In Pursuit of Equitable Commerce

Insights on Black Entrepreneurship in 2023 and beyond.
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Imagine an economy powered by Equitable Commerce

What if everyone who had the capacity to start a successful business also had the resources they needed to thrive? How much generational wealth could we create? How many lives could be transformed? How much more hopeful could the world be?

At Shopify, our mission is to make commerce better for everyone. To that end, we have an ambitious plan to help neutralize the devastating effects of systemic racism on entrepreneurship. We truly believe it’s possible to make successful entrepreneurship more inclusive, and in turn inject billions into our global economy. We call it: Equitable Commerce.

The first step is raising awareness of inequity’s impact on entrepreneurship.

People must first understand the barriers that Black businesses face before they can envision a world where these businesses thrive on a greater scale. I know this from experience. As a Black man, I’ve launched two successful businesses myself, so I understand firsthand the systemic challenges Black entrepreneurs face when looking to start, build, and scale their businesses.

We become what we see. More Black businesses will beget more Black businesses and infuse more capital – money, community development, and improved infrastructure – into the economy than ever before. That’s why we’re working to offer easier access to capital, expert mentors, unique selling opportunities, and customized education and experiences. The experiences we curate are intentionally designed to empower Black businesses with the information, community, inspiration,
and access to capital they need to counteract inequity and get that extra jolt necessary to solidify their businesses and settle on the path to prosperity.

**Build Black Virtual Events**
Every year we host our “Build Black” virtual event that celebrates rising Black business stars and brings together Black entrepreneurs to swap success stories and share lessons learned. Our merchants tell us these events serve as a commerce catalyst.

**Build Black Pitch Competition**
Black entrepreneurs pitch their concepts to judges for a chance to win $35,000 in funding and to receive mentorship from Shark Tank’s Daymond John. In 2022, our competition featured a publisher, a digital artist who raises funds for mental health in underserved communities, and a children’s literature company that amplifies Black voices.

**Build Black Digital Community**
Shopify is fulfilling a vital need with its Build Black Digital Community, which is exclusively for Shopify merchants who identify as Black. A vibrant community of 2,000 merchants serve as sounding boards for one another.

I implore all of my fellow dreamers: take action, seize your moment, and start your businesses now. Shopify, in partnership with Operation HOPE, has made it easy to start and build a sustainable business. By joining the One Million Black Businesses program, you’ll be part of an initiative that will help foster success in Black entrepreneurship for years to come.

To be clear, this is not a charitable effort. Economic growth through equitable commerce is a benefit from which we will all reap rewards. Achieving revenue parity in the United States would add $600-billion in revenue and an extra $190-billion to the GDP.* When Black businesses are successful, we are all successful.

Every business matters, every voice counts - so join us today. Chart your own path for business success by heading over to shopify.com/1mbb.

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*Data from McKinsey Global Institute’s *The economic state of America: What is and what could be*.

Brandon Davenport
Head of Equitable Commerce at Shopify
The dawn of Equitable Commerce:
Lowering barriers, reducing risk, and making successful entrepreneurship more accessible for everyone.

Shopify surveyed hundreds of Black entrepreneurs across US and Canada to show how financial institutions and big business can build trust with Black businesses, make commerce more inclusive, and boost the economy by billions.

A tale of two groups of entrepreneurs
Once upon a time, there were two groups of entrepreneurs.

When the first group sought out business loans, they got the benefit of the doubt. They didn't need to rely solely on friends and family to launch, nor did they get caught in the crush of costly credit cards with sky-high interest rates. Flush with 70% more capital than the second group, they set up shop in economically vibrant areas bustling with customers, equipped with transportation and infrastructure. Even though they experienced challenges, with all the money and mentorship they needed to succeed, they soared to profitability.

The second group was asked for information to secure business loans the first group didn't need to supply, even though both groups had comparable profiles. With only a third of the capital, they leaned heavily on unfavorable credit cards, predatory loans and friends and family, which came at a high price. For some in the second group, a location in an economically disadvantaged neighborhood brought with it limited customers, transportation, and connectivity infrastructure. Overly scrutinized and underfunded, they experienced much higher premature failure rates.
This tale of two groups of entrepreneurs is all too real in today’s economy. Shopify recently commissioned research on the state of Black entrepreneurship as part of its commitment to the 1 Million Black Businesses program, interviewing more than 500 aspiring and established Black entrepreneurs. Despite vast inequalities and an uneven playing field, our data shows Black entrepreneurs have a positive outlook on their businesses’ growth and are determined to work hard for success.

