ICIC and Staples Foundation for Learning: Inner City 100 Hall of Fame

The Initiative for a Competitive Inner City's mission is to promote economic prosperity in America's inner cities through private sector engagement that leads to jobs, income and wealth creation for local residents.

Staples Foundation for Learning's mission is to teach, train and inspire people from all walks of life by providing educational and growth opportunities.

This paper is a joint effort between the Initiative for a Competitive Inner City (ICIC) and Staples Foundation for Learning (SFFL). ICIC and SFFL are long-time partners dedicated to fighting urban poverty through inner city economic development.

Introduction

In 1999, the Initiative for a Competitive Inner City (ICIC) embarked on an ambitious endeavor to identify 100 high-growth private companies in inner cities across the United States. These areas, by definition, are characterized by high poverty and unemployment rates and low median household incomes. The objective was simple: to prove that firms can and do thrive even in inner cities which have some of the most difficult economic environments. This endeavor represented an important step in identifying private-sector investment opportunities in often overlooked geographies that have some unique advantages.

Since the inception of the Inner City 100 list of fastest-growing private firms in America's inner cities, 607 unique companies have been named to the list. These companies have created more than 71,000 jobs during their time on the list and have had significant impact on their communities by developing internships for inner city youth, programs in which executives read to children in local schools, and sponsoring needy inner city families. A small subset of these dynamic inner city businesses have been able to sustain their rapid growth over multiple years, appearing on the list at least five times. These remarkable companies are recognized by ICIC and the Staples Foundation for Learning on the Inner City 100 Hall of Fame ("Hall of Fame").

By comparing the unique characteristics of these Hall of Fame companies and their CEOs to the rest of the Inner City 100 group and other firms across the U.S., we can gain valuable insights into what it takes to not only grow, but to maintain a high level of growth over many years.

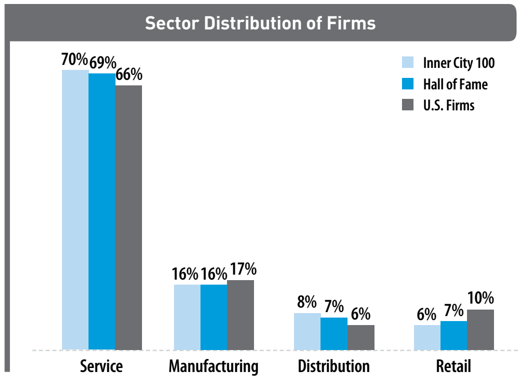
Methodology

In order to qualify for the Inner City 100, a company must be headquartered in or have 51 percent 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 10 or more employees and have 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 company and survey dataset consists of 12 years of consistent data from participating firms. It includes self-reported survey responses from 317 unique questions. In this report, we will compare Inner City 100 data with benchmark data, including 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.

Business Characteristics

Sector Distribution: Hall of Fame companies and the rest of the Inner City 100 companies are nearly identical in their sector breakdown and closely match the breakdown of firms across the United States broad breakdown. More than two-thirds of all of these firms operate in the service sector, with Inner City 100 firms heavily concentrated in B2B services.

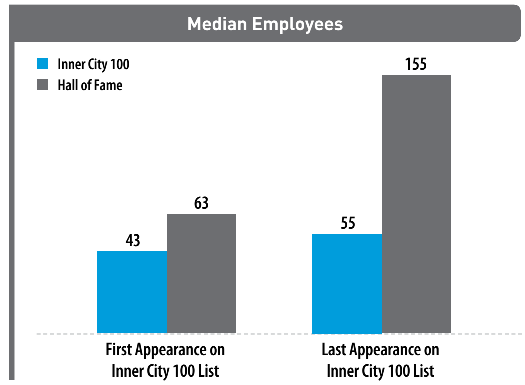


Source and Notes: ICIC analysis of Inner City 100 survey data, 1997-2008, HoF n = 41, IC 100 n = 566; Kauffman Firm Survey Data, n=4,920 for U.S.

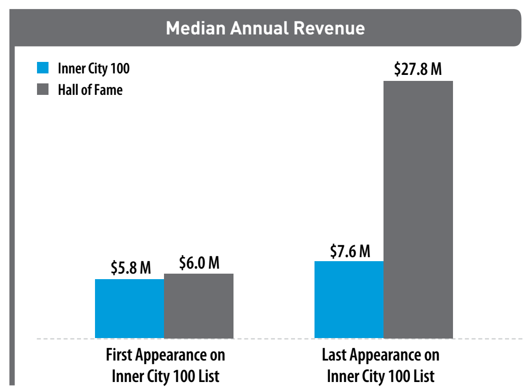
Company Age: Inner City 100 firms are established businesses that have already achieved some level of scale. The median age of the entire Inner City 100 universe is 10 years, consistent with the median age of the Hall of Fame. When Hall of Fame companies appear on the list for the first time, they are, on average, two years younger than the rest of the Inner City 100 group, indicating that they began their rapid expansion phase earlier in their company's life cycle. This may be partly due to greater access to capital.

