

Diversity & Inclusion Practice

# The economic state of Latinos in America: Building up small businesses

Despite a range of challenges, Latino-owned small businesses are growing rapidly. Investing in their potential can support future generations of Latino entrepreneurs and boost the US economy.

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**From bustling urban centers** to small towns across the United States, the economic power and business potential of Latino communities is immense. Today, 19 percent of the US population identifies as Latino or Hispanic.<sup>1</sup> According to the US Census Bureau, Latinos are expected to comprise approximately 28 percent of the total US population by 2060. Latino small-business owners also skew younger, which means there is great promise for long-term value creation and growth, especially as the education levels of these young entrepreneurs continue to rise.

These demographic shifts hint at the potential for Latino entrepreneurs and businesses to play an even larger role in the economy than they do now. Much of the promise lies with small and medium-size enterprises (SMEs), since 99 percent of Latino-owned businesses are small businesses. Latinos start more businesses per capita than any other racial or ethnic group in the United States. In 2023, they created 36 percent of new businesses in the United States—nearly double their representation in the overall population.

The greater Miami area is an example of an environment where Latino small businesses and entrepreneurs can succeed. Latinos are a critical part of the local economy there. They account for 47 percent of the population and own 27 percent of local small businesses. Latino-owned small businesses in Miami also generate more revenue per employee than their non-Latino counterparts.

While aspects of Miami's development are unique and can be challenging to replicate, its success can still provide considerations for other cities in supporting Latino small businesses. Three pillars

can help create an environment where Latino entrepreneurs can better reach their full potential: educational attainment, network effects of local ecosystems, and access to funding. When cities have all three pillars, as Miami does, it is more likely that Latino entrepreneurs can own more small businesses, participate in higher-revenue-generating opportunities, and become a vital part of the local economy.

However, many places don't offer all three pillars. Latino small-business owners in the United States face considerable challenges. The gap between the success of Latino-owned SMEs and non-Latino-owned SMEs underscores those challenges and the fact that Latino small-business owners often have a harder time overcoming them. For example, Latino SMEs have more trouble scaling up enterprises, hiring and retaining talent, and getting access to funding.

This article analyzes data from multiple sources and explores the potential for Latino small-business growth, existing challenges, and potential ways to bridge the gaps between Latino-owned small businesses and their counterparts (see sidebar "About the research"). A supportive environment could pave the way for the creation of more than 600,000 new businesses, potentially bringing in about \$1.2 trillion in revenue and creating five million to six million jobs in the coming decades. Focusing on educational advancement to align skill sets and managerial capabilities with high-revenue industries, developing mentorship programs, and providing access to financing could help unlock this potential, leading to greater economic growth for both Latino-owned businesses and the broader US economy.

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<sup>1</sup> The US Census Bureau, which provides much of the data that is the foundation of the research and analysis in this article, collects Hispanic origin information based on guidance from the US Office of Management and Budget (OMB). OMB defines "Latino or Hispanic" as a person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race. For brevity and consistency with previous McKinsey research on Latino economic mobility, we use the term "Latino" throughout this article.

## About the research

**This is the fourth publication** in our series on the economic state of Latinos in America. Our first report, in 2022, “[The economic state of Latinos in America: The American dream deferred](#),” looked at Latinos’ economic contributions as workers, business owners, consumers, and savers. Also in 2022, we published “[The economic state of Latinos in America: Determined to thrive](#),” which delved deeper into Latino consumers’ experiences and how they remain underserved despite their economic relevance. Last year, our report “[The economic state of Latinos in America: Advancing financial growth](#)” identified strategies for institutions and private investors to create value from boosting the

financial inclusion of Latino people.

Our research this year focuses on Latino-owned small and medium-size enterprises (SMEs) and draws from both publicly available information and proprietary McKinsey data, research, and tools. The data in this report was drawn from multiple sources, including the US Census Bureau Annual Business Survey,<sup>1</sup> Stanford Graduate School of Business’s *State of Latino Entrepreneurship 2023* report, the 2023 Fed Small Business Credit Survey, and the Bureau of Labor Statistics. The US Census Bureau often uses “Hispanic” in its surveys and defines “Hispanic or Latino” as a person of Cuban, Mexican, Puerto Rican, South or Central American, and Other

Spanish culture or origin. In this article, we have chosen to use the word Latino.

To better understand the experiences of Latino small-business owners in the United States, we also conducted about a dozen in-depth interviews with Latino entrepreneurs and organizations that support Latino small-business owners in California, Florida, Illinois, South Carolina, and Texas. They told us about the challenges they faced while creating a business, their growth and success stories, and the resources they wish had been in place when they were beginning their entrepreneurship journeys.

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<sup>1</sup> The most recent publicly available US Census Bureau data as of the time of this article’s publication is from 2021, while the most recent Census data with revenue breakdown at the industry level is from 2017.

### Creating the conditions that fuel growth

Under the right circumstances, Latino small-business owners can thrive. Miami is a prime example, with several factors contributing to its success (Exhibit 1). As mentioned, Latinos represent 47 percent of the population in the greater metropolitan area. Additionally, 43 percent of the population in Miami is fluent in Spanish. The result is a series of network effects that may help Latino entrepreneurs succeed. Twenty-five out of every 100 Latinos in Miami are small-business owners, compared with eight out of 100 in the United States. And Latino-owned small businesses in Miami generate \$235,000 in revenue per employee, compared with \$229,000 for non-Latino, White-owned small businesses there.<sup>2</sup> Here are three conditions that help shape an environment for success.

