence in these areas.

Neighborhoods across the city are home to small businesses spanning a variety of segments. Put another way, every neighborhood is home to at least one small business in each segment.

Segments have distinct geographic patterns and, in some cases, are highly concentrated relative to the city average in specific neighborhoods:⁶²

- **PROFESSIONAL SERVICES** are most concentrated in Downtown, Leather District, and West End.
- **CONSUMER-FACING LOCAL SERVICES** are most concentrated in Mattapan, Beacon Hill, and Allston.
- **RETAIL** is most concentrated in Beacon Hill, Dorchester, and Roslindale.
- **RESTAURANTS AND BARS** are most concentrated in Chinatown, Mission Hill, and Fenway.
- **HEALTHCARE** is, by far, most concentrated in Longwood, followed by West End and Mission Hill.
- **INDUSTRIAL/TRADED** is most concentrated in Hyde Park, South Boston Waterfront, and South Boston.
- **BUSINESS-FACING LOCAL SERVICES** are most concentrated in Hyde Park, Roslindale, and West Roxbury.
- **SOFTWARE/TECH** is highly concentrated in the Leather District, South Boston Waterfront (Seaport), and Downtown.
- **CREATIVE** is most concentrated in Bay Village, Leather District, and South End.
- **ARTS, ACCOMMODATION, AND ENTERTAINMENT** are most concentrated in Fenway, West End, and South End.

CHAPTER 3

THE SMALL BUSINESS ECOSYSTEM



OVERVIEW

The small business ecosystem is comprised of a variety of entities, tools, and resources, such as business support organizations, entrepreneurship programming, and capital providers, as well as capital flows to small businesses from lenders, equity investors, and other sources.

BUSINESS SUPPORT ORGANIZATIONS

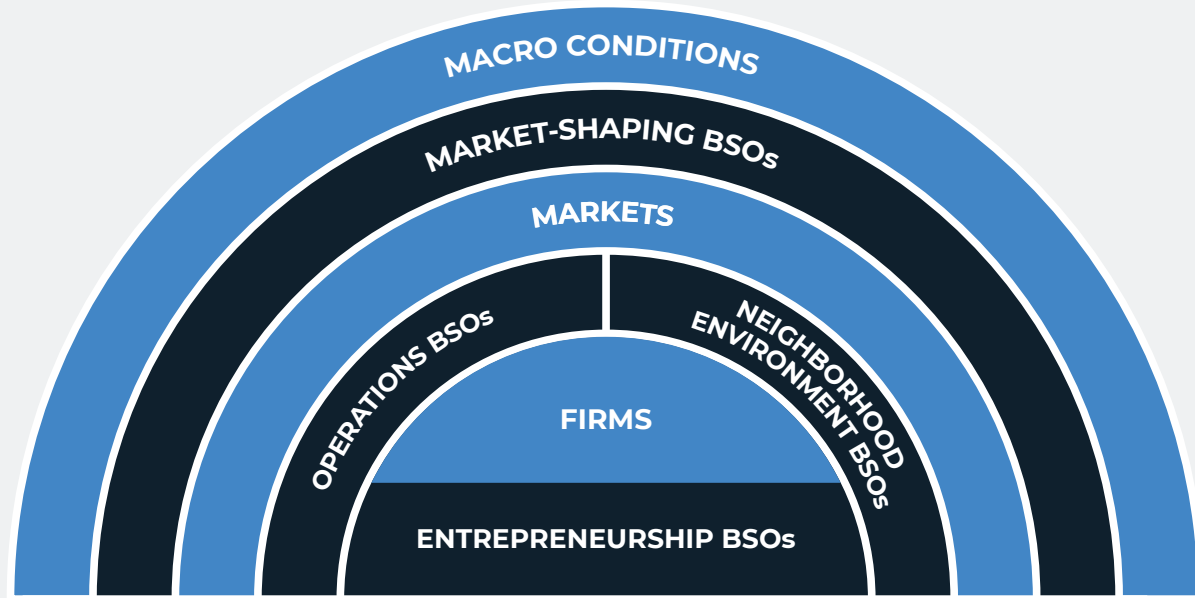
Experienced and aspiring entrepreneurs alike rely on a variety of business support organizations (BSOs) to access a wide range of resources, from financial literacy to pre-launch assistance, opportunity evaluation, and support with navigating the complexities of talent, real estate, or specialized inputs like equipment or data. BSOs can be stand-alone non-profits, a City of Boston program or office, or an initiative supported by a university or the private sector. By providing valuable advice, services, and advocacy, BSOs are critical to the success of the city's small businesses.

To understand the role of BSOs, it helps to conceptualize the small business ecosystem as consisting of the small businesses themselves ("firms"), the markets in which they operate to buy the goods and services they need and to sell the goods and services they produce ("markets"), and the conditions ("macro conditions") in which all this takes place. Macro conditions include things like national trade policy, demographic trends, and interest and inflation rates, all of which are largely beyond the influence of local actors.

Pictured on previous page. Director Porcena presenting on small business ownership for social impact at the 2023 MIT x Northeast Entrepreneurship Through Acquisition Conference.

Figure 9. **BSOs Help Firms Navigate the Broader Small Business Ecosystem**

Overview of the Small Business Ecosystem



Source: Mass Economics analysis.

BSOs help entrepreneurs and small businesses navigate each of these components, for example, by assisting entrepreneurs in identifying financing needs or creating legal structures that allow them to operate as firms (Entrepreneurship BSOs), mediating between firms and markets to provide easier access to inputs (Operations BSOs), or improving the physical environment (Neighborhood Environment BSOs), and shaping the local and global market conditions in which firms operate (Market-Shaping BSOs). Taken together, BSOs influence the myriad business, neighborhood, and market factors that shape business opportunity, operations, and profitability. This system is depicted in Figure 9.

ENTREPRENEURSHIP BSOs provide direct services and support to small business owners and aspiring entrepreneurs. Some focus on supporting entrepreneurs directly by offering training, professional development, and, in the case of the city's incubators and accelerators, some combination of space and financial support. Others concentrate on supporting business operations by providing basic education, technical assistance, advisory services, or by facilitating connections to capital resources.

NEIGHBORHOOD ENVIRONMENT

BSOs focus on the environment in which the city's businesses operate. The most significant of these are Boston's Main Street organizations, which have historically focused on placemaking but also provided business operations support functions in Boston's commercial corridors. However, given evolving placemaking needs and the sophistication of the small business ecosystem in Boston, it's possible that these functions could be separated in the future to better meet the needs of small businesses.

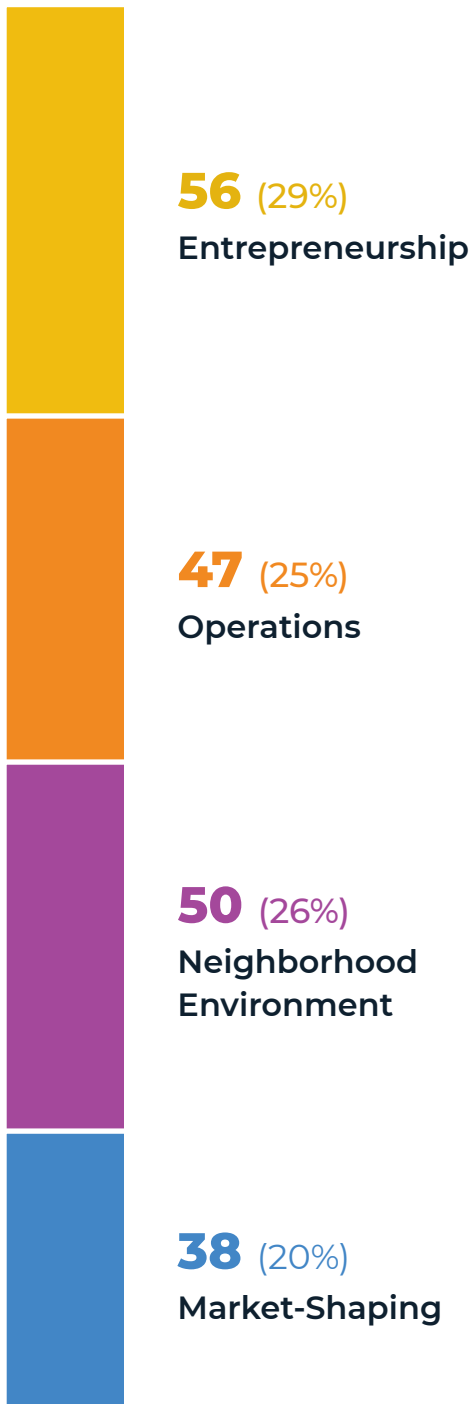
OPERATIONS BSOs focus on linking businesses to input (e.g., workers, real estate, specialized inputs) and output (i.e., customer) markets. In effect, these BSOs serve as market intermediaries by providing resources or information that aids firms in navigating these markets.

MARKET-SHAPING BSOs aim to influence input and output market conditions in a city or region. For example, decisions by Workforce Investment Boards (WIBs) influence the availability of workers with specific skills and training, thus shaping the local labor supply in important ways, while cluster-type organizations aim to increase overall demand for specific industries. Regional trade organizations operate on the demand side of markets; by creating links to buyers in foreign markets, these organizations create new export opportunities for local firms, potentially increasing output in the local and regional economy.



Mayor Wu alongside Chief Idowu and Boston Main Street Executive Directors, welcome over 1500 visitors to Boston at the 2023 Boston Main Streets Now Conference hosted by OEOL.

Figure 10. **191 Business Support Organizations (BSOs) Across Boston**



Source: Mass Economics analysis.

The project team identified BSOs located in Boston and gathered data on the activities of these organizations through interviews with key staff, as well as by reviewing websites and other materials. In all, 191 BSOs were identified, with almost equal numbers of Entrepreneurship (56), Neighborhood Environment (50), and Operations BSOs (47). Another 38 BSOs focus on shaping markets (see Figure 10).

The current report's estimate of 191 BSOs in the City of Boston is a noticeable decline from the 2016 report, in which more than 250 were identified. One significant loss in the BSO counts was the decline in shared space models (i.e., co-working facilities), which a decade ago had BSO-like functions and thus were included in the counts. Today, with a few notable exceptions like Cambridge Innovation Center, shared space models have moved away from offering supports for entrepreneurship and instead focus on serving remote workers and work-from-home staff. There were also one-off losses as individual BSOs moved or went permanently remote (thus losing their physical presence in Boston) or, in the case of smaller, older organizations, perhaps accelerating a planned closure because of staffing and financial pressures of the pandemic period.

Through interviews and roundtables conducted with about 50 stakeholders from ecosystem organizations like business or entrepreneur support organizations, business associations, and anchor institutions, we believe that the overall quality of the ecosystem is higher today than it was in the mid-2010s.

Although there are fewer BSOs overall, there has been an expansion and/or strengthening of many of those that remain. In addition to the development of individual providers, the pandemic had the beneficial effect of catalyzing the evolution and performance of the ecosystem as a whole. The statewide Community Business Network (CBN) formed and met weekly in 2020–22, and is currently facilitated monthly by the Massachusetts Association of Community Development Corporations (MACDC), serving as a hub of information, coordination, and problem-solving for the small business ecosystem overall. This network has been especially helpful for Boston-focused service providers who comprise the majority of participants in the group.



Mayor Michelle Wu joins SBA Administrator Isabel Guzman at Nubian Markets in Roxbury for a conversation with local BSOs and small business owners in 2022.

Organizations such as the Center for Women and Enterprise (CWE) that a decade ago were offering limited services to a smaller number of businesses have built out extensive programming and partnerships, added staff, and enhanced connections between business support and capital access. The Massachusetts Minority Business Development Agency (MBDA) was re-established and has deepened its programmatic and supply chain relationships to fill a critical need helping small businesses become certified and pursue contracts. The Greater New England Minority Supplier Development Council (GNEMSDC), which runs the Massachusetts MBDA, provides opportunities for business owners of color to tap into their corporate network for procurement opportunities. Lawyers for Civil Rights' BizGrow program has expanded its presence and offerings to serve as a key source of legal support for small businesses. The Massachusetts LGBT Chamber of Commerce supports the needs of LGBT-owned businesses across the state and connects them to other corporations.

In addition, new types of BSOs have strengthened the ecosystem, two of which stand out. The first is the emergence of a wide range of operational BSOs that provide highly specialized equipment and inputs to small businesses and budding entrepreneurs. This phenomenon includes, for example, the continued growth of Commonwealth Kitchen, which has provided space and specialized equipment to food entrepreneurs since 2009, but also new services from digital tools for beauty businesses (Center for Urban Entrepreneurship) to lab equipment (UMass Boston Venture Development Center) to data feeds and APIs (FinTech Sandbox).

Mayor Michelle Wu speaks to local BSOs, small business owners, journalists, and residents at the 2023 Supplier Diversity Week event at the Bruce C. Bolling Municipal Building in Roxbury, hosted by OEOI.



The second significant change is the growing number and/or strength of BSOs that have a core mission of addressing racial equity issues. For example, the Black Economic Council of Massachusetts (BECMA) was founded in 2015 to support Black businesses across Massachusetts and has steadily grown in size and stature as private and philanthropic interests have shifted their investments toward economic inclusion and COVID recovery. Amplify Latinx aims to expand economic opportunity for Latinos in Massachusetts and has provided support to more than 300 small businesses across the state. Building on this momentum, the Asian

Business Empowerment Council (ABEC) was launched to support Massachusetts' Asian American Pacific Islander (AAPI) business owners. EforAll launched its business accelerator program in Roxbury in 2019; the accelerator provides “immersive business training, mentorship, and access to an extended professional network” at no cost.⁶³ Through its Urban Business Initiatives, the Initiative for a Competitive Inner City (ICIC) also provides and/or supports programs geared toward entrepreneurs of color (e.g., Black in Business, in partnership with Goldman Sachs).



Several national and regional banks have launched programs focused on supporting businesses of color, including JPMorgan Chase's Coaching for Impact Program and Eastern Bank's Equity Alliance for Business, adding to prior offerings such as Goldman Sachs' 10,000 Small Businesses. There is also a distinct set of market-shaping BSOs that aim to ensure that specific markets evolve in ways that provide equitable opportunity, such as Browning the Green Space, Grubstreet Boston, the Boston Ujima Project, and Boston Impact Initiative. In 2021, a coalition of BSOs focused on racial equity, the Massachusetts Coalition for an Equitable Economy, was formed, at first to ensure equitable access to federal COVID relief programs like the Paycheck Protection Program, and later as an advocacy group to lobby for additional state and federal funding for under-represented entrepreneurs.

There have also been important programmatic and organizational consolidations in the ecosystem. In 2019, Smarter in the City, an incubator for technology startups founded by underserved individuals, closed its doors when the regional EforAll program launched. In 2021, Small Business Strong, a program that was created in 2020 by a group of local corporations to provide emergency assistance to Massachusetts small businesses, partnered with the Greater Boston Chamber of Commerce and LISC Boston, a local community development non-profit, to manage the program. In 2022, Mill Cities Community Investments, a non-profit Community Development Financial Institution (CDFI) serving Eastern Massachusetts, and the Foundation for Business Equity, a non-profit that offers high-touch advisory services for Black- and Latino-owned small businesses in Eastern Massachusetts, merged in 2021 to realize the synergies of providing capital and advisory services at one organization.

Finally, time and experience have allowed the business support ecosystem to continue evolving, growing, and refining its offerings to meet the needs of entrepreneurs and small businesses.

At the same time, "entrepreneurship" as an academic and applied field has grown rapidly, as has cross-organizational learning spurred by insights gleaned from pilot programs and test initiatives undertaken by individual organizations.



Boston Ujima Project gathering for collective learning. [Photo by Boston Ujima Project]

LOCATION OF BSOs

BSOs are highly concentrated in some areas of the city, with Downtown alone accounting for over one-third of business-supporting organizations (see Figure 11). Roxbury, Dorchester, Back Bay, and the South Boston Waterfront are also each home to more than ten BSOs, but in the case of Dorchester, these are spread over a large enough area that the concentration of BSOs (2.6 per square mile) is actually less than the city average of about four BSOs per square mile.

BSOs that focus on neighborhood environment, such as Main Streets organizations, are scattered across the city (see Figure 12), but do not cover all of Boston's neighborhoods. Conversely, BSOs focused on entrepreneurship, operations, and market-shaping are most heavily concentrated in the Downtown, Leather District, Chinatown, West End, Back Bay, South End, and the South Boston Waterfront neighborhoods. Only 42 BSOs focused on entrepreneurship, operations, and market-shaping are located outside of these areas, and 22 of 42 are located in the relatively large neighborhoods of Dorchester and Roxbury.



