1999-2009

The Inner City 100: A Ten-Year Perspective

Key Findings

The Inner City 100 is a national competition to identify, celebrate and support the one hundred fastest-growing inner city companies across the U.S. These successful companies and their CEOs demonstrate the important role that a robust and vibrant business sector plays in creating healthy urban communities. By examining the business practices and characteristics of these growing firms and the entrepreneurs who run them, ICIC has identified several themes and best practices that could ultimately be utilized to support and encourage further business growth and job creation.

Over the past decade, 557 different companies have earned positions on the Inner City 100 list. ICIC's analysis of firm-level data reveals certain distinguishing factors about these high growth firms:

- **Inner City 100 firms have achieved some scale and longevity.** The median firm is 11 years old with $8 million in annual revenue, 60 full-time employees and a five-year compound annual growth rate (CAGR) of 41%.
- **Inner City 100 CEOs are more diverse and educated.** Thirty-one percent of Inner City 100 CEOs are minorities and 18% are women, versus the national average of 10% for each. More than three-quarters of these CEOs have an advanced degree.
- **Inner City 100 firms create jobs in challenging environments.** Inner City 100 firms created more than 63,000 new jobs, while the inner city overall lost 50,000 jobs in a decade.
- **Inner City 100 firms have a substantial impact on their communities.** Almost 75% of Inner City 100 CEOs have lived in an inner city at some point in their life. They predominantly cite a commitment to their urban community as the reason for choosing their location. They also hire nearly twice as many local inner city residents as other inner city firms, and six times as many as the regional average.

While Inner City 100 firms are not the typical companies operating in the inner city, they can provide insights into key success factors, as well as highlight challenges that even highly successful firms face.

- **Inner City 100 firms' limited access to capital affects their growth trajectories.** Inner city firms start with 44% less capital and obtain 31% less growth capital than the average U.S. firm. Inner City 100 firms are more conservatively capitalized and rely more heavily on debt and personal assets. As a result, inner city firms are often impeded from achieving the same scale and growth as comparable U.S. firms.
- **Inner City 100 firms utilize government contracts and public programs for growth.** Nearly one-third of firms report the government as their primary customer. Many of these firms have successfully leveraged government contracts to achieve greater scale. More than half of the Inner City 100 firms received Small Business Administration (SBA) loans, and 46% have taken advantage of at least one government program such as job creation tax credits or employee training grants.
- **Inner City 100 firms invest in the local workforce and generate greater loyalty and productivity among their employees.** These firms invest more in training and provide health and other employee benefits more frequently than the average U.S. firm. They also experience lower employee turnover rates (16%) than the national average (50%). As a result, Inner City 100 firms are more productive than their national peers across all sectors.

I. Introduction

Inner cities play a critical role in growing the U.S. economy and maintaining competitiveness internationally. Our nation's inner cities represent areas of both great need and great opportunity and offer businesses distinct competitive advantages unlike any other areas of the country. Understanding the opportunities and challenges urban businesses face is vital to generating economic prosperity for our inner cities.

Launched in 1999, the Inner City 100 program recognizes successful inner city companies and their CEOs as role models for entrepreneurship, innovative business practices and job creation in inner city communities. For more than a decade, this annual ranking of the one hundred fastest-growing inner city companies in the U.S. has spotlighted firms whose achievements are changing perceptions about our inner cities and demonstrating the possibilities that exist within our urban communities.

The annual list, published in *BusinessWeek SmallBiz* magazine, receives substantial national and local media attention. Past winners have benefited from networking opportunities, recognition from local government and increased access to capital as a result of being selected for the Inner City 100 list. Participants have also cited meeting major investors, winning multi-million dollar contracts and gaining increased credibility. Winning company CEOs take part in a free executive education day at Harvard Business School with case studies led by Harvard Business School professors and sessions led by industry experts.

In the decade since the first annual ranking, 557 different companies have earned positions on the Inner City 100. These companies have collectively generated almost $25 billion in revenue during their time on the list and experienced a median compound annual growth rate (CAGR) of 41%. They have created more than 63,000 new jobs and demonstrated their commitment to their communities through volunteer work, philanthropic investments, mentoring and other business and civic engagements. Together, the successes of Inner City 100 firms prove that sound investment opportunities exist within our nation's inner cities. Moreover, growing inner city firms can have a profound impact on their communities, creating a sustainable path for the economic prosperity of local residents.