### Access to education can spur participation in higher-revenue industries

Better education can significantly help entrepreneurs participate in higher-revenue industries. Miami’s Latinos have higher levels of educational achievement than Latinos in the United States as a whole. Thirty percent hold a bachelor’s degree or higher, versus 20 percent of Latinos nationwide.

Educational gains can equip Miami entrepreneurs with the skills and knowledge necessary to develop high-revenue business ventures. According to the US Census Annual Business Survey, Latino small-business owners in the United States generally operate businesses in lower-revenue industries such as construction or transportation. However, in Miami, the top industries for Latino small-business owners are professional, scientific, and technical services, as well as healthcare and social assistance.

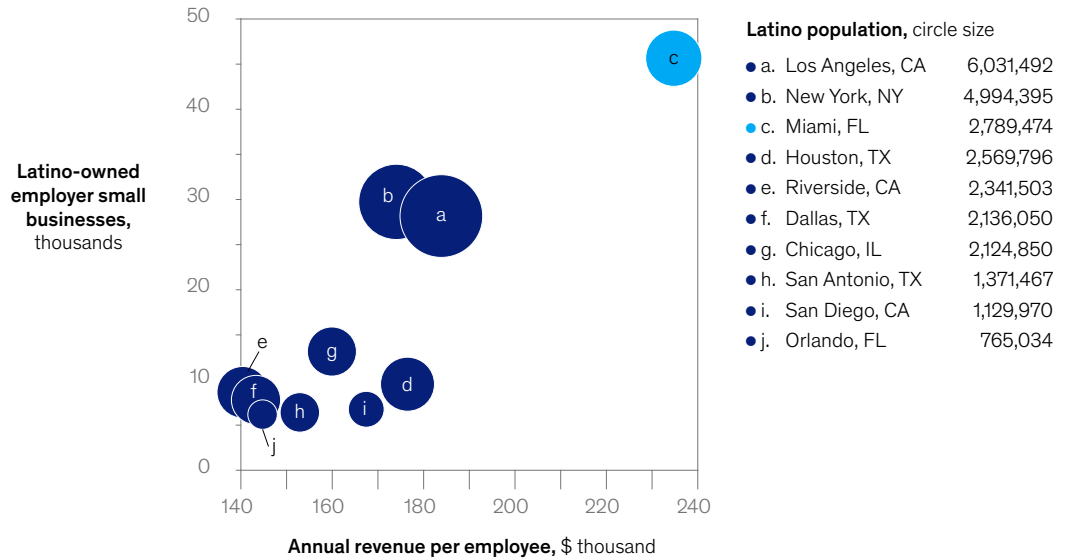
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<sup>2</sup> Consistent with our previous research on Latino economic mobility, we compare Latino business owners with non-Latino, White business owners, as the latter group represents the most established demographic group in business in the United States.

Exhibit 1

**Miami is a prime example of Latino small-business success.**

**Top 10 metropolitan statistical areas with the most Latino small businesses, 2017**



Source: Annual Business Survey 2017, US Census Bureau; American Community Survey 2017, US Census Bureau

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According to the US Census Bureau, Latinos across the nation have been raising their level of education, with increasing high school graduation rates and college enrollment. Latinos in several cities have higher-than-average educational attainment, including Austin, New York City, Orlando, and Washington, DC. In those metropolitan areas, 24 to 30 percent of the Latino SME-owner population is college-educated.

**Local ecosystems and network effects can create community and opportunity**

A thriving business environment can set off a self-sustaining cycle that bolsters Latino success. Local ecosystems can foster mentorship and networking opportunities. This can strengthen the Latino small-business community, as entrepreneurs share advice, support, and connections to help others navigate the challenges and uncertainties of business ownership.

In Miami, these factors have helped create a unique community. “There’s a network effect

phenomenon in Miami that comes with being surrounded by customers and peers from Latin America,” the owner of a software firm serving the legal profession noted in a McKinsey interview. “It is easier to connect.” This interplay generates a self-reinforcing cycle that propels Latino-owned small businesses.

Miami isn’t the only place where Latino small-business ecosystems thrive. Areas including greater Los Angeles, with a Latino population of more than six million, the New York City metropolitan area, with five million Latinos, and Houston, home to nearly three million Latinos, all have substantial populations that foster vibrant networks and opportunities. Several cities in Texas and California have populations that are more than half Latino. And in some cities—such as Laredo, El Paso, or Brownsville, Texas—Latinos own more than 40 percent of businesses. In each of these cities, the likelihood of positive network effects increases. Successful ecosystems can lead to more partnerships, more opportunities

to participate in supply chains, and increased mentorship and sponsorship.

### **Access to funding is critical**

Funding plays an important role in the success of any business. Online lender Biz2Credit conducted an in-depth analysis of the financial performance of more than 121,000 SMEs that submitted funding requests through their platform.<sup>3</sup> More than 18,000 of the businesses were owned by individuals who self-identified as Latino.

One of the key insights from the Biz2Credit analysis is that more and more Latino businesses are applying for credit. In 2023, Latino-owned businesses accounted for 15 percent of credit applications, up from 12 percent in 2022. This growth indicates that more Latino entrepreneurs are seeking and gaining access to the funding they need. Additionally, the average credit score of Latino business owners improved from 632 in 2022 to 647 in 2024, a sign that these businesses are becoming more financially stable and more creditworthy.

The report also compared key financial metrics, such as average revenue, operating expenses, and profit. On average, Latino-owned companies applying for credit had been in operation for one year less than their non-Latino counterparts. This shorter operational history can help explain why they lagged behind by 4 to 23 percent in most financial metrics. However, the overall trend for all those financial metrics is positive, suggesting that with more access to funding, these businesses may be increasingly better positioned to close the gap and achieve greater financial success.