BSO convening hosted by the Office of Small Business, sharing a sneak peak of this report.

Figure 11. **Presence and Density of BSOs Varies by Neighborhood**

Neighborhood	Neighborhood Environment BSOs	All Other BSOs	TOTAL	BSOs/sq mi	BSOs/'000 small businesses
Downtown	4	62	66	106.5	18.4
Roxbury	8	14	22	6.7	29.0
Dorchester	11	8	19	2.6	10.0
Back Bay	2	9	11	17.7	6.8
So. Boston	1	10	11	11.3	16.8
Waterfront	1	8	9	12.2	10.6
South End	1	6	7	8.0	15.5
Fenway	4	3	7	1.8	9.4
Jamaica Plain	3	3	6	50.0	22.6
Chinatown	0	5	5	16.7	14.2
West End	2	3	5	3.2	7.6
Allston	3	2	5	1.1	5.8
East Boston	0	3	3	9.7	9.7
Beacon Hill	3	0	3	0.7	5.1
Hyde Park	0	2	2	100.0	7.6
Leather District	0	2	2	1.5	3.9
Charlestown	2	0	2	0.7	2.6
Brighton	1	0	1	5.0	2.1
North End	1	0	1	1.8	6.3
Mission Hill	1	0	1	0.5	2.9
Mattapan	1	0	1	0.4	2.0
Roslindale	0	1	1	0.4	1.4
South Boston	1	0	1	0.2	1.7
West Roxbury	0	0	0	0.0	0.0
Bay Village	0	0	0	0.0	0.0
Longwood Medical Area	0	0	0	0.0	0.0
City of Boston	50	141	191	4.0	10.5

Source: YTS; Mass Economics analysis.


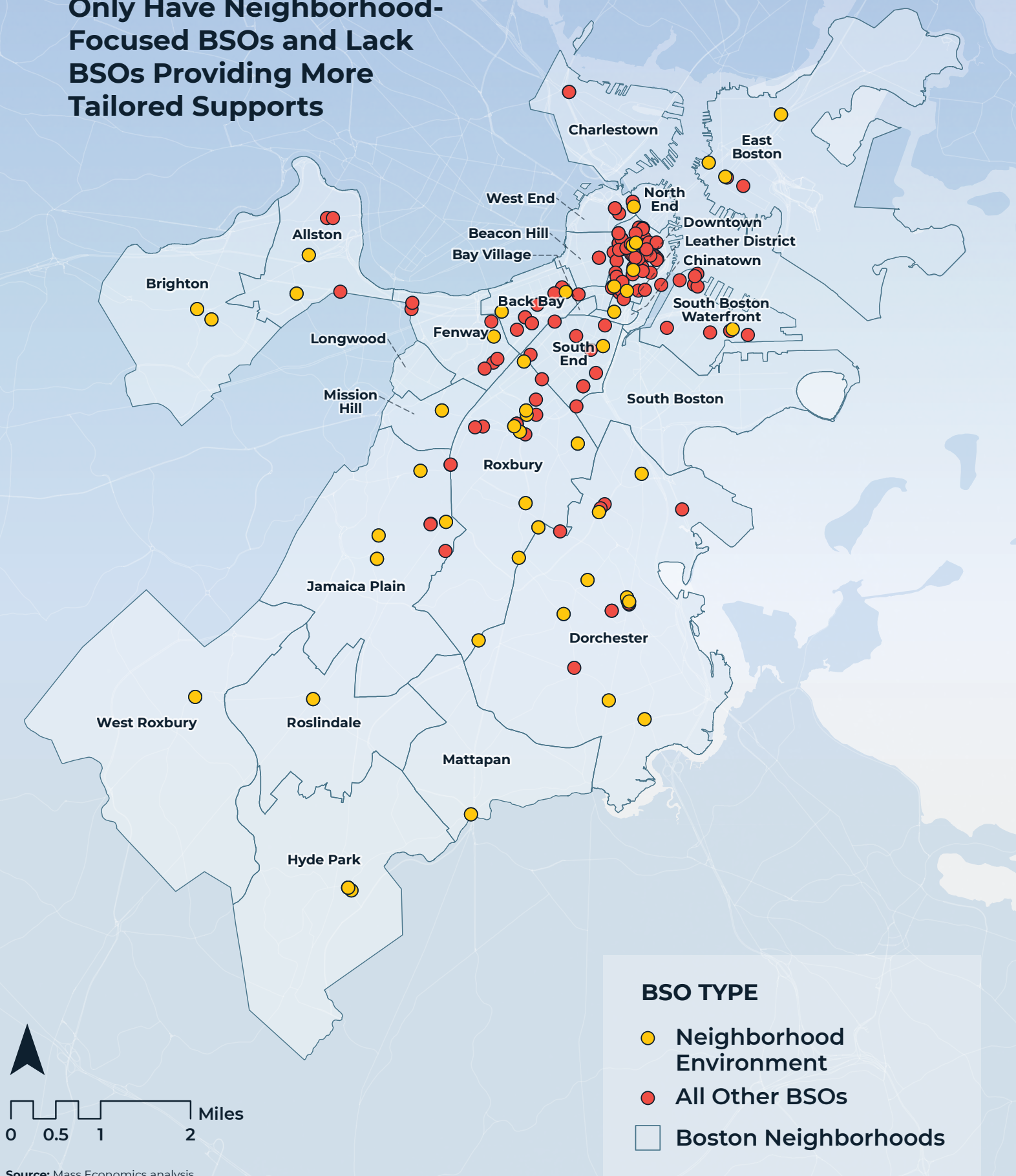
 Lower than city density

Figure 12. **Some Areas Only Have Neighborhood-Focused BSOs and Lack BSOs Providing More Tailored Supports**



Source: Mass Economics analysis.

ENTREPRENEURSHIP

PROGRAMMING

Business owners today can benefit from an abundance of no- and low-cost digital resources and tools that can be accessed 24/7 from anywhere in the world.

These tools include platforms like LivePlan, Enloop, and BizPlan, which allow users to create comprehensive business plans, develop cash flow forecasts, and become capital-ready. There is also a diverse set of small business tools designed to support entrepreneurs with various aspects of financial planning and operational management, including software like QuickBooks and Wave for accounting, PlanGuru for budgeting and forecasting, Justworks and Gusto for payroll and benefits, and Square and Clover for point of sale (POS) and inventory tracking. Public and non-profit entities, from the SBA to the U.S. Chamber of Commerce, offer free business planning frameworks and guides oriented towards early-stage entrepreneurs.

Equally significant is the widening availability of no- and low-cost, on-demand entrepreneurship education and training options. Kauffman FastTrac is among the most widely known of such options, offering a flexible, self-paced course composed of five modules designed to help early-stage entrepreneurs refine their business concept into an actionable plan. Similar self-service entrepreneurship education programs include the SBA's free training courses, the Techstars Entrepreneur's Toolkit, Y Combinator's Startup School, and the HP Foundation's HP LIFE platform. Beyond these training programs, various online learning platforms like Alison, Coursera, EdX, Google's Digital Garage, Khan Academy, LinkedIn Learning, Skillshare, and Udemy host entrepreneurship courses covering a wide range of topics, including business planning, market research, financial management, sales and marketing, and leadership and management. Online education programs play a pivotal role in offering aspiring entrepreneurs a structured environment in which to learn the fundamentals of business ownership and gain the knowledge, skills, and confidence needed to navigate the complexities of entrepreneurship.

The availability of digital, on-demand tools and education programs for entrepreneurs is complemented by in-person programming offered by a host of BSOs across Boston's small business ecosystem. EforAll Roxbury, for example, offers a small business accelerator



Small Business house hosted by the office of Small Business featuring a number of city agencies, at the Boston Public Library.

geared toward idea-stage entrepreneurs from under-represented communities; ICIC's Inner City Capital Connections (ICCC) program supports small business owners from under-resourced communities looking to grow and scale their businesses; the Center for Women and Enterprise (CWE) provides a range of small business training programs and workshops through its Eastern MA Women's Business Center; English for New Bostonians (ENB) blends language instruction with business ownership tutorials through courses designed for immigrant entrepreneurs; and SCORE Boston regularly hosts no- and low-cost small business workshops on a range of topics. A few programs that were previously offered in Boston, including in-person FastTrac classes and the bi-weekly 1 Million Cups entrepreneurial networking event, no longer exist.

These tools and platforms could be especially important for aspiring entrepreneurs from underserved communities, as they address the systemic lack of access to mentorship and learning opportunities by offering pathways for entrepreneurial skill and knowledge development that is often not available to or for people of color, women, LGBTQ+ persons, and immigrant communities.

But critical barriers remain. Many small businesses are unaware of these organizations and programs, and the vast majority of resources are available only in English. In addition, many entrepreneurs from under-resourced communities lack access to reliable, no- and low-cost Wi-Fi and computer resources, which can be addressed through programs like Tech Goes Home.

BOSTON'S SMALL BUSINESS CAPITAL LANDSCAPE

Almost every conversation with or survey of BSOs or small businesses identifies capital as a challenge to firm stability and growth.

On the lending side, challenges with capital access have intensified in recent years with the curtailment of COVID-era funding programs, the rise in interest rates, and the tightening of lending standards. On the equity side, which affects only a small number of businesses (but has an outsized effect on those), venture capital (VC) is in a period of realignment as capital costs rise and entirely new segments, especially those related to artificial intelligence/machine learning (AI/ML), drive investment.

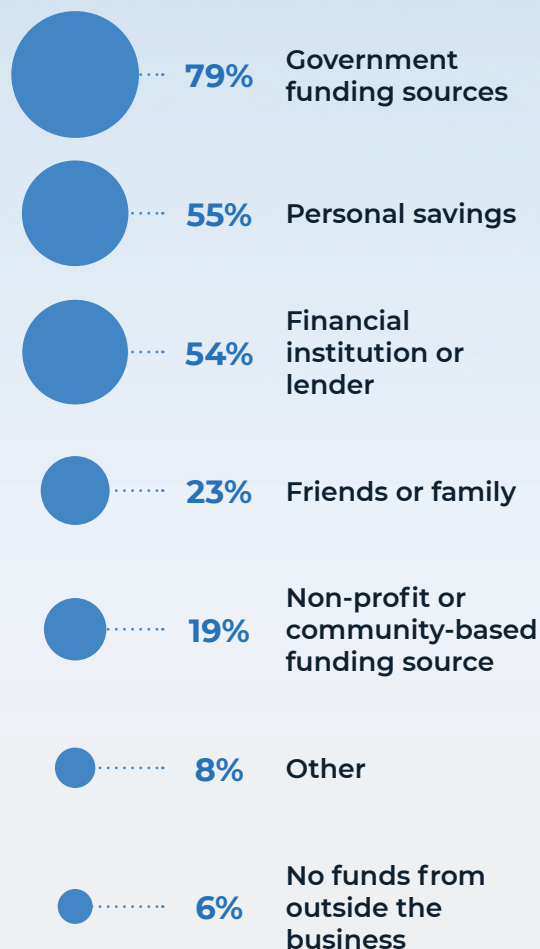
City-specific data are not available, but recent surveys find that among small business owners in the Boston metropolitan area, 23% have used funds from friends or family, and 55% have used personal savings to fund their business in the past five years. In response to financial challenges, 75% have increased their prices, 50% have relied on personal funds, and 42% have acquired funds that will eventually need to be paid back (see Figure 13). More than one-third (36%) have applied for a loan, line of credit, or merchant cash advance, below the Massachusetts share (45%).⁶⁴



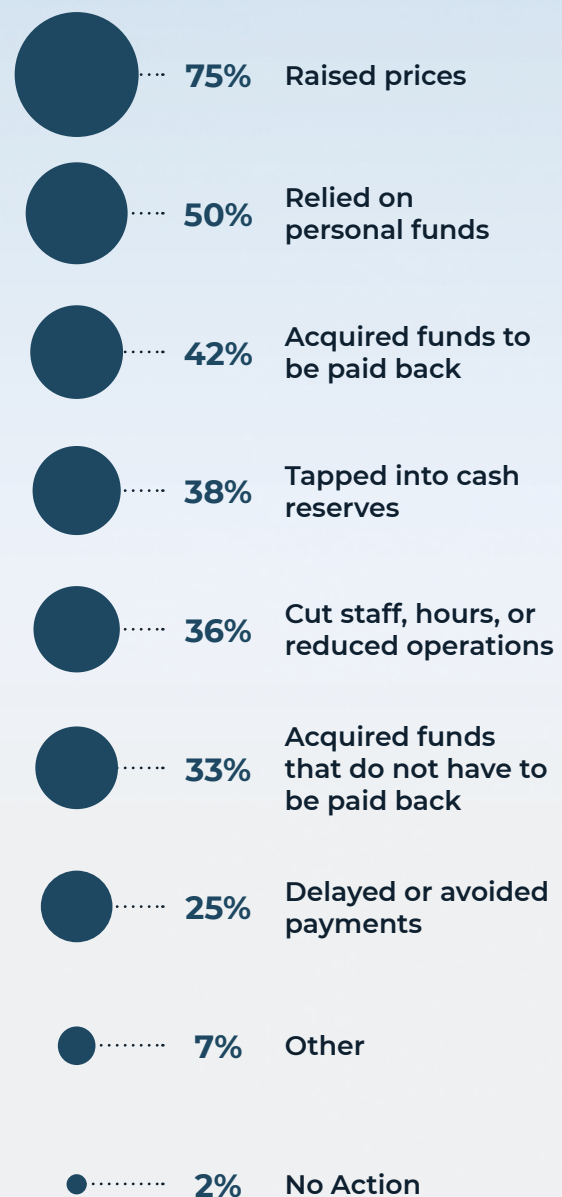
Business signage along Brighton Avenue.

Figure 13. **Business Owners in the Boston Metro Have Relied on a Variety of Funding Sources and Have Taken Various Actions to Combat Financial Challenges**

FUNDING SOURCES USED by Business Owners in the Boston Metro in the Last Five Years



ACTIONS TAKEN by Business Owners in the Boston Metro in Response to Financial Challenges



Source: "2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey." Data Appendix. Federal Reserve Banks. March 2023. <<https://doi.org/10.55350/sbcs-20230308>>.

Figure 14.
Capital Providers by Type

CAPITAL SOURCE	WITHIN BOSTON	% OF TOTAL
Bank	197	38%
Microlender/ Alternative Lender	6	1%
CDFI	17	3%
Credit Union	48	9%
Lenders	268	51%
Private Equity	70	13%
Angel Investor Group	10	2%
Venture Capital	145	28%
Equity Investors	225	43%
Accelerator	13	2%
Other	19	4%
Other	32	6%
TOTAL	525	100%

Notes: Other capital providers include Federal and City Agencies, Commercialization Grant Programs, Corporate Venture Capital, and Quasi-Public Agencies.

Source: Banks: Federal Deposit Insurance Corporation (FDIC). Summary of Deposits – Annual Survey of Branch Deposits (SOD). Microlenders/Alternative Lenders: Project research. CDFIs: U.S. Department of the Treasury: Community Development Financial Institutions Fund (CDFI). List of Certified CDFIs. Credit Unions: National Credit Union Administration (NCUA). 5300 Call Report Data. Private Equity: Project research. Venture Capital and Angel Investor Groups: Project research. Other: Project research.

The project team identified 525 capital providers within Boston city limits (see Figure 14).⁶⁵ Just over half of these (268) are lenders, including banks, credit unions, Community Development Financial Institutions (CDFIs), and micro and alternative lenders. There are an additional 225 capital providers that are equity investors (private equity, angel investors, and venture capital), as well as 32 capital providers of other types (federal and city agencies, commercialization grant programs, corporate venture capital, and quasi-public agencies). The outsized presence of equity-related capital sources reflects the importance of Boston as both a provider and recipient of venture capital and the region's historic role in the development and growth of private equity.⁶⁶

Capital deployment over the last five years has been greatly shaped by the COVID pandemic, its devastating impact on small businesses, and the collective response to the circumstance, most prominently the creation of the Paycheck Protection Program (PPP), which funneled more than \$800 billion in loans to businesses across the U.S. Businesses that received loans were promised partial or full forgiveness if these monies were used to support operational costs, with an emphasis on protecting wages.

