



Initiative for a Competitive Inner City

Growing Successful Inner City Businesses: Findings From A Decade of ICIC Data

Deborah Shufirin

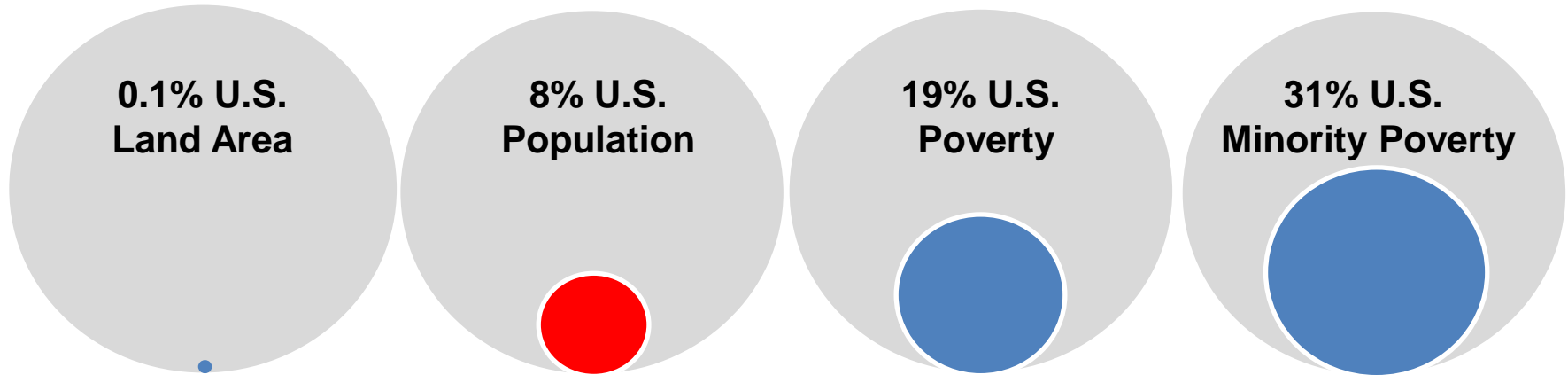
JumpStart: Minority Business Capital Summit

Cleveland, OH

December 3, 2009

- Inner City Economies: Recent Performance
- Inner City Economies: Snapshot of Cleveland
- Impact: Why Are Growing Firms in the Inner City Important?
- Characteristics of Growing Inner City Firms
- Factors Influencing Growth

Poverty Concentration in the 100 Largest Inner Cities, 2000



81% of the population of U.S. 100 largest Inner Cities are minority.



- Targeting poverty in inner cities allows “**wholesale**” rather than “retail” approach to poverty reduction

Methodology for Defining Inner Cities



We define **inner cities** as contiguous census tracts in central cities that are economically distressed with:

Two of the three criteria:

Poverty rate
20% or higher

or

• Poverty rate 1.5x times or more than their MSA

• Median household income $\frac{1}{2}$ or less than their MSA

• Unemployment rate 1.5x or more than their MSA

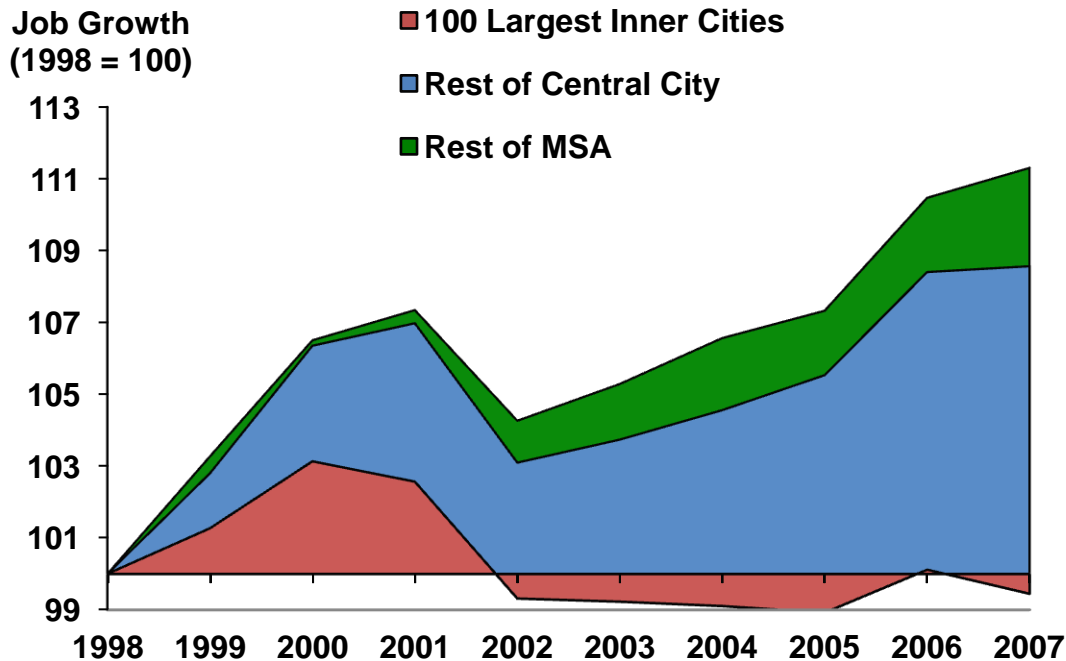


Inner cities, by definition, are urban cores with **high poverty** and **unemployment rates** and **low median income** levels.

Cleveland Map



100 Largest Inner Cities vs. Rest of MSA, 1998 – 2007



	1998 – 2007	
	Job Growth CAGR	Net Job Change
Rest of MSA	1.2%	+6,732,200
Rest of Central City	0.9%	+1,419,200
Inner City	-0.1%	-49,300

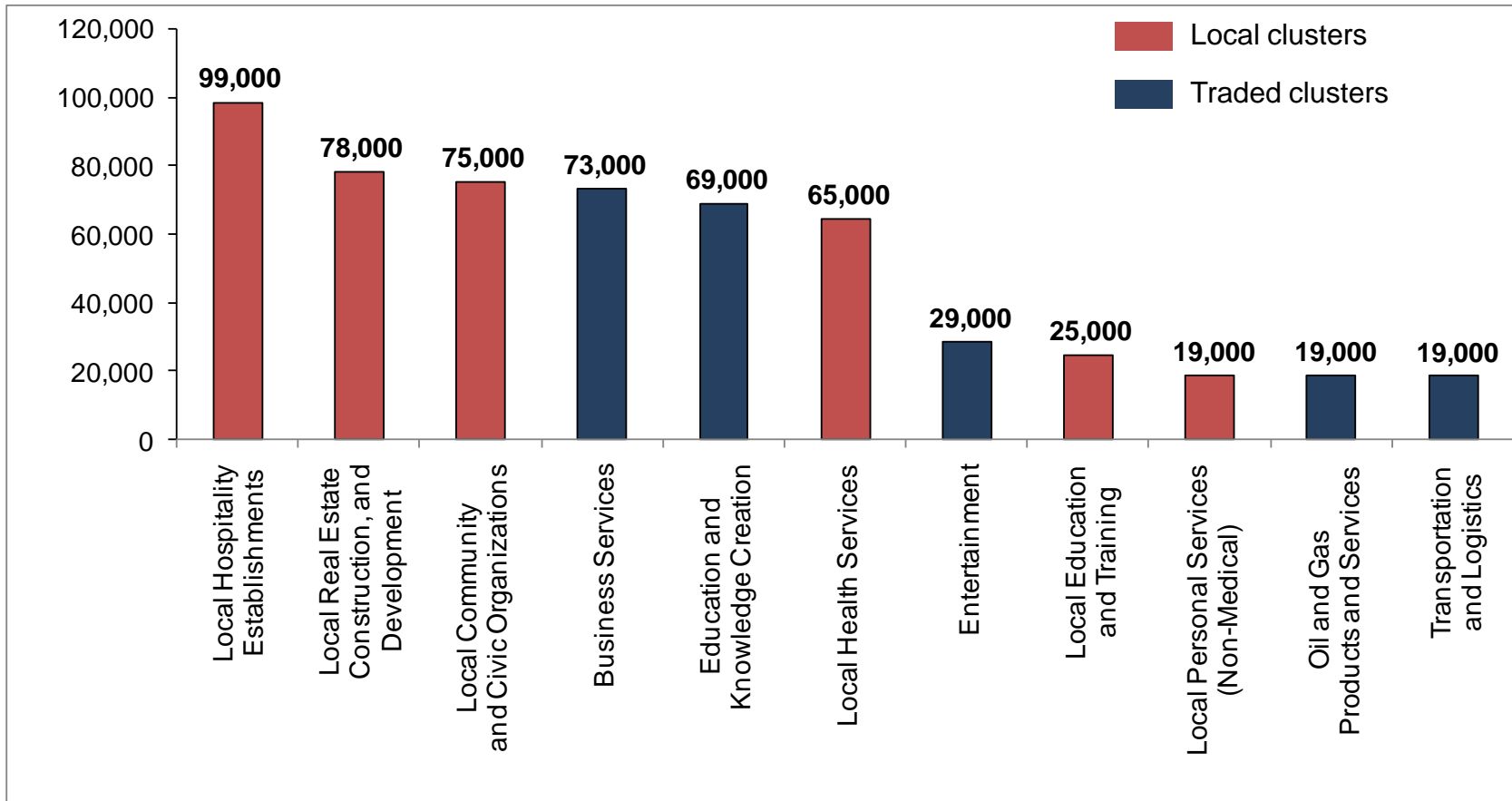


- Inner cities account for 8% of the U.S. workforce
- Between 1998 and 2007, the 100 largest inner cities were stagnant while their regions added over 6.7 million jobs

Factor	Evidence
Regional economic performance	Regional economic performance accounts for less than 10% of inner city performance
Globalization	Inner city economies are no more exposed to global competition than anywhere else in the U.S.; if anything they are less so
Technological advancement	Inner cities perform reasonably well in emerging sectors, including IT

- Outside factors account for a **small portion** of inner city performance

Inner City Job Growth, 1998 - 2007

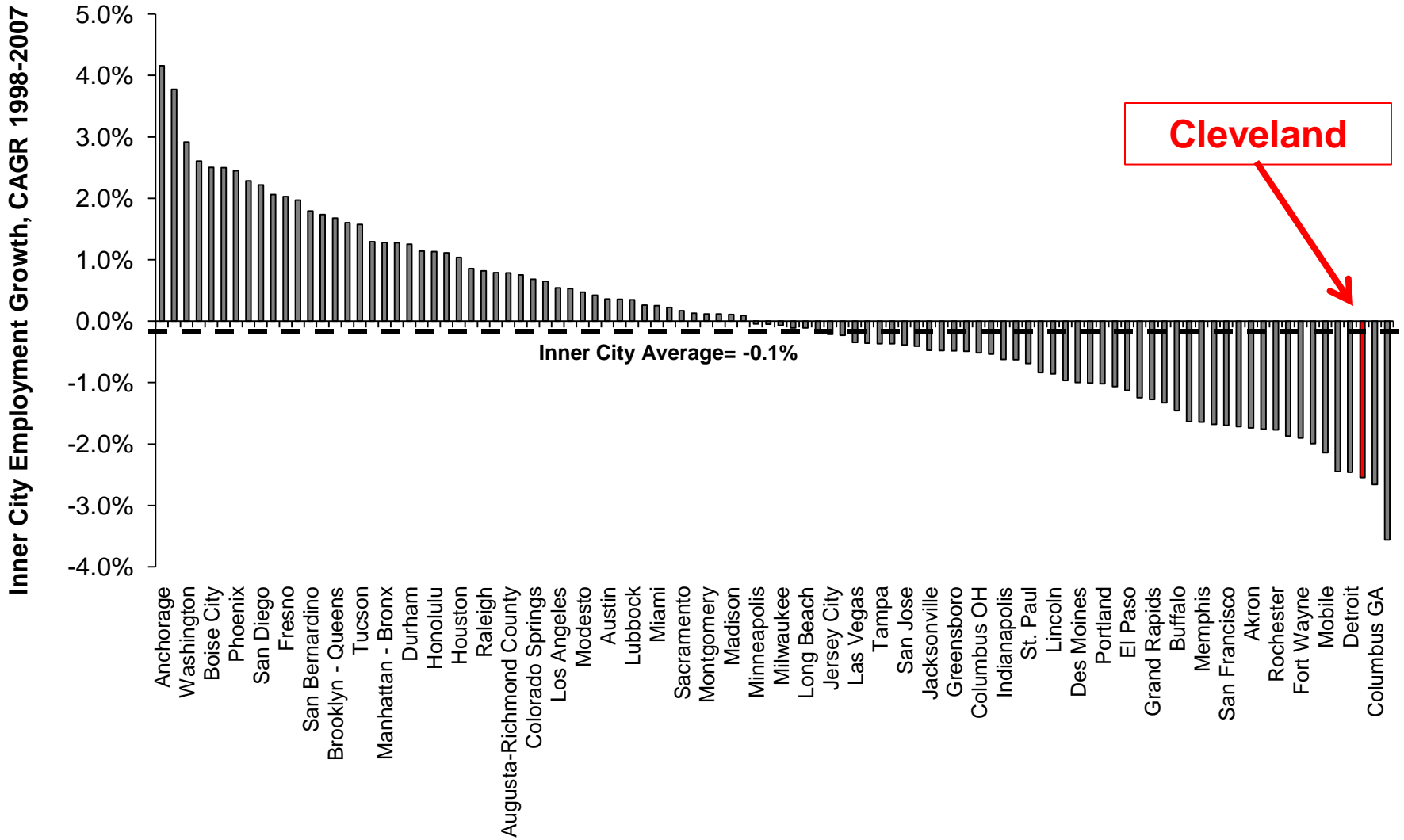


- Inner cities have strengths in both **local** and **traded** clusters

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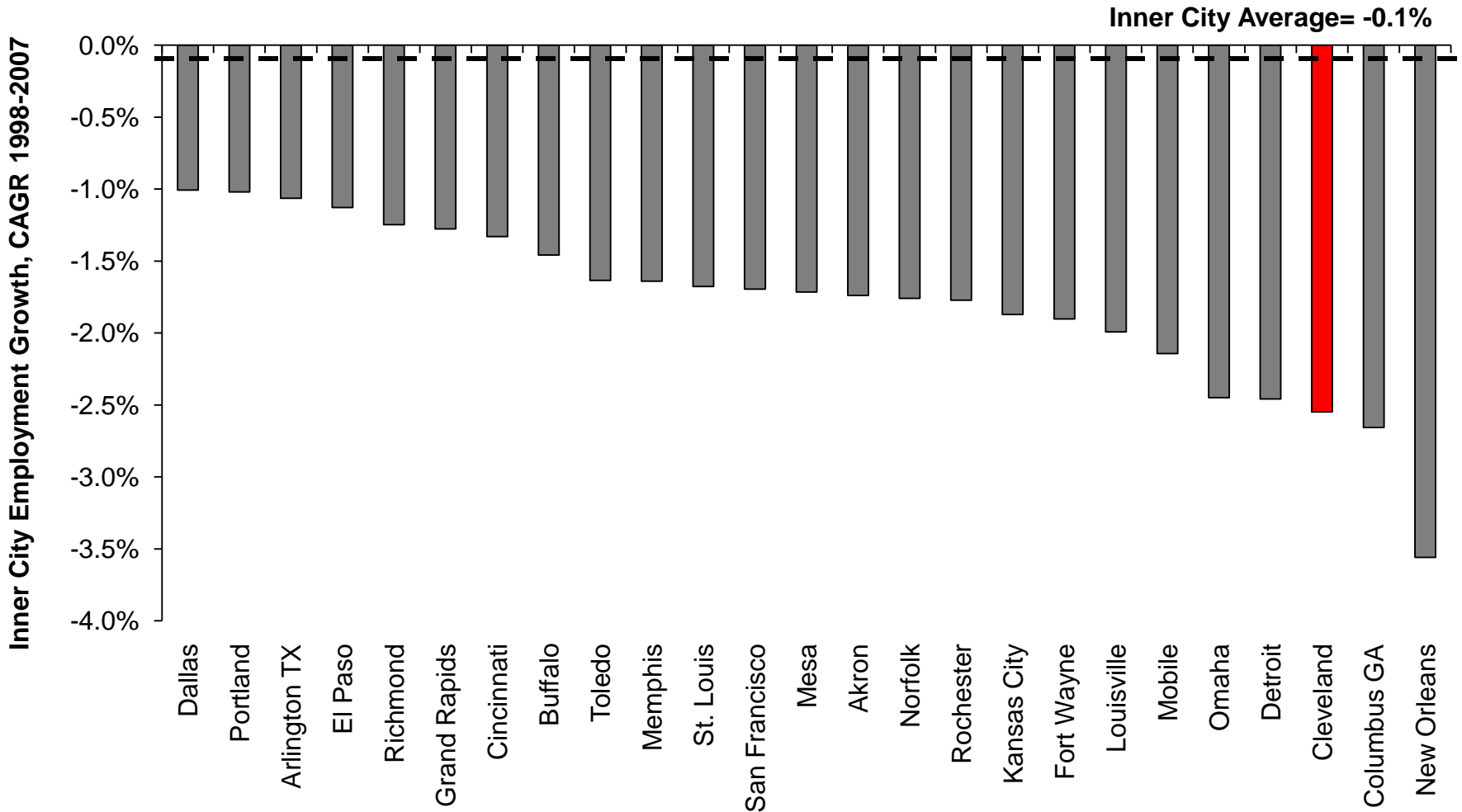
Inner City Employment Growth, 1998-2007



