

Taking Flight



North Central
Minority Supplier
Development Council

The Economic Impact of the North Central Minority Supplier Development Council's Member Businesses on Minnesota's Economy 2013

HUMPHREY SCHOOL
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Our Mission

North Central MSDC's mission is to provide business development services to corporate members and certified MBEs to enhance relationships and maximize business opportunities.



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Executive Summary

For over 35 years, the North Central Minority Supplier Development Council (North Central MSDC) has built successful business relationships in the Twin Cities, greater Minnesota, North and South Dakota, western Iowa, and Nebraska. The North Central MSDC works primarily with corporations who understand the importance of working with emerging and small business owners across the full spectrum of the U.S. population to enhance customer, community and corporate relationships.

This study provides a window into these mutually beneficial relationships by examining the impact that North Central MSDC-certified minority business enterprises (MBEs) have on Minnesota's economy. The study presents three distinct views on the different types of effects business have on their local economies.

First, direct effects represent MBE purchases of goods and services in Minnesota. Second, indirect effects represent business-to-business transactions triggered by the MBEs' business activities. For instance, the purchase of new inventory by MBE suppliers from other businesses within Minnesota produces indirect effects. Finally, induced effects represent the economic activities of MBE employees and the indirectly impacted businesses that benefit from them in Minnesota. Examples of induced effects include purchases from local grocery stores and dry cleaners by employees of business impacted by MBEs as well as the wages they generate through their patronage. In addition, this study provides a bonus view into the taxes generated by MBEs. Basically, this view helps create a fuller picture of the total contributions made by MBEs to Minnesota's communities. For example, employment and wages contribute millions of dollars to the tax base of the state and local municipalities.

In summary, MBEs generate more than \$2 billion for Minnesota's economy and more than \$264 million in federal, state, and local taxes. Over \$1 billion of the total contribution comes from direct effects (i.e., actual MBE expenditures in terms of jobs and salaries, and other expenditures). The indirect effects contribute is over \$392 million and the induced effects produce over \$555 million. These results are good for Minnesota and justify the continuing encouragement and support for a growing a minority business community.

Introduction and Purpose

Across the private and public sectors, there is a perpetual debate over how corporations and government agencies can increase their purchasing from businesses owned by minorities. There is a consensus that entities' purchasing decision should reflect the full spectrum of available business as well as the citizenry that makes up its communities. These decisions continue to include multiple factors including size and location, ethnicity and ownership, race and gender, or veteran or non-veteran, in part, to meet their varied needs and institutional responsibility to an increasingly diverse population. In this context, small businesses, and particularly those led by minorities require relationship building opportunities to interact and compete within these diverse marketplaces.

Because minority-owned businesses continue to contribute to the recovery of the economy, this study sought to illustrate a portion of the economic impact minorities play in their local and state economies. By understanding their impact, organizations can make more informed decisions on how they support their communities when selecting MBEs as business partners.

Methodology and Scope

This study focused specifically on the role played by the MBEs certified with the North Central Minority Supplier Development Council (North Central MSDC). The impact was estimated using IMPLAN, an econometric modelling system to address questions such as:

1. How many jobs are affected by an event?
2. Which businesses are most affected?
3. How extensive in reach are the effects?
4. How are industries interdependence affected?
5. How much will total wages change?

Because each question considers multiple factors, the study included a three-level analysis of economic activities.

The first level relates to direct economic activities. Direct activities (i.e. primary effects) relate to the specific impacts of a business. They are the actual dollars spent and generated by a business. For this study, they include the purchase of products and services, membership wages and taxation expenditures.

The second level of this study relates to indirect activities. Often categorized within secondary effects, these activities are linked to the dollars generated in order to support MBE operations. They include the replenishment of supplies by stores that sell to MBEs, and the travel expenses generated by clients of MBEs who visit or attend meetings with them.

The third level examined induced activities. Also categorized with secondary effects, these activities are bonded to the dollars generated by local households due to the indirect activities discussed above. A good example of an induced activity is the additional money spent by an employee of an office product store (e.g., Staples, Office Max) store that sells to a local MBE.

The combination of these three levels provides a comprehensive and multi-faceted understanding of the impact North Central MSDC's members have on their local economy.