Shopify’s research also shows that hard work alone is not enough. Nearly two thirds (61%) of the entrepreneurs we surveyed said finding capital was a huge challenge (38% reported it was very challenging, and 23% said extremely challenging). And more than half (56%) said they knew they weren’t operating on a field level with other groups. Reducing the systemic barriers that cause these disparities is the only way to achieve equality in access. This crucial data will allow us to develop an effective strategy that has the greatest impact on leveling the playing field and making commerce better for everyone.

Just how uneven is that field? According to McKinsey data, the effects of this inequality on Black businesses are far-reaching:

- **47%** of Black business owners’ loan requests were approved, **COMPARED WITH** 75% for white owners.1

- **Black businesses** are less likely than white-owned businesses to stay open past the four-year mark. **55%** of White businesses survive the start-up stage, **WHILE ONLY** 4% of Black businesses endure, even though 20% of Black Americans start businesses.2

- **42%** of Black business owners considered their businesses healthy and stable pre-pandemic, **COMPARED WITH** 73% of white business owners. **LESS THAN** 2% of the more than 400 U.S. unicorn startups in the past ten years have Black founders.

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Shopify’s survey built on McKinsey’s data to better understand the impact of this inequality. Here’s what we learned, and how – through an initiative we’re calling Equitable Commerce – we’re planning to fix it.

**Black businesses work harder and smarter to beat the odds**

When asked to choose the most critical issues affecting society today from a long list of problems like voting rights and inflation, respondents said racism, climate change and unemployment ranked highest. But that doesn’t mean they let anything keep them from starting new businesses.

The vast majority of Shopify’s survey respondents – 81% – said they agree with the statement:

> “Ignore the background noise of racism and stigma, or you’ll never get your business off the ground.”

They say working smarter and harder comes with the territory – and helps them beat the odds.

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**Some businesses and investors step up while others go back on their promises**

Despite barriers they continue to face, Black entrepreneurs feel their time has come to succeed. According to our survey, 83% of respondents agree with the statement:

> “I feel excited. This is my time to shine.”

More than two thirds (68%) feel optimistic about their business growth.

Racial and social justice movements have helped to center race in the public debate, catalyzing public support for Black businesses. According to another recent study³, 45% of consumers want corporations to partner with Black business owners.

Unfortunately, the signs of whether corporations are heeding that call are mixed. Some institutions are stepping up, and others are reneging on their promises.

After the murder of George Floyd in 2020, Aurora James, the founder and CEO of Brother Vellies and a Shopify merchant, launched the Fifteen Percent Pledge. Because Black people make up 15% of the population, James reasoned, she challenged retailers to dedicate 15% of store shelves to Black businesses.

The campaign has since generated $10B of revenue for Black-owned businesses. Twenty-eight companies – from Sephora to Moda Operandi to Macy’s – have taken the pledge. The commitment has landed more than 400 Black brands on retail shelves in the United States, the United Kingdom, and Canada.

James succeeded in advancing meaningful investment in Black businesses where other efforts have failed. Conversely, in 2020, financial institutions pledged billions to Black businesses by promising loans. According to a Washington Post analysis, that money has yet to materialize.

At a recent event in support of Black entrepreneurship, U.S. Vice President Kamala Harris gave early kudos to the Economic Opportunity Coalition, a consortium of more than 20 tech companies, charities, and some of the largest consumer banks and investment firms, which has committed more than $1 billion to community banks that serve minority communities.

It’s not only loans that Black businesses leave on the table due to mistrust of financial institutions. Shopify’s survey found that even obtaining grants meant for Black businesses is challenging for nearly 60% of Black entrepreneurs.

Shopify is also doing our part. We joined forces with Operation HOPE, a U.S. based non-profit focused on expanding economic opportunity, financial literacy education, and making free enterprise work for everyone, to create one million new Black owned businesses by 2030. We’ve committed to providing up to one million merchants with free 120-day Shopify trials over the coming ten years, in addition to up to $1 million in annual funding for operational costs to the HOPE team.

“Black entrepreneurs are three times more likely to report they did not apply for a loan for fear of being turned away by a bank – often, anecdotally, because they heard about that experience from friends and relatives,” Harris said at the event.