Source: State of the Inner City Economies (SICE) database; ICIC analysis

Inner City Employment Growth, 1998-2007

Bottom 25 Cities by Growth Rate





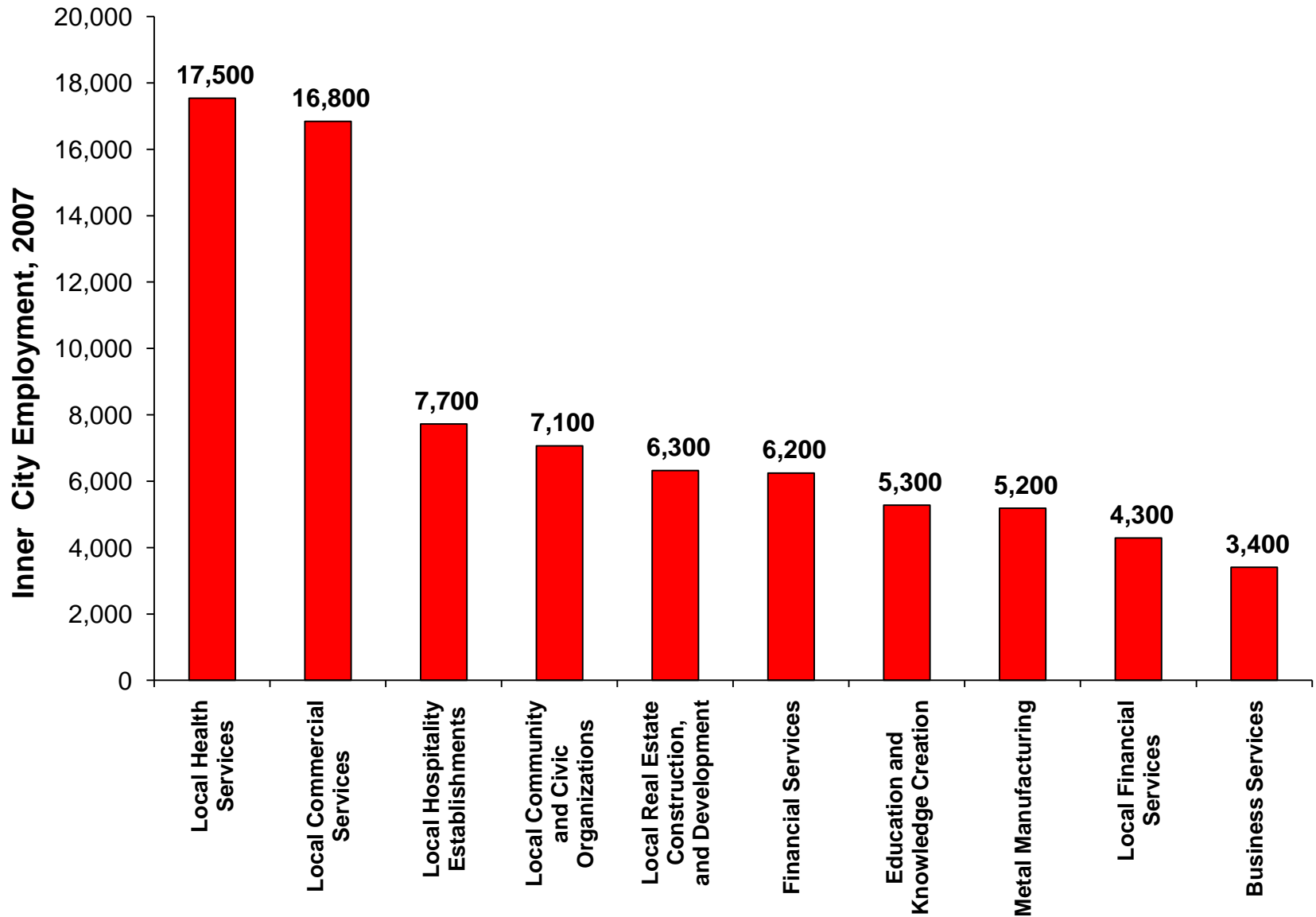
10 Largest Inner City Clusters

100 Largest Inner Cities, 2007

Cluster Name	2007 Employment	Employment Delta 1998-2007	Employment CAGR 1998-2007
Local Health Services	1,262,000	65,500	0.6%
Local Commercial Services	1,192,000	(85,200)	-0.8%
Local Real Estate, Construction, and Development	687,400	79,100	1.4%
Local Hospitality Establishments	657,900	99,400	1.8%
Local Community and Civic Organizations	427,300	75,500	2.2%
Business Services	388,800	73,100	2.3%
Local Financial Services	377,200	(15,100)	-0.4%
Education and Knowledge Creation	307,600	68,500	2.8%
Local Food and Beverage Processing and Distribution	258,600	(27,100)	-1.1%
Financial Services	257,400	1,700	0.1%