Lenders were guaranteed payments by the United States government, making these loans essentially risk-free. Traditional banks, credit unions, CDFIs, and Minority Depository Institutions (MDIs) were major lenders, as were fintech/on-line intermediaries, which emerged as important lenders for under-represented entrepreneurs facing barriers to utilizing bricks-and-mortar depository institutions (e.g., lack of existing banking relationship, lender discrimination).⁶⁷

The program was authorized in March 2020 and ran through May 2021. About \$586 billion was disbursed nationally in 2020, along with another \$289 billion in 2021.⁶⁸ As of October 2022, 96% of the loan value had been forgiven.⁶⁹

By comparing PPP loans for up to \$1 million received by businesses in the City of Boston to overall small business lending,⁷⁰ we estimate that more than half (up to 55%) of small business lending in Boston during the 2020-21 period could be tied to PPP loans, slightly higher than the national share (51%). Relative to the rest of the U.S., a comparable number of PPP loans were made per small business (about 0.30 PPP loans for up to \$1 million per small business in the City of Boston compared to 0.29 nationally from 2020 to 2021), but average initial loan value per small business in Boston was \$26,200 versus \$16,300, suggesting that lending might have been skewed towards somewhat larger businesses. Absent PPP dollars, small business lending in 2020 and 2021 (in aggregate and on average) would have averaged less, but not dramatically, than the years that preceded and followed.⁷¹

There is strong evidence that locally and nationally, smaller businesses and those owned by people of color were less likely to receive PPP funding. A 2022 survey of over 3,200 small businesses across the Commonwealth found that businesses with lower revenue and those owned by Black and Latino entrepreneurs were far less likely to receive COVID relief funding.⁷² Recent research finds that nationally, “[B]lack-owned firms are 8.9 percentage points less likely than observably similar white-owned firms to receive PPP loans” and “about 55 percent of this take-up disparity is attributable to a

disparity in application propensity, while the remainder is attributable to a disparity in approval rates.”⁷³

In 2022, lending was back down to about \$795 million, down 50% from 2021 and 64% from 2020 (see Figure 15). In real terms, lending in 2022 was lower than in the pre-pandemic period. Although complete data for 2023 has yet to be released, data from the first three quarters show that nationally, lending in 2023 was up only about 4% over 2022 in nominal dollars and, thus, showed no increase in real dollars.⁷⁴ If these patterns hold for Boston, small business lending in Boston in 2023 could be lower in real terms than it was in 2014.

Because the Boston small business economy has been growing over the past decade, the stagnation in lending has translated to even steeper declines in lending per small business employee (which is often used as proxy for demand for loans).^D

We find that in real terms, lending per job was 27% lower in 2022 than it was in 2014 (see Figure 16). Given this, it is perhaps not surprising that a majority of small businesses across the state, including 75-85% of businesses owned by under-represented populations, report access to capital as a major concern.⁷⁵ However, it is worth noting

D. In order to compare capital flows relative to small business establishments and jobs over time, the project team utilized federal data to develop a time series of small business establishments and jobs. These data are used as denominators to normalize capital flows over time in this section. The data and approach is discussed in more detail in the appendix.

Figure 15. **Small Business Capital Deployment Trends in Boston (\$M)**

CAPITAL SOURCE	2014	2019	2020	2021	2022
Large Bank Lending (<\$1M)	\$600	\$630	\$1,617	\$1,150	\$567
Community Bank Lending (excl. CDFIs)	\$268	\$156	\$526	\$379	\$187
CDFIs	\$2	\$59	\$28	\$14	\$8
Credit Unions	\$37	\$24	\$68	\$59	\$33
Lending	\$907	\$869	\$2,239	\$1,603	\$795
Angel	\$194	\$111	\$51	\$341	\$209
Venture Capital	\$428	\$714	\$815	\$2,464	\$986
Equity Investment	\$623	\$825	\$866	\$2,805	\$1,195
TOTAL	\$1,530	\$1,695	\$3,105	\$4,408	\$1,990

Notes: Real 2022 dollars; 2022 CDFI data are estimated and reflect the application of national growth rates to 2021 data; values do not sum due to rounding; community bank lending data are estimates driven by the large bank lending ratio; CDFI data are actual numbers that are removed from the community bank lending total.

Source: FFIEC-CRA; CDFI; NCUA; CBInsights.

Figure 16. **Small Business Lending per Job at Boston Small Businesses**

CAPITAL SOURCE	2014	2019	2020	2021	2022
Large Bank Lending (<\$1M)	\$4,299	\$3,953	\$11,607	\$7,354	\$3,381
Community Bank Lending (excl. CDFIs)	\$1,923	\$981	\$3,776	\$2,427	\$1,113
CDFIs	\$15	\$373	\$199	\$92	\$45
Credit Unions	\$262	\$151	\$486	\$379	\$197
Lending	\$6,500	\$5,458	\$16,069	\$10,251	\$4,735

Notes: Real 2022 dollars; 2022 CDFI data are estimated and reflect the application of national growth rates to 2021 data; values do not sum due to rounding; community bank lending data are estimates driven by the large bank lending ratio; CDFI data are actual numbers that are removed from the community bank lending total.

Source: FFIEC-CRA; CDFI; NCUA; CBInsights; ES-202 Commonwealth of MA; QWI; YTS; NES; BFS; ACS.

that banks will be under increasing scrutiny once the Consumer Financial Protection Bureau (CFPB) releases data under the small business lending rule, which will require lenders to provide more disclosures on their small business lending activity.⁷⁶

In terms of which entities are deploying capital today, there are several notable trends in Boston. Lending by large banks, community banks, and credit unions is lower in real dollars than in 2014. However, credit unions account for a slightly higher share of small business lending in Boston today than in 2014 (4.2% in 2022 vs. 4.0% in 2014). CDFIs were relatively strong in 2019 and again in the COVID year of 2020 but in 2022, lent only \$8 million (see Figure 15). Data on crowdfunding and alternative lenders are spotty, but available information suggests that crowdfunding in Boston is about \$4 million per year, with about half of that going to startup businesses, and alternative lending is on a similar scale, with about \$5 million in projects identified in 2023. Despite their promise when they emerged in the 2010s, at these scales, crowdfunding and alternative lending make up only about 1% of the amount of small business lending from banks, credit unions, and CDFIs.

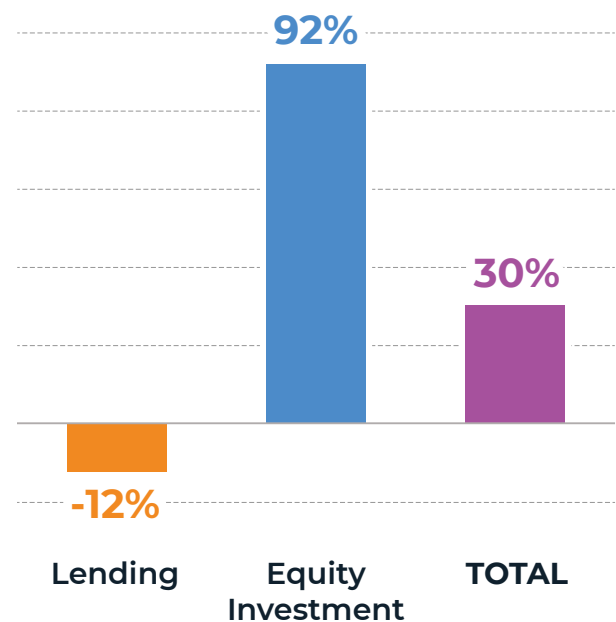
Compared to lending, the equity side of small business financing in Boston shows a different trajectory that has been trending upward since 2014. After a record year of investment in 2021, when investments reached almost \$350 billion nationally, 2022 investments declined precipitously both locally and nationally.⁷⁷ In Boston, we estimate that equity investment declined by \$1.6 billion (a year-over-year decline of 57%) from 2021 to 2022 (see Figure 15). But even with this dramatic decline, VC and angel capital deployments in

2022 were still almost twice what they were in 2014 and greater than the total small business lending in Boston.⁷⁸

This contrasts sharply with a decade ago, when VC and angel dollars were just over two-thirds of those associated with small business lending in Boston.

Within the equity investment world in Boston, angel investments have experienced dramatic year-to-year volatility but in 2022, were similar, in real dollars, to 2014. Traditional venture capital, however, increased by more than \$500 million (in real terms) between 2014 and 2022 (see Figure 15). From 2014 to 2022, equity investment nearly doubled, in real terms, while lending declined by 12% (see Figure 17). Even with declines, 2023 VC deployments in Boston are more than twice what they were a decade earlier.⁷⁹

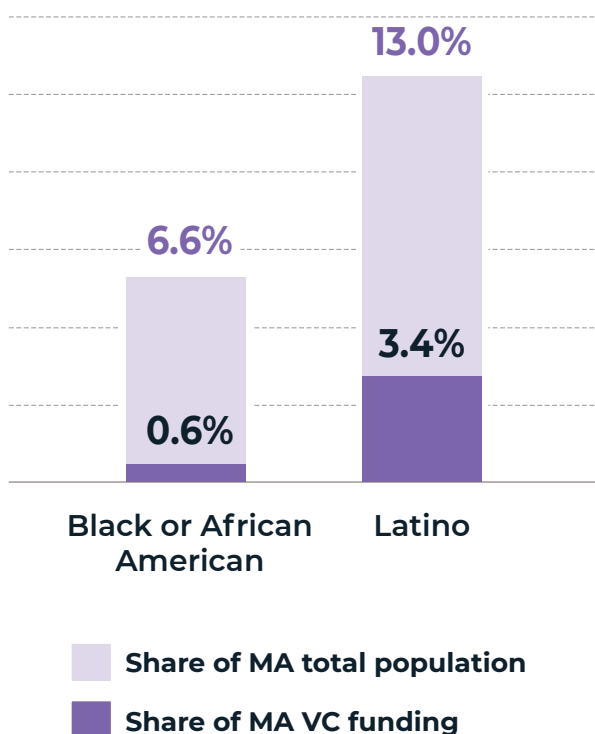
Figure 17. Real Change in Capital Deployment, 2014-2022



Source: FFIEC-CRA; CDFI; NCUA; CBInsights.

It is important to remember that even in the Boston area, one of the country's largest venture markets, only a tiny fraction of entrepreneurs and small businesses get venture funding in any given year. For example, in the peak activity year of 2021, there were only about 1,500 deals across all of New England.⁸⁰

Figure 18. Venture Capital Across Massachusetts Lags Population Share for Certain Groups



Note: Black or African American does not overlap with Hispanic ethnicity.

Source: U.S. Census Bureau ACS 2022 1-year; Tehan, Isabel. "'Frustrating and Disheartening': VC Funding for Black, Latino Startups Plummeted in 2023." BostInno, February 6, 2024. <<https://www.bizjournals.com/boston/inno/stories/news/2024/02/06/vc-funding-for-black-latino-startups-plummet-2023.html>>.

Moreover, from an equitable economy perspective, the growth of VC, especially when coupled with the flat-lining of funding from other sources, suggests heightened barriers for meeting the capital needs of diverse entrepreneurs.

Because data have shown that VC continues to be one of the least inclusive sources of small business funding, its growing importance for financing businesses means that racial and ethnic gaps in capital access have almost certainly increased, and probably dramatically, in the last decade. In 2022, despite accounting for 6.6% and 13% of Massachusetts' population, Black and Latino founders received just 0.6% and 3.4% of VC deal flow, respectively (see Figure 18), which amounts to approximately \$120 million received by Black founders and \$868 million received by Latino founders across Massachusetts. As of 2023, the shares of VC funding going to Black and Latino founders were even lower: Black founders received <0.1% of VC funding in Massachusetts (\$14.6 million), and Latino founders received 1.6% (\$265 million).⁸¹

Strategies to counter these trends are a key component of the recommendations laid out in the next chapter. Qualitative findings from small businesses and BSOs also revealed important trends, needs, and gaps beneath the top-line capital flow data, particularly when it comes to financing shortfalls. In Massachusetts, 50% of employer firms experience financing shortfalls (i.e., they receive "none," "some," or "most" of the financing they apply for instead of "all") across loans, lines of credit, and merchant cash advance applications, slightly higher than the national rate of 47%.⁸²

The rate of unmet financing need for most startup and early-stage businesses is disproportionately high. Equity investors' (e.g., angel investors, venture capital firms) investment criteria tend to focus on very high rates of growth (100% annual revenue growth) and on specific areas of technological innovation. Traditional lenders' eligibility criteria typically include at least two years in business, and as a policy, they do not lend to startups. Micro-businesses seeking smaller financing amounts often have difficulty finding a lender at an affordable cost. Given the fixed costs of originating and servicing loans, most lenders require a minimum business revenue and/or have minimum loan amounts (often \$50,000 to \$100,000) that are higher than the amounts that most micro-businesses request.

Businesses owned by people of color have a harder time accessing financing than their white-owned counterparts.

Nationally, the percent of business owners experiencing financing shortfalls is much higher for business owners of color than for white business owners, and even more acute for startups.⁸³

Stakeholders note that some of these challenges are related to the comparatively low financial health of businesses of color that are driven in part by business owner finances and the racial wealth gap (i.e., people of color have less personal and friends or family money to fund business startup costs). Businesses of color are also concentrated in lower-growth, lower-profit sectors. There is also broad-based evidence of unequal treatment of businesses of color (including outright discrimination) when financial health is controlled for,⁸⁴ which was confirmed by project interviewees.

Finally, the overall rate of unmet financing demand from small businesses has been increasing in recent years, with stakeholders citing several prominent factors. The financial health of small businesses and small business owners has declined in recent years. COVID-19 business closures and demand shifts led to lower revenues and/or profits. For some businesses, this resulted in missing debt or other trade payments that negatively impact their business and personal credit history. Traditional lenders typically require at least two years of operating profitability and nearly all have minimum business owner and business credit score requirements. Some alternative and non-profit lenders (e.g., CDFIs, CDCs) are focused on trying to fill these gaps, but they have a very small market share and often have very specific geographic or demographic focus areas.

LENDING BY NEIGHBORHOOD

Whether measured by absolute dollar volume, lending per small business, or lending per small business job, there is significant variation in capital access across Boston's neighborhoods (see Figure 19).

Seven neighborhoods rank above average on both small business lending by large banks (the only institutions required to report by sub-county geographies) relative to the number of small businesses and the number of small business jobs: Back Bay, South Boston Waterfront, South Boston, Charlestown, West End, and Bay Village. Perhaps not surprisingly, the Seaport area (South Boston Waterfront) ranks highest in lending per small business and per small business job, likely owing to the types of industries concentrated there (especially creative, software/tech, and industrial/traded firms) and its designation as an innovation district.

The storefront of Essential Herb N Juice Cafe in Dorchester was revamped though the City of Boston's ReStore grant program.



