

Consumer Power and Business Ownership

Part of the “State of Asian Americans
and Pacific Islanders” Series

By Karthick Ramakrishnan and Farah Z. Ahmad August 12, 2014

An important but oft overlooked aspect of Asian American and Pacific Islander, or AAPI, communities is their presence in the marketplace as both consumers and as business owners. While the AAPI share of the population may not be as large as other ethnic groups, their population growth rate is the fastest in the United States, and many segments of the population have incomes higher than the national average. Consequently, their national buying power share is greater than their population share—and is also the fastest growing buying power share of any racial or ethnic group in the country.¹

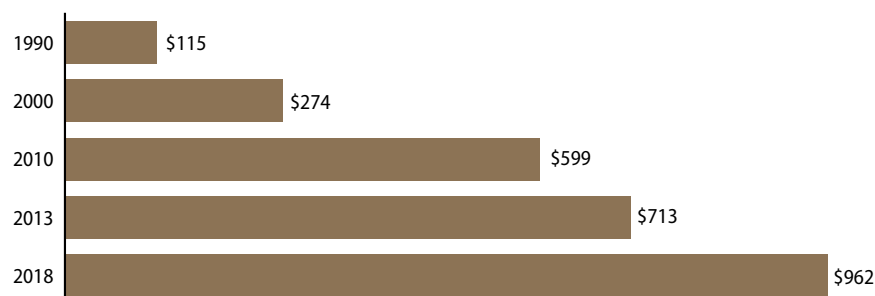
The buying power of Asian Americans is the fastest growing

American buying power has been increasing consistently over the past few decades—from \$4.2 trillion in 1990 to \$12.4 trillion in 2013—and it is projected to grow to \$15.2 trillion by 2018.² Buying power is the total personal income of residents available for spending, after taxes, on goods and services in a given year.³ Notably, it is not a measure of wealth nor does it include dollars that are borrowed, saved in previous years, or what tourists spend during their visits to the United States.⁴

Asian Americans are among those with the fastest growing buying power in the United States given their rapid population growth⁵ and their high level of representation among high-skilled immigrants to the United States.⁶ The Selig Center at the University of Georgia's Terry School of Business estimates that Asian American buying power grew rapidly from \$115 billion in 1990 to \$274 billion in 2000 and has continued growing since, reaching about \$600 billion in 2010 and more than \$700 billion in 2013.⁷ Notably, the buying power of Asian Americans is projected to approach \$1 trillion after 2018.⁸ (see Figure 7.1)

FIGURE 9.1
Asian American buying power in billions

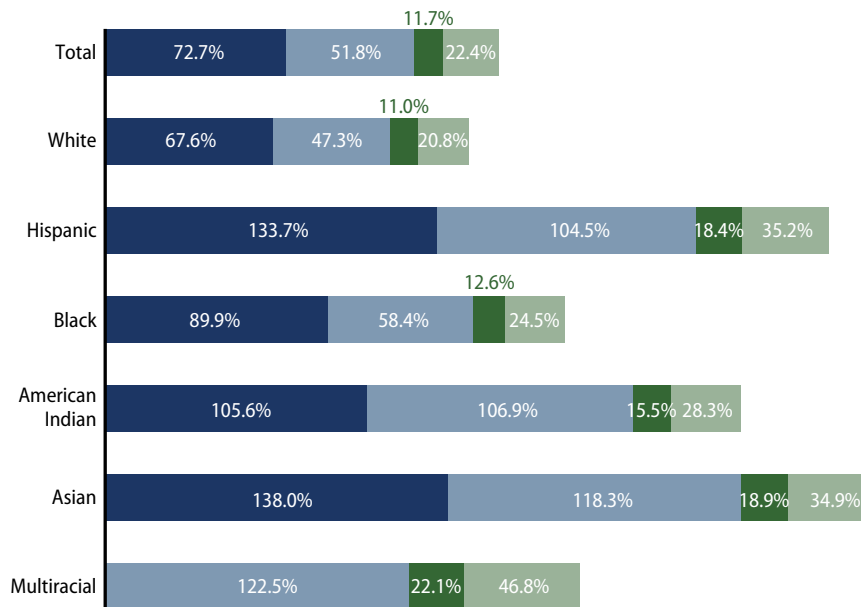
Actual and projected



Source: Jeffrey M. Humphreys, "The Multicultural Economy 2013" (Athens, GA: Selig Center for Economic Growth, Terry School of Business, University of Georgia, 2013), available at <http://www.terry.uga.edu/about/centers-institutes/selig/publications>.