By understanding and recognizing these positive trends, financial institutions can make more informed decisions about lending to Latino-owned businesses. Their support is essential for creating a more equitable financial environment where Latino entrepreneurs can access the resources they need to grow and succeed.

## **Tapping the great potential**

While Miami is an example of the potential future for Latino small businesses, its unique elements may not be easy to replicate elsewhere. To understand why Latino SMEs can thrive within the context of the wider US economy, it's helpful to look at the characteristics of these businesses, the demographics of their owners, and the differences in revenue generation compared with other groups.

### **How Latino-owned enterprises fit within the US small-business ecosystem**

Small businesses, defined by the US Small Business Administration (SBA) as those with fewer than 499 employees, are a critical part of the US economy. Some 99 percent of businesses are small, and they account for 44 percent of GDP and 46 percent of total employment.<sup>4</sup> These businesses also serve as significant deposit generators for financial institutions, offering a lower-cost source of funding. For every dollar that SMEs with less than \$25 million in annual revenue receive in lending, they hold \$3.62 in deposits, compared with \$3.15 for larger businesses with greater than \$25 million in revenue.<sup>5</sup>

Recent trends suggest that Latino-owned small businesses may continue to advance. Latino entrepreneurs are poised to continue to propel business creation while garnering productivity gains, as long as they have ready access to capital. These positive trends may indicate a future in which Latino small businesses can thrive, contribute significantly to the economy, and inspire a new generation of entrepreneurs. To better understand the challenges and potential of Latino small businesses, it's worth looking at four key traits.

*An entrepreneurial segment with the potential for high growth.* Latinos in the United States are underrepresented regarding their proportional share of total small-business ownership. Although Latinos make up 19 percent of the adult population in the country, Latino-owned SMEs comprise only 7 percent of total small-business firms with

<sup>3</sup> *Annual Latino-owned business study 2024*, Biz2Credit, September 30, 2024.

<sup>4</sup> According to the US Bureau of Economic and Statistics, 2022, and the US Chamber of Commerce, Small Business Data Center.

<sup>5</sup> Lending includes commercial and industrial loans and excludes commercial real estate and structured loans.

employees, and 17 percent of nonemployer firms (which have no employees and are mostly sole proprietorships) (Exhibit 2).

These SMEs are concentrated in particular industries and geographies. Approximately half of Latino-owned small businesses are in three sectors: transportation and warehousing; construction; and administrative support, waste management, and remediation services. Latino SMEs are also predominantly located in California, Florida, and Texas, which together account for 61 percent of Latino-owned SMEs and 53 percent of the adult Latino population.

The Latino owners of these businesses are the most entrepreneurial ethnic group in the economy. As

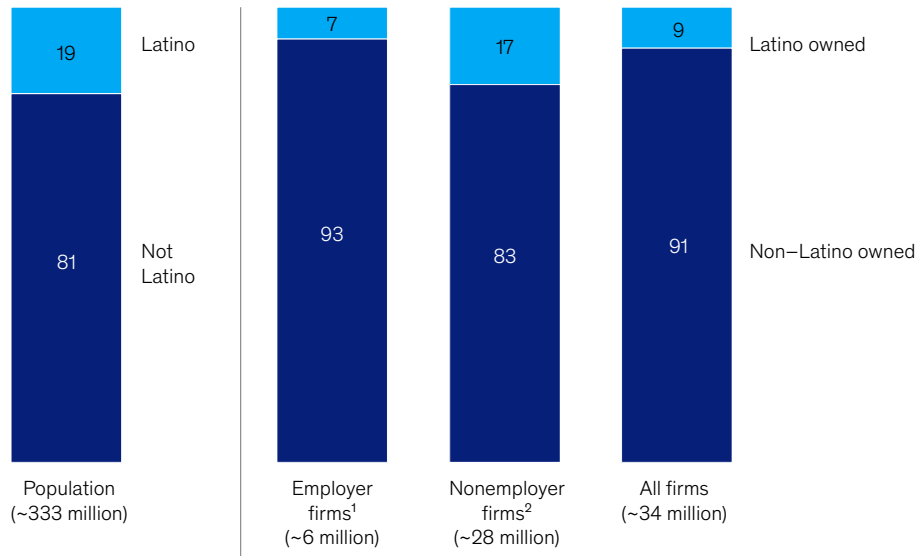
the Southeast Regional Administrator for the SBA [recently wrote](#), in the past three years, the United States has seen the fastest creation rate of Latino-owned small businesses in over a decade. Moreover, 80 percent of Latino small-business owners (compared with 73 percent of all small-business owners) report that their business has grown in the past year.

*Young, dynamic small-business owners.* Our analysis of US Census data reveals that Latino small-business owners are notably younger than their non-Latino, White counterparts. Fifty-six percent are under the age of 45, compared with 37 percent of non-Latino, White small-business owners. This aligns with broader demographic trends, as 72 percent of Latino people in the

Exhibit 2

## Latinos are underrepresented in small-business ownership in the United States.

Latinos in the US in 2021,<sup>1</sup> % share



<sup>1</sup>Firms with paid employees.  
<sup>2</sup>Firms with no paid employees.

Source: Annual Business Survey 2021, US Census Bureau

United States are younger than 45, compared with 51 percent of non-Latino, White people. Female entrepreneurs skew younger, with 34 percent of Latina small-business owners under age 45, compared with 31 percent of their male counterparts (see sidebar “The power and potential of Latina small-business owners”).