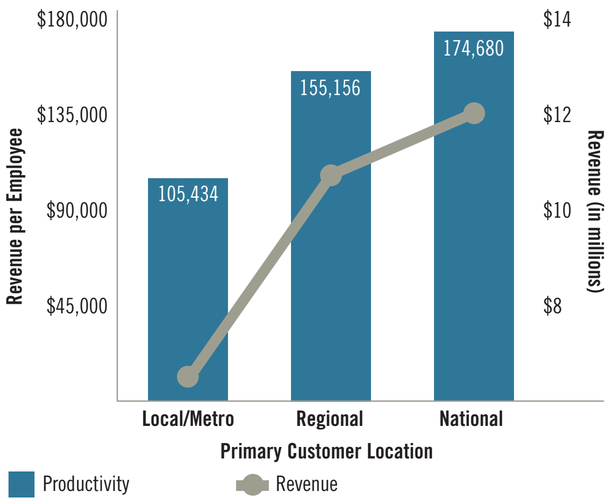
The Inner City 100 database offers an unprecedented learning opportunity: ten years of firm level data on nearly 600 companies. This analysis provides initial insights into many of the characteristics of these successful inner city firms and the factors influencing their growth. In addition, this assessment briefly examines the impact of the Inner City 100 on job creation and community involvement. It is important to recognize that Inner City 100 firms are selected for their outsized growth, and as such, they are not representative of all inner city firms. However by examining their unique best practices and the challenges they face, we can shed light on the steps that other inner city firms can take to be successful, as well as the obstacles policy makers need to address to support and encourage further job creation. ICIC will continue to collect and analyze additional data to better explain the factors influencing inner city business success.

II. Methods

In order to qualify for the Inner City 100, a company must be headquartered in or have 51% or more of its physical operations in economically distressed urban areas. It must be an independent, for-profit corporation, partnership or proprietorship. It must have ten or more employees and a five-year sales history that includes sales of at least $200,000 in the base year and at least $1 million in the current year with no decrease in sales over the two most recent years.

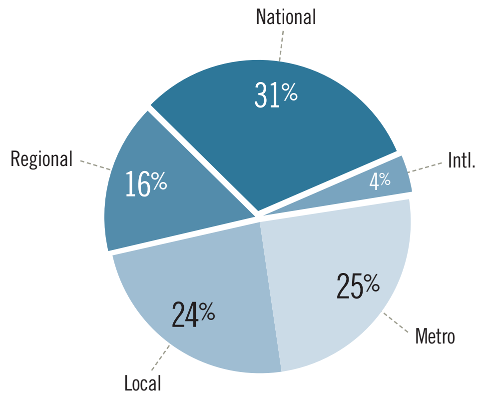
The Inner City 100 database is comprised of ten years of consistent data from each participating firm. It includes self-reported survey responses from 286 unique questions. Of these, 80 questions had at least 200 respondents. Throughout this report, we will compare the Inner City 100 with benchmark data from the following sources: the Kauffman Firm Survey (KFS) which represents 5,000 U.S. firms and three years of longitudinal data; ICIC's proprietary State of the Inner City Economies (SICE) database; and secondary sources including the U.S. Census and Bureau of Labor Statistics.

Inner City 100 Productivity and Revenues, 1997-2007



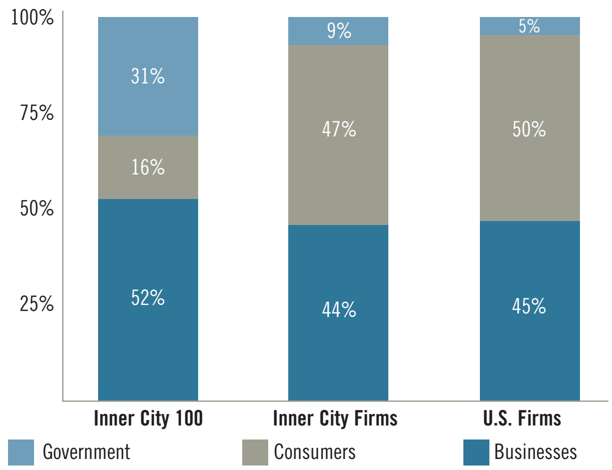
Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007, n=283.