This comprehensive approach is heavily data dependent. Therefore, two robust data sources were utilized:

- A. Data from North Central MSDC MBE member organizations that was provided by North Central MSDC. The integrity of this information is high for a number of reasons, including the fact that the data comes from application and sales documentation submitted for North Central MSDC certification.
- B. IMPLAN software and database. IMPLAN is a PC-based regional economic analysis system based on an economic input-output model (I/O analysis model). The latest version has up to 440 sectors. The model can capture any combination of US counties. The theoretical framework was developed by Wassily Leontief¹, and is based on a basic assumption that the fundamental information in I/O analysis involves the flow of products from each industrial sector (producer) to each of the industrial sectors considered to be consumers.

In addition, the econometric sophistication of the approach used in the study provides a "valued added" category of economic data that is comprised of information relating to workers' compensation, property type income, and indirect business taxes.

¹ World Scientific 2009 - In economics, an input-output model is a quantitative economic technique that represents the interdependencies between different branches of a national economy or different regional economies. Wassily Leontief (1905-1999) developed this type of analysis and took the Nobel Prize in Economics for his development of this model.

Economic Impact of MBEs

In brief, the combined impact of MBEs on the Minnesota economy was over \$2 billion in 2011 in total output. The majority of these impacts were direct and equal over \$1 billion. The induced effects contributed about one third more than did the indirect effects².

The discussion moving forward presents the study results in terms of each dimension of effects. It then reviews the findings in terms of output type across the three levels of impacts.

Table 1.1				
Economic Impact of North Central MSDC Members on the Minnesota State Economy in 2011				
Impact Type	Employment	Labor Income	Value Added	Output
Direct	10,407	\$554,235,823	\$687,288,204	\$1,197,808,466
Indirect	2,941	\$139,408,757	\$221,463,658	\$392,864,488
Induced	4,426	\$179,583,926	\$323,838,521	\$555,275,739
Total Effect	17,773	\$873,228,505	\$1,232,590,382	\$2,145,948,694

By Impact Type

Direct Effects

The direct effects output of MBEs is over \$1.19 billion in labor and other direct impacts. This constitutes almost 56 per cent of the contribution made by the studied MBEs. Incredibly, these minority business enterprises **provide employment for over 10,400 people which generated over \$554 million in annual wages.**

MBEs added \$687 million of value into Minnesota's economy. These value-added items include any direct purchases and expenditures made by the businesses to continue and grow their operations. Realistically, these comprise proprietor's income, employee non-salary compensation (i.e. bonus, vacation, health plans, etc.), infrastructure type income (i.e. rental, lease, storage, etc), and indirect business taxes that are necessary to keep the economy moving.

Indirect Effects

When looking at indirect effects of MBEs on the Minnesota economy, the research team calculated a **contribution of more than \$392.8 million.** These are the dollars generated by activities that support MBEs, such as suppliers and vendors who provide goods and services to the MBEs. The indirect effects of North Central MSDC Minnesota MBE businesses **creates or preserves almost 3,000 jobs** that generates over \$139 million in salaries and wages, with an average salary of \$47,401, which like the salaries from the direct effects is comparable to both the national and state trends.

Furthermore, the value-added items accounted for more than \$221 million dollars. These secondary effects reflect expenditures such as replenishing inventories and costs related to securing and maintaining facilities. These multiplier effects occur each time MBE owners and employees use their wages and salaries to purchase products and services around Minnesota.

² The actual figures for each level of analysis are included in Table 1.1.

Induced Effects

The final level of analysis is as remarkable as the first and second because it presents a total impact of more than **\$555 million in labor and value-added benefits**. These are the impacts generated by the beneficiaries of indirect effects, such as the employees of the businesses that support MBEs.

The induced effects generate even more jobs than do the indirect effects with the creation or preservation of **4,426 jobs**. These jobs are paid more than **\$179 million in wages**, with an average wage of \$40,575. The jobs in this category are those that evolve from the induced effects, such as the people who work in supermarkets where the employees of business that generate indirect effects shop.

Additionally, the induced effects generate another \$323 million in value added. These include purchases made by the employees of the indirect effects businesses, such as groceries, household furnishings, outdoor accessories, and other consumable products or discretionary income services.

By Output Category

In addition to considering the study's results by type of impact, it is also important to consider them in terms of output category combined across the three impact types. Collectively, the combined direct, indirect, and induced effects **generate or preserve more than 17,770 jobs and more than \$873 million in wages**. The combined average wage is \$49,132, which is due to the majority of jobs being generated directly by the MBEs, which averages well over \$53,000 annually. These are no small figures for the minority communities or the corporations that honor diverse demographics as part of their strategic business growth plans.