Moreover, Latino entrepreneurs are highly invested in their businesses. According to Verizon Business’s 2024 Latino Small Business Owner Survey, three times as many Latino owners report that their primary goal when selling a business is increasing personal wealth, compared with non-Latino owners.<sup>6</sup>

The [Biz2Credit 2024 Latino-Owned Business study](#) highlights other trends that underscore the growing

### The power and potential of Latina small-business owners

**Latinas** have become a significant force in small business. From 2017 to 2021, Latinas accounted for 31 percent of all new Latino-owned employer firms. During that time frame, there was a notable 33 percent growth in the number of Latina-owned firms, higher than the 7 percent growth rate for non-Latina-owned firms.

Seventy-three percent of Latinas have achieved at least an associate’s degree, trade, technical education, or some college education, compared with 61 percent of Latino men. This higher educational attainment among Latinas highlights their readiness and potential, as it may apply to further expanding and leading future small-business growth.

financial strength and resilience of Latino owners. Personal credit scores have improved by six points, the average approved funding amount has risen by almost 40 percent, and creditworthiness has improved every year for the past three years.

**Technology and AI.** The tech sector shows promise for Latino business owners. Latino-owned tech firms have demonstrated revenue growth, with a CAGR of 11.6 percent, outpacing the 7.7 percent CAGR of non-Latino, White tech firms.<sup>7</sup> Many of these Latino tech businesses are SMEs that generate 60 percent more revenue than non-tech firms, and their median revenues are now on par with those of non-Latino, White tech firms.

Embracing technology could enhance productivity for Latino-owned businesses. Technology adoption coupled with skill-building initiatives can lead to higher efficiency. Automating manual tasks can free up time and resources, allowing businesses to achieve more with less. According to the US Chamber of Commerce, 87 percent of small businesses report increased efficiency due to technology platforms. Nascent Latino tech SMEs are likely to benefit from further advancements in technology, particularly with the expected investment in AI reaching \$100 billion in the United States by 2025.<sup>8</sup>

**An increasingly educated population.** While Latino educational attainment has risen considerably over the years, it still lags behind other demographic groups. Among the overall population, 21 percent of Latinos aged 25 and older have a four-year college degree, compared with 42 percent of non-Latino Whites. That gap shrinks for Latino small-business owners: 40 percent have a bachelor’s degree, versus 55 percent of non-Latino, White owners. And in industries with a higher concentration of Latino SME owners, the educational attainment gap is even less pronounced (Exhibit 3).

<sup>6</sup> Verizon Business: *Latino small business owner report*, Verizon, April 2024.

<sup>7</sup> *State of Latino entrepreneurship 2023 research report*, Stanford Graduate School of Business and Latino Business Action Network, March 2024.

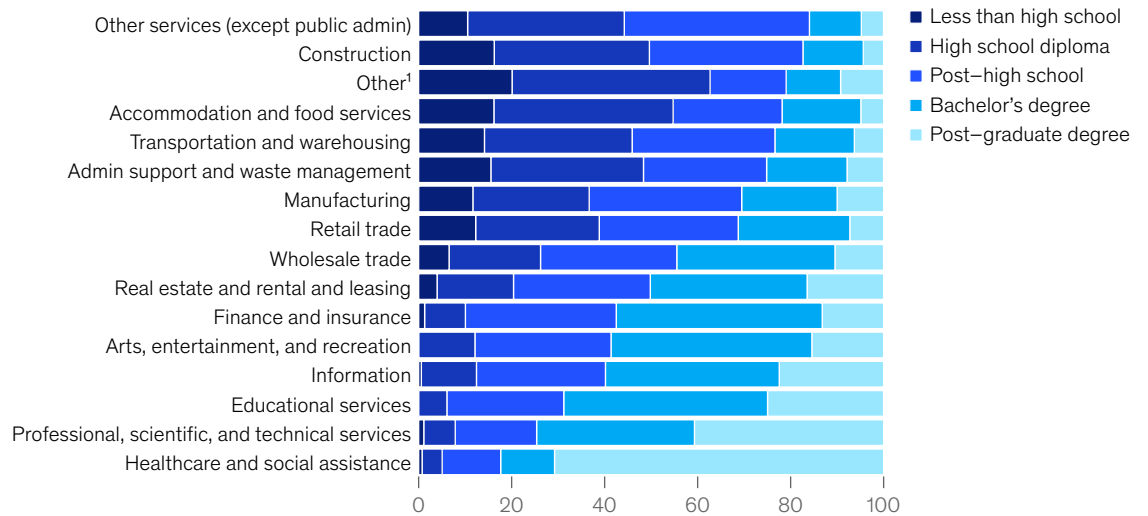
<sup>8</sup> “AI investment forecast to approach \$200 billion globally by 2025,” Goldman Sachs, August 1, 2023.

Exhibit 3

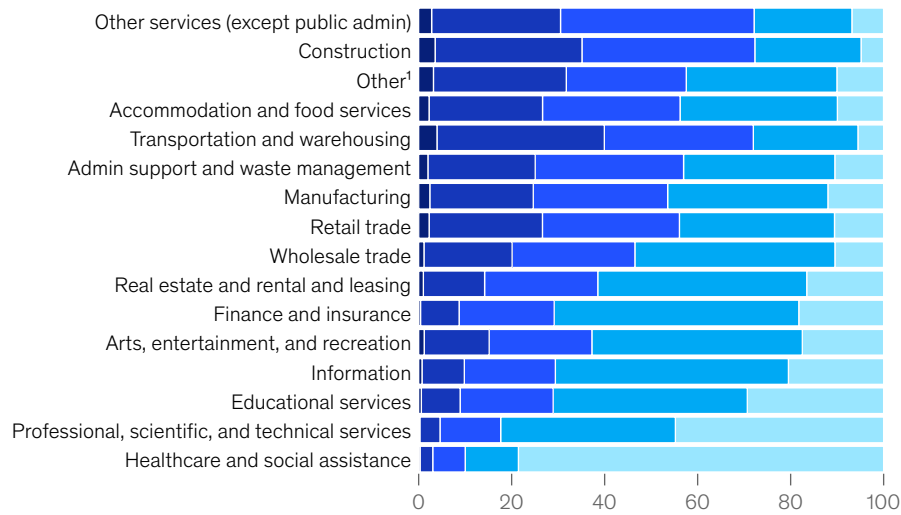
## There is a gap in educational attainment between Latino and non-Latino, White small-business owners.