Primary Sales by Customer Location (Percentage of Respondents)



Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007, n=445.

Primary Sources of Revenues



Source and notes: ICIC analysis of Inner City 100 survey data, 2004-2006, n= 250. Kauffman Firm Survey Data, 2004-2006, n=301 for IC firms and n=3,594 for U.S. firms.

III. Snapshot: Fast-Growing Inner City Firms

Inner City 100 firms help dispel the myth that all inner city businesses are small, young and unstable firms. Our winners are fast-growing companies by any standard, but they are also strong, stable businesses. The typical Inner City 100 firm is eleven years old and has a median compound annual growth rate of 41%. They are more productive and faster growing than their sector peers inside and outside the inner city; they also experience lower failure rates.

Size: The median Inner City 100 firm earns $8 million in annual revenue. Revenue growth of Inner City 100 firms has dramatically outpaced national averages across all sectors. Firms in the inner city tend to be larger overall, employing an average of 20 people compared with an average of 16 employees for U.S. firms. The typical Inner City 100 firm is substantially larger than both, employing a median of 60 people.

Productivity: Successful inner city firms have developed ways to leverage the inherent advantages of their location. Across all four sectors, Inner City 100 firms were more productive than their sector peers throughout the U.S., according to U.S. Census data. This can be partly explained by the fact that many of these firms have already achieved some size and scale and are able to better leverage some of their overhead costs. There are also firm-specific factors at work which will be discussed later in this report.

Customer mix: While inner cities are dominated by firms that serve the immediate local area, Inner City 100 firms derive a little more than half of their revenues from regional, national and international customers. This ability to establish a broader customer base across geographies has also contributed to the higher productivity of Inner City 100 firms. Inner City 100 firms that identified national customers as their primary customer base reported revenues that were nearly twice as high as firms whose revenues primarily came from local and metro area customers and productivity that was 65% greater.

Many Inner City 100 firms rely heavily on government contracts as a source of revenue. Nearly one-third of Inner City 100 CEOs reported that their primary revenue comes from government sources. This figure is significantly lower for all inner city businesses (10%) and the

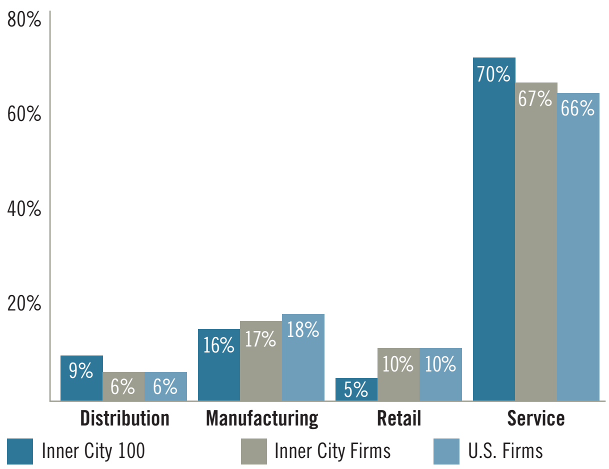
U.S. (6%) as a whole. Virtually all of the Inner City 100 firms that identified government contracts as a primary revenue source are from the service sector – 30% coming from construction services alone. Government contracts provide stability for many inner city businesses. These contracts can generate several millions of dollars in sales and last for many years, serving as a reliable, steady stream of revenue. They can also help a firm grow to scale more quickly, opening the door for other large contracts with both government and non-government organizations. In fact, Inner City 100 firms who reported government as their primary source of revenue had median revenues that were 13% higher than the rest of the Inner City 100 firms.

Geographic distribution: Inner City 100 firms are fairly evenly distributed throughout the U.S. with winners from 41 states and 142 cities. A comparison of the distribution of firm headquarters location reveals only minor differences between Inner City 100 firms and all U.S. firms.