In the value added context, the 260 plus MBEs have a combined value-added output across the three impact types of more than \$1.23 billion. This value added effect is literally the difference between total output of the MBEs and the cost of the intermediate input. This level of efficiency is commendable for economic reasons but also from the historical, social, and cultural contexts. These contexts are naturally connected to this value added category because the following circumstances are included: wages paid by MBE employees; self-employment income; royalties, dividends, rental incomes; and the sales taxes generated by each individual affiliated with the MBEs.

Tax Effects

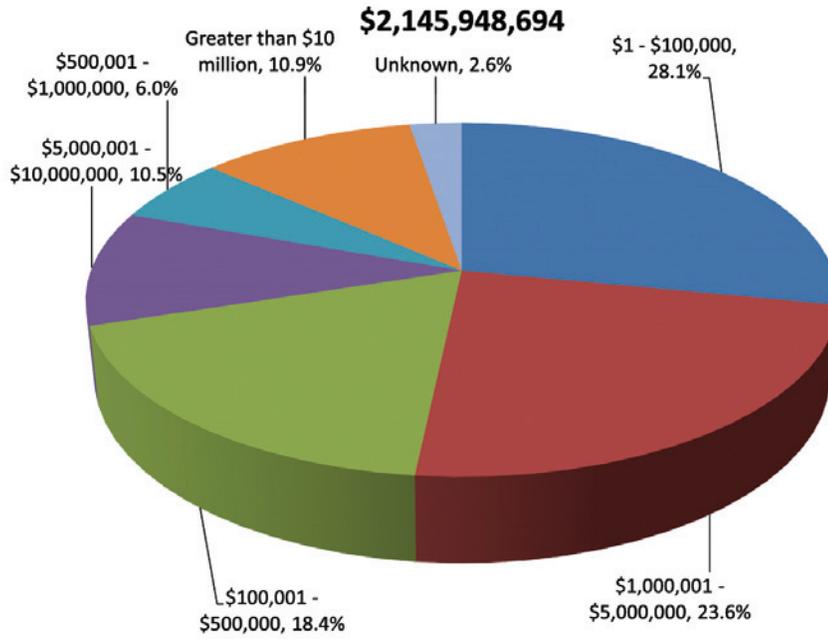
This study calculated the local, state, and federal taxes generated by Minnesota MBEs. In total, Minnesota MBEs contribute almost **\$264 million** in federal, state, and local taxes, including income, business, property, and social insurance taxes. As indicated in Table 1.2 (page 6), the economic impact on Minnesota's tax base is respectable. The millions of dollars in tax revenue generated for the State of Minnesota from the various tax types, including indirect business taxes, employee compensation, proprietor income, households, and corporations are impressive for more than 260 certified MBEs. Naturally, these numbers will only increase in proportion as the number of certified MBEs increases.

Federal	Employee Compensation	Proprietor Income	Indirect Business	Households	Corporations
Social Ins Tax: Employee Contribution	\$36,592,988	\$4,696,176			
Social Ins Tax: Employer Contribution	\$47,547,268				
Indirect Bus Tax: Excise Taxes			\$5,058,975		
Indirect Bus Tax: Custom Duty			\$2,134,673		
Indirect Bus Tax: Fed Non-Taxes			\$0		
Corporate Profits Tax:					\$18,707,714
Personal Tax: Income Tax				\$58,934,716	
Total Federal Tax:	\$84,140,256	\$4,696,176	\$7,193,648	\$58,934,716	\$18,707,714
Grand Total	\$173,672,510				