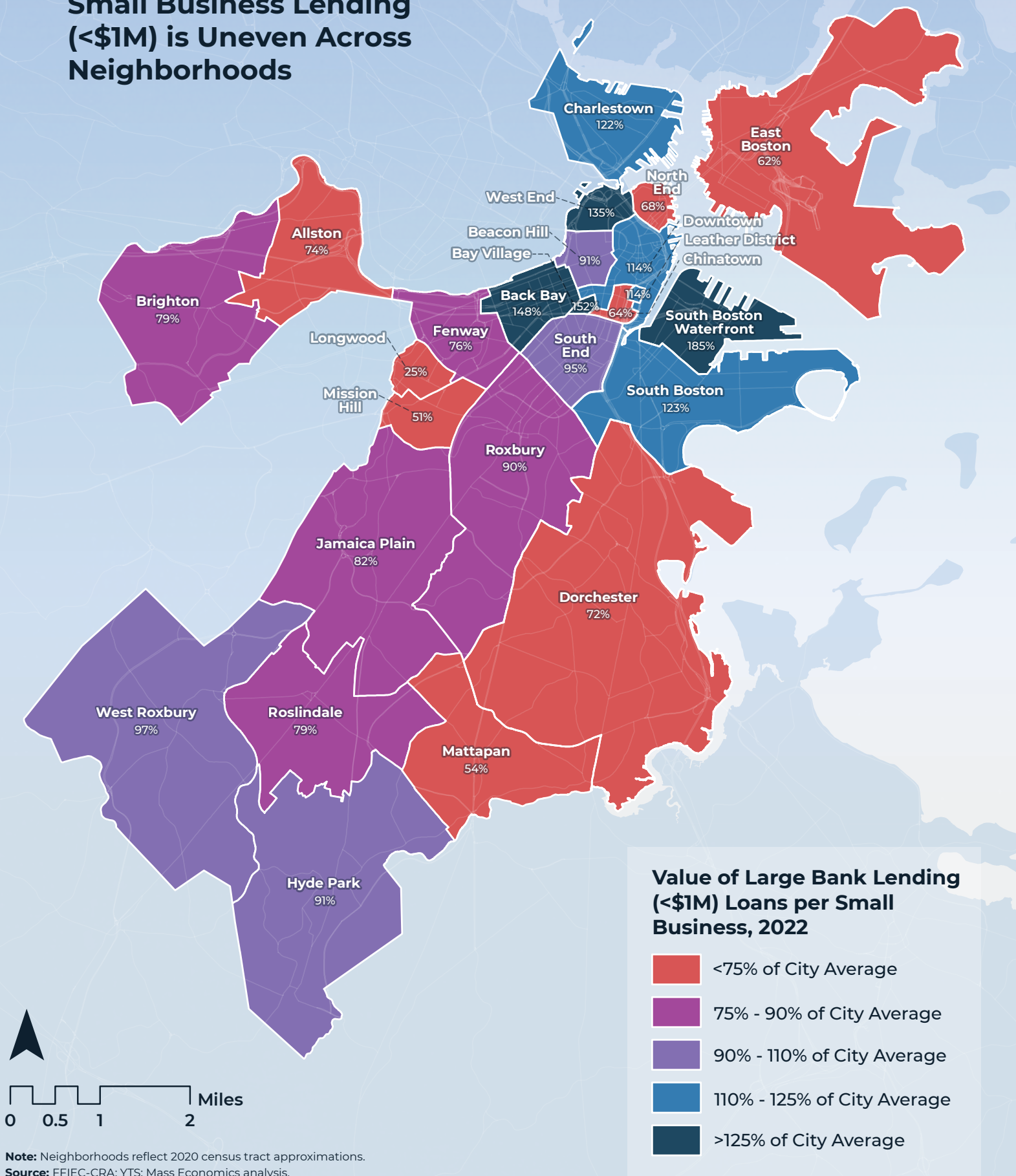
Figure 19. **Large Bank Small Business Lending (<\$1M) is Uneven Across Neighborhoods**

Neighborhood	Small Business Loans by Large Banks (\$M), 2022	Small Business Loans by Large Banks per Small Business, % of City Average, 2022	Small Business Loans by Large Banks per Small Business Job, % of City Average, 2022
Downtown	\$134.8	114%	96%
Back Bay	\$67.6	148%	130%
Dorchester	\$42.6	72%	91%
South Boston	\$40.6	186%	137%
Waterfront	\$26.8	95%	94%
South End	\$24.0	123%	132%
Roxbury	\$22.8	90%	102%
Brighton	\$20.2	79%	85%
Charlestown	\$19.5	122%	124%
Jamaica Plain	\$18.7	82%	112%
West Roxbury	\$17.6	97%	107%
Hyde Park	\$17.3	91%	102%
East Boston	\$16.6	62%	74%
West End	\$14.9	135%	111%
Allston	\$14.3	74%	75%
Roslindale	\$13.0	79%	104%
Fenway	\$11.9	76%	68%
Bay Village	\$11.2	152%	133%
North End	\$8.9	68%	69%
Beacon Hill	\$8.8	91%	110%
Mattapan	\$5.8	54%	67%
Chinatown	\$5.6	64%	66%
Mission Hill	\$3.6	51%	52%
Longwood	\$0.4	25%	20%
City of Boston	\$567.5	100%	100%

Note: Neighborhoods reflect census tract approximations; the Leather District is included in one of the census tracts comprising Downtown.

Source: FFIEC-CRA; YTS; Mass Economics analysis.

Figure 20. **Large Bank Small Business Lending (<\$1M) is Uneven Across Neighborhoods**



Eleven neighborhoods rank below the city average in both lending per small business and per small business job: Dorchester, South End, Brighton, East Boston, Allston, Fenway, North End, Mattapan, Chinatown, Mission Hill, and Longwood.

Longwood has the least lending per small business and small business job of any neighborhood (likely due to its high share of medical establishments and their distinct capital needs), followed by Mission Hill. These neighborhood-level disparities in the flow of traditional small business loans are visualized in Figure 20.⁸⁵

At the city scale, disparities in small business lending flows to individual demographic groups are difficult to discern across neighborhoods. By using data at the census tract level, we can obtain greater geographic and demographic granularity on, for example, areas with high concentrations of people of color, foreign-born population, or people living in poverty. Majority people of color tracts in Boston reflect 53% of the city's total population, just under three-quarters (74%) of the people of color population, and about one-third (33%) of small businesses, but these areas received only one-quarter of traditional small business lending in 2022. Tracts with a higher share of foreign-born population than the city overall reflect 50% of the city's total population, about two-thirds of the foreign-born population, and about 45% of small businesses, but these areas received just under two-fifths of traditional small business lending in 2022. Tracts with poverty rates over 20% reflect 37% of the city's total population, three-fifths of the population in poverty, and—driven by Downtown—about 43% of small businesses; this is comparable to their share of traditional small business lending in 2022 (42%).

LOCATIONS OF CAPITAL PROVIDERS

There is significant variation in the presence of capital providers by neighborhood.

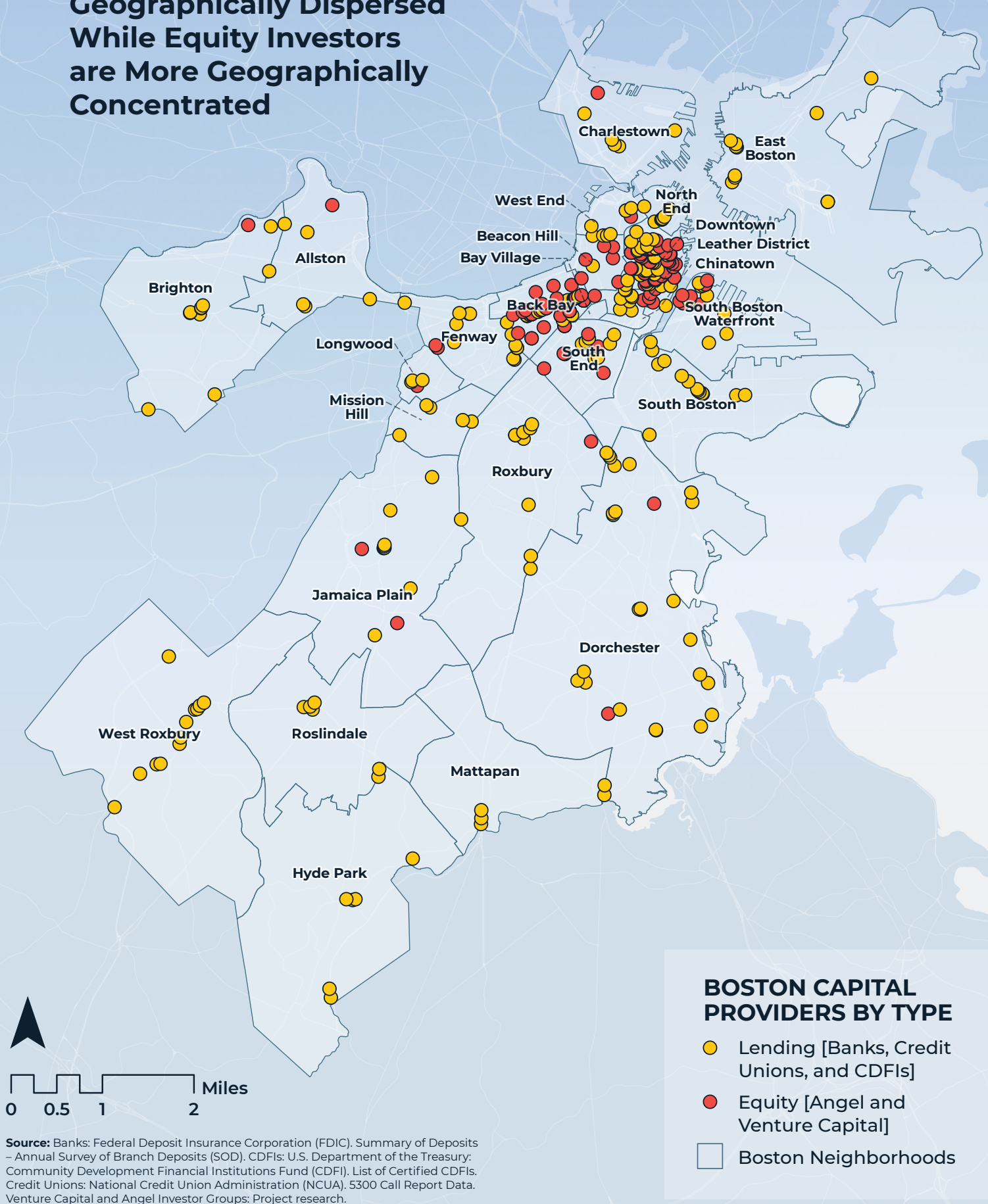
Banks, credit unions, and CDFIs are widely dispersed. Excluding Downtown, which houses 24% of the city's branches, no other neighborhood, apart from Dorchester (10.3%), accounts for more than 10% of branches. As of 2023, nearly every neighborhood, except for the Leather District—covering only about 13 acres—has at least one branch. While the overall number of branches in the city has remained consistent since 2015, individual neighborhoods have experienced losses and gains. Downtown saw a decline of five branches, along with West Roxbury losing three branches and Allston, Brighton, Longwood, Roslindale, and South End losing at least two each. Conversely, South Boston and South Boston Waterfront (Seaport) each gained two branches, while Dorchester, East Boston, and Roxbury added three locations each. While a review of whether individual banks are meeting their CRA obligations to each neighborhood fell out of the scope of this report, it is worth closer examination in a future report.

On the equity side, it is difficult to track sub-city deployment of capital, but we do know that VC and angel investor offices are highly concentrated geographically, with over 70% of such offices located in just two neighborhoods: Downtown and Back Bay (see Figure 21). In recent years, there has been a notable shift in equity investment activity toward South End and South Boston

Waterfront (the Seaport), which, together, account for about 14% of VC and angel office locations in the city today. The expansion is evident in the increased number of Boston's neighborhoods hosting at least one venture or angel office, which has risen from five to fifteen between 2015 and the present.

In summary, the City of Boston is home to a deep network of BSOs, organizations engaged in entrepreneurship programming, and a diverse array of capital providers offering a variety of ways for small business owners to access capital. Although there has been a loss in the absolute number of BSOs since 2016, the city's current BSOs offer a robust, high-quality support system for small businesses. There is a plethora of local, as well as locally grown and nationally available, entrepreneurship programs at no- and low-cost; however, these programs are not always accessible or available to all business owners, due to language, technological, or other barriers. Furthermore, small businesses—particularly micro-businesses—don't often have the time or capacity to take advantage of these opportunities. Finally, despite a wide variety of capital providers in the City of Boston, small business lending has been trending downward relative to the number of small businesses. These contextual factors across the landscape of BSOs, entrepreneurship programming, and capital access frame the needs facing businesses in Boston and shape the strategies, discussed in the next section.

Figure 21. **Lenders are Geographically Dispersed While Equity Investors are More Geographically Concentrated**



CHAPTER 4

STRATEGY RECOMMENDATIONS



OVERVIEW

Boston's small business ecosystem is at a critical inflection point, transitioning from the COVID-19 crisis response of the last several years to an enduring community of support for entrepreneurs and business owners.

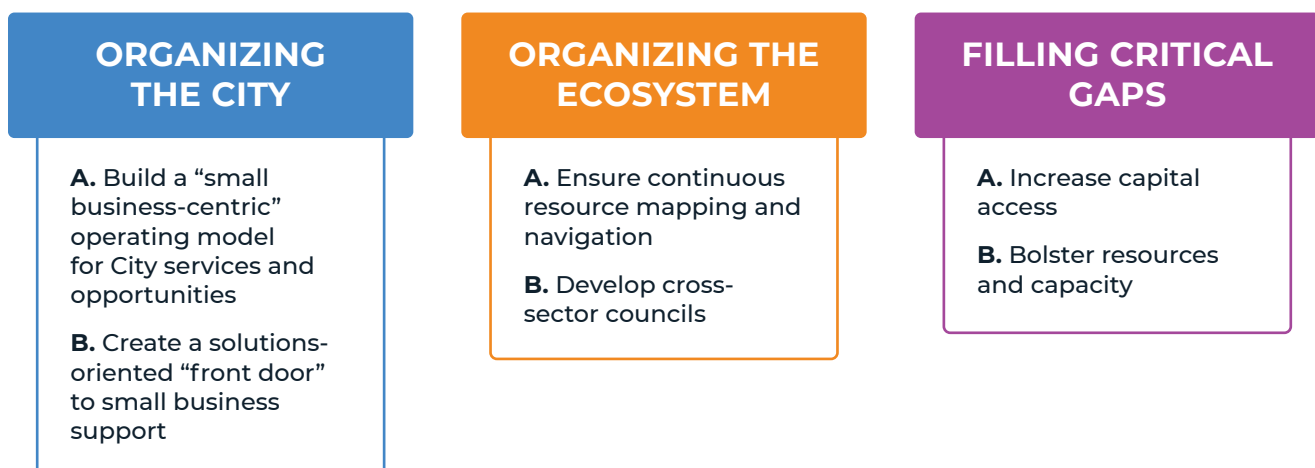
The City itself has an important role to play centering small business in the day-to-day work of its departments, as well as serving as a convener and catalyst for the ecosystem as a whole. The City can also make targeted investments to meet critical needs that have been exposed, but not fully addressed, over the last several years. While these strategies are targeted to the needs of small business establishments, in many cases, they can also serve other small business entities like active entrepreneurs and solopreneurs. One of the motivations for this strategy is to help orient and guide small business owners through

this complex system, streamlining and simplifying their engagement with the City. Organizational charts for the City of Boston, OEIO, and Small Business team are shown in the appendix.

Recommendations are grouped in three categories that reflect the ways in which the City can optimize its existing interactions with small businesses, foster a responsive and accessible ecosystem, and address critical resource gaps (see Figure 22).

Pictured on previous page. Opening of Comfort Kitchen in Dorchester.

Figure 22. **Summary of Strategy Recommendations**



1

ORGANIZING THE CITY

The City of Boston touches small businesses throughout their life cycle, through actions such as registering new businesses, issuing permits and licenses, and investing in neighborhoods. The City has also historically offered a range of technical assistance and grant programs through its Office of Small Business and supports 20 Main Streets districts located in neighborhood commercial corridors city-wide.

Our research made clear that small businesses often find city regulations complex and hard to understand, and that the processes for securing permits and licenses are often cumbersome, time-consuming, and costly. The business owners and BSOs we spoke with shared a strong desire for greater clarity on availability and means of accessing City services and resources, as well as how to resolve questions and roadblocks when they arise. The City can organize its resources with small businesses in mind to provide exceptional service. To this end, we propose two sets of strategy recommendations:



Centre Street in Jamaica Plain. [Photo by Isidor Studio]

A. BUILD A “SMALL BUSINESS-CENTRIC” OPERATING MODEL FOR CITY SERVICES AND OPPORTUNITIES

The City can streamline and connect all small-business facing departments and services to be more welcoming and easier to navigate—and to widen access for those seeking opportunities to do business with the City.

I. CREATE AN INTER-AGENCY WORKING GROUP WITHIN CITY HALL

Bring together designated Small Business Leads from each department that serves small businesses to establish shared goals, build internal working relationships and communication channels, and create a mechanism for addressing barriers for small business. The group should undertake a review of permitting processes, violations, and fees to streamline and reduce the burden on small businesses. The group should also meet regularly to review and resolve issues and be empowered to make policy and operational changes.

“A lot of these departments are siloed, and that creates layers and layers of complexity that we don’t necessarily need... If I tell a department that I want to launch an initiative to open more food trucks in the city, it’s going to involve Public Works, Police, Transportation, etc. And they’re all going to be looking at it through their own lenses, not thinking about how to create the most prosperous environment for small businesses in Boston.”

– City of Boston Employee

II. BUILD A SMALL BUSINESS PATHWAY FOR PROCUREMENT

Centralize and align the City's procurement process to maximize opportunity for small businesses. The City should require all departments to post and publicize future contracts well in advance to give prospective bidders ample time to prepare proposals and, where possible, breaking large contracts into smaller opportunities that are accessible to small businesses. Building on the momentum of the City's recent increase in local minority- and women-

owned business enterprise (MWBE) procurement, the launch of Supplier Diversity Week, and the Compact to Build Local Economic Growth, the City should identify prospective suppliers through all of its own touchpoints and through business support partners to create a robust pipeline of small businesses in key purchasing categories. These can then be matched with targeted technical assistance and financing solutions. This effort can be connected to a broader city-wide strategy on procurement (see below in Recommendation 2-B.II.).

“We’ve heard that the processes for procurement are still opaque... there’s this sense that these bidding processes are complex and difficult to navigate.”