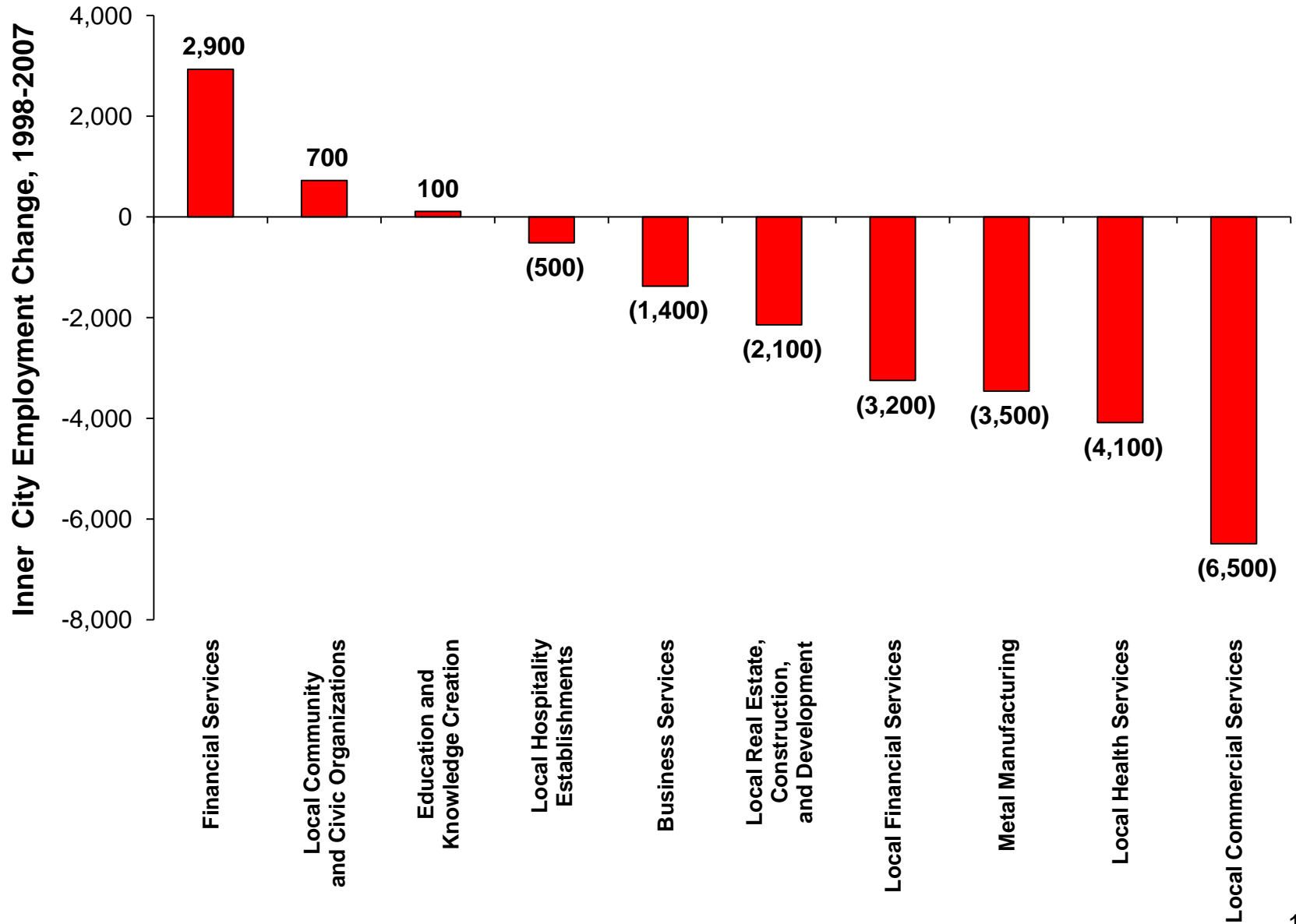
Inner City Cleveland Employment

10 Largest Clusters, 2007



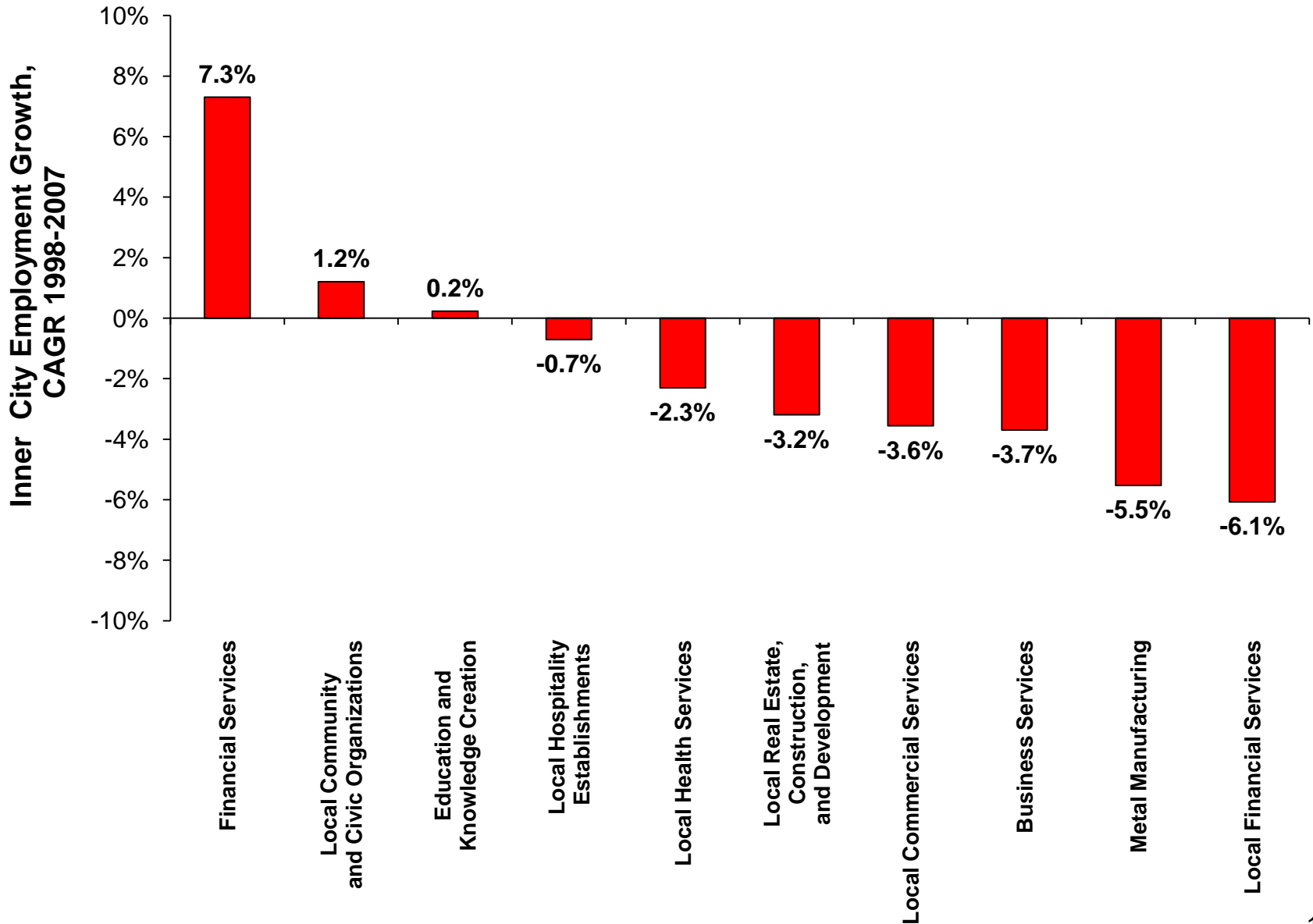
Job Change within Inner City Cleveland

10 Largest Clusters, 2007



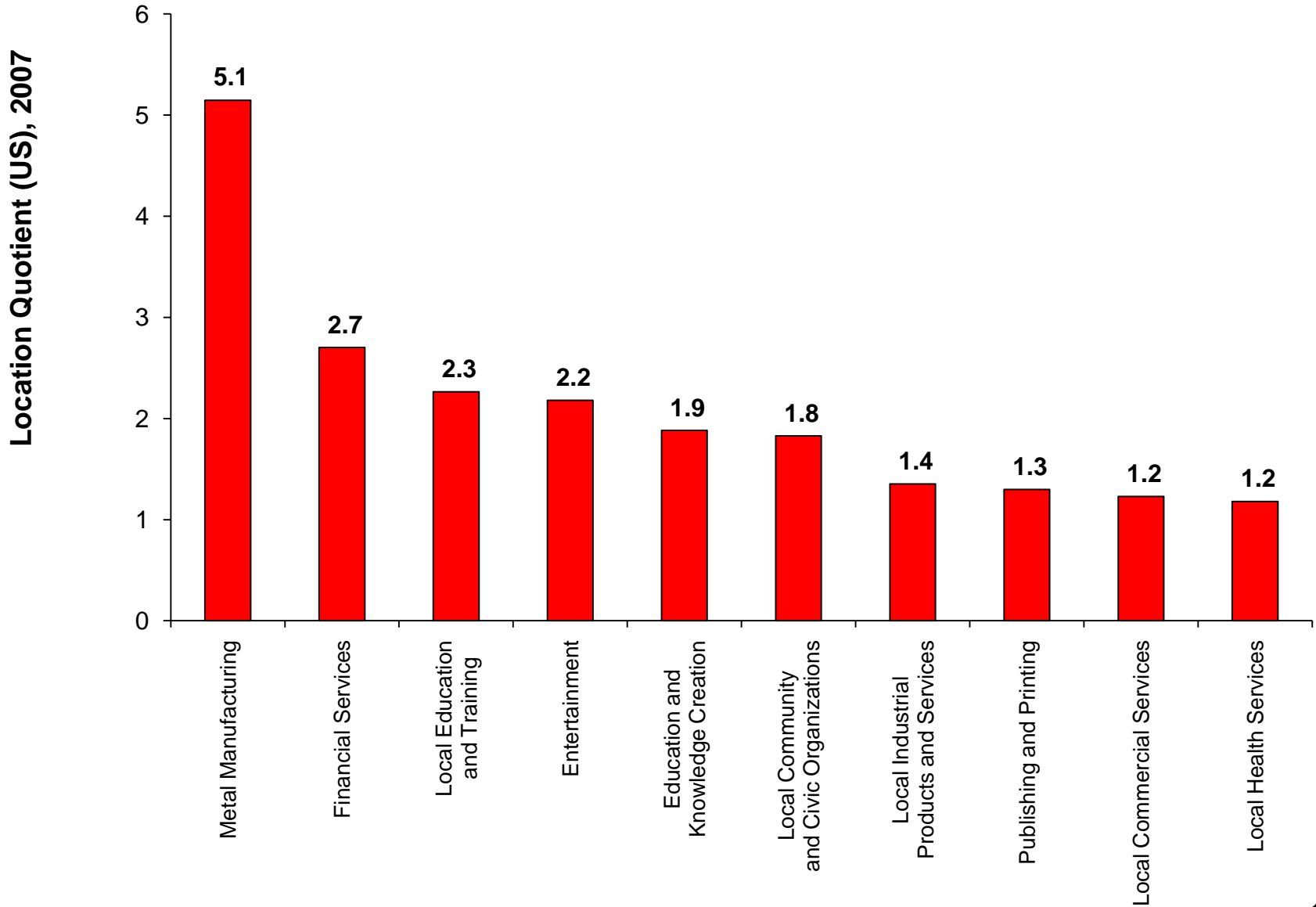
Inner City Cleveland Job Growth

10 Largest Clusters, 2007



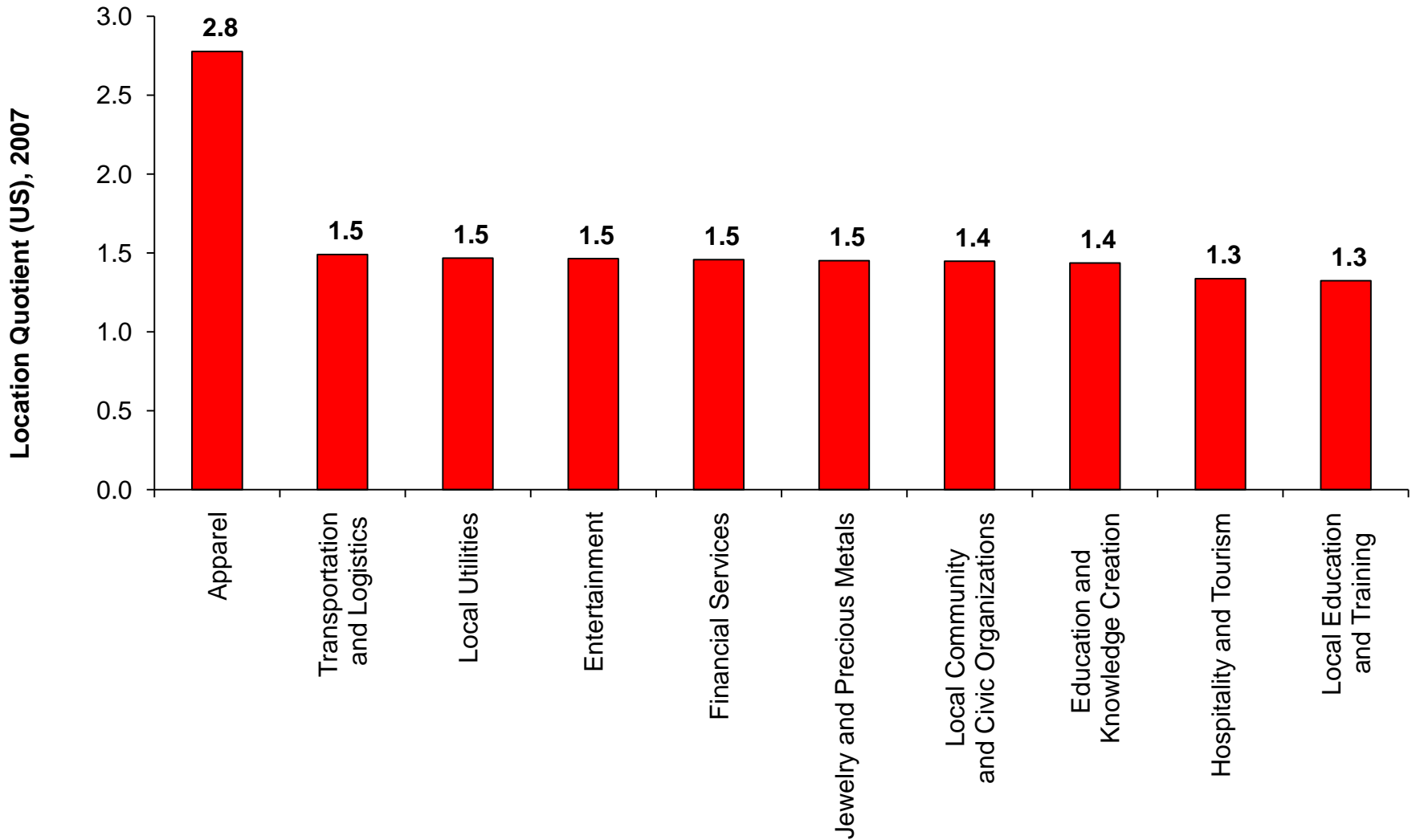
Inner City Cleveland Cluster Strengths

Location Quotients, 2007



Inner City Cluster Strengths

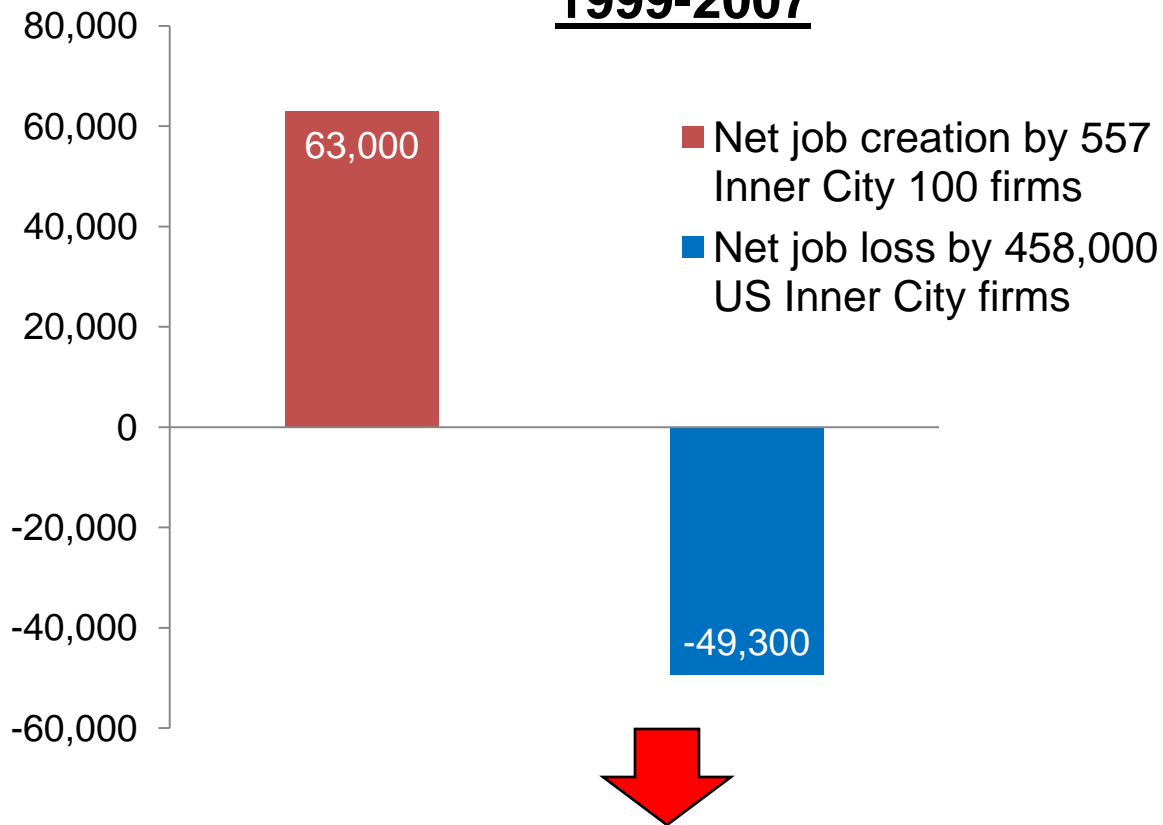
Location Quotient (US), 2007



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The Impact of Inner City 100 Firms on Inner City Economies

Inner City 100 Job Growth vs. Total Inner City Job Growth, 1999-2007



- A small number of rapidly growing firms can have a tremendous impact on inner city job creation and economic revitalization

Firm Location and Inner City Employment

Inner City Residents' Job Location Distribution, 2000



- Growing inner city firms hire **nearly twice as many local inner city residents** as a percent of their total employees as other inner city firms, and **6 times** the regional average



ICIC Location of Job Creation and Inner City Resident Employment

In a typical U.S. region inner city residents hold:

- 22% of the jobs in the inner city
- 11% of the jobs in rest of the central city
- 7% of the jobs in the rest of the region

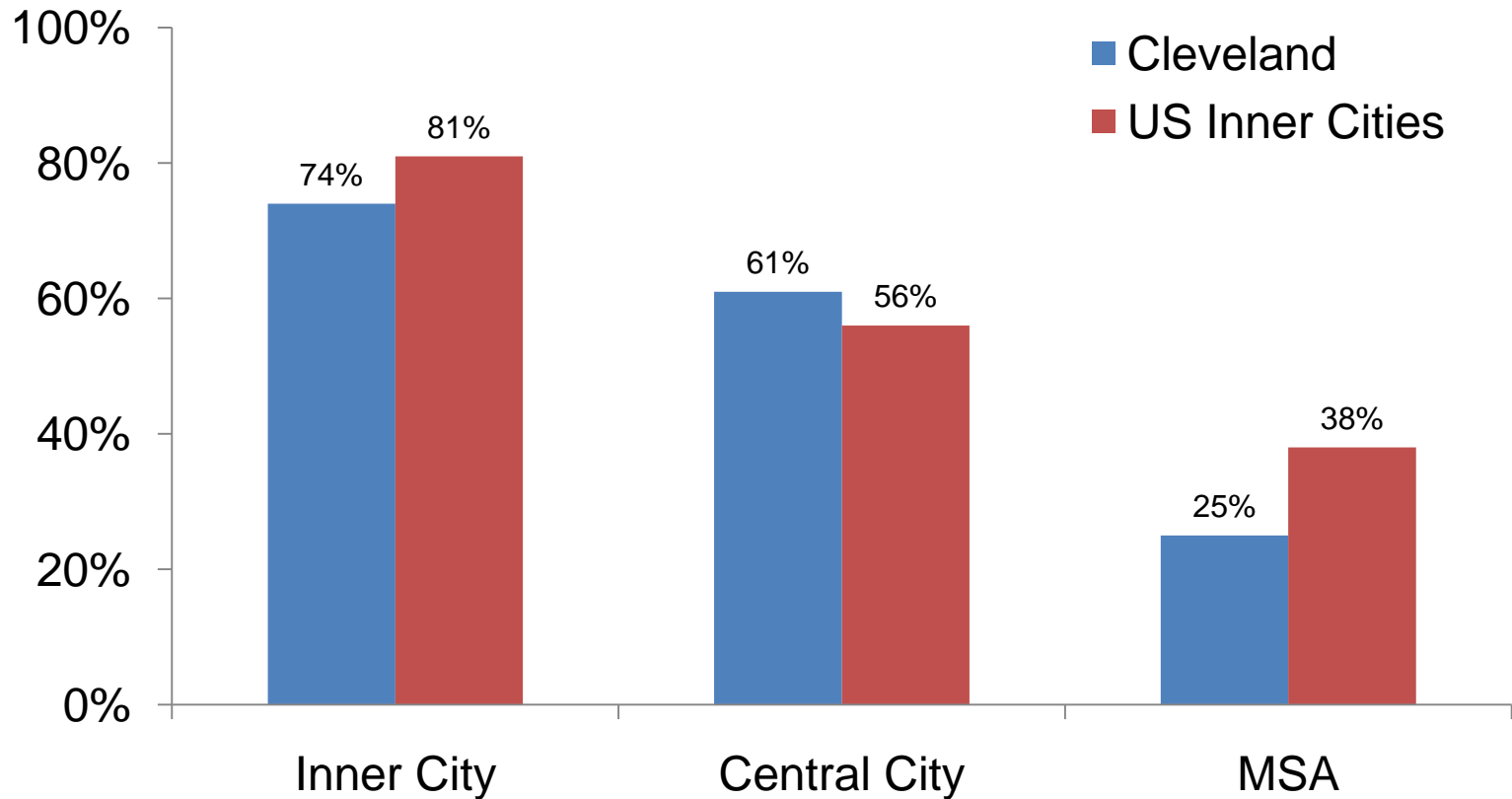
Creating 100 new jobs for inner city residents would require:

- 450 jobs in the inner city
- 850 jobs in the rest of the central city
- 1,450 jobs in the rest of the region



- “Jobs anywhere” are **not enough**. Often inner city residents have difficulty accessing jobs in the rest of the region

Minority Population in Cleveland vs. 100 Largest Inner Cities, 2000

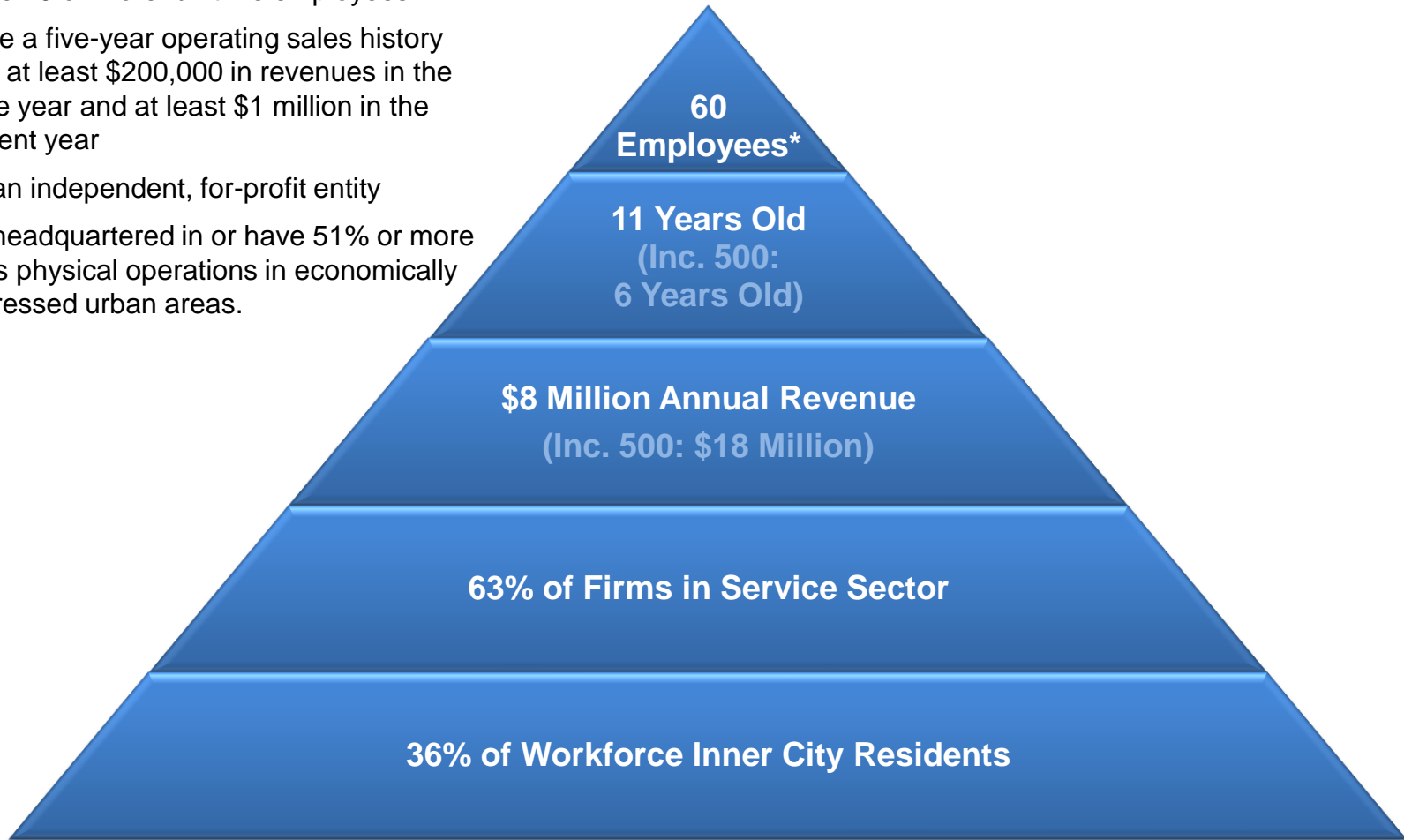


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Snapshot of a Typical Inner City 100 Firm

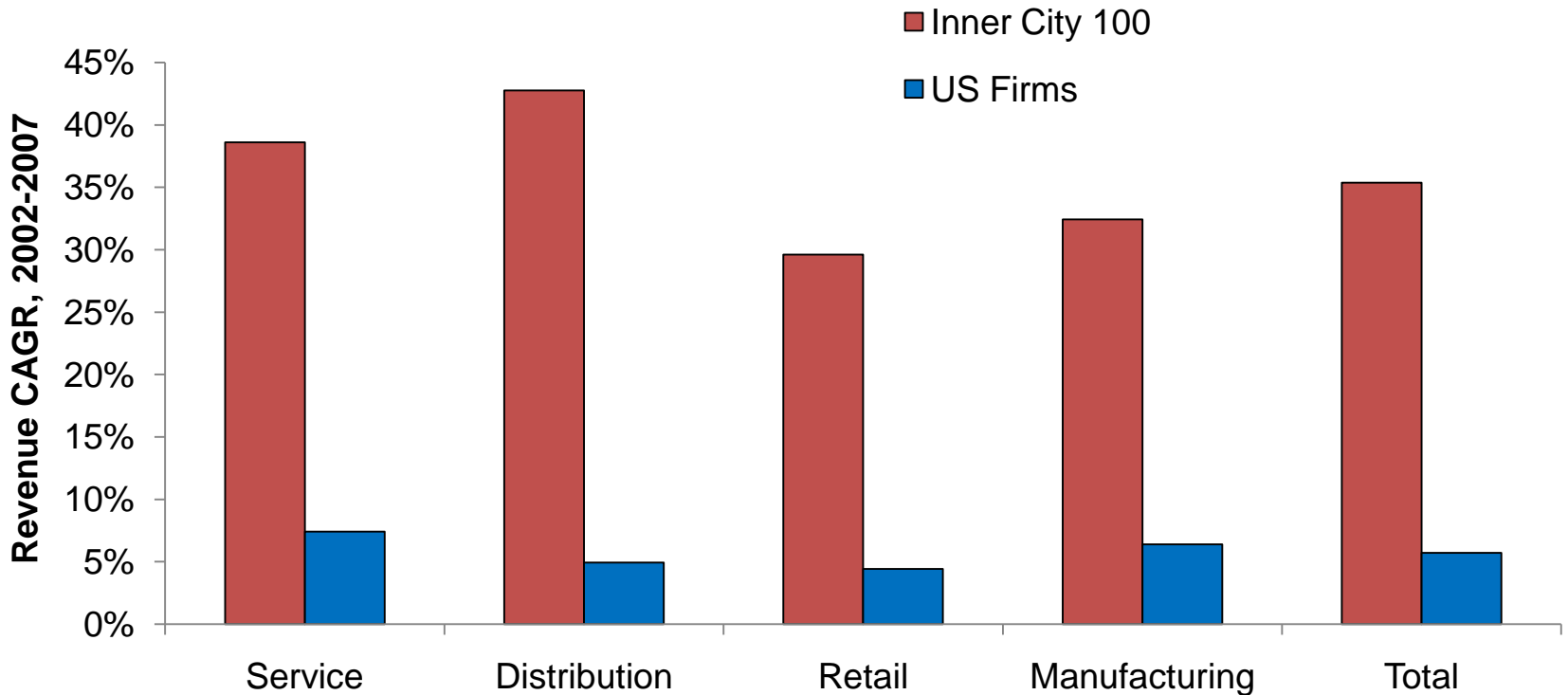
Inner City 100 Firms Must:

- 1) Have 10 or more full-time employees
- 2) Have a five-year operating sales history with at least \$200,000 in revenues in the base year and at least \$1 million in the current year
- 3) Be an independent, for-profit entity
- 4) Be headquartered in or have 51% or more of its physical operations in economically distressed urban areas.