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Inequity costs the economy billions of dollars

According to Shopify’s data, more than three quarters (78%) of Black business owners say finding customers who aren’t Black is a challenge. Because Black businesses tend to be marketed to Black consumers, customer demographic expansion is much more difficult for Black entrepreneurs. An opportunity to leverage advertising and marketing investment to expand their targeted consumer base represents huge untapped potential. Empowering Black businesses with access to digital platforms and service providers would give Black entrepreneurs more avenues to increase advertising, reach a broader customer base, and have an even greater economic impact.

Financial institutions that are unwilling to invest in Black businesses are doing the economy a disservice. More money and mentorship in the hands of Black businesses would open up selling opportunities and rev the engine of the economy – to the tune of $190 billion.6

Partnering with Black businesses isn’t about charity. It’s an opportunity to stimulate the economy. Embracing an equitable approach to commerce will expand the channels of revenue to flowing in and make selling and buying better for everyone.

Treating Black businesses with C.A.R.E: Community, Advocacy, Resources and Education

Black entrepreneurs push through barriers and navigate the world of entrepreneurship with incredible resourcefulness and resilience. Most (80%) of our respondents agree that as a Black business person, resourcefulness is the key to success.

Many Black entrepreneurs are adept at bootstrapping, using their own resources to jumpstart their business. It’s more than an action. It’s also an attitude.

More than half (59%) of our respondents say they’d rather take control of their own business than seek outside help, and 66% say they have the right knowledge and tools to manage sales and marketing.

But not everyone in the survey felt that way: 41% of respondents say they prefer to have expert help and a third (34%) say they don’t feel they have the knowledge or tools to manage sales, suggesting a need for resources.

At Shopify, we believe engaging entrepreneurs through culturally relevant and localized programming, building peer-community, merchant advocacy, offering invaluable resources, and intentional education is the key to building trust, reducing barriers, and enabling merchant success.

To usher in an era of Equitable Commerce, we’re using our understanding of minority business needs and delivering resources to bridge the gaps we know exist. Our acronym for reducing barriers to building successful businesses is CARE: Community, Advocacy, Resources and Education.

**Community: Black business owners crave connection**

Many Black entrepreneurs crave community. They seek mentorship and thought leadership that resonates with their experiences and the stage of their business. However, Shopify’s survey found that 34% say it’s very challenging and 20% extremely challenging to find a community of Black entrepreneurs. More than half said the same about trying to find business mentors.

Shopify’s virtual networking community is filling a need. It provides Black businesses the opportunity to connect, learn from, and build with fellow Shopify merchants.

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Advocacy: Consumers want Corporate America to partner with Black businesses

Black business owners want to trust financial institutions and corporations. As the saying goes: trust is earned. According to our survey, big business can demonstrate their commitment to Black businesses and cultivate an environment conducive to their success in these three ways:

1. **Partner with businesses that are owned by racial or ethnic minorities**

Big business is on the right track. Data from the 2022 State of Supplier Diversity Report\(^7\) shows more companies have more mature supply chain diversity programs than ever. A third (34%) of respondents said their supplier diversity programs have existed for more than ten years. In 2017, that number was 4%.

2. **Leverage marketing, advertising, and partnerships to share the stories and experiences of racial or ethnic minorities**

Shining a spotlight on businesses that are succeeding will inspire other businesses. Success begets success, and that begins right now with companies like Shopify sharing stories about Black business owners like Beatrice Dixon, co-founder and CEO of The Honey Pot Company, a distributor of plant-based feminine care products. She has grown the company’s sales four-fold in the last two years.

Or Denise Woodard, the self-funded head of Partake Foods\(^8\), who secured $5 million in Series A funding in late December 2021 and raised more than $14 million in Series B funding. Hers is one of the largest raises by a Black woman for a food-and-beverage company.

Or Monique Rodriguez, creator of beauty brand Mielle Organics, who launched her company in response to a lack of available products for textured hair, and who recently raised nine figures in capital.