Size: As one might expect, Hall of Fame companies are larger than the rest of the Inner City 100 universe given that they have experienced many years of outsized growth. In fact, Hall of Fame companies are approximately three times larger, both in terms of revenues and employees, based on the most recent year that all companies appeared on the list (median annual revenue of $27.8 million and 155 employees versus $7.6 million and 55 employees, respectively). Interestingly, the Hall of Fame and other Inner City 100 firms had comparable revenue bases their first year on the list ($5.8-$6 million). However, the Hall of Fame companies were growing faster – 64 percent versus 39 percent five-year revenue Compound Annual Growth Rate (CAGR) – and were already staffed up to continue their growth with a median of 63 employees versus 43 for the rest of the Inner City 100.

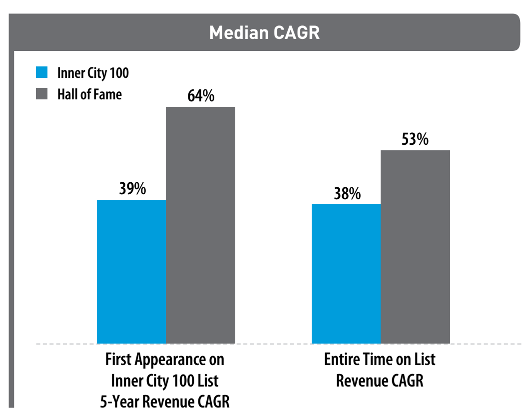
Growth: Hall of Fame companies and the rest of the Inner City 100 companies experienced similar five-year revenue growth for the most recent appearances on the Inner City 100 list (approximately 34-36 percent median CAGR). Looking at the entire time frame that the Hall of Fame companies appeared on the list, these companies experienced a revenue CAGR of 53 percent, compared with a 38 percent median CAGR for the entirety of the Inner City 100 list.



Source and Notes: ICIC analysis of IC 100 survey data, HoF n=41, IC 100 n=566



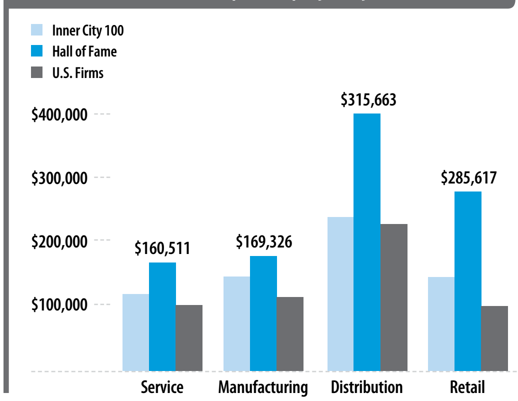
Source and Notes: ICIC analysis of IC 100 survey data, HoF n=41, IC 100 n=566



Source and Notes: ICIC analysis of IC 100 survey data, HoF n=41, IC 100 n=566

Productivity: While the broader group of Inner City 100 winners has experienced higher revenues per employee than U.S. firms overall, the Hall of Fame companies have generated even greater productivity across all sectors than both of these groups. While the favorable comparison with overall U.S. firms can be partly attributed to the higher wages, salaries, benefits and significantly lower employee turnover among all Inner City 100 firms, this does not explain the productivity difference between Hall of Fame companies and other Inner City 100 winners who have comparable statistics along these measures. Instead, customer mix and other company-specific factors may help to explain this variance.

Median Revenue per Employee by Sector

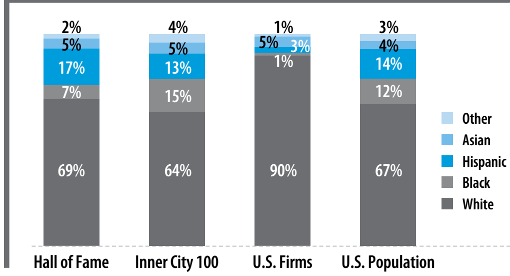


Source and Notes: ICIC analysis of IC 100 survey data, HoF n=41, IC 100 n=566; U.S. firms calculated using BizMiner Market Research Reports, n=9.4 million firms, 2005-07

CEO Characteristics

The CEOs of all of these fast-growing firms share very similar demographic characteristics in terms of median age (31-32 years old at founding), gender (17-19 percent are women) and minority status (32-33 percent are minorities). The Hall of Fame group tends to be more heavily skewed toward Latino CEOs with a smaller percentage of black CEOs. Both the Hall of Fame CEOs and the rest of the Inner City 100 CEOs are highly educated (with 87.5 percent and 76 percent earning a bachelor's degree or higher, respectively). However, the Hall of Fame CEOs were more likely to have a formal business education by obtaining an MBA (25 percent versus 15 percent). As a group, the Inner City 100 CEOs (including the Hall of Fame) have achieved a much higher level of education than small business owners across the United States.