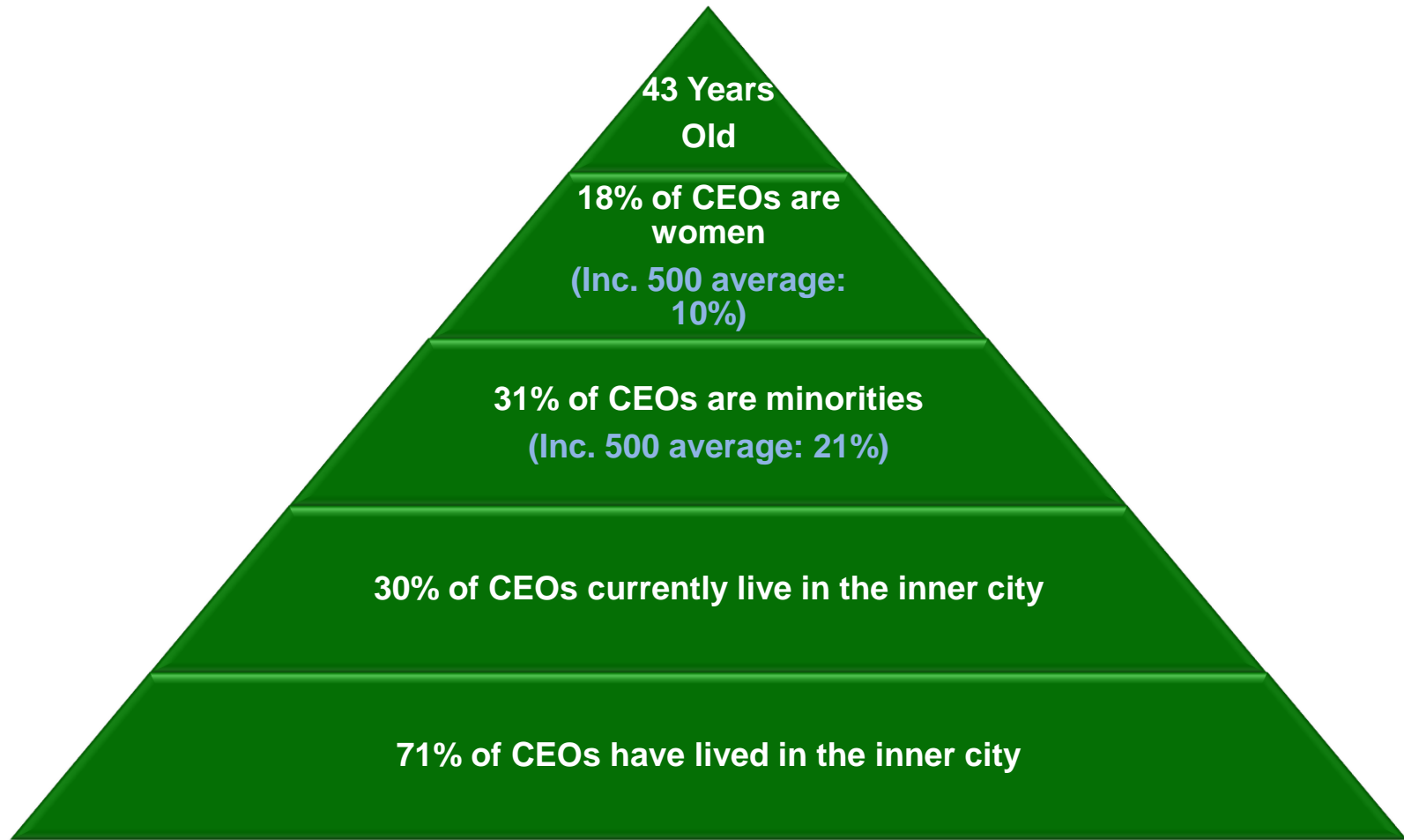
Inner City 100 Firms

Revenue Growth vs. Sector Averages



- Inner City 100 firms have much higher revenue growth across **all sectors**

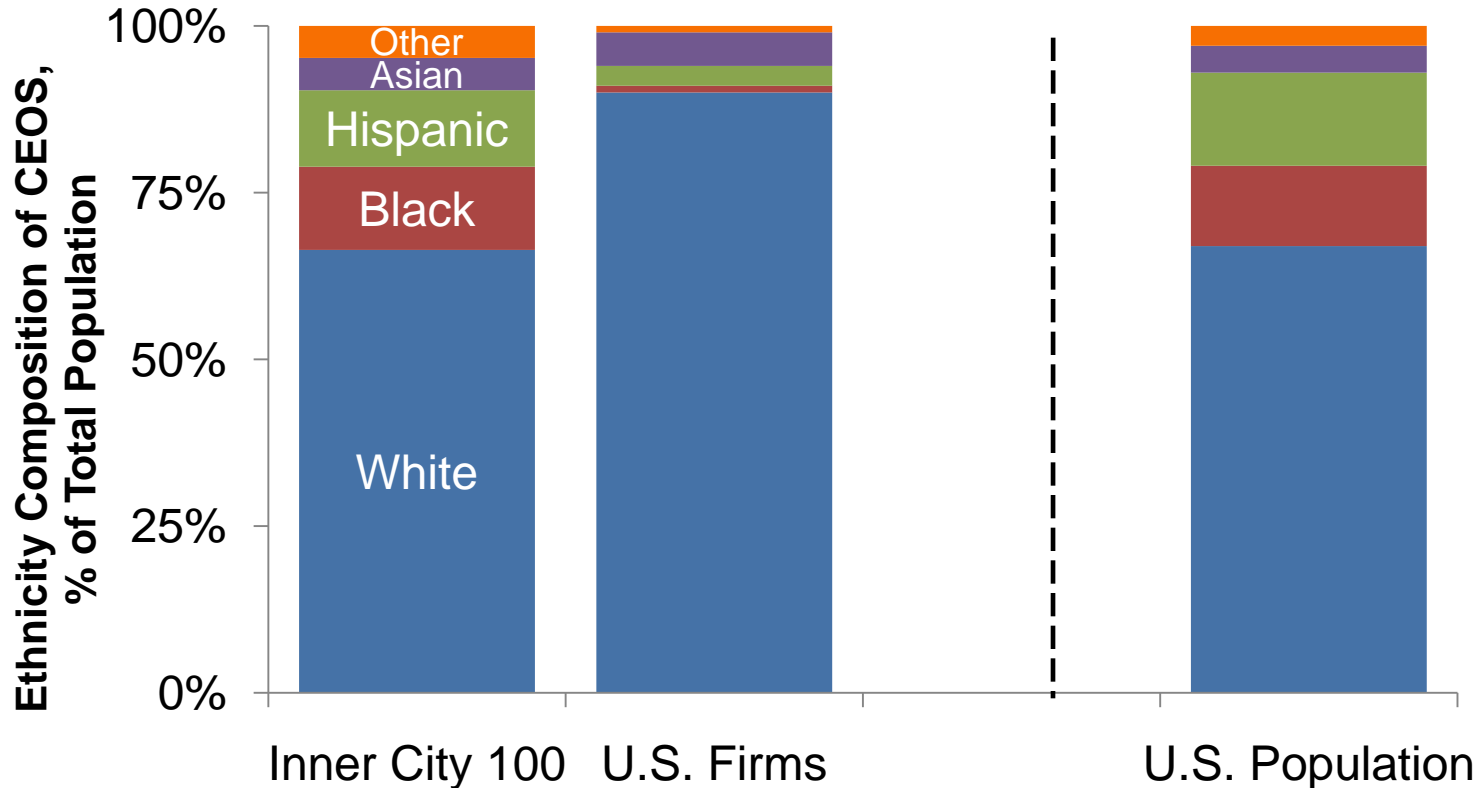
Snapshot of a Typical Inner City 100 CEO





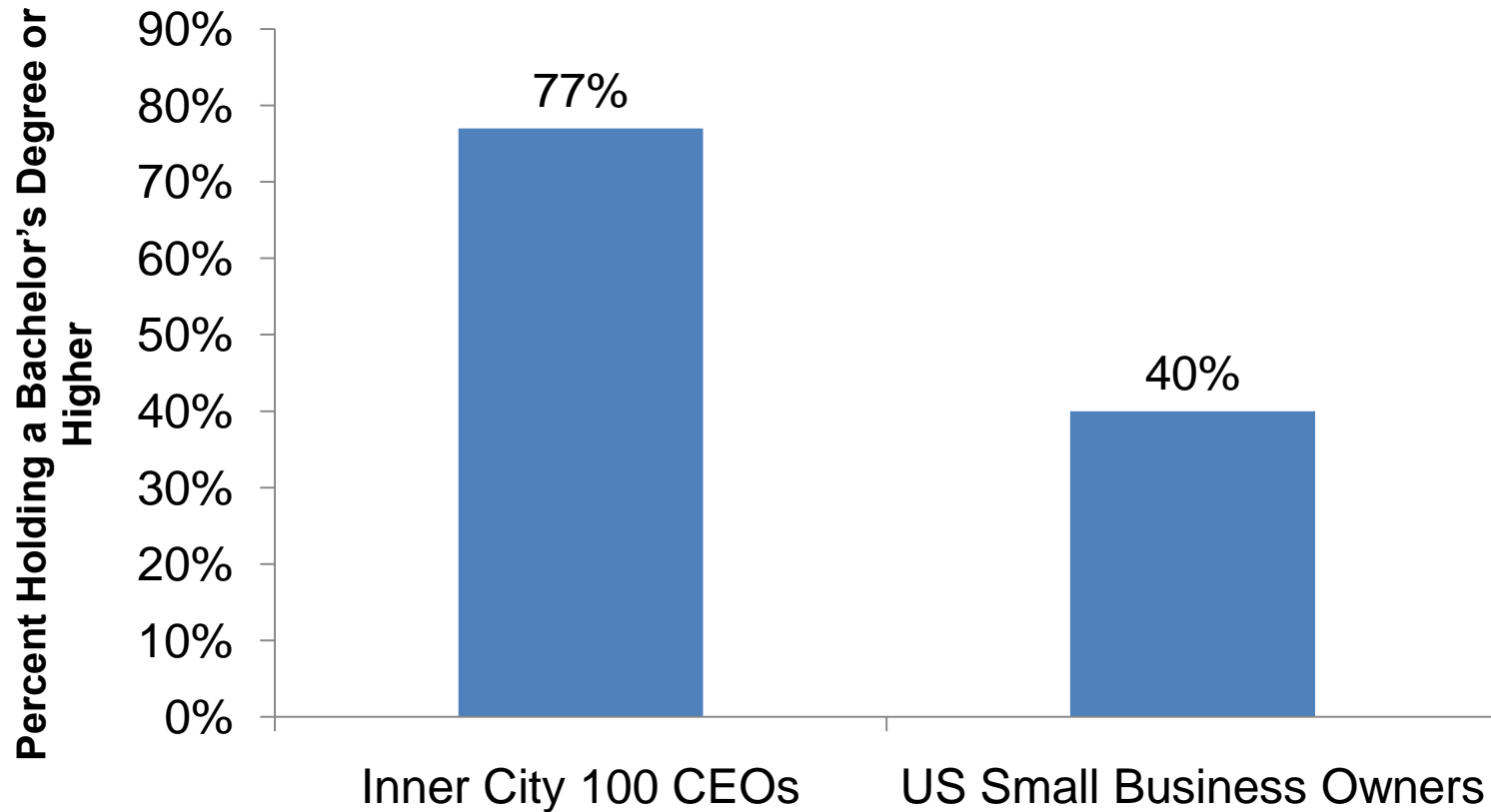
Inner City 100 CEO Demographics

Ethnicity of Inner City 100 CEOs vs. US Firms and US Population



- Inner City 100 CEOs are more ethnically diverse than CEOs of US firms overall and mirror the demographics in the overall US population

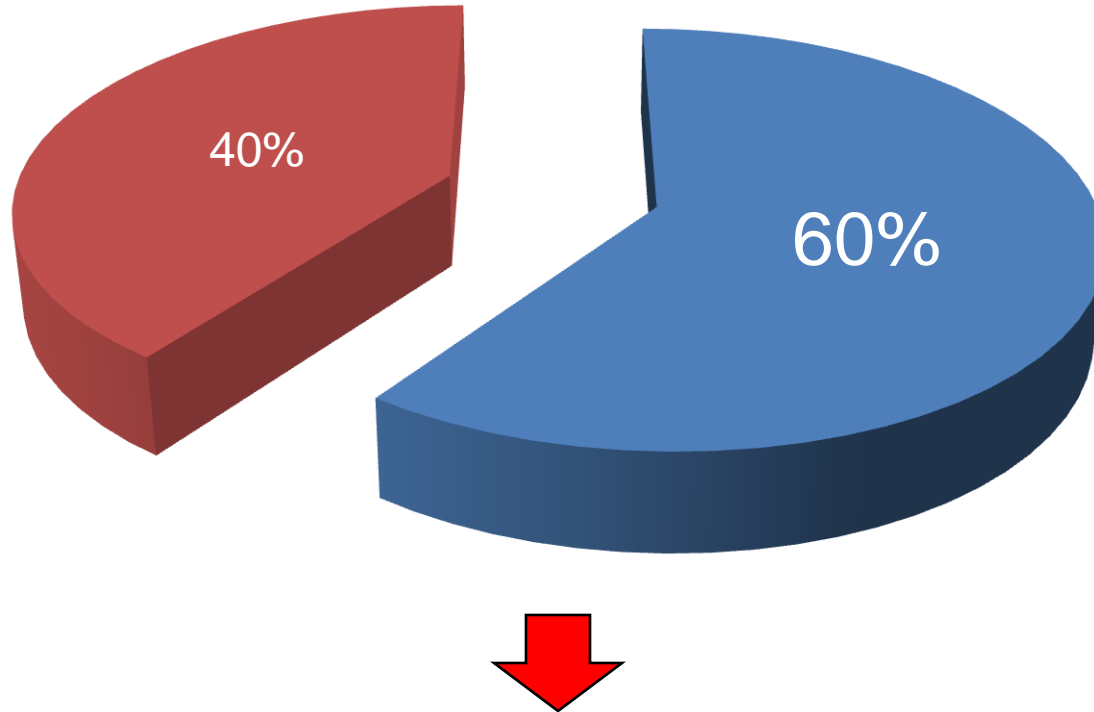
Inner City 100: Proportion of CEOs and Business Owners with Advanced Degrees



- Inner City CEOs are **more educated** than US small business owners overall

Early Exposure to Entrepreneurship

Percentage of Inner City CEOs with a Family History of Business Ownership, 1999-2009



- 60% of Inner City CEOs had a close family member who owned a business while they were growing up

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ICIC Factors Influencing the Growth of Inner City Firms