– BSO Executive Director

B. CREATE A SOLUTIONS-ORIENTED “FRONT DOOR” TO SMALL BUSINESS SUPPORT

As the external face to small businesses, the City should provide a clear point of entry and coordination to serve them responsively and holistically. This includes initiating “outbound” communications with small businesses through the full array of channels and partners to maximize awareness of ecosystem resources.

“It’s navigating the amount of resources that do exist. There are lots of resources that the City of Boston has, that TA providers have, that we have—it can be overwhelming and can have negative side effects. Like, ‘I’ve talked to 10 people and they’re all sending me to someone else, I just need 1 person.’”

– BSO Executive Director

I. ESTABLISH A CONCIERGE-STYLE SMALL BUSINESS TEAM

Create a city-wide, externally-facing team to serve as a central information hub and ombudsman for small businesses’ interactions with the City and access to other ecosystem resources. This team would maintain up-to-date knowledge of business support resources offered by the City and BSOs throughout the ecosystem as part of the “one-stop” (described below). Internally, it would leverage sector experts within OEOI and members of the inter-agency working group to provide accurate information to businesses and resolve concerns. An enhanced 311 system could receive small business inquiries, route them through the concierge team, and track responses.

II. EDUCATE SMALL BUSINESSES AT EVERY OPPORTUNITY

Promote small business resources and highlight access points through all of the City’s interactions and channels with small businesses, including business registration, compliance, and tax-related interactions, public meetings and events, and through neighborhood-level postings and partners.

2 THE ECOSYSTEM

As described earlier, Boston's small business ecosystem has become more robust and better connected in recent years, with the emergence of new and expanded providers and offerings. Nevertheless, the funding and attention that sustained so much good work during the pandemic is slowly diminishing. At the same time, earlier efforts focused on bridging the equity gap in key sectors, such as city-wide diverse procurement and innovation initiatives, were overtaken in 2020 by the urgency of the public health crisis and need for emergency business relief. The City now has an opportunity to serve as a powerful convener and facilitator of ecosystem collaboration in these areas. We propose two sets of strategy recommendations:



Mayor Wu visiting Recreo Coffee & Roasterie in West Roxbury.

A. ENSURE CONTINUOUS RESOURCE MAPPING AND NAVIGATION

Through the pandemic, there was heavy investment in identifying and promoting business resources, including through coordinated efforts such as the Community Business Network hosted by Massachusetts Association of Community Development Corporations and the Massachusetts Coalition for an Equitable Economy. Moving ahead, the City can ensure that there remains an up-to-date listing of small business resources and help to sustain and cultivate the collaborative network of providers.

“Boston is a very resource rich city with so many non-profits and BSOs. But the challenge for many small business owners is recognizing where to go when you need help. You might be plugged into one corner of the ecosystem, but you might not be aware of the other components of the ecosystem.”

– BSO Executive Director

I. LAUNCH A “ONE-STOP FOR SMALL BUSINESS”

Create a “one-stop for small business” on the City’s website, modeled on the state’s “Community One-Stop for Growth,” that provides a simple, searchable directory of the dozens of service providers and programs tagged by sector and stage of business along with specific offerings for minority-, women-, veteran-, and immigrant-owned businesses. Over time, this directory could utilize AI and other technologies to streamline and hone its recommendations, potentially in multiple languages.

The site could incorporate a library of videos explaining City processes such as zoning and permitting, as well as high-quality online/asynchronous programs, tools and templates (e.g., for business and financial planning), and links to best-in-class educational resources (e.g., for employee ownership and succession planning). It could also allow visitors to place a 311 inquiry or make an appointment with a member of the concierge team (described above in Recommendation 1-B.I.) to consult on business needs and get referrals to outside resources.


In addition to the virtual “one-stop,” the City should explore the creation of brick-and-mortar small business centers in neighborhoods throughout Boston as a way to increase awareness and connect with small businesses where they are. These centers could utilize existing public and shared spaces, including libraries and community centers, hosting City and BSO informational resources, office hours, and programs, which can be tailored to the needs of neighborhood businesses.

II. CONVENE AND CULTIVATE THE NETWORK OF SMALL BUSINESS SUPPORT PARTNERS

Building on the success of the Community Business Network, the City can serve as the convener of ecosystem service providers for the City of Boston. By meeting regularly, sharing information, and collaborating on strategy, providers can be more effective identifying businesses in need and referring their clients to others in the network, while ensuring that the one-stop remains up-to-date and reflective of the optimal pathways for specific business types. The community of providers, facilitated by the City, can work together to identify unmet small business needs and challenges, then jointly problem-solve solutions.

Boston is home to 191 BSOs, with almost equal numbers of Entrepreneurship (56), Neighborhood Environment (50), and Operations BSOs (47). Another 38 BSOs focus on shaping markets.

–See Chapter 3, Business Support Organizations (Page 58)



“I just see the problem being the coordination piece. We’re all already doing this work and creating these resources independently, and often we’re just replicating each other’s efforts.”

– BSO Executive Director

Pictured: Marshall Street in Downtown Boston. [Photo by Isidor Studio]

B. DEVELOP CROSS-SECTOR COUNCILS

In specific areas, there is a clear opportunity for the City to co-create cross-sector strategies to fill documented gaps and needs in the small business ecosystem. The City can play an important role of organizing relevant stakeholders and influencing them to act in a coordinated manner to make the sum of their efforts greater than they would be individually.

Due to challenges ranging from capital access to market size, MBEs, on average, tend to be smaller than white, non-Hispanic-owned firms, and many have struggled to recover from the economic crises brought on by the pandemic.

– See Chapter 3, Under-Represented Business Owners (Page 37)

In 2022, Latino and Black founders—13.0% and 6.6% of the Massachusetts population, respectively—received just 3.4% and 0.6% of VC deal flow.

– See Chapter 3, Boston's Small Business Capital Landscape, Figure 18 (Page 74)

I. CREATE A DIVERSE INNOVATION COUNCIL

Establish a cross-sector 'Diverse Innovation Council' focused on increasing diversity in the local technology and startup ecosystem. The Council should have representation from venture capital firms, entrepreneur support organizations, universities, corporations, and other interested stakeholders. The Council should convene first to collaboratively set goals and supporting actions for each stakeholder group and then subsequently to monitor and evaluate progress towards the goals. Based on our analysis, the goals should focus on increasing business startup and ownership rates in technology sectors by Black and Latino entrepreneurs, women, and other under-represented groups through strategies that include increasing the proportion of angel investment and venture capital funding received by these groups. There may be an opportunity to include strategies beyond startup and ownership rates, including promoting diversity in the broader corporate technology sector workforce.

II. CREATE A SMALL BUSINESS PROCUREMENT COUNCIL

Establish a cross-sector ‘Small Business Procurement Council’ focused on increasing small business procurement across local anchor institutions. The Council should have representation from BSOs, colleges and universities, medical institutions, and other large Boston-based companies, and other interested stakeholders. The Council can draw insight from relevant regional efforts such as the MBDA and Chamber’s Pacesetters program to collaboratively define and calibrate goals, which should include increasing member spend with Boston-based small businesses and businesses owned by people of color. The Council’s activities should include sharing best practices (e.g., learnings from the City’s Contracting Opportunity Fund, Sheltered Market Program, and SCALE Program), setting shared and institutional targets for procurement from small businesses and regularly reporting on progress.

There have been initiatives with similar goals in recent years that have had varying degrees of success, many of them specific to certain types of buyers (e.g., corporate buyers). The City is uniquely positioned to catalyze and sustain cross-sector collaboration that leads to more tangible outcomes than prior efforts. To ensure continuity, capture learnings, and leverage existing capacity, the City should coordinate with regional peers, including Pacesetters, MBDA, the state’s Supplier Diversity Office, and Associated Industries of Massachusetts Supplier Diversity Initiative.

“We have so many university anchors here in Boston but they’re not all on the same page about supplier diversity and procurement. So that seems like a really low-hanging opportunity. We could easily identify leadership for an anchor consortium that could build the capacity of our anchors to engage in this kind of work.”

– BSO Executive Director

3

FILLING CRITICAL GAPS

The experience of the pandemic and post-pandemic changes in the local economy—coupled with longstanding barriers to opportunity for many small businesses—highlights small business needs that are not adequately addressed in Boston’s current ecosystem.

Administrative and record-keeping gaps precluded many businesses from receiving emergency assistance during the pandemic and remain a challenge for many, especially micro-businesses. This back-office skills and systems gap limits businesses’ capacity for financial planning and management, which makes it harder to secure capital, invest for growth, and build wealth.



2024 Legacy Business Awards Ceremony where 30 awardees along with family and staff gather to take a photo with Mayor Wu, City officials, and OEOI staff. [Photo by Kristina Vicario, KVography]

A. INCREASE CAPITAL ACCESS

Capital access is critical for small business creation and growth. Our analysis shows that while there are bright spots for high-growth startups in key sectors and certain established businesses, there remain significant capital access gaps for many early-stage companies, micro-businesses, and small businesses with lower financial health. These gaps are wider for businesses owned by people of color. The City should make targeted investments that efficiently leverage the strong ecosystem of non-profit BSOs to fill key gaps in small business capital preparedness and access.


Lending by large banks, community banks, and credit unions is lower in real dollars today than in 2014, and in 2022, VC and angel capital deployments were greater than the total small business lending in Boston.

– See Chapter 3, Boston's Small Business Capital Landscape (Page 73)

I. LAUNCH A CATALYTIC CAPITAL PROGRAM

The City should establish a catalytic capital program to increase the accessibility and lower the cost of financing for small businesses with challenges accessing traditional financing. This is particularly important given the well-documented disparities in capital access and unequal treatment for certain businesses (e.g., under-represented business owners and micro-businesses), which could be the focus of the program. The program could provide credit enhancements (e.g., loan guarantees, loan loss reserves), interest rate buy-downs, and/or flexible low-cost loan participations to non-profit small business lending partners, e.g., federally-certified Community Development Finance Institutions (CDFIs) and state-certified Community Development Corporations (CDCs). CDFIs and CDCs in Boston disproportionately serve micro-businesses that are owned by low-income individuals, people of color, and women. Such a program would help to build on the recent growth in CDFI and CDC small business financing in Boston while leveraging federal and private funding that they receive.

The program could be designed in close coordination with Massachusetts Growth Capital Corporation (MGCC), which has administered similar state-wide programs supporting CDFIs and CDCs, including the recently funded State Small Business Credit Initiative programs.



“I understand that there is not an appetite to grant money to small businesses at a certain scale, but it is so necessary. It is often the gateway for small businesses to start thinking about other sources of capital... If we don’t give people the capital to test these ideas out, we’re really stifling creativity and innovation.”

– BSO Executive Director

Pictured: Opening for Nubian Markets in Roxbury.

II. CREATE A SMALL BUSINESS FINANCIAL HEALTH PROGRAM

The City should establish a small business financial health program to increase the financial health of Boston's small businesses and increase their preparedness for capital access. Promoting small business financial health must include helping businesses grow revenues and profits, regardless of their need for capital. While capital is critically important, most businesses do not apply for financing in any given year, while virtually all businesses have an interest in increasing profitability. This program would be particularly timely given business model and financial health challenges from lingering COVID-related impacts, increases in inflation and interest rates, and other challenges to revenue and profits.

The City should incorporate the resources of its Small Business Technical Assistance program along with those of the Center for Working Families, and partner with one or more non-profit BSOs to design and administer the program. Program elements should include a small business financial health assessment, relevant educational content, and direct technical assistance in key areas (e.g., bookkeeping clean-up, financial projection preparation, and credit-building and repair). The direct technical assistance could be delivered by members of the Expert Advisor Network (described below in Recommendation 3-B. II.).

The rate of unmet financing need for most startup and early-stage businesses is disproportionately high. Micro-businesses seeking smaller financing amounts often have difficulty finding a lender at an affordable cost.

– See Chapter 3, Boston's Small Business Capital Landscape (Page 75)

B. BOLSTER RESOURCES AND CAPACITY

Pandemic and post-pandemic market dynamics accelerated the imperative for businesses to utilize technology for sales and marketing via point of sale systems (e.g., Square, Toast), ordering and delivery platforms (e.g., Uber Eats, DoorDash), proprietary websites, and social media. It also revealed that many Boston businesses do not have access to the expertise or skills to do so and that the set-up costs can be prohibitive.

In addition to technology, we saw that entrepreneurs often lack contacts with the finance, marketing, or other professionals they need and can be unsure of whom to trust, in part because relatively few providers come from the communities they serve or demonstrate the “cultural competency” to build relationships.

“The business owners we work with are owner-operators, and it’s hard for them to access opportunities or tools. People have computers, but a lot of our business owners don’t really have technology skills or the know-how to navigate these processes.”

– Main Streets Executive Director

I. CREATE A DIGITAL TRANSFORMATION PROGRAM

Invest in sustained support of small business digital transformation for Boston small businesses. The City should establish a digital transformation program to provide digital capability assessments, grant funding of \$5,000 to \$10,000 to invest in digital capacity, direct technical assistance, and operational training. The program should support specific types of products and services (e.g., websites, social media, and e-commerce, point of sale systems) and create a center of excellence for top solutions and best practices. Providing grant funding allows cash-strapped businesses to make these important and potentially transformative investments in their businesses ahead of revenue. Grant funding could be tied to specific uses and potentially disbursed as reimbursement for eligible purchases. The program could provide disproportionate support to specific sectors (e.g., restaurants, retail) to promote neighborhood vibrancy. The program could be developed in coordination with Massachusetts Growth Capital Corporation and Boston Main Streets Foundation given their administration of similar programs.

II. BUILD AND DEPLOY AN EXPERT ADVISOR NETWORK

Identify, engage, and promote a network of subject-matter experts in functions such as financial management and bookkeeping, marketing and sales, and e-commerce, as well as sectors such as retail, hospitality, and food. These experts can be drawn in part from existing programs such as Small Business Strong, the Business Equity Initiative, ICIC's Inner City Capital Connections, BECMA, the City's TA program, and other regional efforts. They would bring both content knowledge and cultural competency, providing a trusted resource for businesses. Services could be provided on a fee-for-service basis, with subsidies for eligible businesses, and also as an integrated part of the City's and BSOs' small business support programs.

III. LAUNCH PROFESSIONAL NETWORKS FOR COMMUNITIES OF ENTREPRENEURS

Building on the City's historic sponsorship of Women Entrepreneurs Boston (WE BOS), establish a coordinating entity centered on the communities of women, veteran, immigrant, and LGBTQ+ entrepreneurs to share business support and contract opportunities, foster professional connections and mentorship, and offer tailored services and programming. The new networks should be led in close partnership with the organizations already connected to these audiences, with the City both amplifying and augmenting their efforts.

“We try to reserve some funds in our budget for grants, but you can’t just give people money if they don’t know what to do with it. They need guidance and support. Maybe they want to invest in their physical capital, but perhaps they need to invest in their website and marketing beforehand so they can widen their customer base. But they don’t know that because they’re not business people.”

– BSO Executive Director

IV. PROVIDE LANGUAGE SUPPORT FOR SMALL BUSINESS SERVICES AND PROGRAMS

Using current and expanded City resources through its Language and Communication Access (LCA) program, and in partnership with English for New Bostonians, ensure that both City and BSO offerings are accessible in the range of languages spoken by the City's entrepreneurs and small business owners.

To better serve immigrant-owned businesses, the City can leverage its resources and experience to fully translate its own small business-facing materials and forms, and provide truly on-demand translation for all services and programs. In addition, the City can equip BSOs with multi-lingual resources for those that speak languages other than English by providing free translation of their existing marketing materials and educational program content. The City could also make interpretation services available for select BSOs serving Boston-based clients.

The City should build a wide funnel that allows small businesses to enter the ecosystem through multiple channels, identify and prioritize their needs, and access the right resources, whether they are offered by the City or others in the Boston ecosystem. Over time, the City can enhance its effectiveness assessing and referring businesses through experience and feedback (see Figure 23).

Among the largest 50 U.S. cities, Boston ranks 45th for immigrant ownership per working age foreign-born population.