US education level attainment by industry, 2021, % share

### Latino



### Non-Latino White



<sup>1</sup>Includes agriculture, fishing and hunting, forestry, mining, oil and gas extraction, quarrying, and utilities.  
Source: Annual Business Survey 2021, US Census Bureau

McKinsey & Company



Evidence supports the [link between education and entrepreneurial success](#). In the words of a second-generation Latino restaurant chain owner in South Carolina, “Going to college helped me understand concepts and technical lingo. I now feel comfortable talking to banks and building business plans to receive funding. They are more receptive to the way I communicate.”

### **The revenue disparities that Latino-owned small businesses can overcome**

A key metric that highlights differences between Latino-owned and non-Latino-owned small businesses is revenue per employee. Examining this metric and comparing the experiences of Latino-owned enterprises with those of other small businesses sheds light on the challenges and opportunities for Latino entrepreneurs.

Latino-owned small businesses currently generate lower revenue per employee than non-Latino, White-owned small businesses. In recent years, the annual revenue-per-employee gap between Latino-owned and non-Latino, White-owned businesses has widened from \$85,000 per employee in 2019 to \$101,000 per employee in 2021. (Notably, this time period coincided with the onset of the COVID-19 pandemic, in which Latinos were [disproportionately affected](#).)

Differences in revenue generation across industries also contribute to the gap. As mentioned earlier, half of Latino-owned small businesses are concentrated in transportation and warehousing; construction; and administrative support, waste management, and remediation services. Between 2012 and 2017 (the most recent time period for which this data was available), the revenue per employee in these industries grew at a faster rate (14 to 20 percent) than the overall revenue per employee in the US economy (6 percent). Despite the growth, the gap persists, because these three industries continue to generate lower revenue per employee compared with other industries. Furthermore, transportation and construction are among a range of sectors that may be more often subject to disruption and employment loss.

How long could it take to bridge these gaps? This varies widely among industries, with some trending toward parity, while others show an increasing gap. As mentioned earlier, in three industries (transportation and warehousing, accommodation and food services, and educational services), Latinos are already at or near the same revenue per employee as non-Latinos. The gaps could close in four industries (retail trade, wholesale trade, manufacturing, and information) within the next five to ten years.<sup>9</sup> However, in nine industries, the revenue-per-employee gap widened, indicating that parity can only be achieved in those industries if the trends observed between 2012 and 2017 are reversed (Exhibit 4).

Industry concentration alone does not fully explain the revenue-per-employee disparity. Latino-owned small businesses generated up to 26 percent less revenue than their non-Latino White-owned counterparts within the same industries (possibly due to Latino concentration in lower-productivity subsectors), even after accounting for company size. This revenue-per-employee gap is present in 12 out of 16 industries. Moreover, the revenue-per-employee gap tends to widen with company size. Larger Latino-owned small businesses face even greater challenges in matching the revenue-per-employee levels of non-Latino, White-owned small businesses.

### **Understanding four core challenges**

Despite pockets of success and potential, Latino SME owners in the United States still have several challenges that can hinder their growth, contributing to lower survival rates in the early years of these businesses. Obstacles may include complications with scaling up, difficulties in talent acquisition and retention, language or cultural barriers, and limited access to funding.

According to research from JPMorgan Chase, 13 percent of Latino-owned small businesses fail in their first year, compared with 10 percent of White-owned small businesses. For those that make it past the first year, the survival gap narrows, with exit

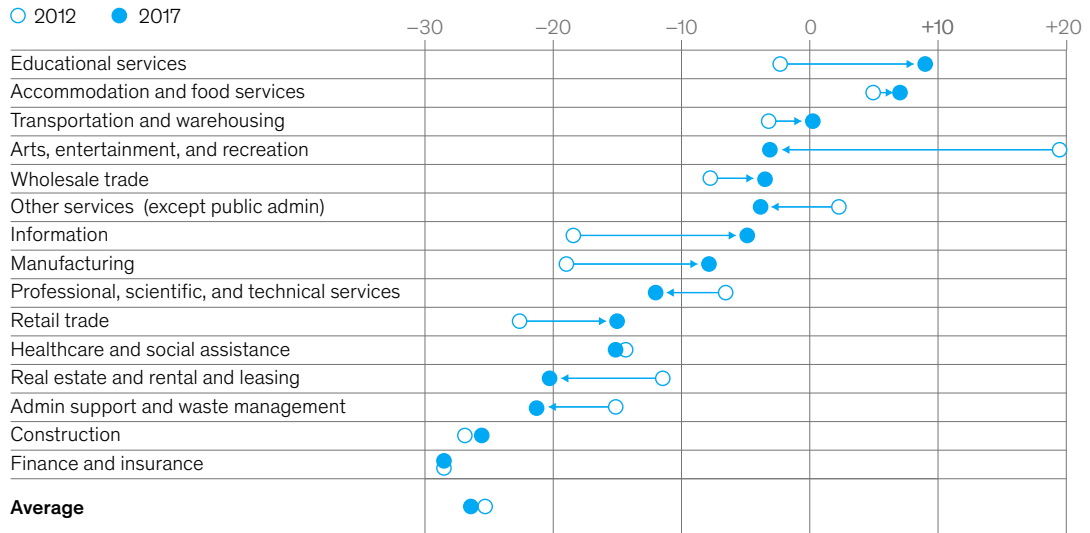
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<sup>9</sup> This assumes industry-specific growth rates between 2012 and 2017.