Financing

- Access to Capital
- Sources of Capital

Inner City Business Environment

- Advantages/ Disadvantages
- Use of Public Programs

Company Revenue Sources

- Customer Composition
- Government Contracts

Leadership and Human Capital

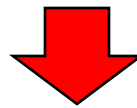
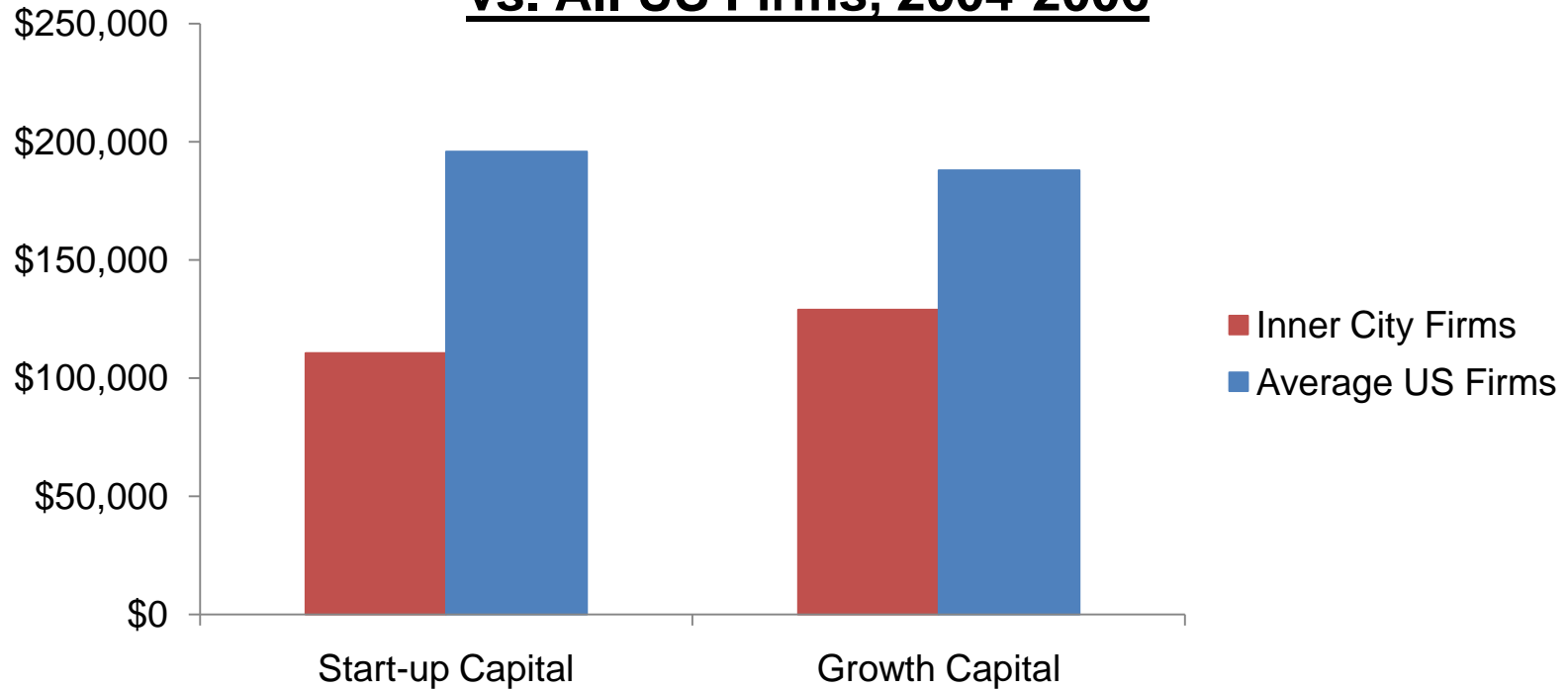
- Inner City Workforce
- Employee Benefits and Training

Selected Findings

- **Limited access to capital** and a heavier **reliance on debt** for growth have impeded Inner City 100 firms from achieving the same **scale and growth** as comparable U.S. firms
- Public programs matter for firm growth, but have varying success and uptake. **SBA loan products are heavily used** by successful inner city firms, especially firms with more than 25 employees
- Inner City 100 firms have used **government contracts to scale** their businesses, as well as achieving higher revenues and productivity from a more geographically diverse customer base
- Inner City 100 firms **hire more local inner city residents** and spend more on **employee training**, generating **lower turnover** and **higher productivity**

Financing: Limited Access to Capital

Start-up and Growth Capital for Inner City 100 Firms vs. All US Firms, 2004-2006

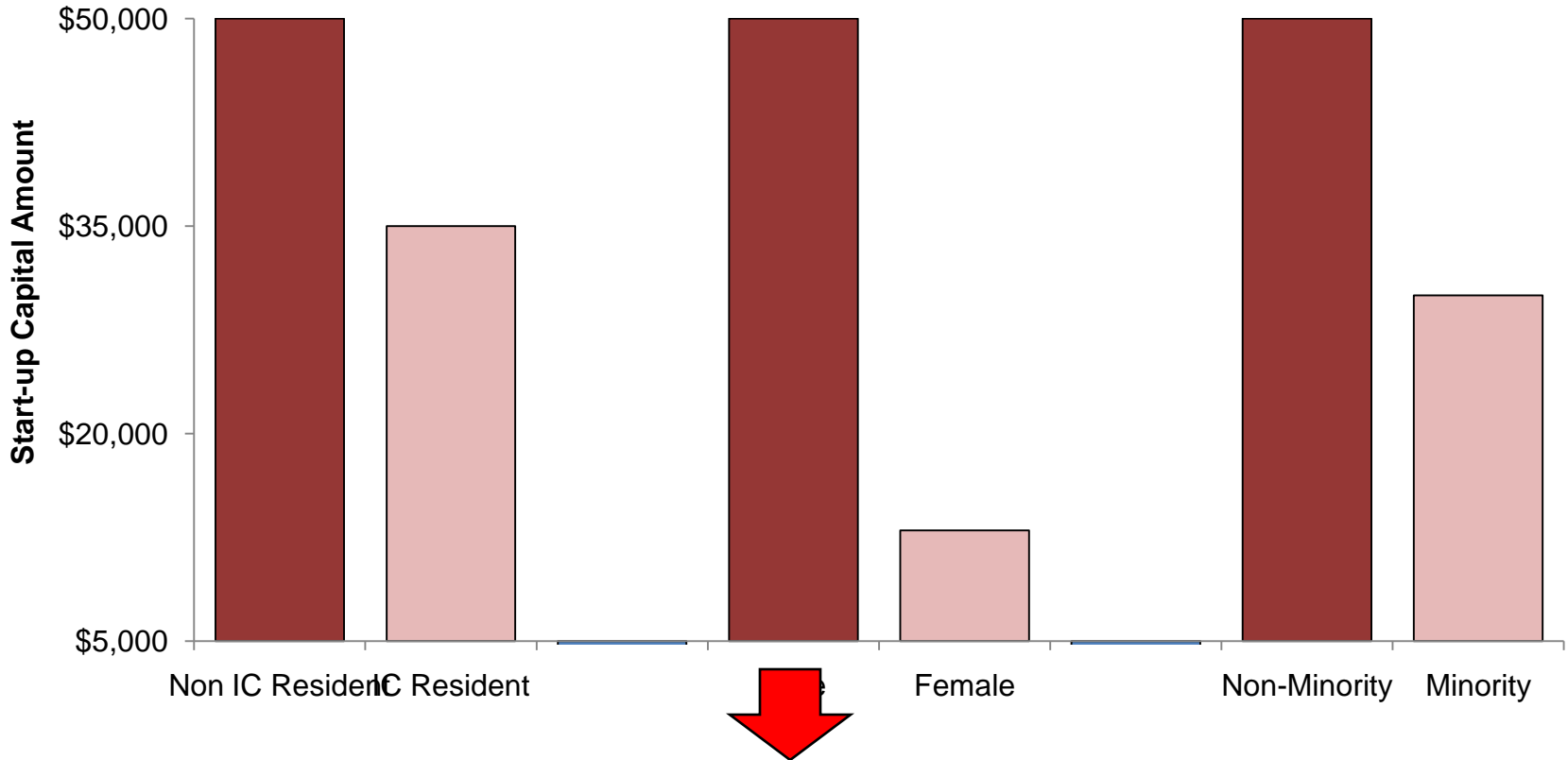


- Inner city 100 firms utilize **44% less startup capital** than average US firms and **31% less growth capital**



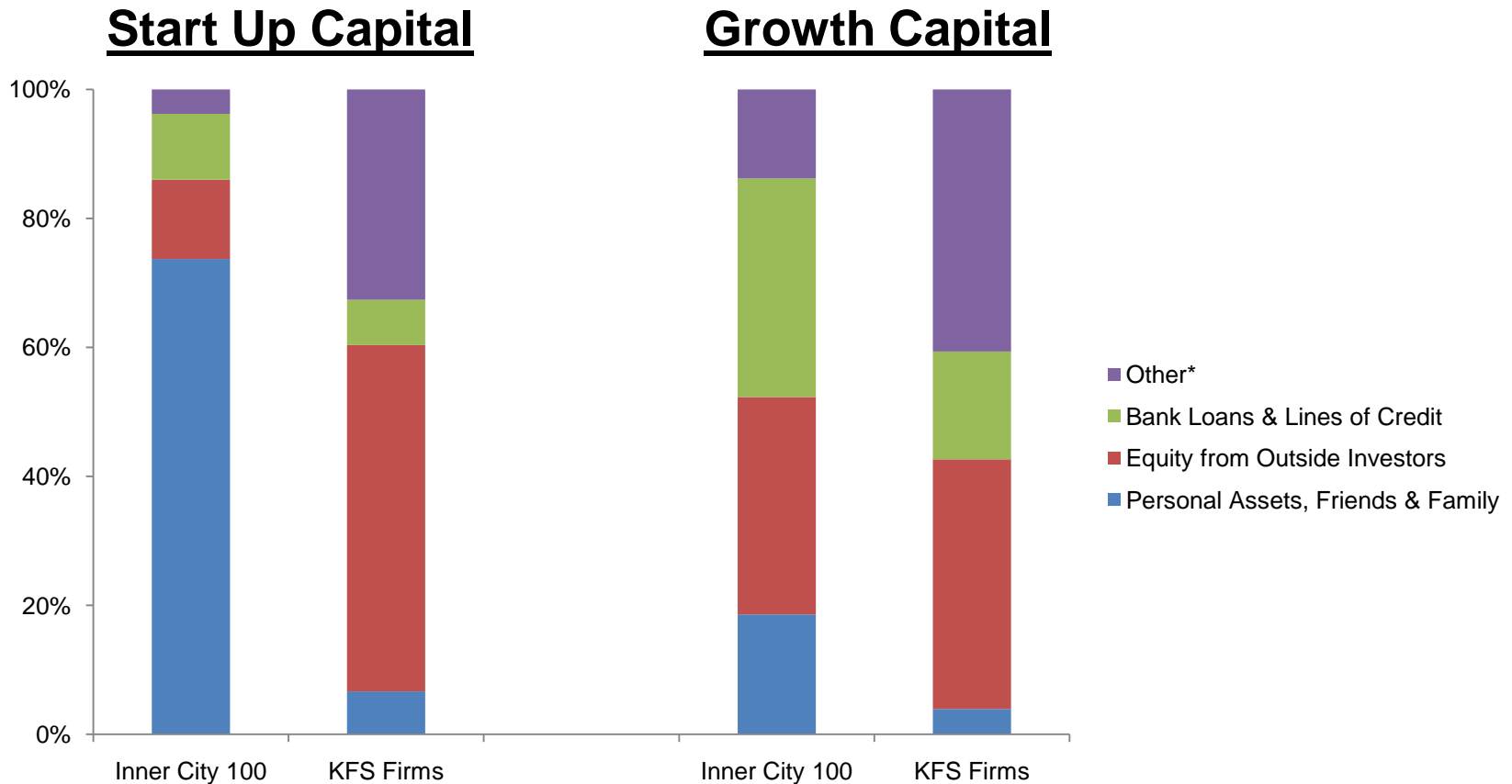
ICIC Financing: Factors of Race, Gender and Residency

IC100 Start-up Capital, 1999-2009



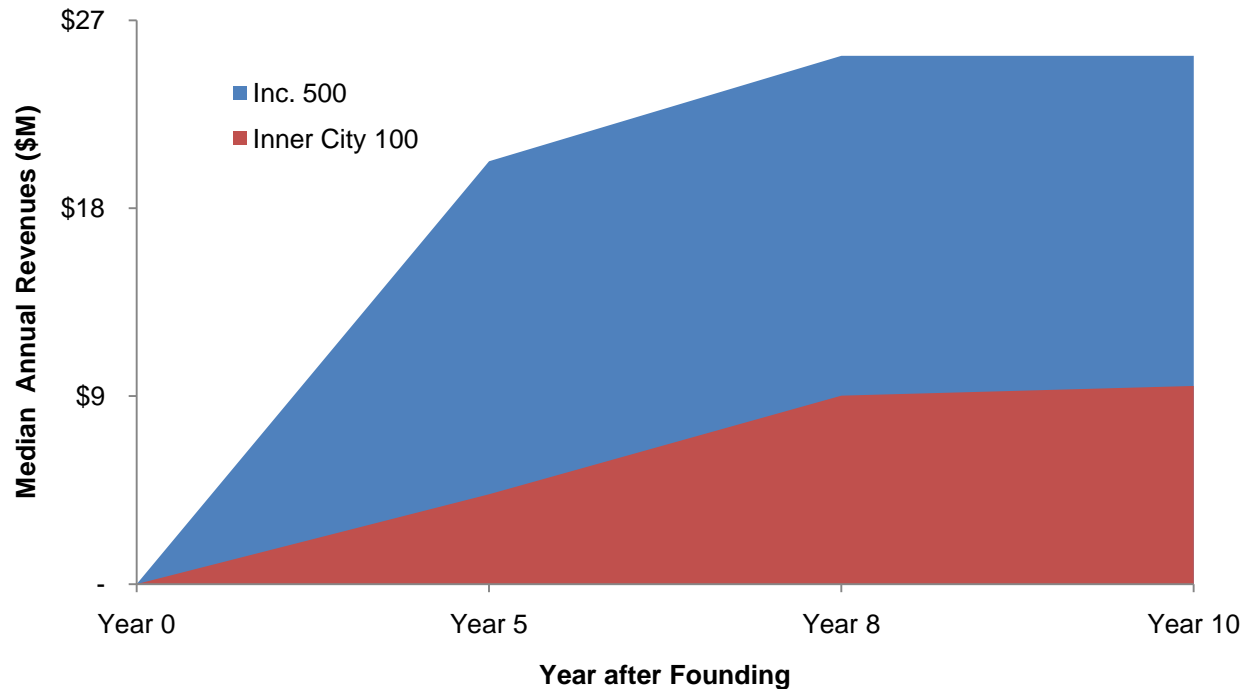
- CEO residence, gender, and minority status contribute to start-up capital barriers

Financing: Sources of Start-up & Growth Capital, 2004-2006



- Inner City 100 firms tend to be **more conservatively capitalized**, relying more heavily on personal assets for start up and more bank loans to grow

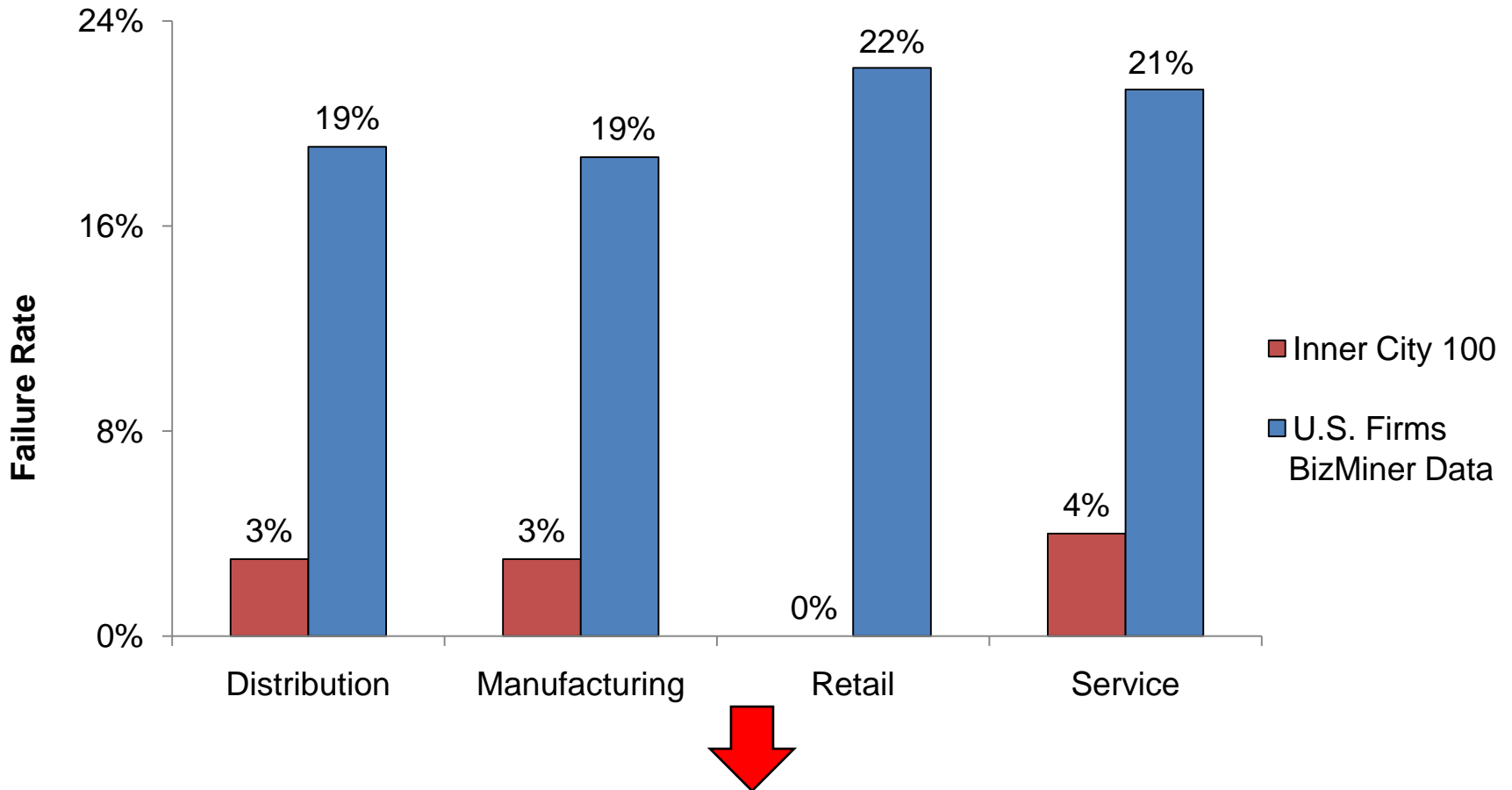
Revenue Growth of Inner City 100 firms versus Inc 500 Firms, Year 0 – Year 10 of Firm Lifecycle