These numbers illustrate that AAPI buying power has shown the quickest growth rate of any ethnic group. The 160 percent gain from 2000 through 2013 exceeds the increases in buying power projected of whites at 63 percent, the United States as a whole at 70 percent, blacks at 78 percent, Hispanics at 142 percent, and Native Americans at 139 percent. As Figure 7.1 shows, Asian Americans have had the highest growth rates in buying power, not only in the first decade of the 21st century but in the previous decade as well. Finally, at \$713 billion in 2013, the AAPI market already outshines the entire economies of all but 22 countries; in fact, the AAPI market is comparable in size to the gross domestic product, or GDP, of Saudi Arabia and the Netherlands.⁹

FIGURE 9.2
Percentage change in buying power



Source: Jeffrey M. Humphreys, "The Multicultural Economy 2013" (Athens, GA: Selig Center for Economic Growth, Terry School of Business, University of Georgia, 2013), available at <http://www.terry.uga.edu/about/centers-institutes/selig/publications>.

Asian American spending is online, well-researched,
 and concentrated in urban markets

Asian American patterns of consumer spending are fairly distinct when compared to other communities. For example, consider the average level of household spending: In 2012, the Consumer Expenditure Survey from the Bureau of Labor Statistics revealed Asian American households spent an average of about \$61,400, an amount 19 percent greater than the average U.S. household.¹⁰ Looking at particular spending categories, Asian Americans spend more than the national average on housing, food—including groceries and restaurants—education, and transportation.¹¹ They are also more likely to spend a greater amount on insurance, pensions, and Social Security.¹² At the same time, Asian Americans tend to spend significantly less than the national average on items such as alcohol, tobacco, pets, and toys.¹³

The high consumer spending levels of Asian American households nationally is related to higher than average levels of household income, larger household sizes,¹⁴ as well as distinct residential patterns, as Asian Americans are more likely to live in states with a higher than average cost of living. As noted in the Center for American Progress report “State of Asian Americans and Pacific Islanders: Demographics,” Asian Americans are heavily concentrated in a few select states, such as California and New York.¹⁵ Additionally, Asian Americans are concentrated in urban areas within these states. In fact, in 2011, almost one-third of Asian Americans lived in three metropolitan areas: Los Angeles, New York City, and San Francisco.¹⁶ Because of this geographic concentration, the buying power among Asian Americans is also concentrated. Nearly 60 percent of Asian American buying power was concentrated in the five states with the largest Asian American consumer markets.¹⁷

In addition to data from the Consumer Expenditure Survey, Nielsen issued a report on Asian Americans in December 2013 summarizing the results from a variety of private firms, including the GfK Group and Scarborough.¹⁸ According to this report, Asian Americans are two-thirds more likely to routinely purchase organic foods and prefer buying brand-name products, indicating their willingness to purchase certain items at a higher price. The Nielsen report also noted that Asian Americans are more likely than the national average to make their purchases online: In 2012, 77 percent of Asian Americans made an Internet purchase compared to 61 percent of the population overall.¹⁹ A select portion of the Asian American community is relying heavily on online shopping with 12 percent spending more than \$2,500 annually online whereas the general population only spends about half that amount.²⁰

Given this Internet-active community, it is not surprising that Asian Americans are more likely to read consumer reviews, procure coupons either online or from mobile applications, and utilize online deal outlets such as Groupon.²¹ Finally, online activity also extends to shopping for insurance. Thirty percent of Asian Americans use blogs and social networking sites to learn about insurance options compared to only 11 percent of the general population. In fact, Asian Americans prefer to purchase their policies online at a higher rate too.²²