Exhibit 4

## In most industries, the revenue-per-employee gap between Latino- and White-owned small businesses has grown.

Gap in revenue per employee between Latino- and White-owned small businesses, 2012 and 2017, %



Source: Annual Business Survey 2012 and 2017, US Census Bureau

McKinsey & Company

rates by the fourth year of operations at 9.5 percent for Latino-owned small businesses and 8.8 percent for White-owned small businesses. Providing robust, early support to Latino small businesses facing the following four challenges is crucial to their success.

### Limited access to funding

While loan conditions for Latino entrepreneurs are improving, access to capital remains a significant challenge. An [earlier McKinsey report](#) found a \$200 billion lending gap between Latino-owned SMEs and their White counterparts. Access to capital is crucial for business success, enabling investments in growth opportunities, effective cash flow management, and resilience during economic downturns. Moreover, the security that accompanies increased funding could inspire more Latinos to pursue entrepreneurship.

Access to credit is a [critical factor in increasing the survival rate](#) of small businesses, as those constrained by credit are more likely to fail. Bank financing is essential for growth and expansion. According to a 2023 Goldman Sachs survey, 70 percent of small-business owners with loans or lines of credit would be unable to sustain or expand their operations without these financial resources.

While 17 percent of Latino-owned small businesses apply for credit—similar to the 14 percent of non-Latino, White-owned businesses—they often [rely more heavily on personal savings](#). At both national and local banks, Latino entrepreneurs are approved for loans 15 percent less often than White entrepreneurs.

Furthermore, about 50 percent of Latino-owned businesses in the United States do not receive the full amount of credit requested, compared

with 34 percent of non-Latino, White-owned businesses. This may explain why leaders of Latino-owned businesses are five times more likely to be dissatisfied with large banks than White-owned businesses. According to a 2023 McKinsey survey of SMEs, in the previous year, Latino-owned small businesses changed their primary banking relationships 1.5 times more often than non-Latino businesses, indicating a significant untapped opportunity for financial institutions to invest in these enterprises.

Several factors may contribute to the experiences that some Latino-owned businesses face in accessing credit from traditional banks. These could include a lack of formal paperwork and business records, the smaller loan amounts sometimes requested, and the higher cost associated with servicing these loans.

Industry concentration also plays a role, as Latino-owned businesses are often found in industries with traditionally higher risk of default rates and missed loan payments (Exhibit 5). Citizenship or residency status can also affect lending opportunities. Furthermore, all first-generation immigrants, regardless of country of origin, may have limited access to credit lines.

Interestingly, when traditional funding sources are unavailable, some Latino businesses may turn to nontraditional lenders such as online lending platforms or fintech services, [applying at twice the rate](#) of White-owned businesses.

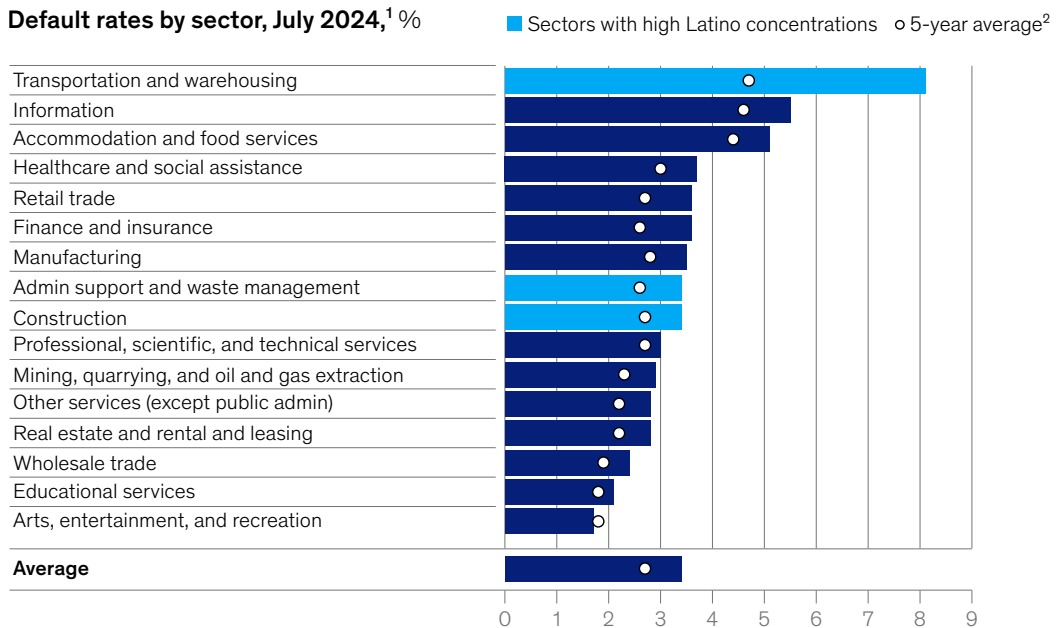
**Barriers to scaling up**

Latino-owned enterprises tend to have fewer employees, which can create challenges for businesses looking to scale up operations quickly.