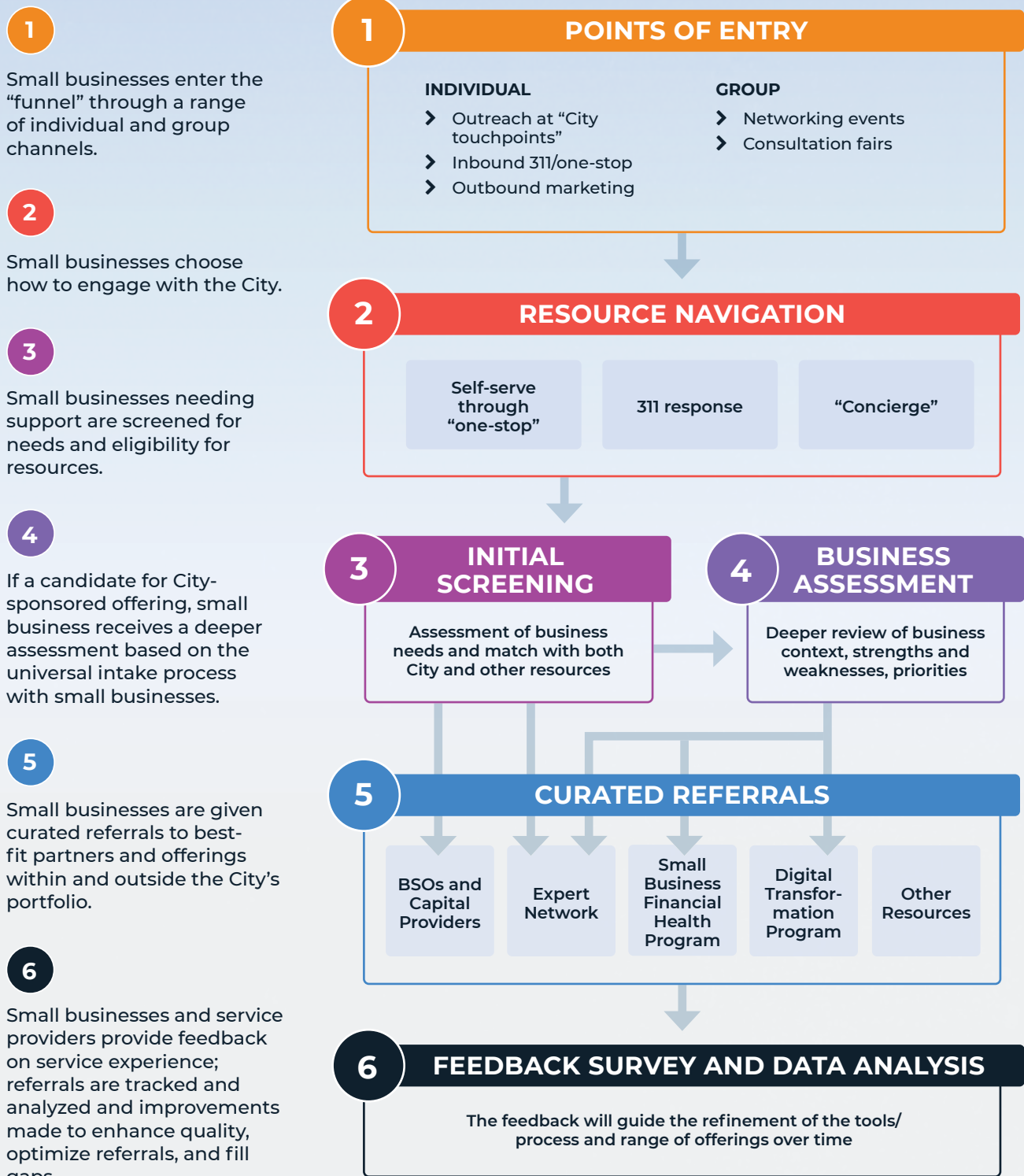
– See Chapter 2, Under-Represented Business Owners (Page 40)

“A lot of the folks we work with are immigrants, so there’s usually going to be a language barrier that a native English speaker isn’t going to face. I think we have pretty clear guidance on the paperwork and process you have to go through to become a food truck owner... But because it’s not necessarily sensitive from a language standpoint, that’s going to create a language challenge.”

– City of Boston Employee

Figure 23. Business Support Navigation

A wide “funnel” can allow small businesses to enter the ecosystem through multiple channels with a structured approach for guiding them to both City and partner resources



CHAPTER 5

CONCLUSION



Boston's small businesses are the foundation of quality of life in its neighborhoods and a source of wealth and prosperity for its residents. Small businesses are one of its greatest, most resilient assets.

During, and in the aftermath of, the COVID-19 pandemic, we witnessed the capacity of small businesses to adapt in real time to fundamental environment shifts—in where and how they operate, and in their pursuit of emerging opportunities as local demand for goods and services evolves. But the impacts of COVID-19 remain deeply felt, and longstanding inequities and barriers that were exposed in crisis need to be addressed.

The public-private ecosystem supporting small businesses has grown considerably in the years since the first Small Business Plan was completed in 2016. Boston's small businesses have access to an unprecedented wealth of resources and expertise at no or low cost. This ecosystem has grown richer, more connected, and more effective as it mobilized throughout the pandemic, expanding capacity, increasing accessibility, and cultivating collaborative networks in Boston and around the region.

Boston's small business support ecosystem now faces a critical point of inflection. There is a great opportunity to fill the financial, digital, and other critical gaps by institutionalizing and expanding recent collaboration among public, non-profits, and private actors and doubling down on effective small business support programs and initiatives. The City can both recommit to making Boston an easier, friendlier and more rewarding place to do business and take the lead on reinvigorating cross-sector action on issues like diverse procurement and innovation.

For Boston to become a global model of economic equity for working people, current and future entrepreneurs and small businesses—especially those from historically under-resourced and under-represented communities—must have an environment that enables them to reach their full potential to thrive. Offering strategies to organize the city and ecosystem, as well as fill critical gaps therein, this report charts a path toward that more equitable and resilient future.

Pictured on previous page. Mayor Wu, Chief Idowu, Director Porcena, Darryl Young, and Boston Poet Laureate Porsha Olayiwola welcomed over 1,500 visitors to Boston for the 2023 Main Street Now Conference, discussing the activation of main street and commercial districts and showcasing the vibrancy of Boston neighborhoods.

CHAPTER 6

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GLOSSARY

SMALL BUSINESS ENTITIES: Small business entities include a variety of types, structures, and stages of businesses, including small business establishments, as well as offices of individual practices (e.g., healthcare providers, professional services), nonemployer businesses that likely represent the business owner's primary job, and self-employed workers that typically work from home. This report estimates that the City of Boston is home to 58,000 small business entities.

➤ **SMALL BUSINESS ESTABLISHMENTS:** A type of small business entity, small business establishments are operating businesses that are generally accessible to the public through a virtual or physical storefront. This report defines small business establishments as having less than \$5 million in annual revenue or fewer than 50 employees, estimating that the City of Boston is home to 18,000 small business establishments.

○ **MICRO-BUSINESSES:** A type of small business establishment, micro-businesses reflect those with less than \$500,000 in annual revenue and fewer than 10 employees. This report estimates that the City of Boston is home to 5,600 micro-businesses.

○ **SCALED SMALL BUSINESSES:** A type of small business establishment, scaled small businesses reflect the universe of small business establishments that are not micro-businesses, i.e., those with \$500,000 to \$5 million in annual revenue or 10 to 49 employees. This report estimates that the City of Boston is home to about 12,600 scaled small businesses.

➤ **ACTIVE ENTREPRENEURS AND SOLOPRENEURS:** Active entrepreneurs and solopreneurs reflect small business entities that are not small business establishments. They consist mainly of individual, solo entrepreneurs ("solopreneurs"); nonemployers; self-employed workers; and individual practitioners; these entities could be temporary or part-time. This report estimates that the City of Boston is home to about 40,000 active entrepreneurs and solopreneurs.

CITY AGENCIES

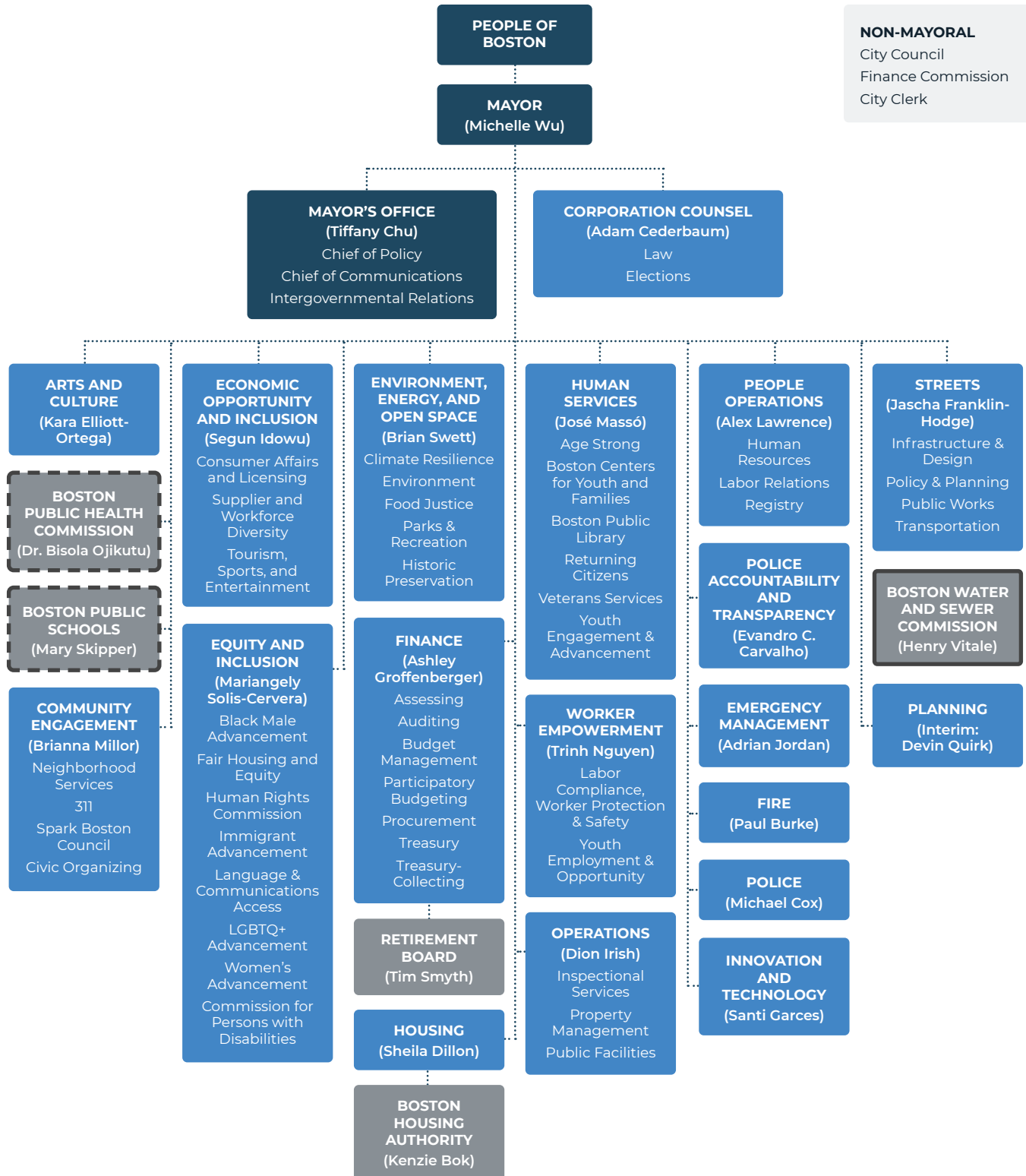
KEY

- Cabinet-level Office reporting to the Mayor
- Not in Operating Budget

- Quasi-independent Agency, governed by separate board
- Quasi-independent Agency not in operating budget

NON-MAYORAL

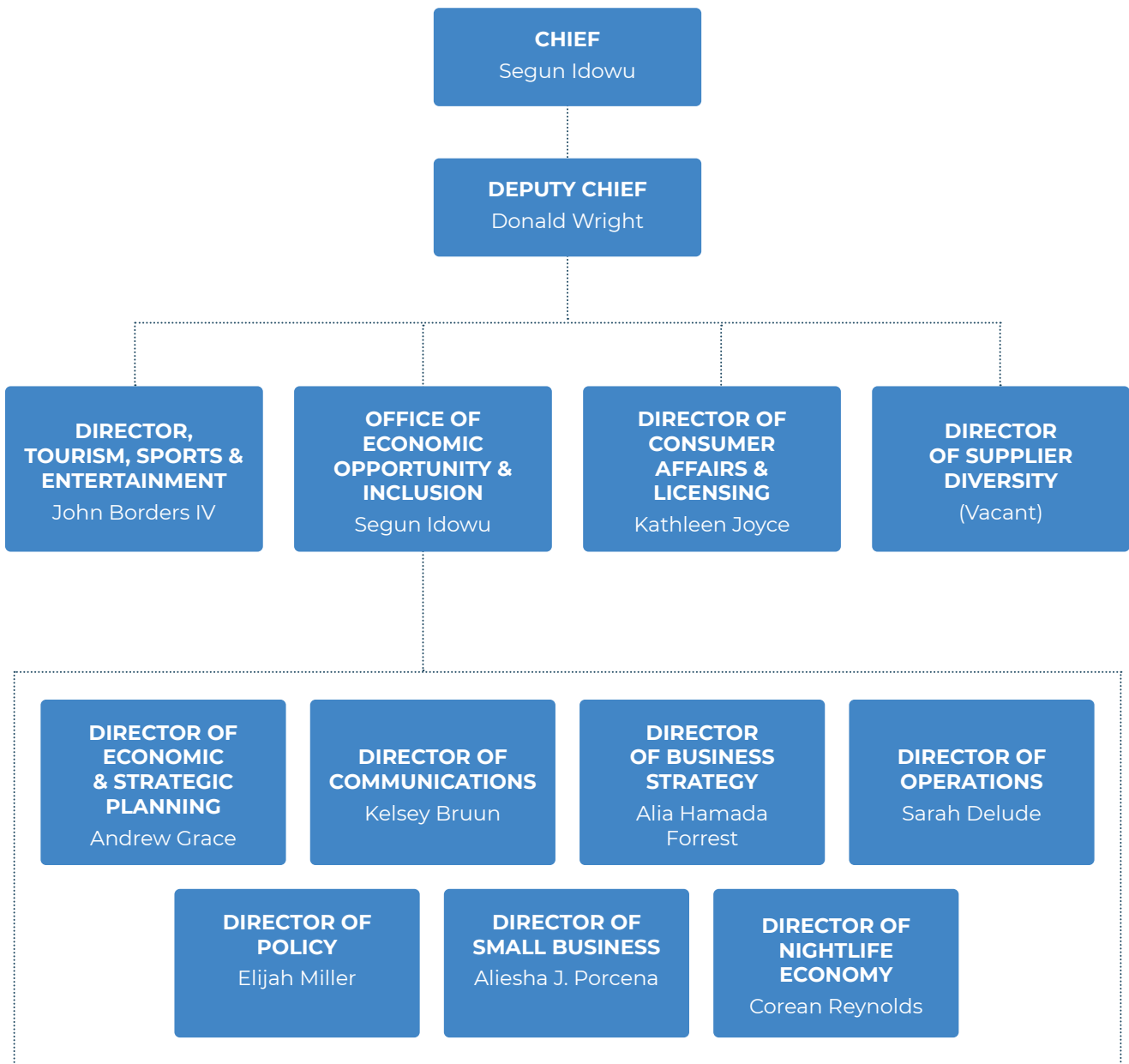
City Council
Finance Commission
City Clerk