Sector breakdown: Similar to the U.S. economy, the overwhelming majority of inner city firms are in the service sector. Likewise, Inner City 100 firms have a higher representation in this sector and are somewhat underrepresented in the manufacturing sector, which requires greater access to outside capital. Inner City 100 firms are also overrepresented in the distribution sector, with many of them capitalizing on the infrastructure density within inner cities. The underrepresentation of retail firms among the Inner City 100 is likely due to physical capacity limitations on growth, as retailers traditionally rely on new square footage to supplement same store growth.

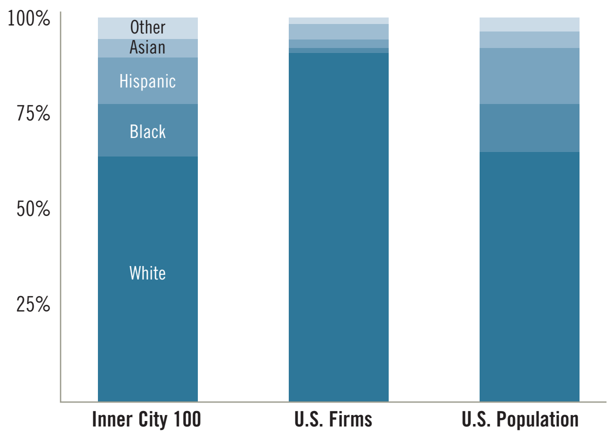
Leadership: The average Inner City 100 CEO founded his or her company when he or she was 32 years old. This is younger than the median founding age of 40 for the typical business owner, according to a recent analysis sponsored by the Kauffman Foundation. Importantly, these CEOs have strong connections to the inner city: 71% have lived in the inner city and a third of them still do. Almost 80% of these CEOs have a bachelor's degree or higher, a figure significantly greater than 40% of degree holders among all U.S. small business owners. Moreover, 60% of Inner City 100 CEOs had a close relative during their childhood who ran his or her own business. This early exposure to entrepreneurship has had an impact on business success. Inner City CEOs with a family history of business ownership generate 28% higher revenues.

Sector Distribution



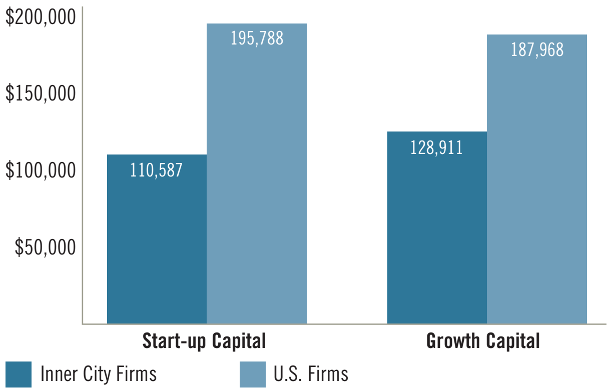
Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007, n=134; Kauffman Firm Survey Data, 2004-2006, n=426 for IC firms and n=4,920 for U.S. firms.

Ethnicity of Inner City 100 CEOs vs. U.S. Firms and Population



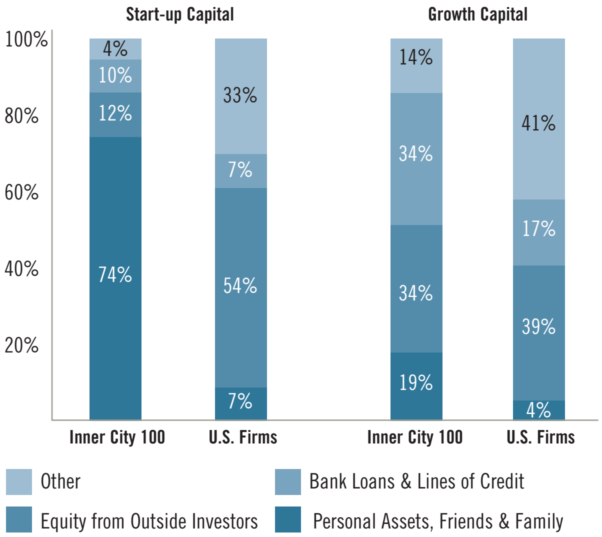
Source and notes: ICIC analysis of Inner City 100 survey data, average values 1997-2007, n=557; U.S. Census, Survey of Business Owners, 2002.