- Limited capital seems to influence growing inner city firms' **ability to accelerate growth** and reach the same **scale** as growing non-inner city firms
- Inner city firm CEOs frequently run business for **cash flow rather than growth**

Financing: Low Failure Rates

Failure Rates by Sector, Inner City 100 vs. US Firms



- Over the past 11 years, only 16 Inner City 100 firms have gone out of business, none within the retail sector



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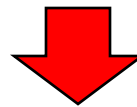
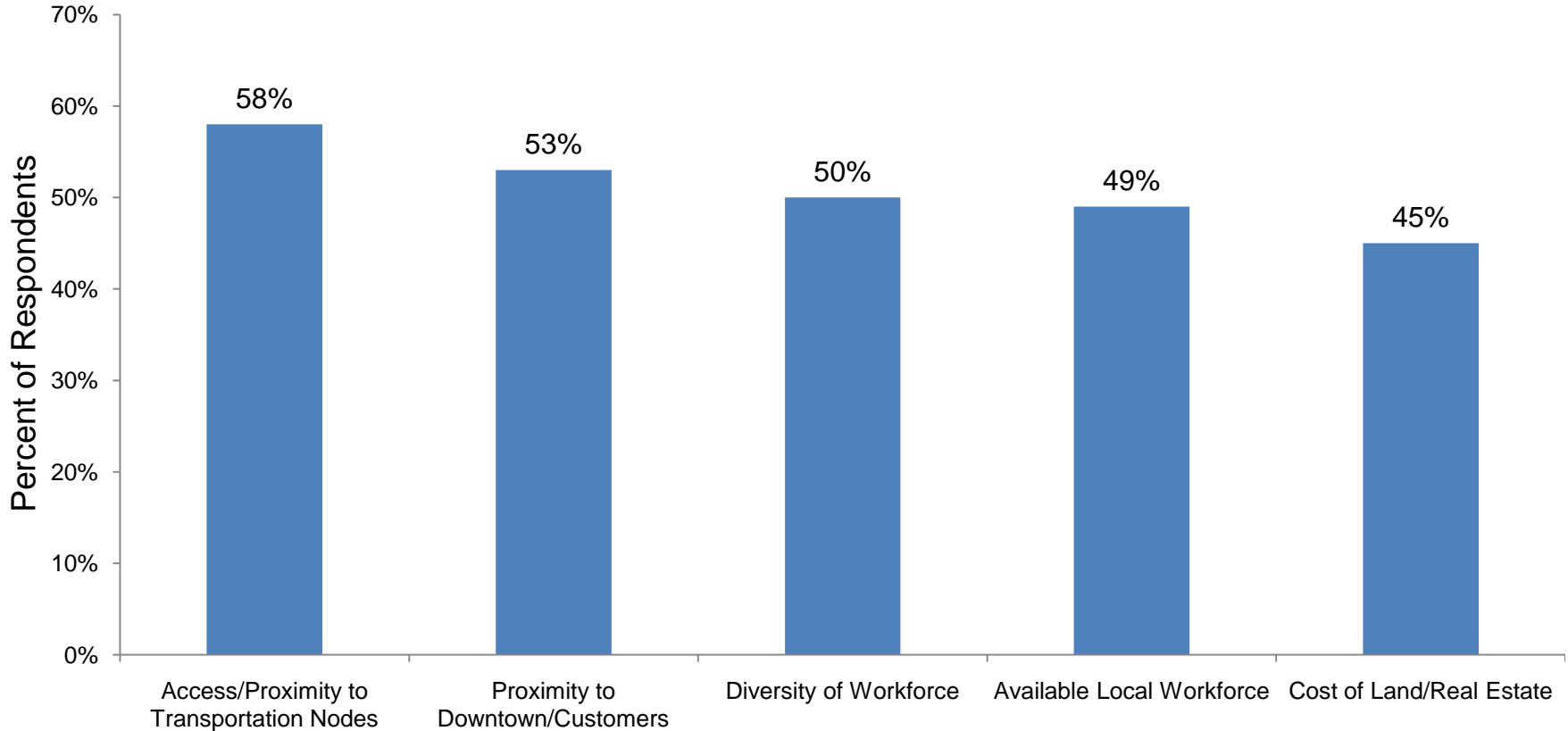
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ICIC Business Environment: Advantages of Inner City

Most Cited/Highest Ranked Advantages, 2004-2009



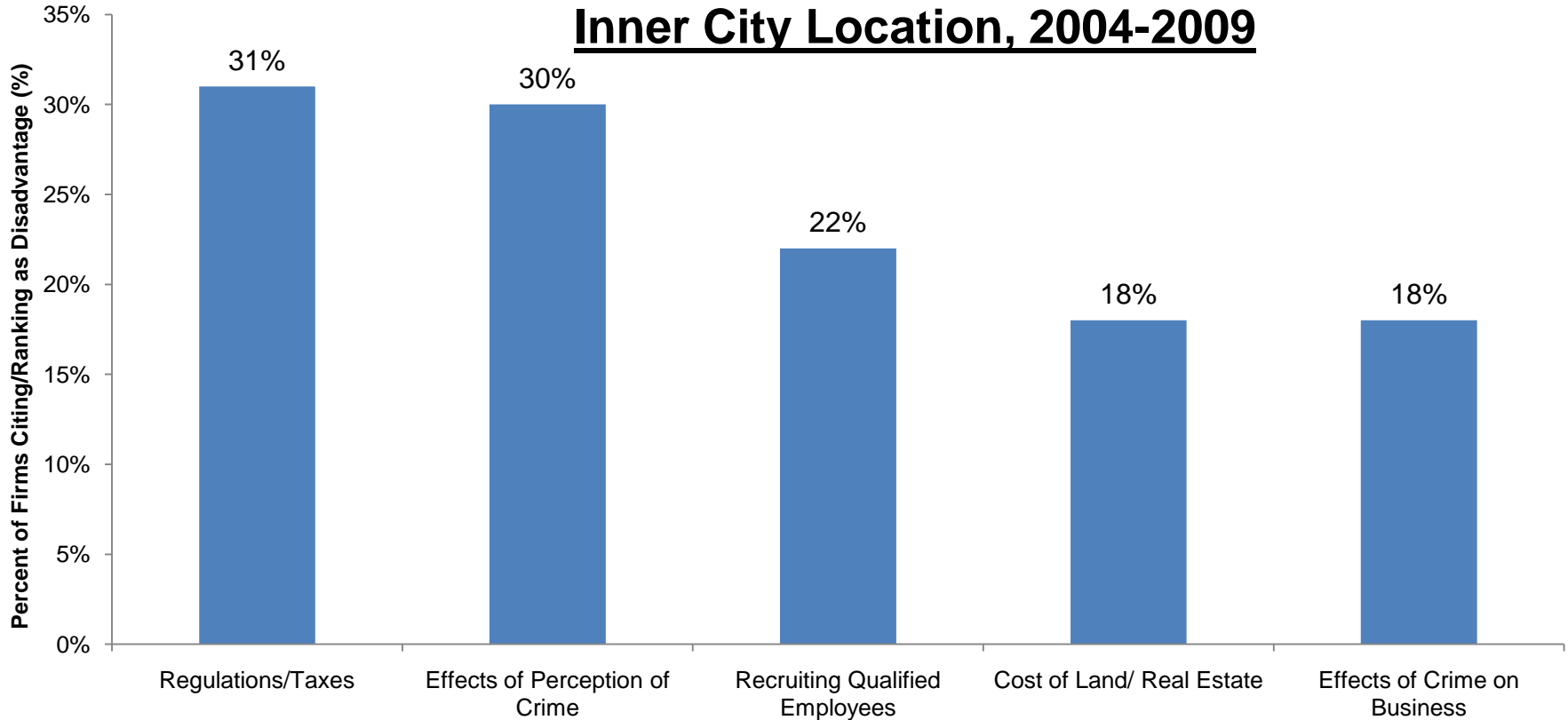
- Access and transportation are cited by Inner City 100 firms most frequently as advantages of their location

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



ICIC Business Environment: Disadvantages of Inner City

Most Cited/Highest Ranked Disadvantages to Inner City Location, 2004-2009

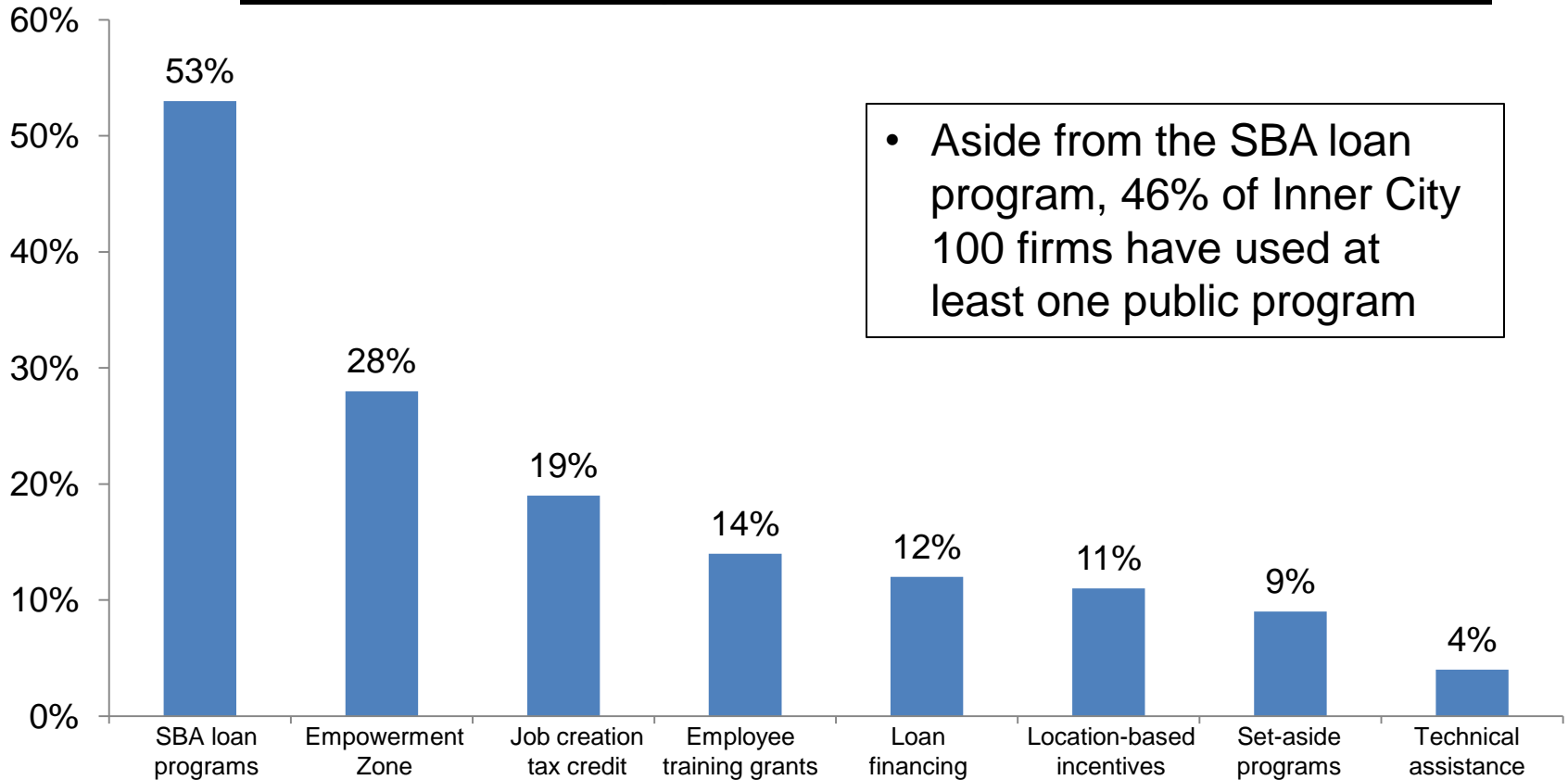


- **Regulations** and the **perception of crime** are the most cited disadvantages of doing business in the inner city



ICIC Business Environment: Use of Public Programs

Use of Public Programs by Inner City 100 Firms, 2006



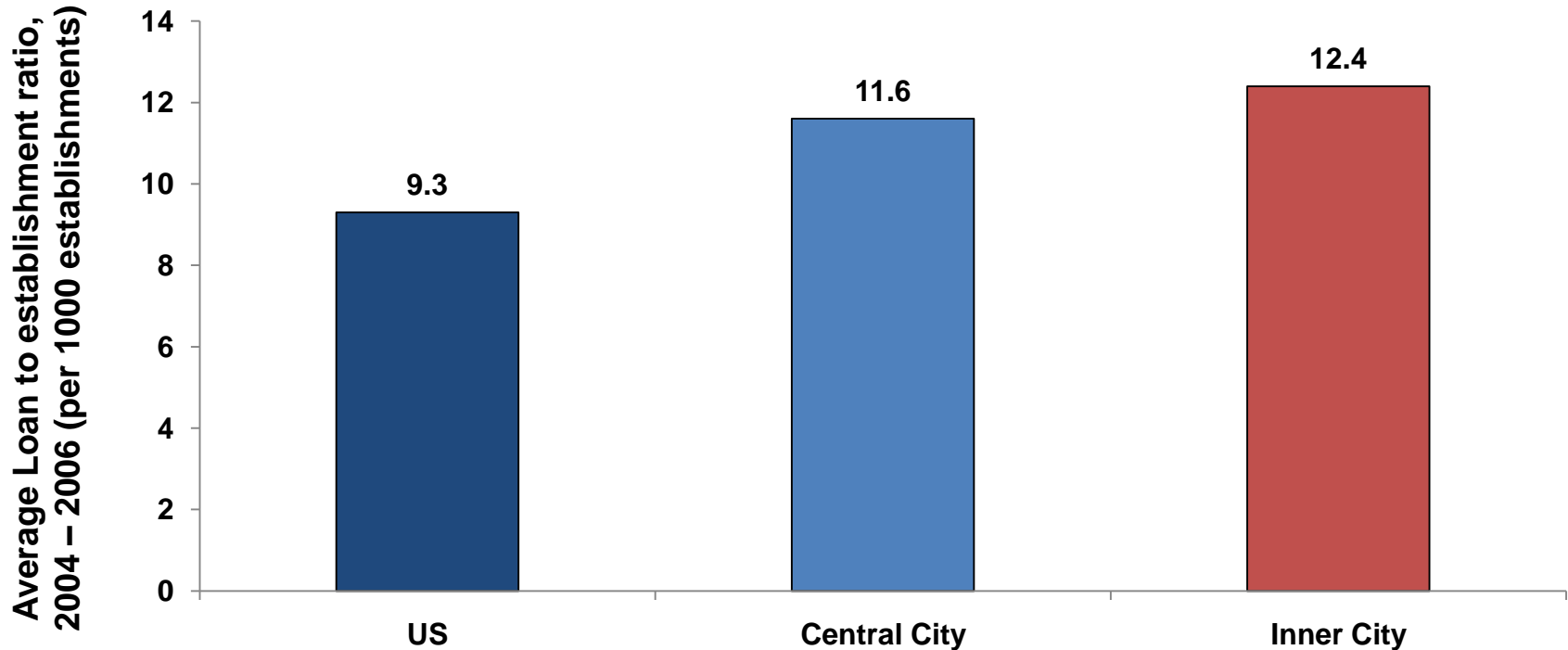
- Aside from the SBA loan program, 46% of Inner City 100 firms have used at least one public program