Office of Economic Opportunity & Inclusion

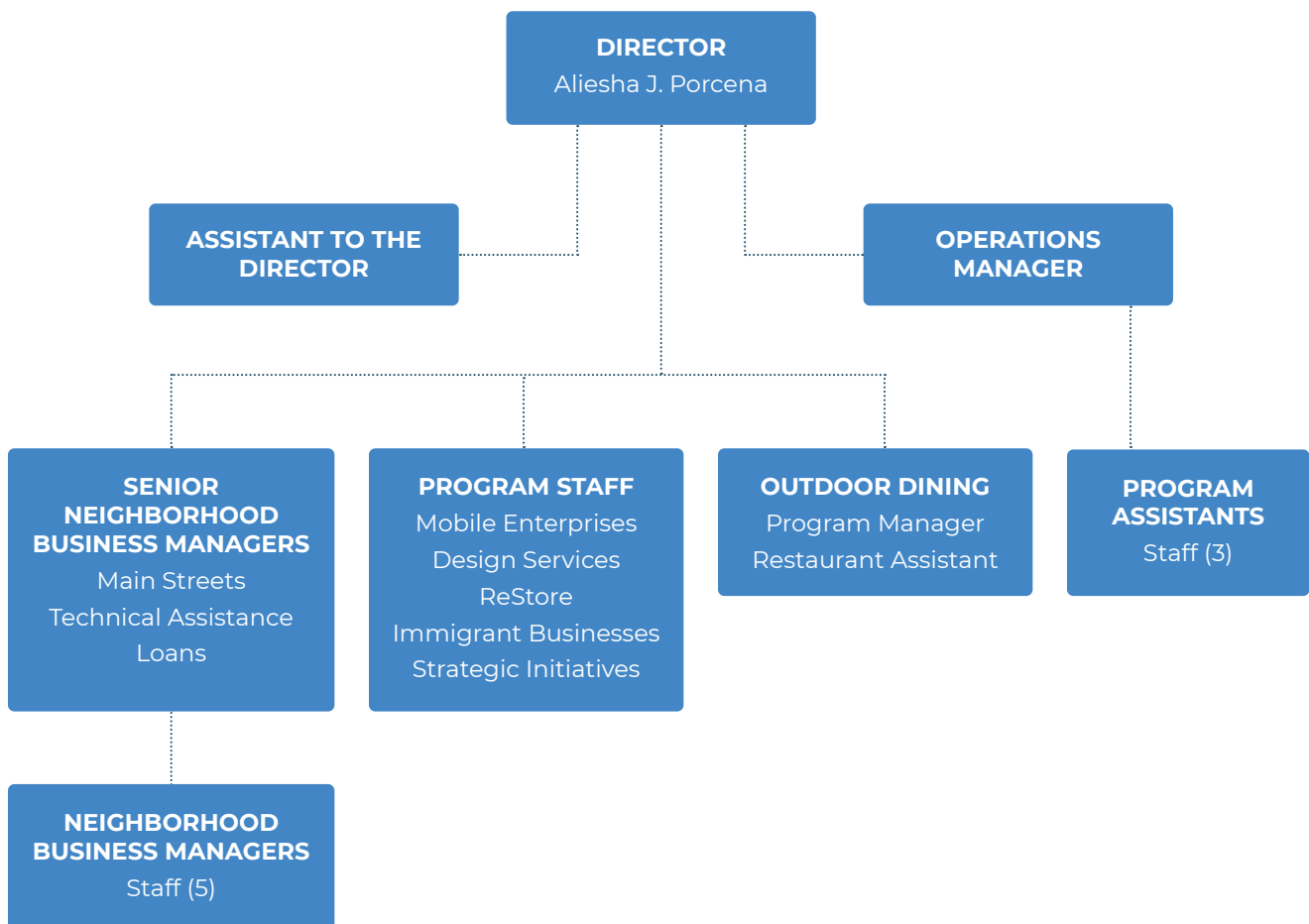
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Office of Economic Opportunity & Inclusion

OFFICE OF SMALL BUSINESS



APPROACH TO IDENTIFYING SMALL BUSINESSES IN BOSTON

INTRODUCTION

Below, we explain the data considerations and guiding principles, summarize relevant terminology, review the public and private data sources that can be leveraged, discuss the Small Business Administration's approach to counting small businesses, outline the project's approaches to counting small businesses and the circumstances under which each approach is relevant, and provide a short discussion on the gig economy.

DATA CONSIDERATIONS AND GUIDING PRINCIPLES

This project seeks to:

GENERATE INCLUSIVE COUNTS OF SMALL BUSINESSES THAT ARE ACTIONABLE FOR CITY AGENCIES. This report aims to capture the universe of small businesses that can be used to inform city decision-making. This universe does not, and will not, necessarily overlap completely or perfectly with the universe of businesses that is recognized and counted by federal data sources, particularly when it comes to administrative data derived from IRS tax data (e.g., Nonemployer Statistics) or unemployment insurance records (e.g., BLS Quarterly Census of Employment and Wages; state-level ES-202 data). Ideally, we want to get close to counts of doorways, storefronts, and operating entities in the City of Boston. This approach is most aligned with the focus of the strategy on equitable wealth creation, neighborhood revitalization, and information about business activity in the city.

ESTABLISH HIGH-QUALITY GEOGRAPHIC AND INDUSTRY DETAIL. A consequential goal of this work is to understand the nature of small businesses across Boston's neighborhoods and identify the unique challenges and opportunities facing business owners in different geographies and different industries. This creates a real challenge in using federal data sources, as most (although not all) data on small business ownership and entrepreneurship are only available down to the county or place (in this case, City of Boston) level. Even then, data for smaller geographies are often subject to suppressions. The exception is data on class of worker and the self-employed, which can be obtained through the American Community Survey down to the census tract level; however, these data count many home-based businesses that are not accessible (physically or otherwise) to the general public, and in many cases, businesses like these are indistinguishable from work-from-home employees.

PROVIDE THE MOST CURRENT DATA POSSIBLE. It is important that this information, which was compiled in 2023 and will be published in 2024, utilize data that speaks to the state of small business in Boston, in as close to real time as possible. Many, if not most, federal data sources operate with a sizable time lag.

RELEVANT TERMINOLOGY

There are several terms that are relevant for understanding the unit(s) of data used by different sources. **Business establishments** reflect one location of a goods- or services-producing business that operates in one primary economic industry. **Firms** reflect companies and can include multiple business establishments in one or more economic industries. Firms generally have federal Employment Identification Numbers (EINs).⁸⁶ An **incorporated business** is formally and legally recognized as a business entity.

DATA SOURCES

The project team considered a variety of data sources to incorporate into this analysis. Below is a brief description of each data source used by the project:

Public Data Sources

AMERICAN COMMUNITY SURVEY (ACS). ACS is a Census Bureau data product. ACS data are published annually in single-year and five-year estimates, reflecting the period over which the data are collected by survey. While single-year data provide current-year snapshots, they tend to have smaller sample sizes and are only available for geographies with at least 65,000 people; five-year data are less timely but have larger sample sizes and provide data for all geographies.⁸⁷

For the purposes of this work, ACS data are primarily used to capture self-employment, which is a class of worker concept. Self-employed workers include those who are an “owner of non-incorporated business, professional practice, or farm” or an “owner of an incorporated business, professional practice, or farm.”⁸⁸

Incorporated businesses are formally and legally recognized business entities. Incorporation status can indicate readiness for scaling and becoming a business with employees. Higher shares of incorporated self-employment indicate greater growth potential from self-employment while higher shares of unincorporated self-employment suggest less growth potential from self-employment.

BUSINESS FORMATION STATISTICS (BFS). BFS is a Census Bureau data product on business applications and formations, tracking number of applications and formations, as well as how long it takes for businesses to form after submitting an application. Underlying data on business applications come from IRS data on EIN applications,⁸⁹ and data on business formations come from the Business Register and Longitudinal Business Database, which are maintained by the Census Bureau.⁹⁰ The Business Register is “a multi-relational database that contains a record for each known establishment that is located in the United States with paid employees.”⁹¹

NONEMPLOYER STATISTICS (NES). NES is a Census Bureau data product. Published every year, NES “provides subnational economic data for U.S. businesses with no paid employees by industry” and only include businesses with at least \$1,000 in revenues (or at least \$1 in revenues for construction businesses).⁹² NES data are compiled from IRS tax return data.⁹³ NES data have a significant time lag. As of 4Q2023, the most recent national and sub-national data were for 2020. Most nonemployers are sole proprietorships and include professions such as real estate agents and Uber drivers, which “may or may not be the owner’s principal source of income” and generally have a minimal impact on the economy.⁹⁴ It is worth noting that, in theory, one person could have multiple nonemployer businesses.⁹⁵

QUARTERLY CENSUS OF EMPLOYMENT AND WAGES (QCEW) / ES-202. QCEW is a quarterly Bureau of Labor Statistics (BLS) data product that originates from state ES-202 (employment and wage) administrative data. These data track monthly, quarterly, and annual employment and quarterly and annual payroll and establishments at a detailed industry level. BLS QCEW provides data down to the county level, while certain state ES-202-based products are available at smaller geographies (e.g., Massachusetts ES-202 data are available at the place level, including the City of Boston).⁹⁶

QUARTERLY WORKFORCE INDICATORS (QWI). QWI is a Census Bureau data product. In addition to providing employment and payroll by industry, QWI also provides information on worker demographics (e.g., age, race/ethnicity, sex, education) and employer characteristics (e.g., firm age, firm size). The underlying data are derived from the Longitudinal Employer-Household Dynamics (LEHD) microdata, which rely on QCEW, unemployment insurance data, Census Business Dynamics Statistics (BDS), and other sources of information on demographics (e.g., decennial censuses, ACS, others).⁹⁷

STATISTICS OF U.S. BUSINESSES (SUSB). SUSB is a Census Bureau data product. Published every year, SUSB “provides subnational economic data for U.S. establishments with paid employees by establishment industry and enterprise size.”⁹⁸ SUSB data are derived from the Census’ Business Register.⁹⁹

Conceptual Note: Understanding the Distinction Between Self-Employment and Nonemployer Firms

Self-employment and nonemployers are similar concepts but capture different universes of small businesses:

SELF-EMPLOYMENT refers to work arrangements that exist without an employer, through contract or “gig” work, sole proprietorships, incorporated or unincorporated businesses, nonemployers, or other structures. ACS captures self-employment on a place-of-residence basis, meaning it tracks the number of self-employed workers based on where they reside and not the location of their employing organization. Self-employment can take many forms when it comes to ownership structures (e.g., a worker could be self-employed at a firm that is owned jointly by themselves and another), number of employees (e.g., self-employed workers may or may not have employees), and incorporation status (e.g., self-employed workers may or may not be formally incorporated; nationally, about 60% of self-employed workers are unincorporated).

NONEMPLOYER FIRMS are those with at least \$1,000 in revenue (or \$1 in the case of construction firms) and no paid employees.¹⁰⁰ The vast majority of nonemployers are legally organized as sole proprietorships, meaning they have only one owner and are unincorporated. Nonemployers are tracked based on the location of the establishment, meaning data are recorded on a place-of-work basis. It is worth noting that certain types of unincorporated self-employed workers would fall into this category.

Private Data Sources

YOUR-ECONOMY TIME SERIES (YTS). YTS is a data product developed by the University of Wisconsin’s Business Dynamics Research Consortium. Published every year, YTS data capture public and private establishments at the point level (i.e., their more-or-less exact business location), along with information on their industry, sales, and employment. YTS data only reflect the universe of establishments “in business”—that is, those engaging in commercial activity as distinct from entities formed for administrative or tax reasons or otherwise not engaged in commercial activity. Importantly, YTS provides an estimate on in-business storefronts, which will likely be more expansive than administrative counts of businesses, since some businesses operate without licenses or are otherwise not captured in administrative data.

SBA'S APPROACH TO IDENTIFYING SMALL BUSINESSES

DEFINING “SMALL BUSINESS.” The Small Business Administration (SBA) is considered the federal authority on small business matters, but it uses a much broader definition of “small business” than is used in this report. SBA defines a small business as “an independent business having fewer than 500 employees.”¹⁰¹ In 2022 (although citing data from 2019), SBA counts 33.2 million small businesses in the U.S.,¹⁰² more than 718,000 small businesses in the state of Massachusetts,¹⁰³ and more than 528,000 small businesses in the Boston metropolitan area.¹⁰⁴ Given that the City of Boston accounts for about 15% of the region’s private sector establishments,¹⁰⁵ we could roughly estimate that by SBA’s broad definition, the City of Boston is home to about 80,500 small businesses.

CHARACTERISTICS OF SMALL BUSINESSES. Small businesses are made up of employer firms, which have paid employees, and nonemployer firms, which have no paid employees. Nonemployers represent the vast majority of small businesses nationally.¹⁰⁶ These data are derived from two underlying data products from the Census Bureau: Statistics of U.S. Businesses (SUSB) and Nonemployer Statistics (NES). Both sources rely on a census (count) of businesses to arrive these totals.

Legal form of organization (LFO) varies dramatically between employer and nonemployer firms. The vast majority of nonemployers are sole proprietorships, which are “unincorporated businesses with a sole owner” (see Figure A).¹⁰⁷ Employer firms tend to take a wider variety of legal forms, but sole proprietorships are far less likely.

Among firms with less than 500 employees, most establishments are S-corporations, where the shareholders, not the entity itself, reports and pays federal income tax on earnings/losses. Among firms with 500 or more employees, most establishments are C-corporations or other types of organizations, where the business is incorporated and is a legally separate entity (see Figure B).

Compared to the U.S., Massachusetts nonemployers are slightly more likely to be organized as sole proprietorships and less likely to be S-Corporations or C-Corporations. Massachusetts small businesses (those with <500 employees) are more likely to be sole proprietors and C-Corporations or other types of businesses, and less likely to be partnerships or S-Corporations, than their national counterparts. Massachusetts large businesses (those with 500+ employees) are less likely to be partnerships and more likely to be C-Corporations or other types of business than their national counterparts (see Figure C).

LIMITATIONS TO THE SBA APPROACH. The SBA likely over-reports micro-businesses (including nonemployers), due in part to what the SBA counts as a business. As discussed earlier, the vast majority of nonemployers are sole proprietorships and include professions such as real estate agents and Uber drivers. According to the Census, these professions “may or may not be the owner’s principal source of income,” and they generally have a minimal impact on the economy.¹⁰⁸

Another challenge with the SBA data is that they likely under-report non-micro small businesses. The data used by SBA pertain to firms, not individual establishments, but for this project's interest in all doorways, storefronts, and operating entities reflecting small businesses in the City of Boston, we care more about the number of establishments. Unfortunately, SUSB, used by SBA, tends to undercount establishments, particularly when compared to the “gold standard” of federal administrative data on employment (QCEW) (see Figure D; note that 2019 data are shown to provide a pre-pandemic comparison).

Finally, there are challenges inherent to the underlying data sources. SUSB has problems identifying businesses that are part of professional employer organizations (PEOs), a data issue that has grown in importance over the last decade, and both SUSB and NES are subject to a sizable time lag. As of the writing of this report, the most current SUSB and NES data are from 2020, which, by the time of this publication, creates nearly a four-year lag. The SBA data also do not allow for the geographic and industry detail that is necessary for this project.

Figure A. Legal Form of Organization for Nonemployers, U.S., 2020

LEGAL FORM OF ORGANIZATION (LFO)	MEANING OF LFO	PERCENT OF NONEMPLOYERS
Sole Proprietorships	“Also referred to as a ‘individual proprietorship,’ an unincorporated business with a sole owner. Also included in this category are self-employed persons.”	86.3%
Partnerships	“An unincorporated business where two or more persons join to carry on a trade or business with each having a shared financial interest in the business.”	7.5%
S-Corporations	“A form of corporation where the entity does not pay any federal income taxes. The corporation's income or losses are divided among and passed to its shareholders. The shareholders must then report the income or loss on their own individual income tax returns.”	4.7%
C-Corporations and other corporate legal forms of organizations	“An incorporated business that is granted a charter recognizing it as a separate legal entity having its own privileges and liabilities distinct from those of its members.”	1.6%

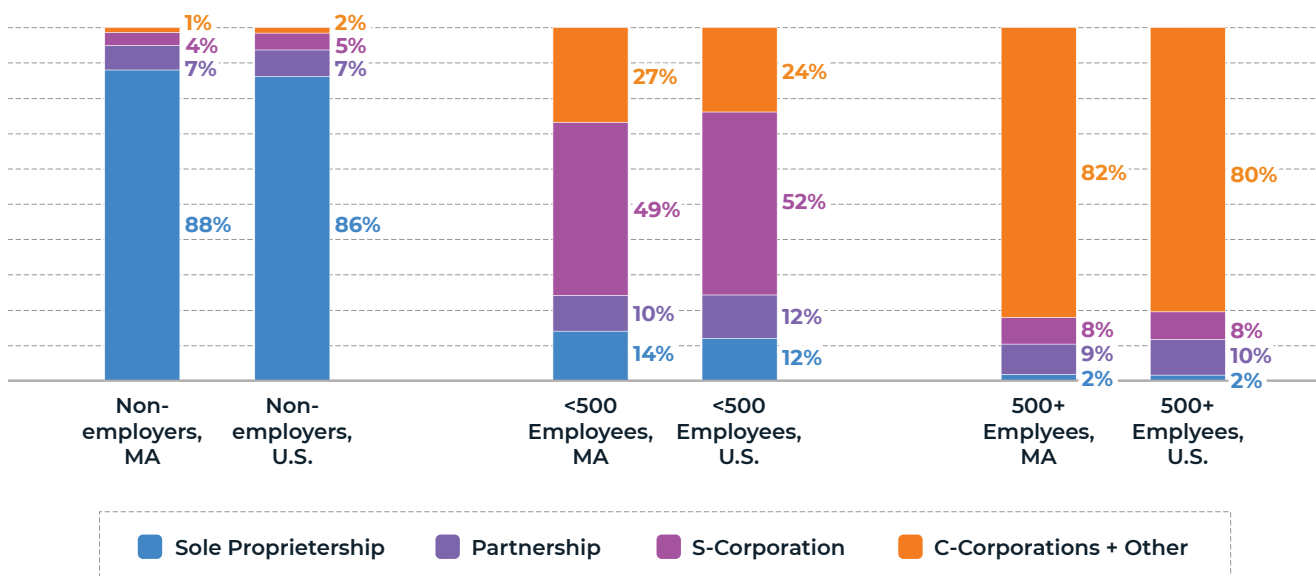
Source: NES 2020; “Nonemployer Statistics – Glossary.” U.S. Census Bureau. November 7, 2023. <<https://www.census.gov/programs-surveys/nonemployer-statistics/about/glossary.html>>.