Start-up and Growth Capital



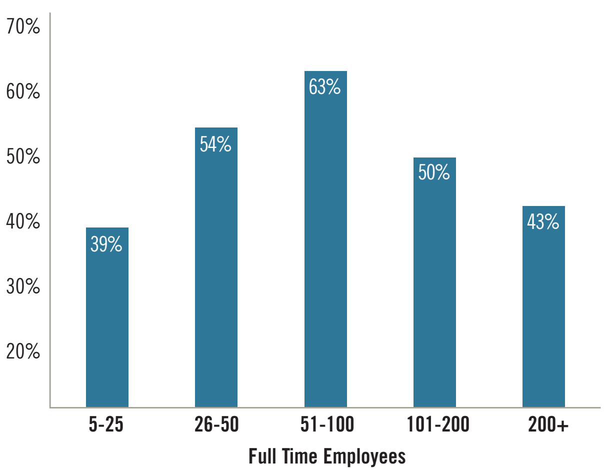
Source and notes: ICIC analysis of Kauffman Firm Survey Data, 2004-2006, n=393 for IC firms and n=4,920 for U.S. firms. All numbers represent averages.

Sources of Capital



Sourcs and notes: ICIC analysis of Inner City 100 survey data, 2006, n=64; Kauffman Firm Survey Data, 2004-2006, n=393 for IC and n=4,920 for U.S. Other represents government sources for Inner City 100 firms and other companies for U.S. firms.

Use of SBA Programs by Inner City 100 Firms



Source and notes: ICIC analysis of Inner City 100 survey data, 2007, n=92.

Inner City 100 firms have nearly twice the percentage of women-ownership (18%) compared to the corporate national average (10%). The CEOs of these fast-growing firms are also more ethnically diverse, with demographics that closely mirror those of the overall U.S. population. Hiring patterns seem to be influenced by these demographics. Minority CEOs typically hire a more diverse workforce (65% minority), while non-minority CEOs hire workforces that are 28% minority.

IV. Factors Influencing Growth of Inner City Firms

Limited access to capital: Our survey of the Inner City 100 revealed that "access to capital" is one of the most frequently cited barriers to growth. Inner city firms begin operations with 44% less start-up capital than U.S. firms and receive 31% less growth capital as their businesses expand. Inner city firms also tend to be more conservatively capitalized, relying heavily on personal assets in the start-up phase and bank loans as they grow. More than 70% of an Inner City 100 firm's start-up capital is from personal assets, friends and family, as opposed to less than 10% for a typical start-up firm.

This capital profile has a significant impact on business growth strategies of inner city firms which frequently run their businesses for cash flow rather than for growth. This has implications for the growth trajectory of inner city firms. In a 2009 ICIC interview, the chief strategy officer for an advertising and marketing firm explained, "Capital access is a vicious cycle; without money, it is almost impossible to get money. We took out a $50,000 line of credit with a bank, but we use this as more of a convenience, rarely relying on the debt and paying the balance off immediately so as not to accrue interest charges." This more conservative style has one important benefit. Failure rates of Inner City 100 firms are remarkably low, with only 16 firms out of 557 companies going out of business over the last decade. This compares with an average failure rate of 20% for U.S. firms overall.

Use of government programs: Forty-six percent of Inner City 100 firms reported using at least one public program including empowerment zones, job creation tax credits and employee training grants. However, the impact of tax credits and wage subsidies was questionable. Job creation tax credits and wage subsidies did not generate higher job growth among the Inner City 100 firms who used them. In fact, those companies not participating in tax credit and wage subsidy programs reported a slightly higher five-year employee CAGR (21%) than those companies that did participate (16%).