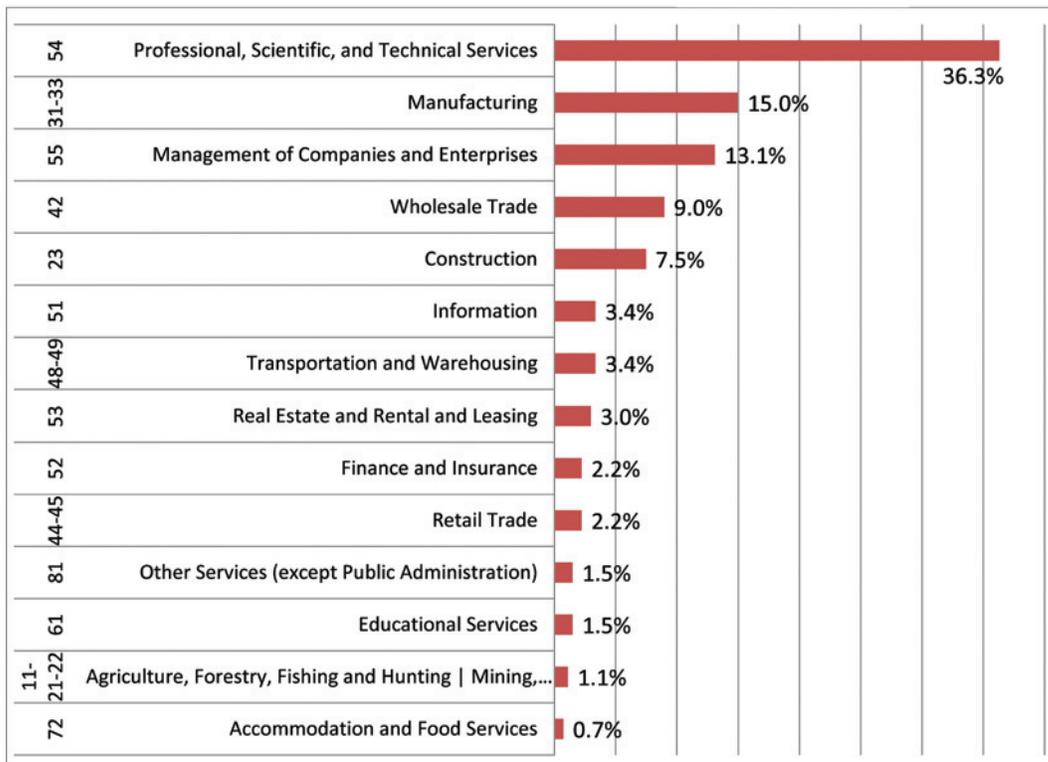
State and Local	Employee Compensation	Proprietor Income	Indirect Business	Households	Corporations
Dividends					\$108,447
Social Ins Tax: Employee Contribution	\$512,856	\$0			
Social Ins Tax: Employer Contribution	\$909,153				
Indirect Bus Tax: Sales Tax			\$28,687,462		
Indirect Bus Tax: Property Tax			\$23,150,418		
Indirect Bus Tax: Motor Vehicle Lic			\$823,862		
Indirect Bus Tax: Severance Tax			\$97,457		
Indirect Bus Tax: Other Taxes			\$2,918,656		
Indirect Bus Tax: S/L Non-Taxes			\$3,974,577		
Corporate Profits Tax:					\$2,627,999
Personal Tax: Income Tax				\$22,098,372	
Personal Tax: Non-Taxes (Fines- Fees)				\$1,703,310	
Personal Tax: Motor Vehicle License				\$1,257,197	
Personal Tax: Property Taxes				\$342,768	
Personal Tax: Other Tax (Fish/Hunt)				\$885,208	
Total State and Local:	\$1,422,009	\$0	\$59,652,432	\$26,286,855	\$2,736,446
Grand Total	\$90,097,742				