Asian American-owned firms are among the fastest-growing

Not only do Asian Americans make up an impressive and unique share of the consumer market, they also have considerable weight as producers. The U.S. Bureau of Census conducts the Survey of Business Owners every five years and the 2007 survey is the last in which data by race and ethnicity are available. The 2007 Survey of Business Owners shows that the number of Asian American-owned firms increased by 40 percent from 2002 to 2007, more than double the average increase of 18 percent for all U.S. firms.²³ During this time period—excluding those firms composed only of self-employed workers—we also see a significant increase of Asian American-owned employer firms at 24.4 percent, totaling 397,484 firms in 2007. These firms employed 2.8 million persons, an increase of 27.5 percent from 2002, and had a total payroll of \$79.6 billion, an increase of 42.1 percent from 2002. In 2007, these firms generated \$455.2 billion in receipts, an increase of 56.3 percent from 2002.²⁴

Another important aspect of Asian American-owned firms is that they are the highest grossing among all communities of color, totaling more than \$506 million in receipts in 2007 with Native Hawaiian and Pacific Islander firms grossing \$6.32 million.²⁵ (see Figure 1.4) This compares to Hispanic-owned firm receipts at \$350 million, African American-owned firms at \$136 million, and Native American-owned firms at \$34 million.²⁶ By contrast, firms owned by non-Hispanic whites totaled \$10 billion.²⁷

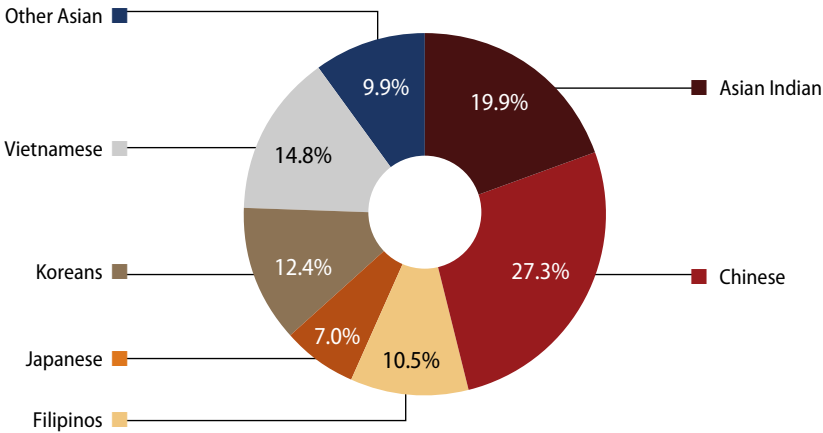
Among all firms owned by Asian and American and Pacific Islanders in the United States, Chinese Americans owned the largest share—more than one-quarter—followed by Asian Indians at 20 percent and Vietnamese at 14 percent.²⁸ (see Figure 1.3) Even though Chinese Americans owned most AAPI-owned firms, firms owned by Asian Indians grossed more receipts, on average, at \$152 billion when compared to Chinese American-owned firms at \$143 billion. Both far outperformed Vietnamese American-owned firms at \$29 billion.²⁹ (see Figure 1.4)

These differences are likely related to a greater concentration of Indian American and Chinese American-owned firms in certain sectors of the economy: both groups are much more likely to specialize in “accommodation and food services”—at 10.4 percent and 12.7 percent respectively, compared to 8.7 percent for Koreans, 3.2 percent for Vietnamese Americans, and 2.9 percent for the national average.³⁰ By

contrast, Vietnamese-owned firms are much more likely than the national average to be concentrated in the “other services” category with 59 percent occupying this classification compared to the national average of 12 percent. Although the Survey of Business Owner data do not specify the kinds of services in which these firms specialize, license data from the nail salon industry indicate that Vietnamese-owned firms account for more than 40 percent of nail salons in the United States and that nail salons account for about one in every six Vietnamese-owned firms.³¹