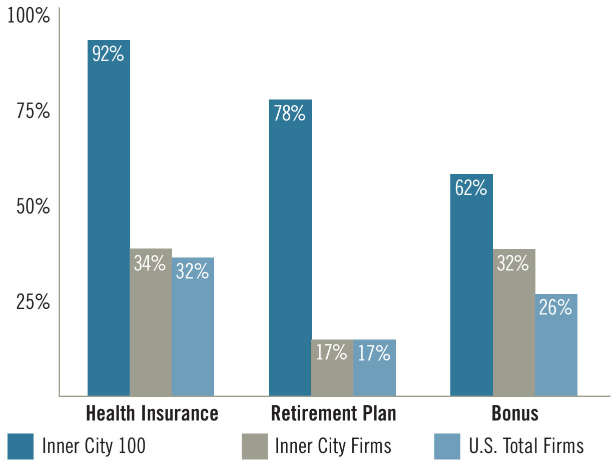
Inner city firms tend to use SBA loans more frequently than firms outside the inner city. This is overwhelmingly true of the 53% of Inner City 100 firms who reported taking advantage of SBA loan programs. The use of these programs varied based on firm size. Mid-range firms, in terms of revenue and total number of full-time employees, were most likely to use SBA programs. Smaller firms reported greater difficulty taking advantage of SBA loan programs as a result of a lack of internal company resources to navigate the red tape of the programs, as well as the transaction costs associated with them.

Higher level of benefits and training: One key factor separating Inner City 100 winners from the average business inside and outside of the inner city is employee benefit offerings. In studies comparing employee health insurance, retirement plans and employee bonuses, Inner City 100 firms were two and three times as likely to offer employee benefit packages than peer firms in inner cities and throughout the U.S. For example, 92% of Inner City 100 firms offered health insurance plans to their employees, as compared to barely one-third of inner city firms and other U.S. firms. Another differentiating factor is training. Inner City 100 firms spend about 4% of payroll on training, a number twice as much as the typical U.S. firm. Interestingly, while Inner City 100 firms embraced the use of SBA loans and other public programs, they rarely utilized public training programs. Instead these fast-growing firms relied on their own proprietary training.

These factors coupled with the higher salaries offered by successful firms help to explain the substantially greater employee loyalty that Inner City 100 firms experience, with 16% average annual employee turnover versus the national average of more than 50%. This also contributes to the higher employee productivity reported by Inner City 100 firms. In certain sectors, revenue per employee is tens of thousands of dollars greater than the typical U.S. firm.

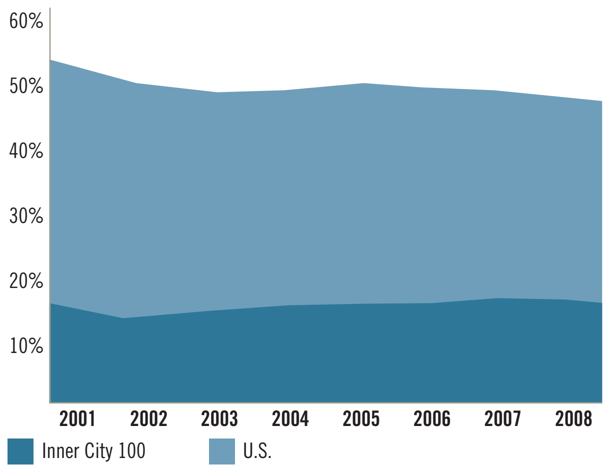
Business environment: Inner cities are among the most valuable locations in their regions, convenient to high-rent business centers, entertainment complexes, public transportation and more. Inner City 100 CEOs cited a number of advantages to working in the inner city, including access to public transportation and proximity to customers. Infrastructure density, particularly the location of transportation assets, was viewed as one of the

Percentage of Firms Offering Employee Benefits



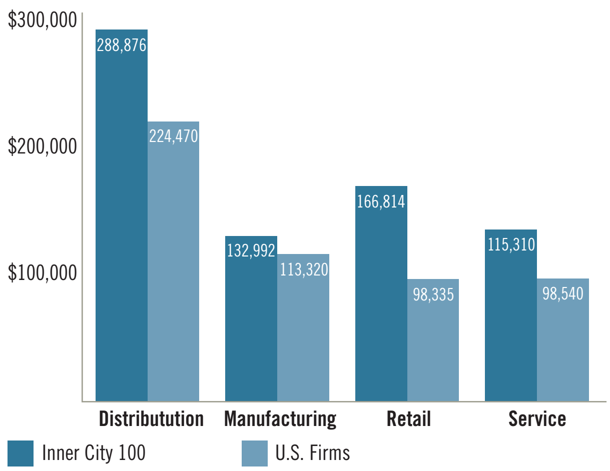
Source and notes: ICIC analysis of Inner City 100 survey data, 2001-2009, n=440; Kauffman Firm Survey Data, 2006, n=404 for IC firms and n=4,928 for U.S. firms.