The Visual Truth

Annual Sales

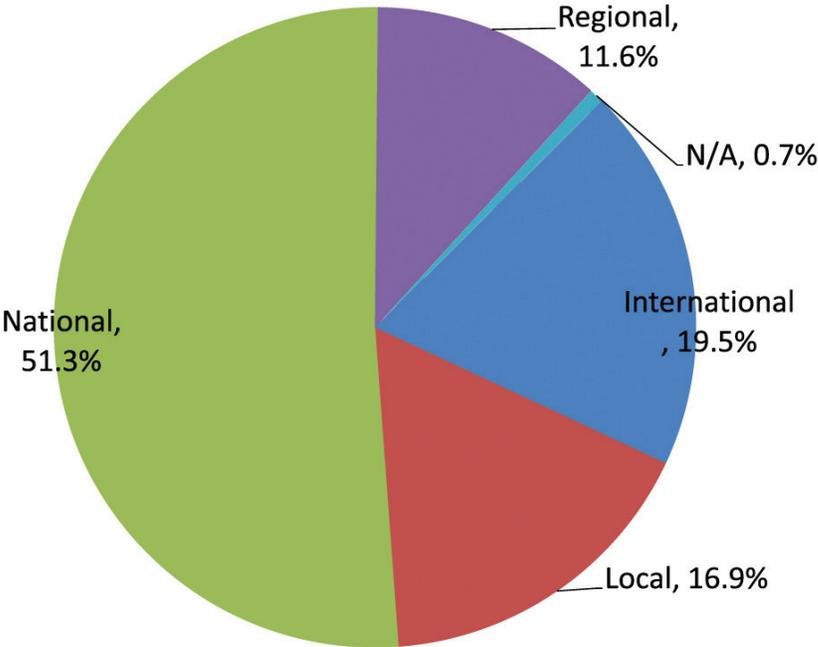


Industry

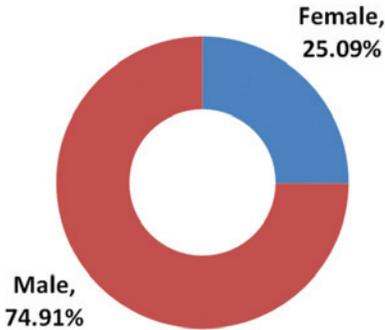
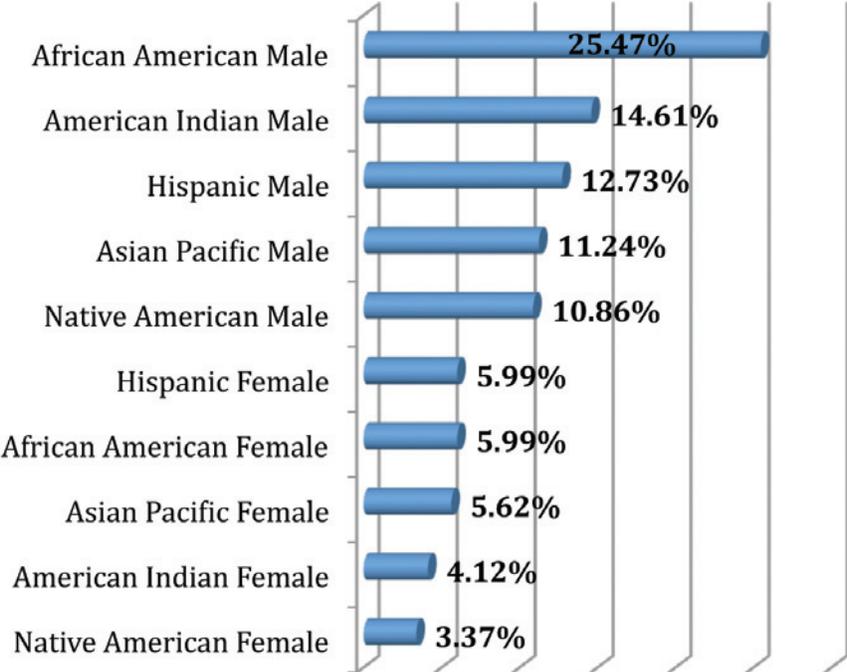


260 Plus MBEs and Growing!

Geographic Market



Ethnicity



The Textual Truth

The North Central Minority Supplier Development Council (North Central MSDC) mission is to provide business development services to corporate members and certified MBEs to enhance relationships and maximize business opportunities. Addressing such a challenge is only possible with an adequate level of commitment and the results of this study are evidence that the commitment is keeping pace with the challenge.

As embedded in the study objectives and implied in the motto "260 Plus MBEs and Growing!" the North Central MSDC endeavors to become the ultimate link between corporations and minority-owned businesses. The \$2,145,948,694 reported in the study can be viewed in many ways, but North Central MSDC leadership and personnel see it as a milestone on a never ending journey to strengthen the economy with mutually beneficial relationships. The contribution of 17,773 people to the employment pool is helpful but only scratches the surface of what North Central MSDC envisions as possible.

Collectively, the direct, indirect, induced and value added information shared in this study shows North Central MSDC has the people, processes, technologies and facilities to increase monetary value of corporations' purchasing from certified minority vendors while assisting minority business enterprises (MBEs) in the creation of markets for their products and services. This combination also indicates that North Central MSDC is qualified to promote the awareness of minority vendors and their capabilities in the business community while exchanging information on corporate purchasing programs. Moving forward with such strong initial momentum helps increase the number of minority businesses capable of supplying corporate buying needs and maintaining a database of MBEs for the use of corporate members. Finally, this study is the first of many to illustrate North Central MSDC's commitment to encouraging cooperation between the business community and MBEs through the purchase of goods and services from MBEs and by developing special programs to facilitate business relationships between suppliers and corporate purchasing representatives.

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