

LGBTQ-Owned Small Businesses in 2021 Executive Summary

Healthy LGBTQ-owned small businesses are essential for a thriving LGBTQ community, as well as the entire economy. LGBTQ small businesses create local jobs, as well as providing needed goods and services. The National LGBT Chamber of Commerce estimated in 2017 that its 900+ members have created 33,000 jobs, and have contributed \$1.7 trillion to the U.S. economy. LGBTQ small businesses are also spaces for LGBTQ people to gather, socialize, organize, and provide important visibility for the community. It is well documented that discrimination and financial inequality are bad for business and contribute to economic dysfunction. Improving equity in financial services and financing for LGBTQ-owned businesses will improve health and well-being for LGBTQ people and for the entire economy as a whole.

The Federal Small Business Credit Survey (SBCS) is a national survey of small businesses that has been conducted annually since 2016 by the 12 Federal Reserve Banks.¹ SBCS respondents—i.e., small businesses—are firms with fewer than 500 employees. The survey asks respondents about their business performance, financing needs and gaps, including applications for credit and outcomes. The SBCS also examines segments of the small business market, including startups, minority-owned firms, and women-owned firms. In 2021 for the first time the SBCS included questions that allow LGBTQ-owned firms to be identified as well.^a

LGBTQ-Owned Business Demographics



Women & immigrant ownership. LGBTQ-owned small businesses were more likely to be both women-owned (34% vs. 20%) and immigrant-owned (21% vs. 15%).



Race & ethnicity of owners. LGBTQ-owned businesses in the SBCS were similar to

a) The SBCS, and therefore this report, defines LGBTQ-owned businesses as those where individuals who identify as lesbian, gay, bisexual, transgender, or queer own 50% or more of the business.

non-LGBTQ businesses with regard to the race and ethnicity of business owners. About 83% of both LGBTQ and non-LGBTQ businesses were owned by white business owners, though this is significantly less diverse than the racial composition of the United States as a whole, and even less diverse than the racial composition of the LGBTQ community.



Geography. LGBTQ businesses were roughly equally likely as non-LGBTQ businesses to operate in rural areas. Although the greatest disparity for LGBTQ businesses was in the South, the largest share of LGBTQ firms in the SBCS (31%) were located in the South.



Industry. The top three industries among LGBTQ firms in the SBCS were retail, (22%) hospitality (18%), and professional services (17%). LGBTQ-owned businesses were more likely to be in leisure and hospitality (18% vs. 11%) and in retail (22% vs. 13%).



Age. LGBTQ firms were more likely to be newer or younger businesses than non-LGBTQ businesses. Nearly two thirds (64%) were younger than 10 years compared to 47% of non-LGBTQ firms.



Size. LGBTQ firms in the SBCS were more likely to have only a few employees. About 62% reported that they only had 1-4 employees at their business, as compared to 55% of non-LGBTQ businesses.



Revenues. LGBTQ-owned businesses had smaller annual revenues than non-LGBTQ businesses. Three quarters of LGBTQ firms had annual revenues of less than \$500,000 (74%), compared to 58% of non-LGBTQ firms.

Financial Condition



Financial health. LGBTQ-owned businesses were more likely to report that they were in poor financial health (28% of LGBTQ firms vs. 20% of non-LGBTQ firms).



Profitability Issues. LGBTQ businesses were more likely to report financial losses during 2020 than non-LGBTQ businesses (61% vs. 48%).

Business Challenges



Operational Challenges. While both LGBTQ and non-LGBTQ businesses reported the same top-three operational challenges in 2021, LGBTQ-owned businesses were more likely to report that they had faced all of these operational challenges. The top three challenges LGBTQ firms reported were supply chain issues, (66%) hiring or retaining staff (62%), and growing sales or reaching customers (61%).



Health & Safety Challenges. More than half of LGBTQ-owned businesses reported difficulties ensuring the health and safety of their customers or employees (53%), compared to over a third of non-LGBTQ businesses (37%).



Financial Challenges. LGBTQ-owned businesses were more likely to report experiencing all types of financial challenges in the last year, compared to non-LGBTQ businesses. LGBTQ-owned businesses took a variety of responses to these challenges, and in almost every instance did so at a higher rate than non-LGBTQ businesses.

Financial Effects of COVID-19



COVID Impact. 85% of LGBTQ firms reported the pandemic was having a negative effect on their business at the time of the survey, compared to only 76% of non-LGBTQ firms.



Paycheck Protection Program (PPP). The majority (57%) of LGBTQ-owned businesses applied for relief through the Paycheck Protection Program, compared to 47% of non-LGBTQ businesses. But, LGBTQ-owned applicants were more likely to have gotten none of the funding they applied for (17% vs. 10%). They were also less likely to receive full forgiveness for their 2020 PPP loans (78% vs. 88%).

Credit & Financial Services



Financing applications. In 2021 LGBTQ-owned firms were about as likely to apply for financing as non-LGBTQ firms and for similar reasons as non-LGBTQ firms.



Application outcomes. Among businesses that applied for any type of financing in the past year, LGBTQ firms were more likely to

report that they had received none, or only some (i.e., half or less) of the financing that they had applied for—from all sources.



Reasons for denial for financing. LGBTQ-owned businesses were more likely than non-LGBTQ businesses to explain that weak sales led to their denial (35% vs. 26%), that lenders do not approve financing for “businesses like theirs” (33% vs. 24%), or that lack of documentation contributed to their rejection for financing (15% vs. 6%).



Service Providers. Roughly half of both LGBTQ and non-LGBTQ businesses received their financial services primarily from large banks. LGBTQ firms were more likely to report a wide range of challenges when working with large banks, including high interest rates and unfavorable repayment terms.

Conclusion

Overall, despite their clear contributions to the economy and communities across the country, LGBTQ businesses are more likely to be suffering from financial difficulties, and are more likely to face obstacles to accessing financing and emergency assistance.

These findings about LGBTQ-owned businesses point to clear action steps. First, these data emphasize that the financial services industry should develop outreach initiatives and programs for LGBTQ small businesses. Federal, state, and local agencies that work with small business owners must increase their knowledge, outreach and capacity to adequately serve LGBTQ-owned small businesses.

Actions that all actors within the financial services industry should consider to improve equity for LGBTQ small businesses include:

- **Weeding out discrimination and bias** against LGBTQ people within their organizations.
- **Creating offices and positions** within their organizations dedicated to supporting LGBTQ-owned small businesses.
- **Promoting cultural competency** within their organizations for understanding and working with LGBTQ-owned enterprises.
- **Increasing funding opportunities** for LGBTQ-owned businesses.
- **Collecting information** about LGBTQ-owned businesses to fill information gaps about their financial wellbeing and needs.
- **Lawmakers should enact anti-discrimination protections in credit and public accommodations**, such as the Equality Act and the LGBTQ Business Equal Credit Enforcement and Investment Act.