3. **Use marketing and advertising to drive more unity between racial groups**

Most (61%) of our survey respondents feel like it’s them against the world. They also feel that big business has a role to play in bringing entrepreneurs from different racial groups together. Because Black businesses tend to be marketed to Black consumers, corporate participation would help normalize shopping Black businesses year round, as with any other, not just during highlighted marketing campaigns or moments like Black History Month. Shining a spotlight on Black businesses is a strong first step. Marketing them as prominently and consistently as any other business is what’s next. There’s a real opportunity for businesses to step up and fill this void.

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\(^{8}\) TechCrunch Is Part of the Yahoo Family of Brands. 4 Oct. 2022, techcrunch.com/2022/10/04/partake-foods-allergy-friendly-series-b
Resources: Catalyzing capital and equalizing e-commerce with digital platforms

One of the most sought-after resources cited by Black businesses is easier access to funding with more favorable finance options, especially for aspiring entrepreneurs and small businesses. In fact, financing was first on the wishlist of Black entrepreneurs.

Nearly half (44%) of our survey respondents say it’s very difficult to find funding for their business. To make ends meet, Black entrepreneurs told us they lean on credit cards, personal savings and grants and subsidies offered to Black-owned businesses or entrepreneurs.

According to McKinsey, Black businesses are three times more likely than white entrepreneurs to cite a lack of access to capital as negatively affecting their businesses’ profitability, and almost twice as likely to cite the cost of capital as a challenge.

But some business owners are genuinely less interested in taking out loans, applying for grants and subsidies, or taking financial loans from friends and family. They rely on their savings and income from their jobs to fund their business, which signals they are likely in the pre-launch or early post-launch stages.
Education: Black business owners require contemporary business education that evolves as their business grows

More than half of survey respondents told us it’s a challenge to find trusted information about entrepreneurship and ecommerce. Black entrepreneurs need education that evolves as they go through the life cycles of business development.

At the beginning, business owners tell us they need help launching a business, driving product discoverability, and proving product quality. As businesses get more complex, a centralized hub for all activities – from sales channels, to customer information, to educational tools and resources – is key.

The information Black entrepreneurs seek also varies based on their level of revenue. According to our conversations with Black business owners, companies with revenue higher than $500,000 USD generally look for education to optimize social media and marketing strategies. They also need guidance on tax and accounting. Meanwhile, companies with less than $500,000 in revenue look for more favorable funding/financing and education around business fundamentals. They’re seeking information on: building brand identity, partners to optimize online stores, managing inventory, customer and market targeting, and data usage.

What business owners need evolves over time and varies depending on their stage in the game. Business owners have fewer, and more focused, business goals than aspirers do. Owners are mainly focused on ensuring stable cash flow, sustainable growth, and expanding into new sales channels, while positively affecting their community.
Location, location, location

“Sixty-five percent of Black Americans live in 16 states that are below the U.S. average on indicators of economic opportunity,” according to U.S. Census data\(^9\). Residing in economically disadvantaged areas can be a factor that limits the level of growth a business can achieve due to access to resources, capital, and education. In Canada, Black Canadians also overrepresent those living under the poverty line.

Ecommerce can serve as an equalizing force, helping to neutralize the negative effects of residing in disadvantaged locations. Open-minded first adopters say they’re comfortable using online sales tools, and 71% are open to new ways of selling online. Black business owners and aspiring entrepreneurs attest that ecommerce platforms provide plug-and-play marketing tools, ability to scale and track money flow, and access to data analytics.

Conclusion

Black business owners often start their businesses with less capital, fewer mentors, and in disadvantaged locations. This lack of access hampers Black businesses through every stage of the entrepreneurial journey. Lack of access to these resources has made it exponentially more difficult for Black business owners to achieve the same level of success as their white counterparts. There is a clear path for financial institutions and big business to help reduce systemic barriers that disproportionately affect Black business owners and make successful entrepreneurship more accessible through community, advocacy, resources and education. Equitable Commerce is the best way forward.

Survey Methodology

Using a two-pronged approach, we analyzed sentiments and behaviors of over 500 aspiring and established Black business owners across the United States and Canada from February to March of 2022. Phase 1 consisted of a Qualitative Discovery where we interviewed black entrepreneurs and aspiring black entrepreneurs to discover key decision-making factors, influences among the community, and critical issues they’re facing. Phase 2 was a Quantitative Validation where we surveyed 402 aspiring entrepreneurs and 109 established entrepreneurs to validate our hypotheses and quantify findings across the market. Of the 511 respondents, 459 were located in the U.S. and 52 are in Canada.