Figure B. **Percent of Establishments by Legal Form of Organization and Firm Size, U.S., 2020**

LEGAL FORM OF ORGANIZATION (LFO)	NON-EMPLOYER	SMALL FIRMS (<500 EMPLOYEES)	LARGE FIRMS (500+ EMPLOYEES)
Sole Proprietorship	86.3%	12.1%	1.7%
Partnership	7.5%	12.3%	10.0%
S-Corporation	4.7%	51.8%	8.0%
C-Corporation and Other	1.6%	23.8%	80.3%

Note: Legal form of organization is assigned at the establishment level.
Source: NES; SUSB.

Figure C. **Percent of Establishments by Legal Form of Organization and Firm Size, U.S. and Massachusetts, 2020**



Source: NES; SUSB.

Figure D. **Businesses with 1-19 Employees, Massachusetts, 2019**

DATA SOURCE	NUMBER OF FIRMS	NUMBER OF ESTABLISHMENTS
SUSB	124,022	124,976
QCEW	Not Reported	225,279

Note: QCEW reflects establishments as of the first quarter.
Source: QCEW; SUSB.

APPROACH TO COUNTING SMALL BUSINESSES IN BOSTON

Small Business Establishments

YTS data capture public and private establishments at the point level (i.e., their more-or-less exact business location) for “in business” (i.e., “conducting commercial activities”) establishments. The project team is very experienced in working with point-level establishment data and, based on our collective decades of experience, believes that YTS is the most reliable provider of point-level establishment data and is well-suited to estimating the number of small businesses in Boston. For this work, we are interested in establishments that are engaged in commercial activities and that could be affected by city regulations, policies, and programs, and YTS is the only data source that provides a combination of industry and geographic detail that allows us to see and analyze neighborhood level activity for a snapshot in time.

We assume that many incorporated businesses that are not home-based have some kind of storefront that is being picked up by the YTS data. According to federal data, among the 22,400 self-employed residents of Boston, most (68%) do not work from home, and incorporated, non-home-based businesses reflect about 25% of all self-employment in Boston.¹⁰⁹ A subset of these will, in theory, be recorded in YTS data. Although YTS is able to track most types of small businesses, it does not capture businesses that do not engage in commercial activity, and some unincorporated home-based businesses may be hard (if not impossible) for YTS data to identify.

It is also worth noting that the YTS data provider recently developed and implemented algorithms to eliminate duplicate records for individual practices, particularly in medical and professional services industries. There is a high likelihood of these practitioners working out of multiple office locations and/or being part of larger institutions, companies, or healthcare systems (particularly university-affiliated ones) that are not actually small businesses, so in order to avoid double-counting these practitioners or including larger businesses, these offices are excluded from our primary count of small businesses.

After controlling for several known anomalies in the data—such as overcounts on healthcare establishments, franchises, and general QA/QC on business employment, latitude/longitude, industry, sales data, and duplicated entries—the project team uses YTS-reported sales and employment data to estimate the number of micro-businesses and larger small businesses in the City of Boston.

Through this approach, we estimate that the City of Boston is home to over 18,200 small business establishments that are responsible for more than 127,300 jobs.

A Broader Definition: Small Business Entities

A more expansive count of small business *entities*, rather than establishments, in Boston produces a much higher count. In addition to small business establishments, the city's small business entities are also comprised of active entrepreneurs and solopreneurs. It is estimated that the city is home to around 20,200 individual practices (both employers and nonemployers), the vast majority of which (17,600) consist of independent healthcare offices. These individual practices contribute an additional 50,900 jobs. We estimate the number of primary-job nonemployers—that is, nonemployer businesses that reflect the primary job of the business owner—by estimating the number of nonemployers in the City of Boston that generate revenues of at least \$25,000; these primary-job nonemployers (that are not individual practices) add an estimated 12,400 establishments and jobs.¹¹⁰ It is worth noting that these nonemployers are distinct, and counted separately from, the nonemployers reported with the individual practices. Finally, self-employed residents that work from home comprise an additional 7,200 establishments and jobs.¹¹¹ While there technically could be overlap between self-employed residents that work from home and the primary-job nonemployers, it is highly unlikely that this group is counted (in total or in part) by YTS, as they are often unlikely to have a public-facing (virtual or physical) front door identifying their business (see Figure E).

In total, we estimate there are about (or up to) 57,900 small business entities in the City of Boston that generate about (or up to) 197,800 jobs in the City of Boston.

Figure E. **Small Business Entities, City of Boston, 2022**

TYPE	ENTITIES	JOBS	DATA SOURCE
Small Business Establishments	18,200	127,300	YTS
Individual Practices	20,200	50,900	YTS
Nonemployer Businesses	8,600	8,600	YTS
Employer Businesses	11,600	42,300	YTS
Primary-Job Nonemployers Excl. Individual Practices	12,400	12,400	NES; BFS; ACS 1-year
Self-Employed, Work From Home	7,200	7,200	ACS 1-year
Estimated Small Business Entities	57,900	197,800	

Source: YTS; NES; BFS; ACS; Mass Economics analysis.

Time Series of Small Business Establishments and Jobs

Note: This section refers to the time series of small business counts and jobs that was used exclusively to normalize City of Boston capital data for 2014, 2019, 2020, 2021, and 2022.

YTS data are suitable for capturing a point-in-time snapshot of small businesses, but it was necessary to develop another approach that provided a consistent time series of small business counts and employment that could be used to normalize data on capital deployment over time.

An alternate approach was developed using federal data. Federal data enable the identification of small businesses, both with and without employees, using various collection methods (surveys, tax returns, unemployment insurance, etc.). Employer businesses that are within small business employment and revenue size thresholds can be identified through data on businesses paying federal unemployment insurance for their workers. Nonemployer businesses reflect some degree of self-employment, and they are identified using tax return information. However, federal data on nonemployers provide only highly aggregated information on sets of businesses, making it impossible to isolate only businesses that meet certain thresholds of activity. Despite these limitations, these data are valuable because they offer a consistent measure of activity in the City of Boston over time and are useful for estimating trends like small business lending per job. This approach, which we believe still remains too broad in terms of what is counted as a small business, would generate estimates of 83,900 businesses supporting 168,600 jobs in 2022.

Below, we describe the process for estimating small business counts and jobs at employers [1] and nonemployers [2]. (Since nonemployers have no employees besides the owner, the number of small businesses equals the number of employees.)

TO ESTIMATE SMALL BUSINESS COUNTS:

1A. *Estimate the share of the City of Boston's employer establishments that are small businesses.* Starting with the number of establishments at private firms (ES-202 data), we apply a multiplier to adjust for the share of establishments at firms with <\$5 million in revenue and more than 50 employees (YTS), which is multiplied by the share of establishments at employer firms with less than 50 employees (SUSB) to produce an estimate of the total economy share of small businesses (as measured by revenue and employee size thresholds). Multiplied by the number of establishments at private firms, this produces an estimate of the number of small business establishments.

TO ESTIMATE SMALL BUSINESS EMPLOYMENT:

1B. *Estimate the share of the City of Boston's jobs at employer small businesses.* Starting with the number of jobs at private firms (ES-202 data), we apply a multiplier to adjust for the share of jobs at firms with <\$5 million in revenue and more than 50 employees (YTS), which is multiplied by the share of jobs at employer firms with less than 50 employees (QWI) to produce an estimate of the total economy share of small businesses (as measured by revenue and employee size thresholds). Multiplied by the number of jobs at private firms, this produces an estimate of the number of jobs at small businesses.

2. *Estimate the number of nonemployer firms in the City of Boston.* We add in the number of nonemployers (NES); since 2020 is the most recent year of NES data, we approximate the number of nonemployers in 2022 using a growth factor from the BFS applied to the 2020 base NES data. Since NES data are county level, we approximate the share of nonemployers in the City of Boston by using the ACS-reported share of self-employed residents of Suffolk County living in the City of Boston.

3. *Create an overall estimate of the number of small businesses and number of jobs at small businesses.* To estimate the number of small businesses, we sum [1A] and [2]. To estimate the number of jobs at small businesses, we sum [1B] and [2].

These data sources are highly reliable and standardized across data methods and quality, which makes them well-suited to time series analysis, such as the capital deployments per job analyzed by this project. However, these data only capture entities that are federally recognized through channels like unemployment insurance programs, EIN registration, and IRS tax returns and are still subject to a small time lag. NES data are still subject to over-counting, as discussed in the SBA approach.

GIG ECONOMY

The “gig economy” has become increasingly prevalent across the national landscape of businesses and workers. Gig work takes many forms, such as short-term work, self-employment, and demand-responsive jobs or tasks initiated through apps. The Bureau of Labor Statistics (BLS) generally captures gig workers through two (often overlapping) categories: alternative employment arrangements, which includes temporary, contract-based, or on-call workers, and contingent workers, or workers without a long-term employment contract.¹¹² However, the gig economy lacks a universal definition, presenting challenges for data collection, as well as efforts to size or estimate the number of gig workers the economy.

Several recent surveys provide greater context on the size of the gig economy relative to the national employed population. Unfortunately, the most recent federal survey on this topic, the Contingent Worker Supplement (CWS) to the Current Population Survey (CPS), was last conducted by BLS in 2017. Considering the massive technological advancements that occurred in the last several years—due in no small part to the changes brought on by the pandemic—and their transformation of the gig economy, these data are likely too old to be useful at this point in time.

However, other organizations have conducted surveys on this topic in recent years.¹¹³ A 2021 Pew Research Center Survey found that 16% of adults in the United States had worked in the gig economy through an online platform at some point in their life. For gig platform workers that were employed in the last 12 months, these arrangements generally take the form of a “side gig” (68%) rather than their main job (31% of current or recent gig workers; 3% of adults).¹¹⁴ A 2022 McKinsey survey estimated that “36% of the US workforce is made up of independent workers,” which reflects gig, contract, or other temporary workers; those identifying as gig workers (including workers who also do contract, freelance, or temporary work) make up about 27% of the employed population nationally.¹¹⁵

The City of Boston is home to about 559,500 residents ages 16 and older, approximately 373,000 of whom are employed civilians.¹¹⁶ We could roughly estimate that about 89,500 (16% of Boston’s population ages 16 and older; Pew) Bostonians have ever worked in the online gig platform economy. Looking beyond online gig platforms, we could estimate that about 100,700 (27% of Boston’s employed population ages 16 and older; McKinsey) Bostonians currently work in the gig economy in some capacity.

ENDNOTES

1. Of Boston's 549,400 people ages 18 and older, more than half identify as people of color, more than one-third speak a language besides English at home, more than three-in-ten were born in another country, and 3% are veterans. 8% identify as lesbian, gay, bisexual, or trans (LGBT).

Note: Aside from LGBT percent, which reflects data pooled from 2010, 2013, 2015, and 2017, data are from 2022. Source: ACS 2022 1-year; Mather, Darien E., Amar Mehta, Roy Wada, Helen Ayanian, Makaila Manukyan, and Dan Dooley. "Demographic Characteristics and Social Determinants of Health Among Boston's Lesbian, Gay, Bisexual, and Transgender Adult Residents, 2010-2017." Data Brief. Boston Public Health Commission, 2019. <<https://www.boston.gov/sites/default/files/file/2021/03/Data%20Brief%20-%20LGBT%20Population%20in%20Boston%20Part%201%20of%202.pdf>>.
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8. "Q4 2023 Downtown Boston Business Improvement District." Downtown Boston Business Improvement District, 2024; "Vital Signs." Boston Planning & Development Agency, Research Department, January 23, 2024.
9. *The Boston office market is changing alongside the nature of office space.* CBRE, Q3 2023, <<https://mktgdocs.cbre.com/2299/538dd332-0540-4bbc-9112-ea421a0b6836-2921967163.pdf>>.
10. From March 2020 to December 2021, the only non-agricultural sectors to add jobs in the City of Boston were manufacturing (i.e., seafood product preparation and packaging; pharmaceutical and medicine manufacturing), information (i.e., software publishers), professional and technical services (i.e., scientific research and development services; management and technical consulting services), administrative and waste services (i.e., employment services), and health care and social assistance (i.e., general medical and surgical hospitals).
11. "The View from Main Street," 2022, *op. cit.*; Project canvassing, Summer 2023; Capital Access Roundtable, October 17, 2023.
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39. "The View from Main Street," 2022, *op. cit.*
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43. Source: ABS 2017.
44. Source: ACS 2017 5-Year Estimates.
45. Source: ABS 2017; ACS 2017.
46. Dollars are reported in nominal terms. Source: ABS 2017; ACS 2017 5-Year Estimates.
47. Source: ABS 2017; ACS 2017 5-Year Estimates.

48. Due to underlying data limitations, these numbers were estimated for the City of Boston by: 1. Calculating the ratio of MBE employer businesses per person of color 25–64 years old in the City of Boston vs. the Boston MSA (76%); 2. Applying this ratio to the MBE nonemployer businesses per person of color 25–64 years old in the Boston MSA to estimate the MBE nonemployer businesses per person of color 25–64 years old in the City of Boston; 3. Multiplying this rate by the people of color population 25–64 years old in the City of Boston to estimate the number of MBE nonemployer businesses and their revenue; 4. Dividing these estimated MBE nonemployer values by the estimated total number of nonemployer businesses in the City of Boston.
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50. Dollars are reported in nominal terms.
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58. While it is also possible to obtain information on veteran status, there are too few observations (i.e., samples) to allow for a similar analysis of self-employment in incorporated businesses for Boston’s veteran population. There is no question in the ACS that asks directly about sexual orientation or gender identity. Following Harrington et al. (2024)’s report on immigration in greater Boston, the project team assessed self-employment in incorporated businesses in “Main Street” industries, but due to small sample sizes (30 or fewer observations) for the foreign-born population, people of color, and women residing in the City of Boston, these data were not included in the analysis.
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64. “2023 Report on Employer Firms,” 2023, *op. cit.*
65. Source: Banks: Federal Deposit Insurance Corporation (FDIC). Summary of Deposits – Annual Survey of Branch Deposits (SOD). Microlenders/Alternative Lenders: Project research. CDFIs: U.S. Department of the Treasury: Community Development Financial Institutions Fund (CDFI). List of Certified CDFIs. Credit Unions: National Credit Union Administration (NCUA). 5300 Call Report Data. Private Equity: Project research. Venture Capital and Angel Investor Groups: Project research. Other: Project research.

66. It is difficult to obtain a complete and accurate count of capital providers in a city: data lag behind real-time organizational shifts; sources like corporate venture capital groups are hard to track; and alternative sources like crowdfunding generally don't have reporting standards, making it difficult to compile information. Wholly private sources—friends and family investments, some instances of angel investing—and the use of personal credit cards or savings to fund business activities are largely untracked, although surveys tell us that these sources can be important.
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71. PPP data are limited to only include those with initial loan amounts of up to \$1 million.
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74. Source: Federal Reserve Bank of Kansas City, Small Business Lending Survey, December 2023.
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78. Angel reflects the sum of seed and series A funding. Venture capital reflects the sum of seed and 75% of series A funding. It is worth noting that 2014 values for Angel and VC reflect the most current, updated numbers from the data sources for that year; these values are different from those in the 2016 report, which were the best available at the time.
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110. In the City of Boston, the minimum wage is \$15 per hour and the living wage required by certain city contracts is \$17.55 (per the City's Living Wage Division). At these hourly rates, a full-time worker working 40 hours per week, 52 weeks per year could expect to earn in the low- to mid-\$30,000s annually. Nationally, about 65% of nonemployers generate revenues less than \$25,000, and we assume the same share for nonemployers in the City of Boston for the purposes of this estimation, implying that 35% of nonemployers generate at least \$25,000 in revenue. Although \$25,000 is less than annual expected earnings at the minimum and living wages, as an upper bound on primary-job nonemployers, we assume that nonemployers making at least \$25,000 in revenue are primary jobs for the business owner and not "side gigs."
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