Ethnicity of CEOs

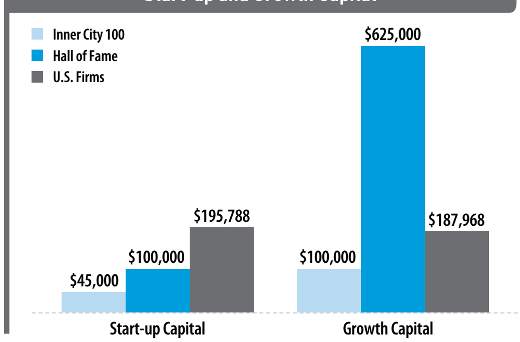


Source and Notes: ICIC analysis of Inner City 100 survey data, 1997-2008, HoF n=41, IC 100 n=489; U.S. Census data, 2000; U.S. Census, Survey of Business Owners, 2002

Factors Influencing Growth

Access to Capital: Inner City 100 firms have started with significantly less capital than a broader group of U.S. firms. While this is also true of Hall of Fame companies, these high-growth firms start with more than two times the level of capital than the rest of the Inner City 100 group. Growth capital is a very different story, with Hall of Fame companies raising more than six times that raised by the rest of the Inner City 100 and more than three times that raised by other U.S. firms. This may help to explain why Hall of Fame companies appear to enter their rapid growth phase earlier in their life cycle than other Inner City 100 firms are able to sustain that growth. Hall of Fame companies rely a bit less on capital from personal assets, friends and family while demonstrating the ability to access more funding from external, third-party sources.

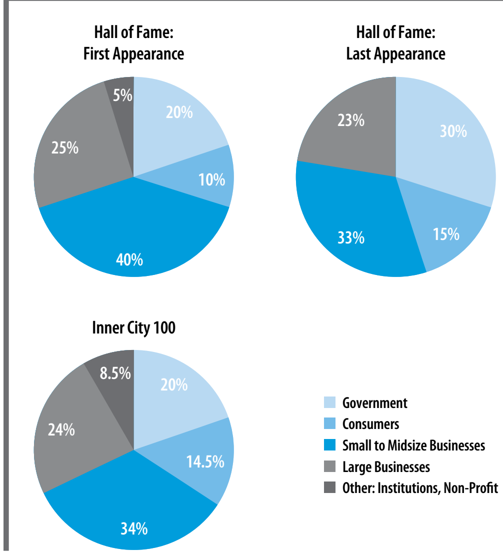
Start-up and Growth Capital



Source and Notes: ICIC analysis of Kauffman Firm Survey Data (KFS) 2004-2006, U.S. firm numbers represent averages; IC100 and HoF numbers represent medians; HoF n=20, IC 100 n=102 and U.S. n=4,924

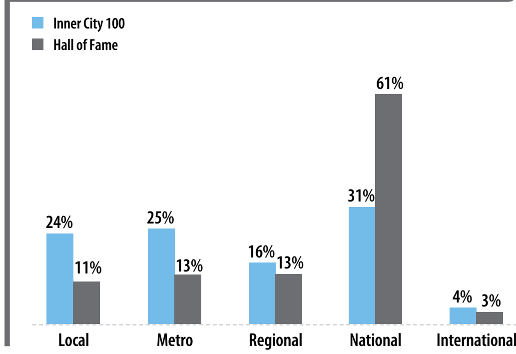
Customer Segments: Approximately one-third of Inner City 100 firms report that their primary customers are small- to medium-sized businesses. This is true for both Hall of Fame companies as well as the rest of the Inner City 100 group. A higher percentage of Hall of Fame companies, however, report government as their primary customer (30 percent versus 18 percent for all other Inner City 100 firms). Increased penetration into the government segment seems to play a role in the growth of Hall of Fame companies as the percentage of firms reporting government as their primary customer increased from 20 percent to 30 percent between their first and last time on the list. This dispels the notion that successful inner city firms have an unhealthy reliance on government contracts in their earlier years, as the Hall of Fame companies are already well-established businesses with existing, diverse revenue streams that are utilizing government contracts to help scale their companies to the next level.

Primary Sources of Revenue



Source and Notes: ICIC analysis of Inner City 100 survey data, 1997-2008, HoF n = 40, IC 100 n = 394

Location of Primary Customers



Source and Notes: ICIC analysis of Inner City 100 survey data, 1997-2008, IC 100 n= 566, HoF n= 41

Expanded Geographic Reach: Nearly two-thirds of Hall of Fame companies generate their primary sales from customers outside of their region, compared with only one-third of the rest of the Inner City 100 companies. This has significant implications both for growth potential (the ability to access a larger addressable market) as well as productivity. Prior ICIC analysis has shown that firms whose revenues are primarily generated from national customers are nearly 13 percent more productive than firms whose customer base is largely regional, and 65 percent more productive than firms with a predominantly local customer base. This goes a long way toward explaining the higher productivity of the Hall of Fame companies.

Impact

Hall of Fame companies continue to have a positive impact in their local communities through civic leadership, volunteer programs and philanthropic activities. Additionally, these firms are creating jobs and offering competitive salaries and benefits. In fact, the 41 companies who have been inducted into the ICIC-Staples Foundation for Learning Hall of Fame, representing under 7 percent of all Inner City 100 firms, have created more than 12,550 new jobs during their time on the Inner City 100 list, or nearly 18 percent of total jobs created by all Inner City 100 winners. The remarkable entrepreneurs who run these high-growth firms can inspire all small business owners across the country. Their success is nothing short of extraordinary.