Metropolitan Policy Program at BROOKINGS

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Highly rated businesses in Black-majority neighborhoods experience annual losses in business revenue as high as $3.9 billion, new report from Brookings and Gallup finds

Washington, D.C. – The Metropolitan Policy Program at Brookings and Gallup released a new report, ***Five-star reviews, one-star profits: The devaluation of businesses in Black communities***, showing that businesses in Black-majority neighborhoods experience annual losses in business revenue between $1.3 billion and $3.9 billion.

Written by Brookings fellow Andre Perry, Gallup principal economist Jonathan Rothwell, and Brookings research analyst David Harshbarger, the report studies the financial performance and customer ratings of private enterprises in 86 metropolitan areas across the country with large Black populations, and is part of a larger project to understand how assets are valued (and undervalued) in America's Black neighborhoods.

Based on first-ever findings, the authors emphasize in the new report that the drag of racism on an economy not only cuts into individual owners' profits, it robs local consumers and municipalities of the amenities and services neighborhoods gain from increased revenues. Further, a biased market cuts into the heart of the American Dream by negating the hard work, agency, and self-determination of business owners.

The report's methodology matches Yelp data at the establishment level to financial performance data from the National Establishment Time-Series (NETS) Database.

"It's clear that business quality is not what is holding back profit growth," said Andre Perry, Brookings fellow and lead author of the report. "Distorted views and old stereotypes are drags on local economies that hurt everyone, especially those living and operating businesses in Black-majority neighborhoods."

Key findings include:

- **Black people represent 12.7% of the U.S. population but only 4.3% of the nation's 22.2 million business owners.** Black-owned businesses start with approximately one-third less capital than their white peers and have difficulties raising private investments from mainstream investment systems. Only 1% of Black business owners obtain loans in their founding year, compared to 7% of white business owners.

- **Businesses with higher consumer ratings on Yelp or a larger number of reviews experience faster revenue growth.** The report estimates that a one-star increase in Yelp reviews predicts an increase in revenue growth of 1 to 2 percentage points over a three-year period. Moreover, the report finds that for every 10 reviews a business receives, it experiences an additional 2 percentage points of revenue growth on average, regardless of the quality of the reviews. Businesses with four to five stars on Yelp experienced an average growth rate of 8.8% from 2016 to 2019. This compares to growth of just 6.2% for businesses with fewer than four stars.

- **Businesses in Black-majority neighborhoods receive lower Yelp ratings and fewer reviews than other businesses.** Businesses located in a Black-majority ZIP code garner consistently lower ratings from consumers (on the order of 0.2 fewer stars). Additionally, the number of reviews per business sharply falls as the ZIP code's Black population increases, with businesses in Black-majority neighborhoods receiving 50 to 100 fewer reviews than businesses in mostly white neighborhoods.

- **Highly rated businesses located in Black-majority neighborhoods earn less revenue than businesses with similar quality ratings outside of Black-majority neighborhoods.** In non-Black-majority neighborhoods, businesses with high Yelp ratings grew, on average, between 8.5% and 9% between 2016 and 2019, and poorly rated businesses grew significantly less (between 5% and 7.5%). Yet, in Black-majority neighborhoods, 7% growth was the norm for both highly rated and poorly rated businesses.

- **Highly rated businesses in Black-majority neighborhoods experience annual losses in business revenue as high as $3.9 billion.** When all factors are included, the report's full model suggests a 0.2 percentage point annual revenue gap between businesses in non-Black-majority neighborhoods and Black-majority neighborhoods, amounting to $1.3 billion in unrealized revenue each year. This gap jumps to $3.9 billion when comparing highly rated businesses in Black-majority neighborhoods with highly rated businesses in other neighborhoods.

"Great businesses should be rewarded with more customers and higher revenue growth, but years of racial discrimination and neighborhood disinvestment has distorted that relationship in Black neighborhoods," said Jonathan Rothwell, Gallup principal economist and co-author of the report. "State and local governments are quick to offer huge subsidies to multinational corporations, but citizens should ask if they are paving roads and maintaining streetlights near high-performing businesses in Black neighborhoods."

The report is available here: https://brook.gs/2OP1XQ1.

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