- **SBA loans, empowerment zone** and **job creation tax credits** are the most often used public programs by Inner City 100 firms

Public Programs: Use of SBA Loans

Higher SBA Loan Representation in the 100 Largest Inner Cities vs. Rest of Central City and the US, 2004 -2006



- Firms in inner cities have a higher concentration of SBA loans



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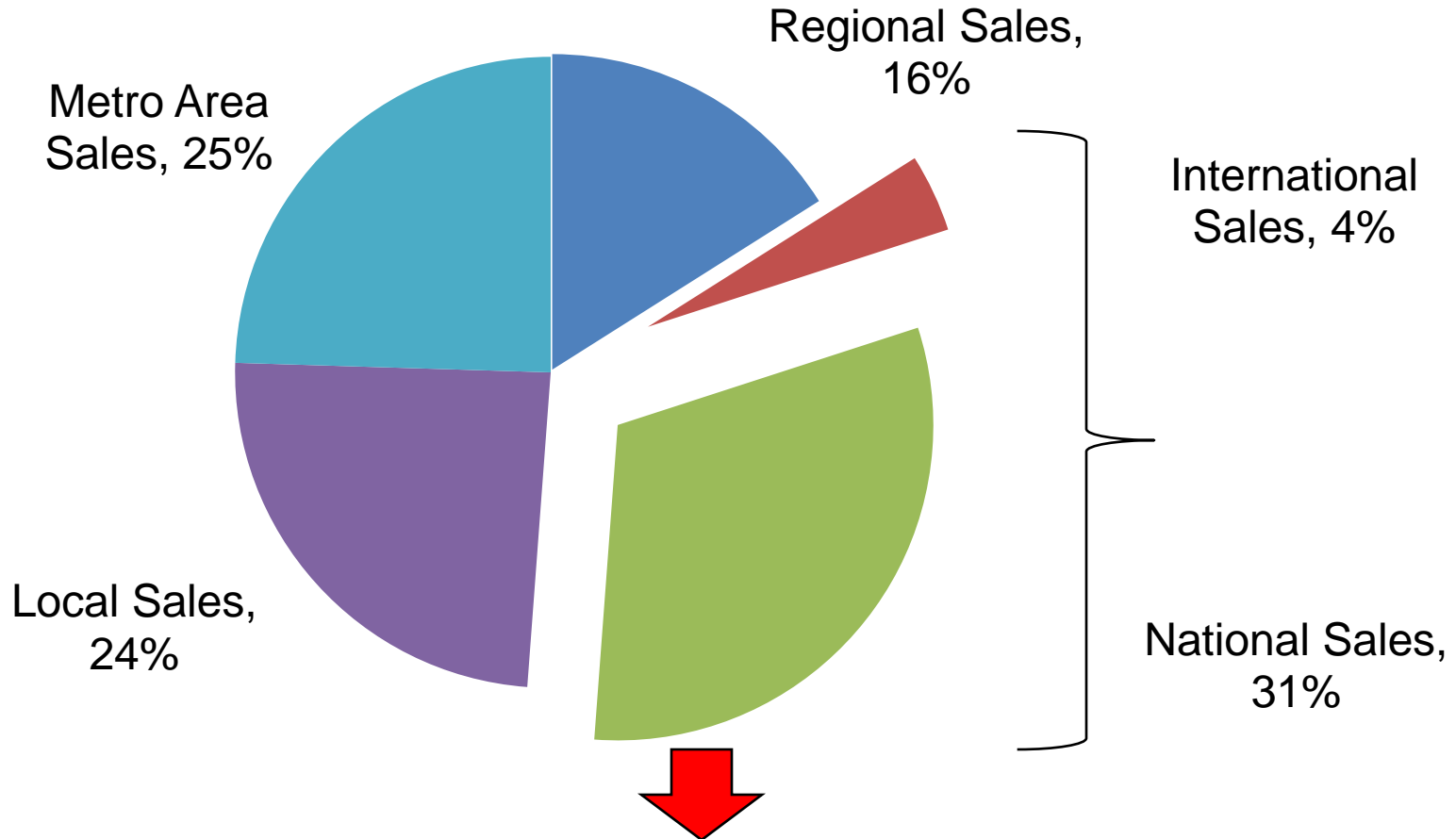
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ICIC Revenue Sources: Inner City 100 Customer Base

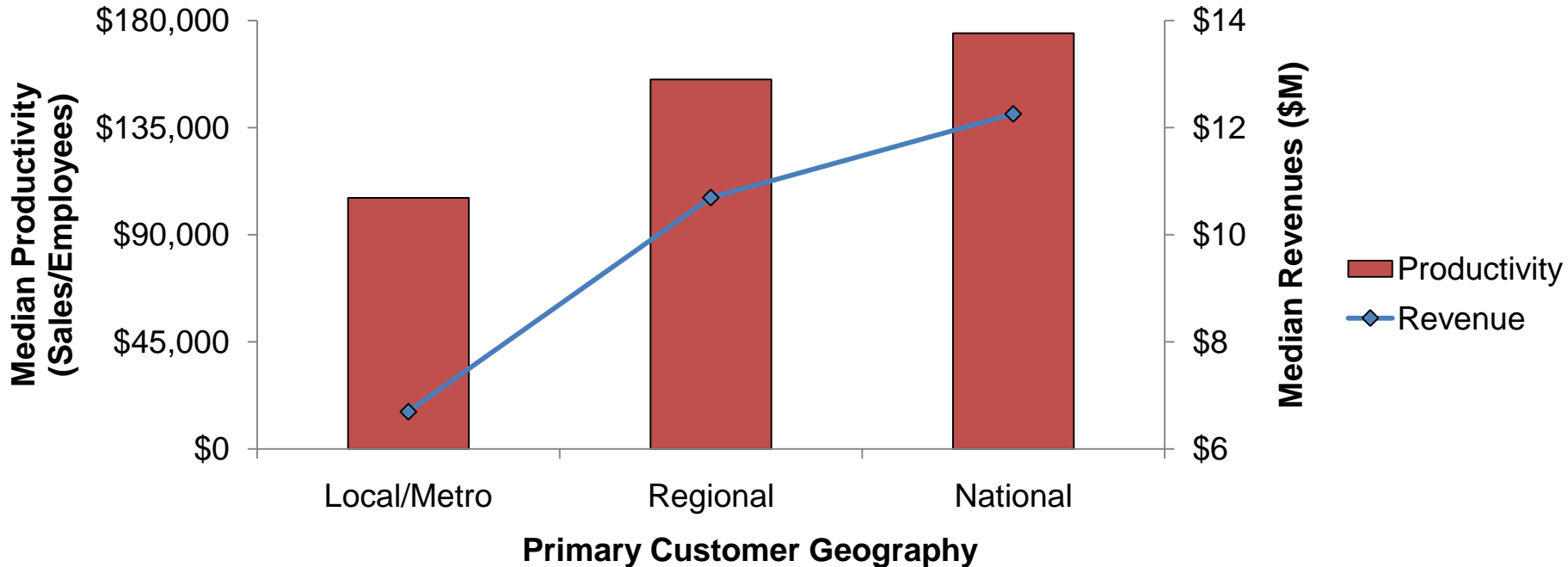
Inner City 100 Sales by Customer Location, 1999-2009



- **National and international sales** represent a significant portion of Inner City 100 firms' sales

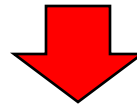
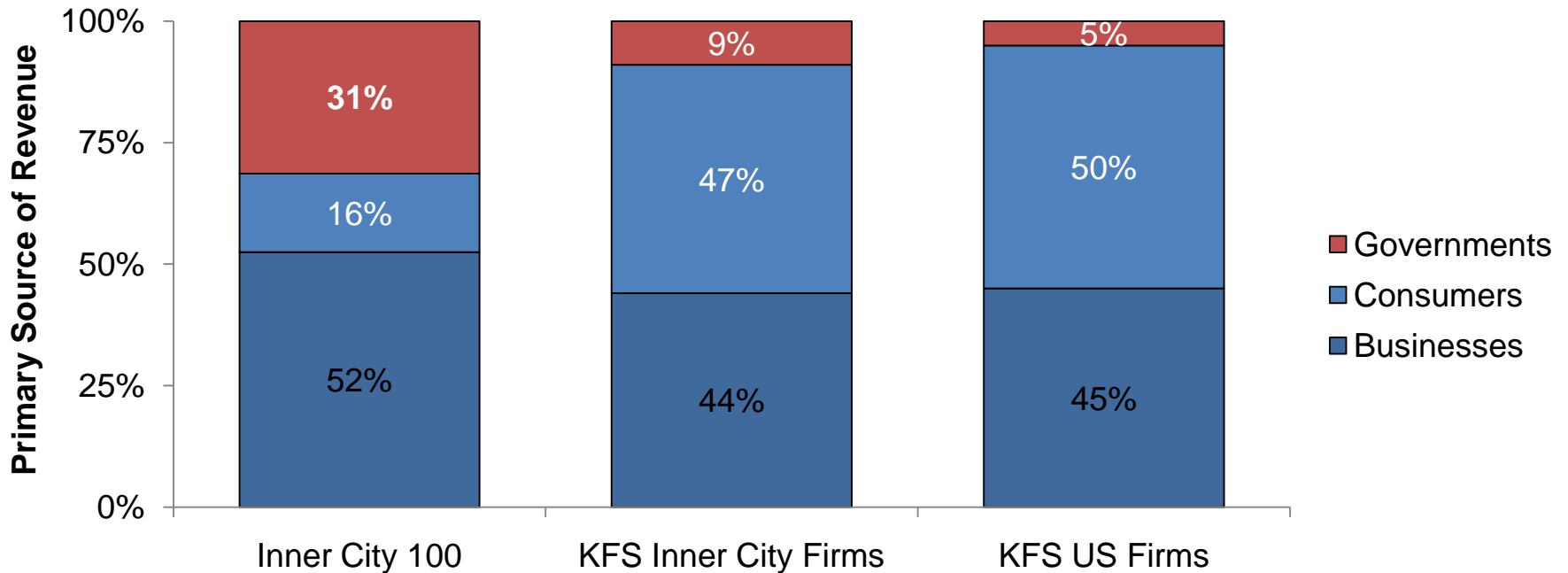
Revenue Sources: Impact of Customer Geography on Business Productivity

Inner City 100 Productivity and Revenues by Primary Geographic Customer, 1999-2009



- Inner City firms, with a broader customer scope, typically have **higher revenues and median productivity per employee**

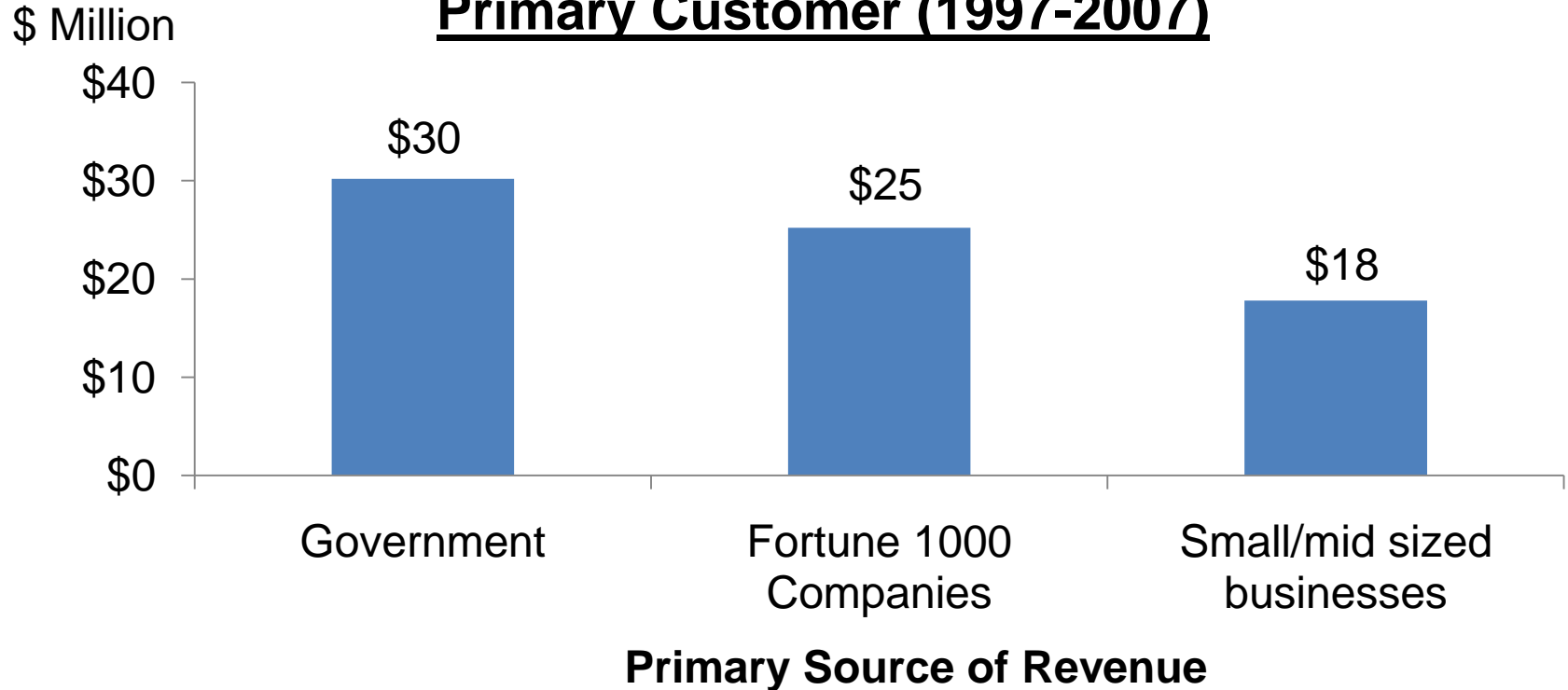
Customer Mix Comparison between Inner City 100, US Inner City Firms, and Total US, 2004-2006



- The government is a **major source of revenue** for fast growing inner city businesses

Revenue Sources: Average Firm Size by Primary Customer

Average Annual Revenue for Inner City 100 by Primary Customer (1997-2007)



- Inner City 100 firms identifying the government as their primary source of revenue have higher average revenues



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Hiring Patterns of Inner City 100 Firms

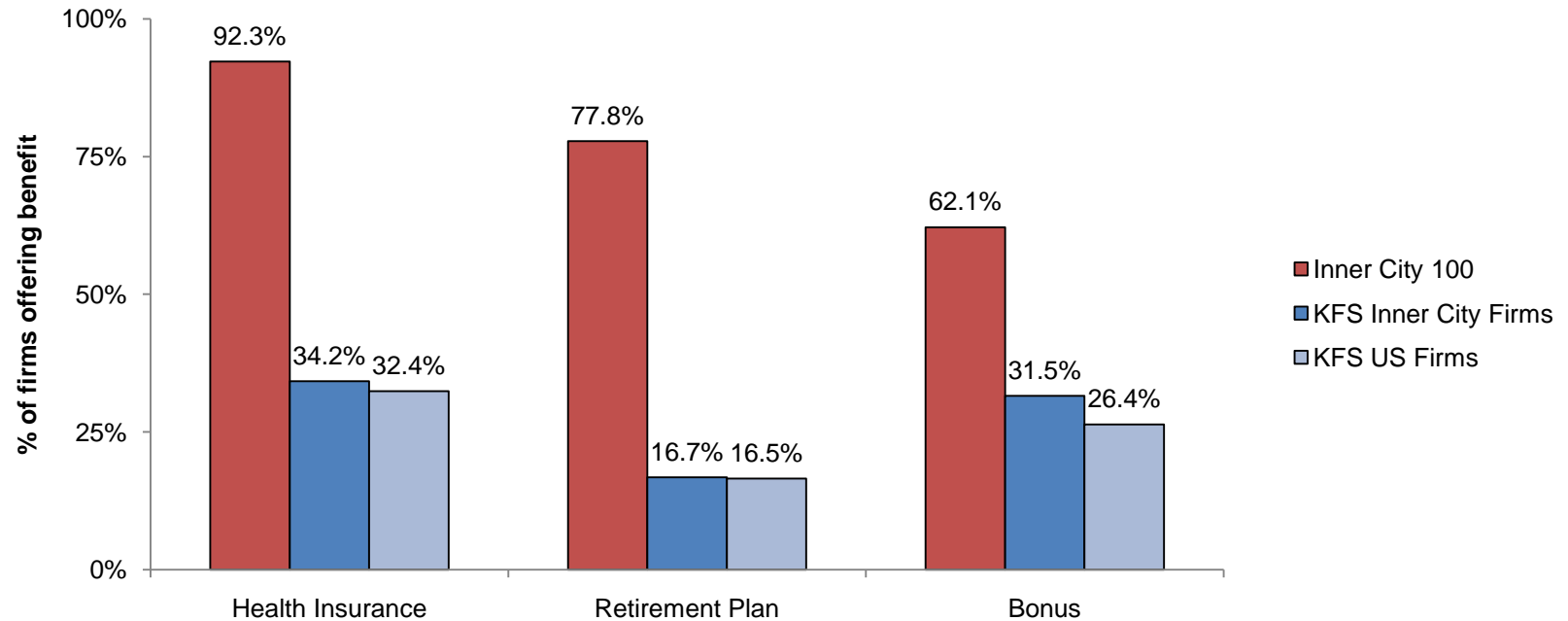
Workforce Demographics Based on Demographics of CEO, 2001-2007