Exhibit 5

**Some industries with high credit risk have a high concentration of Latino-owned businesses.**

**Default rates by sector, July 2024,<sup>1</sup> %**



<sup>1</sup> PayNet's Small Business Default Index (SBDFI) measures the percentage of small-business loans and leases that have defaulted based on the largest commercial and industrial lenders in PayNet's US database. Based on Equifax and PayNet data.

<sup>2</sup>For the period Jul 2019–Jul 2024.

Source: Annual Business Survey 2021, US Census Bureau

Latino-owned small businesses have an average of eight employees, compared with 11 in non-Latino, White-owned businesses. Less than 2 percent of Latino-owned businesses have more than 50 employees, compared with 4 percent for non-Latino-owned businesses. And according to the [Fed Small Business Credit Survey](#), hiring and retaining qualified staff is a significant challenge for 51 percent of Latino-owned small businesses.

### **Language, cultural, or institutional challenges**

Some Latinos may face additional challenges because they must overcome language and cultural barriers and familiarize themselves with new institutions. While 68 percent of Latinos in the United States are US-born, just 48 percent of Latino business owners are. One successful Latino wholesale importer described his early experience in adapting to American business practices after he immigrated to the United States: “It was a challenge to get to know and understand the legal aspects of doing business within the US. In the beginning, I did not realize that each state had different nuances and regulations.”

### **Bridging the gaps**

These gaps between Latino and non-Latino small-business owners present a significant opportunity for growth and inclusivity in the US economy. By boosting revenue per employee for existing Latino SMEs, garnering increased investments, and taking advantage of technology, all business leaders can start to foster a more equitable landscape and a stronger economy with more jobs and more families in the middle class.

Unlocking the potential of Latino-owned small businesses presents a significant economic opportunity, equivalent to \$1.4 trillion in additional revenue for the economy and the potential to create approximately five million to six million net new jobs in the medium to long term (Exhibit 6). Here are some ways to bridge the existing gaps for Latino-owned small businesses.

### **Boosting revenue per employee**

One opportunity to bridge the parity gap is by boosting the revenue per employee of existing Latino-owned SMEs. In 2021, the approximately 350,000 Latino-owned SMEs in the United States generated about \$500 billion in revenue, a notable increase from \$370 billion in 2017. However, these firms still trail non-Latino, White-owned SMEs in most industries. Closing this revenue-per-employee gap by industry represents a total \$217 billion opportunity.

Some \$102 billion of that total could come from generating the same revenue per employee as their non-Latino, White-owned counterparts within their respective industries. The additional \$115 billion of value might be unlocked by aligning the existing industry mix of Latino-owned SMEs more closely with higher revenue-per-employee sectors, such as real estate, or professional, scientific, and technical services.

### **Helping new Latino-owned SMEs thrive over time**

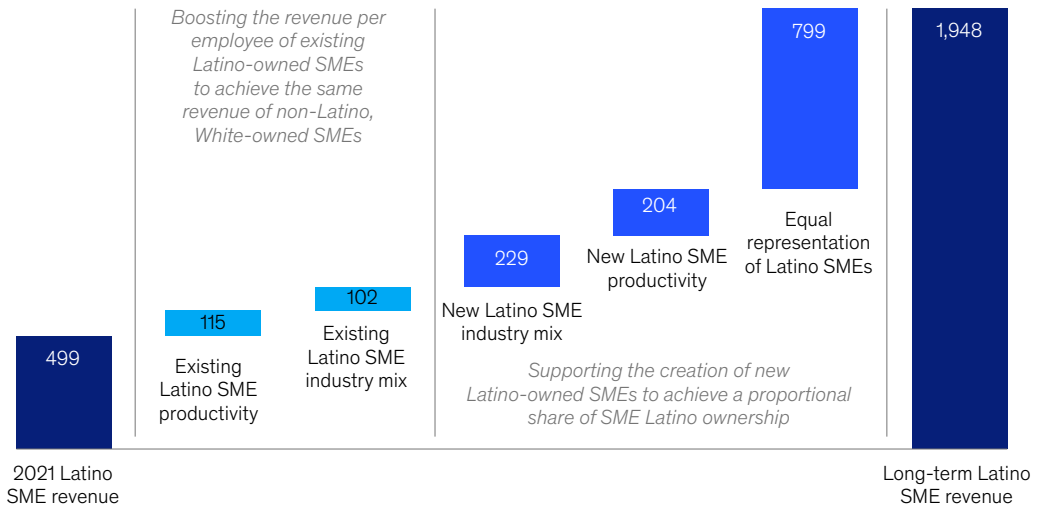
As mentioned earlier, Latinos created 36 percent of new businesses in the United States between 2017 and 2021, while Latino business ownership grew from 5 to 7 percent of all SMEs. Still, Latino ownership still falls short of the Latino community’s 19 percent representation in the US population. Achieving parity with the population percentage would mean tripling the number of Latino-owned small businesses. If these firms operated at the same revenue-per-employee and industry-mix levels as current Latino SMEs, this would represent an \$800 billion opportunity.<sup>10</sup>

Nascent Latino businesses could benefit from environments that may help them eventually achieve the same revenue per employee as non-Latino, White-owned small businesses (representing a \$204 billion opportunity). Those conditions could accelerate their participation in more productive, higher revenue-per-employee industries dominated by non-Latino, White-owned businesses (representing a \$229 billion opportunity).

<sup>10</sup> Net opportunity is estimated by subtracting the current average US employee revenue per employee for new Latino business owners from the overall revenue per employee gains expected.