Average Annual Employee Turnover Rate



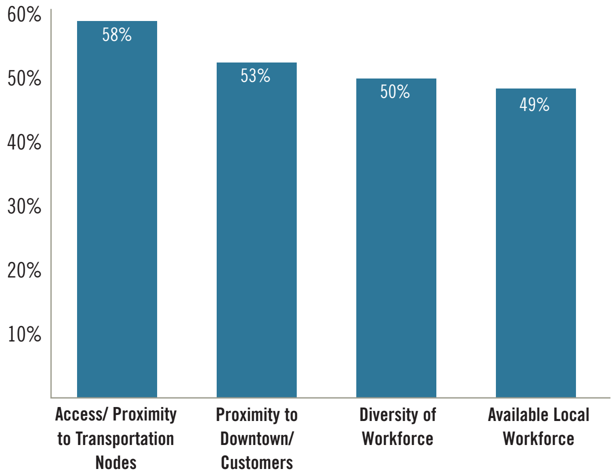
Source and notes: ICIC analysis of Inner City 100 survey data, 2001-2008, n=796; U.S. data from Bureau of Labor Statistics, 2001-2008.

Revenue per Employee By Sector



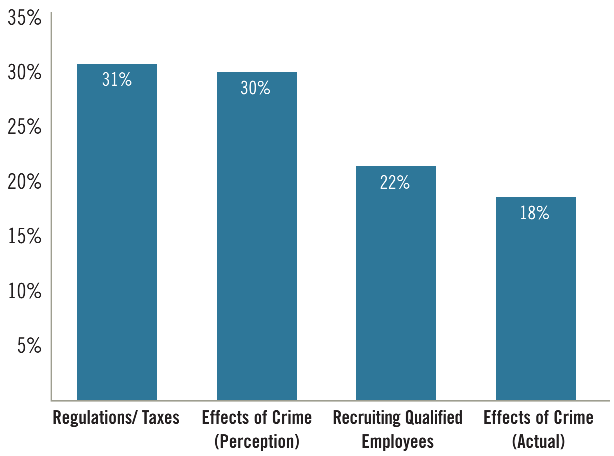
Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007, n=1,100. U.S. firms calculated using BizMiner Market Research Reports, 2005-2007, n=9,443,644.

Most Cited Advantages of an Inner City Location



Source and notes: ICIC analysis of Inner City 100 survey data, 2004-2009, n=504. Respondents chose up to 3 factors out of 10 (2004-2006) or ranked 1 or 2 on a scale of 1 to 7 (2008-2009).

Most Cited Disadvantages of an Inner City Location



Source and notes: ICIC analysis of Inner City 100 survey data, 2004-2009, n=504. Respondents chose up to 3 factors out of 10 (2004-2006) or ranked 1 or 2 on a scale of 1 to 7 (2008-2009).

most important advantages offered by the inner city. The advantages of infrastructure proximity for inner city firms are numerous: shipping is faster and cheaper and transportation is more convenient. In addition, this proximity means higher customer traffic. These advantages are not surprising given that the majority of intermodal facilities and water ports, as well as nearly half of the 200 largest airports, are concentrated in inner city locations. Although the inner city's infrastructure density is considered an asset for many businesses, this competitive advantage is eroding, as the quality of infrastructure, as measured by bridge quality, is declining significantly.

Inner city CEOs also cited a number of disadvantages of their inner city location, including crime, regulation and taxes. Interestingly, these CEOs felt that perception of crime is a bigger obstacle than actual crime. Many Inner City 100 firms have reached out to local law enforcement to work together to ensure the safety of their employees.