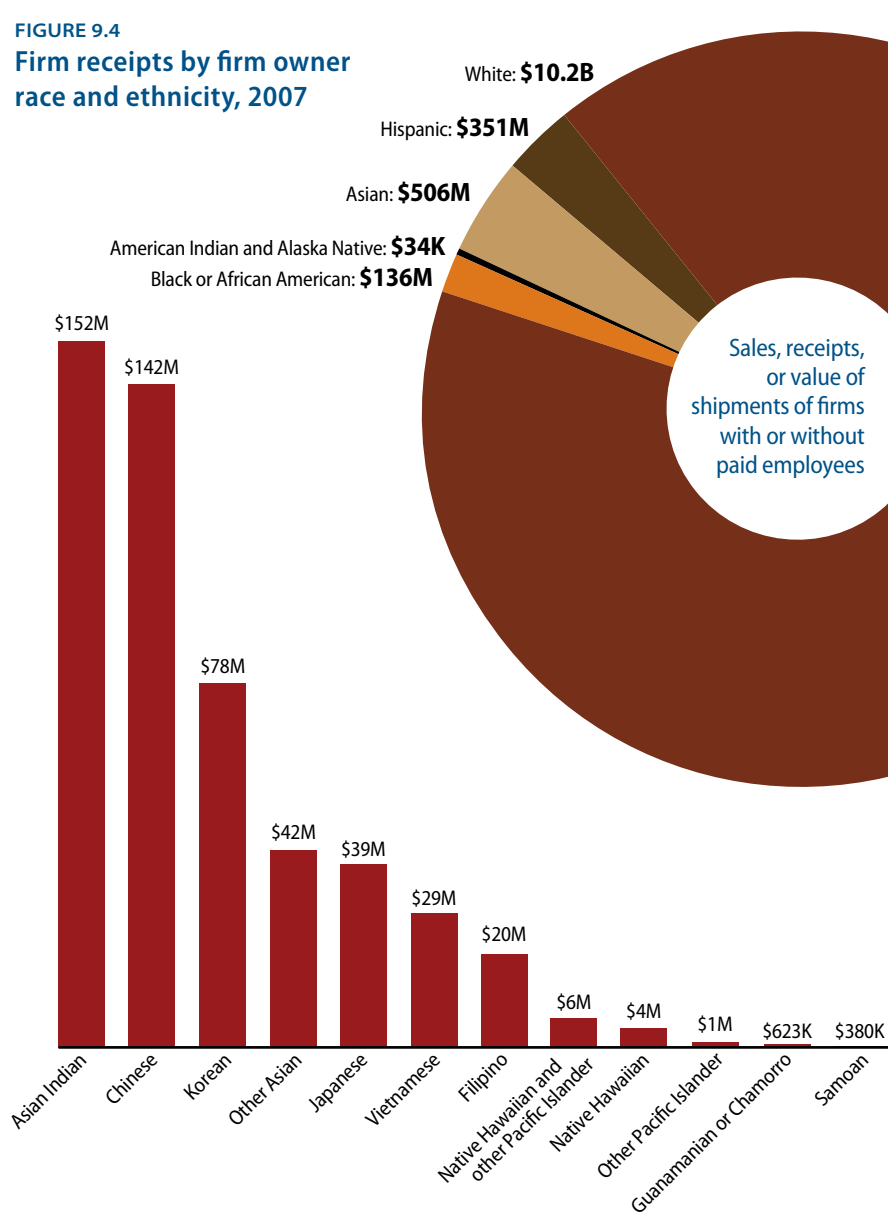
There is still a lot that we need to know with respect to AAPI-owned businesses given the specialization of particular national-origin groups in particular industries and the rapid growth of national-origin groups such as Bangladeshi and Pakistani Americans. Such efforts will need to combine data from the Survey of Business Owners with other types of statistical and qualitative studies of entrepreneurship among Asian Americans and Pacific Islanders.

FIGURE 9.3
Percentage of Asian American-owned firms owned by ethnicity, 2007



Source: Bureau of the Census, *Survey of Business Owners Summaries of Findings* (U.S. Department of Commerce, 2007), available at <https://www.census.gov/econ/sbo/getsof.html#07asian>.

FIGURE 9.4
Firm receipts by firm owner
race and ethnicity, 2007



Asian American and Pacific Islander-owned firm receipts by ethnicity, 2007

Source: Bureau of the Census, *Statistics for All U.S. Firms by Industry, Gender, Ethnicity, and Race for the U.S., States, Metro Areas, Counties, and Places: 2007 Survey of Business Owners* (U.S. Department of Commerce, 2007), available at http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO_2007_00CSA01&prodType=table.

Acknowledgements

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