- CEOs hire employees with similar backgrounds: the demographic status of the IC100 workforce is influenced by the demographic background of its CEOs

Workforce: Benefits and Training

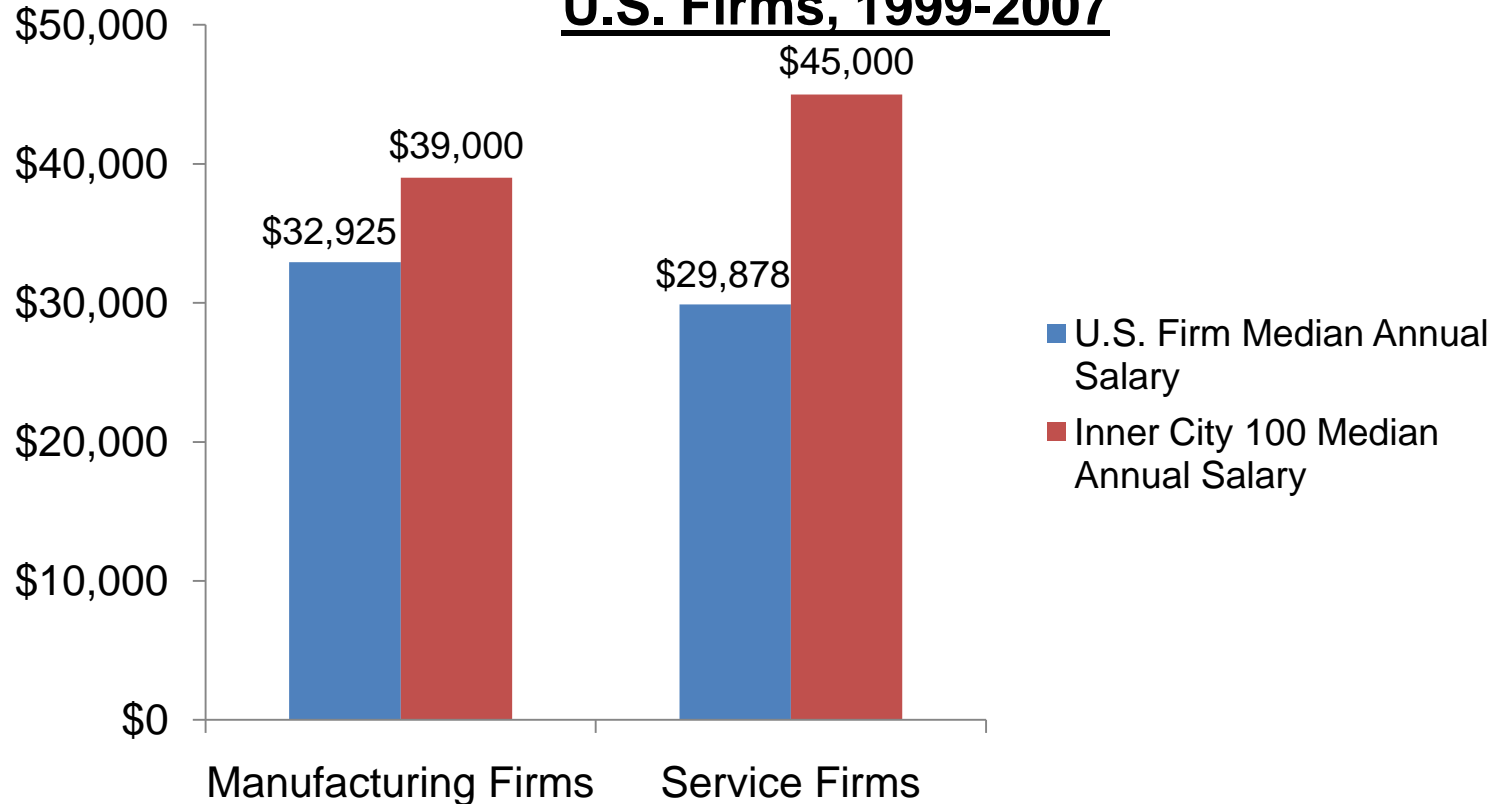
Employee Benefits Offered by Inner City 100 vs. Inner City and US Firms



- A higher percentage of Inner City 100 firms **offer benefits** than their peer firms in inner cities and the US, independent of firm size

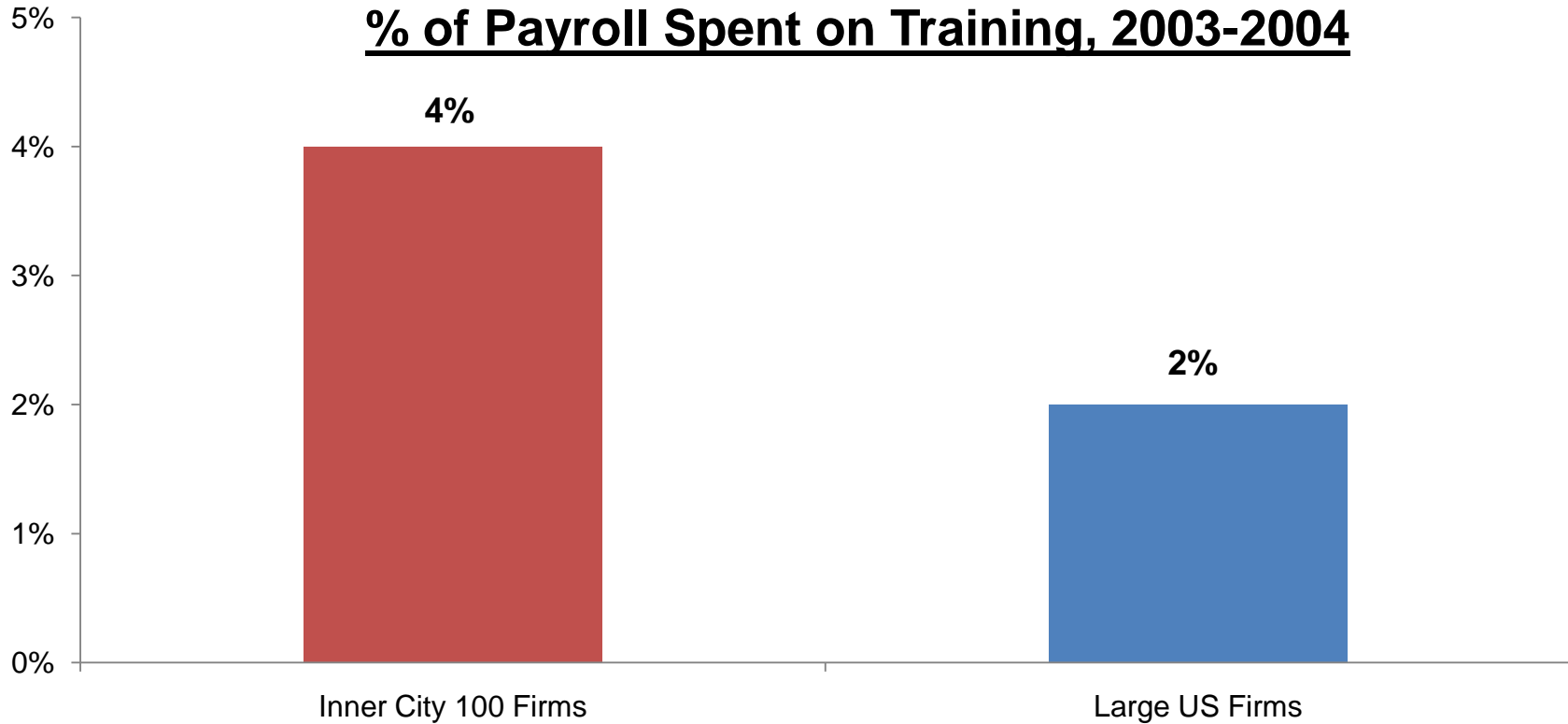
Workforce: Annual Salaries

Median Annual Salary for Inner City 100 vs. U.S. Firms, 1999-2007



- Inner City 100 manufacturing and service firms pay employees higher salaries than US firms overall

Workforce: Spending on Training

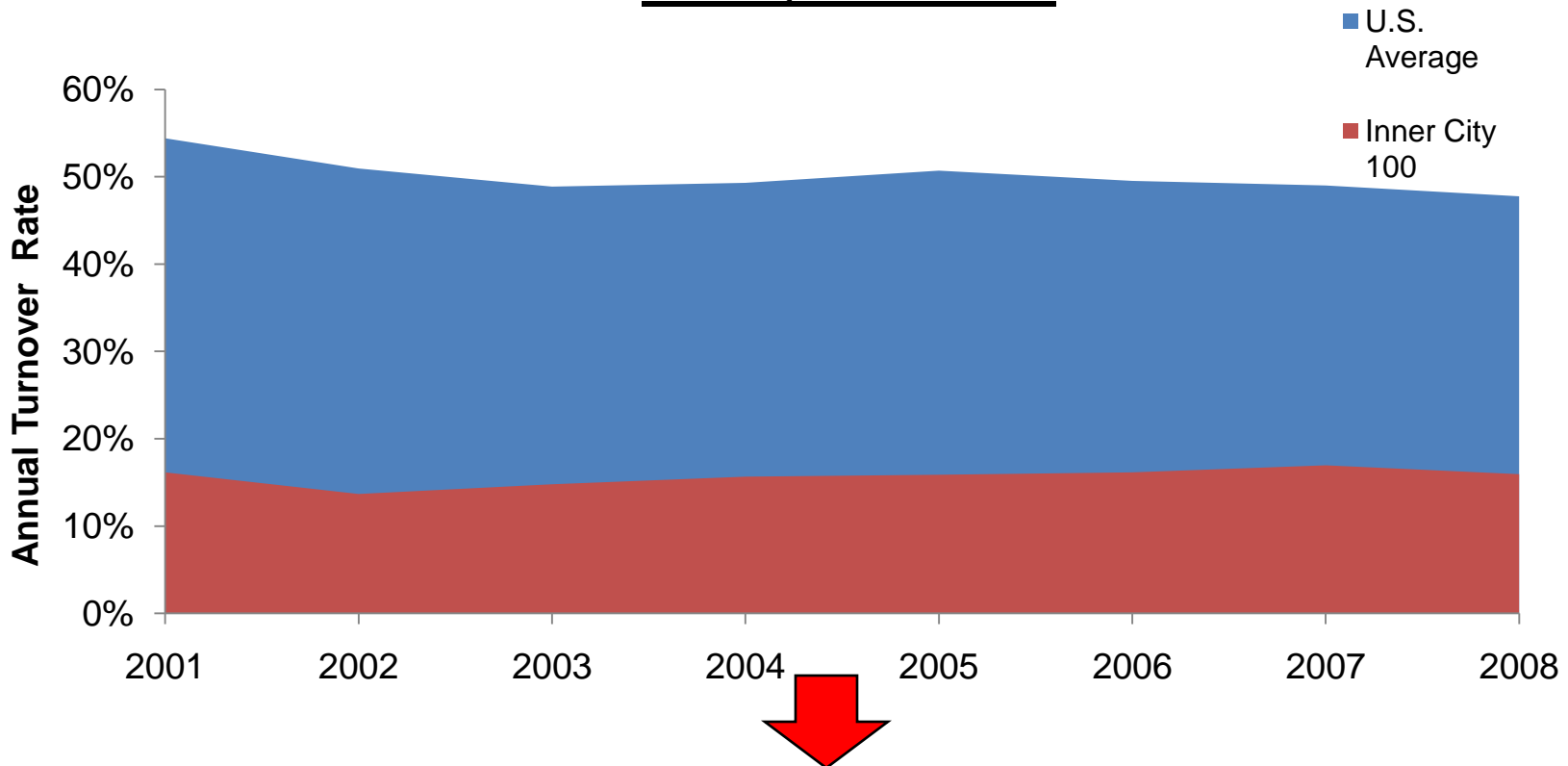


- Inner City 100 firms spend approximately **twice as much** of their total payroll annually on training as large corporations in the US

Source and Notes: ICIC analysis of Inner City 100 Survey data, 2003 and 2004; n=195

*According to the 2004 ASTD (American Society of Training and Development) survey of more than 375 major corporations, firms spend 1-3% of total annual payroll on training.

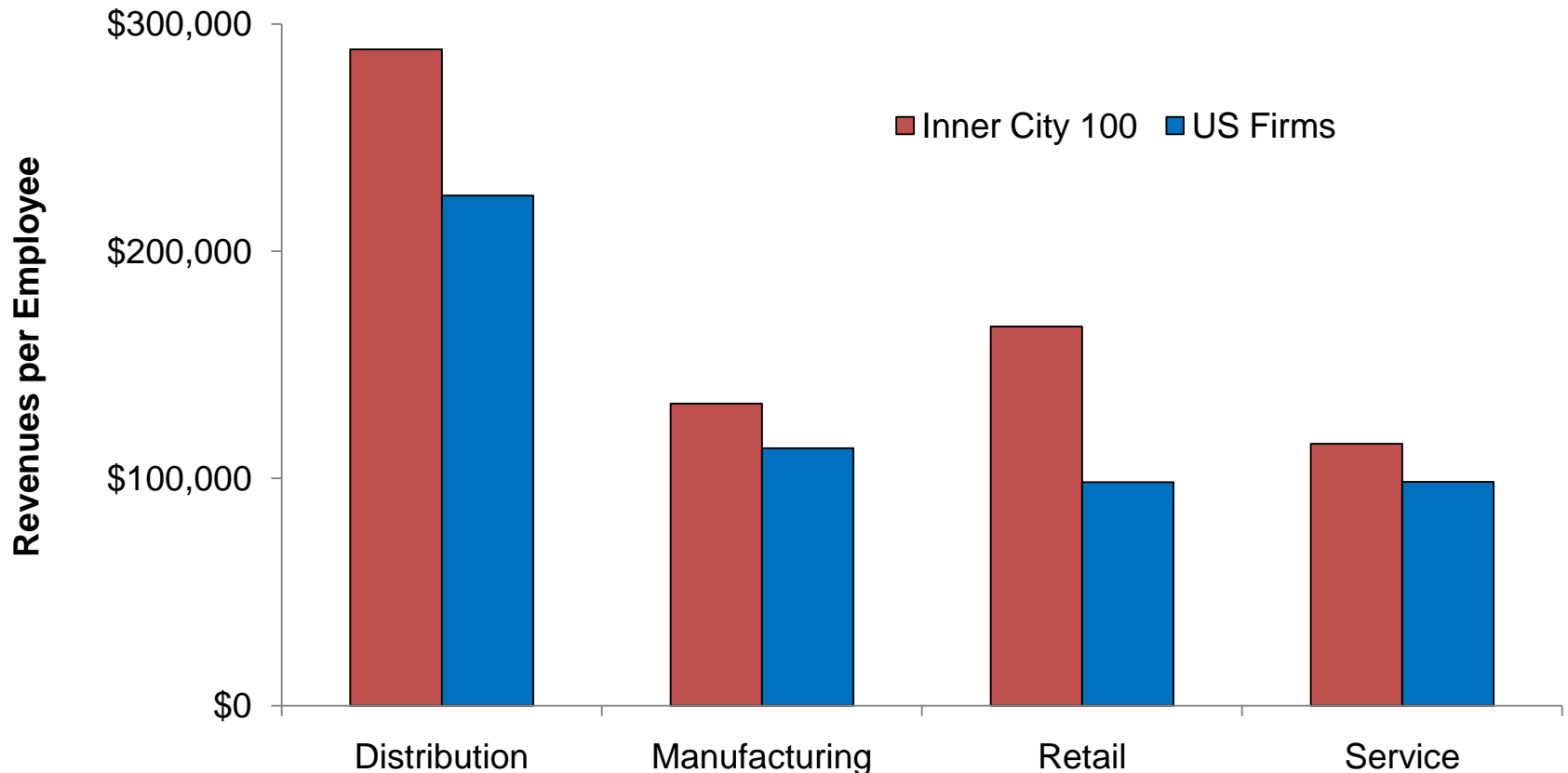
Average Employee Turnover Rate, Inner City 100 Firms vs. US Firms, 2001-2008



- Turnover rates in Inner City 100 firms are **significantly lower** than the national average

Workforce: Impact on Firm Productivity

Revenue per Employee By Sector, Inner City 100 vs. US Firms



- Inner city 100 firms are **more productive** than their sector peers in the US overall