Inner City 100 companies have discovered ways to succeed in both advantageous and disadvantageous environments. Surprisingly, a higher percentage of Inner City 100 firms are actually located in the 50 slowest growing inner city locations. While the overall business environment certainly matters, much of these firms' successes are tied to their own business decisions.

V. Inner City 100 Impact

Inner City 100 firms are creating jobs at an astonishing pace, with an employment rate that is significantly greater than the national average. From 1998 to 2007, more than 450,000 inner city firms experienced a net loss of almost 50,000 jobs, while the 557 Inner City 100 firms created more than 63,000 new jobs. A relatively small number of highly successful firms can have a significant impact on total inner city employment. Providing small inner city firms who have yet to fulfill their true growth potential with the tools necessary to expand from 10 employees to 50 employees could generate roughly 2 million more jobs.

Inner City 100 firms also have a disproportionate impact on the economic well-being of the local population, employing a percentage of inner city residents that is two times greater than the average inner city firm. In fact, Inner City 100 firms report great success in hiring from the local community through neighborhood newspapers and employee referrals. The latter is the most heavily utilized method of recruiting new employees. As the CEO of one California-based consumer company explained, “When so much of your employee base is from the inner city and they feel ownership of the company, they become the recruiters.” Ultimately, Inner City 100 companies have generated tremendous loyalty from their workforce by providing access to training and benefits, as well as participating in community-based events. This has created a win-win scenario for both inner city companies and their employees.

Despite all of the competitive advantages of inner city locations – the access to infrastructure, available local workforce, customers, and many more – the number one reason that Inner City 100 CEOs cite for selecting their location is to give back to the community. Each of these successful CEOs has a story to tell about how he or she is committed to civic leadership. Interviews with the CEOs of these companies reveal a laundry list of philanthropic activities from mentoring local inner city youth to disaster relief for the local community. Inner City 100 firms have become a source of jobs and pride for inner city communities.

ICIC

ICIC’s Mission is to promote economic prosperity in America’s inner cities through private sector engagement that lead to jobs, income and wealth creation for local residents.

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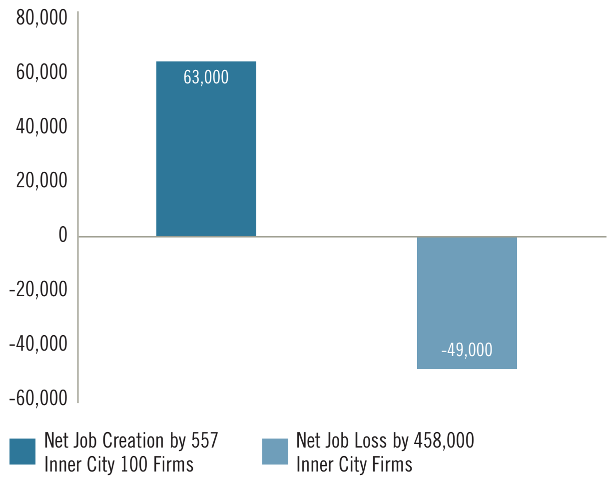
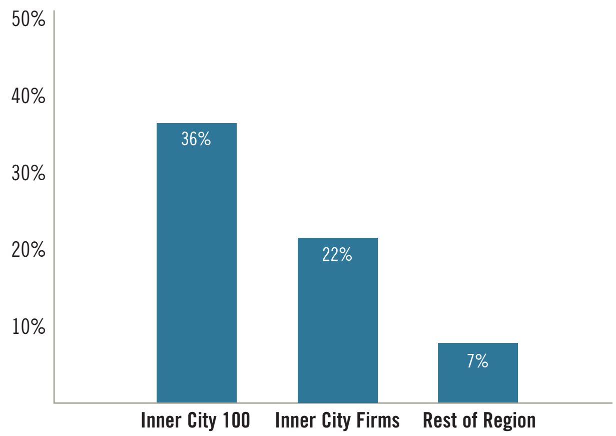
Chevron

Job Growth, 1998-2007



Source and notes: ICIC analysis of Inner City 100 survey data, 1998-2007; State of Inner City Economies (SICE) database, 1998-2007.

Workforce: Percentage of Employees Residing in the Inner City



Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007; State of Inner City Economies (SICE) database, 2005.