## Boosting Latino-owned small businesses could unlock a \$1.4 trillion economic opportunity in the United States.

Value at stake from closing revenue gap between Latino- and non-Latino, White-owned small and medium-size enterprises (SMEs) in the US,<sup>1</sup> \$ billion



<sup>1</sup>Values scaled based on the industry revenue data from the US Census for 2012 and 2017. Source: Annual Business Survey data, 2012, 2017, and 2021, US Census Bureau

McKinsey & Company

The construction, retail trade, and wholesale trade industries represent about half of the total value of the opportunity for Latino small businesses. The potential value in construction is the result of the large number of Latino-owned companies and the significant revenue-per-employee gap. In wholesale and retail trade, which have higher revenue-per-employee, the potential comes from markedly fewer Latino-owned companies. Identifying which industries have higher productivity margins that directly affect GDP could increase future ownership of Latino SMEs.

Supporting the creation of new Latino-owned small businesses and their long-term sustainability could generate five million to six million new jobs. In the current US labor market, there are 12 million unemployed, discouraged, or part-time workers

looking for full-time opportunities.<sup>11</sup> That's a workforce that could meet the demand created by more Latino-owned SMEs. For these potential jobs to be considered net new contributions to the economy, skills matching, job role attractiveness, and regional job creation would need to address the needs of any newly created business.

Given these factors, capturing this financial opportunity will depend on sustained growth in the US labor market over the coming years.

### Considerations for Latino SME growth

The success of SMEs in places such as Miami offers four valuable lessons for businesses, government entities, and not-for-profit organizations to foster similar conditions in other areas. Not all Latino business owners need identical support, as each

<sup>11</sup> US Bureau of Labor statistics 2023 data unemployment data. The U-6 unemployment rate represents a subset of workers who are unemployed, discouraged, or are part-time workers looking for full-time opportunities.

entrepreneur has different strengths and business needs depending on their circumstances. But in aggregate, leaders could consider the following to support Latino business growth at scale:

- *Access to capital:* Latino entrepreneurs navigating the credit application process for traditional banking credit could consider community organizations and nongovernmental organizations (NGOs) for help. Government-backed loans, grants, and funding programs are available (for example, through the Community Development Financial Institutions Fund, a US government program administered by the Treasury Department that provides financial services to economically disadvantaged communities). Financial products could be designed to meet the needs of small-business owners (for example, the Accion Opportunity Fund is a nonprofit organization that tailors loan options and grants for those who are underserved by traditional financial institutions).
- *Capability building:* Federal and local government grants, NGO funds, and educational institutions could provide scholarships and support to reduce the educational attainment gap, particularly for young Latinos in high-value industries like STEM (see sidebar “Planting the seeds for future Latina small-business owners”). Organizations could develop business skills training programs in collaboration with public and private entities to enhance managerial, financial, and digital skills. Local institutions and chambers of commerce could also promote industry-tailored and cross-cultural training, such as English-language and US business protocol courses, which might help immigrant entrepreneurs expand into higher-revenue industries. While it might take some time to see results from educational efforts, the effects could be long-lasting.
- *Partnership development:* Local partnerships between chambers of commerce, industry associations, and Latino organizations could offer mentorship programs and expand the networks of Latino entrepreneurs. This kind of collaboration could lead to community

trainings and support systems that can help entrepreneurs navigate the business landscape (see sidebar “Connecting Latino small-business owners to greater resources”). Partnerships with larger companies could help increase Latino SME supplier visibility, integrate them into supply chains, and encourage workers to participate in talent development programs. The Hispanic Wealth Project, which aims to increase the economic prosperity and wealth of Latinos in the United States through supplier diversity, mentorship, talent development, and advocacy, is an example of the potential of such partnerships.

## Planting the seeds for future Latina small-business owners

**Latinitas is an example** of a not-for-profit organization that promotes STEM and entrepreneurship education and opportunities for Latinas. Based in Austin, Texas, Latinitas reaches girls aged nine to 14 through several initiatives:

- weekly after-school Club Latinitas program, with curriculum focused on technology, digital media, culture, and identity
- several conferences, including Startup Chica, which introduces young Latinas to entrepreneurship by surrounding students with local business mentors and facilitating a pitch competition anchored on building a technology-based business to address the United Nations Sustainable Development Goals
- annual summer camps with themes such as entrepreneurship, design, filmmaking, gaming, and mental health

Latinitas has also launched initiatives to support the parents of children in the programs, including certificate training (with topics such as cybersecurity, project management, user experience, and user interface design), digital literacy programs for adults, and other workforce readiness programs.

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## Connecting Latino small-business owners to greater resources

**The Rogers Park Business Alliance (RPBA)** in Chicago is an example of an organization that fosters local partnerships. It hosts a biannual GROW Progresando program that provides bilingual business education to Latino entrepreneurs on topics such as creating a business plan, financial literacy, and digital literacy. The RPBA also hosts a legal panel with local Spanish-speaking lawyers, offers consulting services, and connects Latino entrepreneurs to local financial institutions through “speed dating” events with bilingual representatives.

- *Transparency and visibility:* Banks and other lenders could increase the transparency and visibility of loan requirements for Latino SMEs

to better assess their creditworthiness and prepare for successful credit applications. More awareness of specific challenges and opportunities in the lending process could help more Latino entrepreneurs secure the funding they need.

The future of Latino-owned SMEs holds immense potential for the US economy. Collaboration among policy makers, financial institutions, and corporations could provide support, address challenges, and foster partnerships that integrate Latino SMEs into larger supply chains and support a stronger economy. Providing the necessary education, business training, access to capital, and mentorship to Latino communities across the United States can help accelerate economic mobility.

The success of Latinos in Miami and elsewhere shows what’s possible when these entrepreneurs are supported. Bringing these opportunities across the nation could create millions of new jobs and add \$1.4 trillion to the US economy, ultimately fostering a more inclusive and dynamic business environment in the United States.

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