

Building Sustainable Businesses: Lessons from Successful Urban Entrepreneurs

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.

Major program sponsors for the Inner City 100 program include:
Chevron Corporation
Staples Foundation
Goldman Sachs Foundation

Overview

Now in its 13th year, the Inner City 100 is a national program that recognizes fast-growing companies in inner cities across the U.S. The Inner City 100 spotlights the importance of a robust business sector 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.

The annual Inner City 100 list receives substantial national and local media attention and has been published by *Bloomberg Businessweek*, *Fortune* and *Inc. Magazine* as well as business journals around the country. As a result of being selected for this celebrated list, past winners have benefited from networking opportunities, introductions to new business partners and ideas and increased access to capital, resulting in meetings with major investors, new multi-million-dollar contracts and increased credibility with potential customers.

Key Findings

Over the past 13 years, 661 unique 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 done more with less. These firms were founded with an average of only \$60,000 in capital, yet they have managed to grow at an average compound annual growth rate (CAGR) of 49%.
- Inner City 100 firms have continued to invest through economically challenging conditions. In the most current cohort, 86% of firms either increased or maintained their workforces from 2008 to 2010.

- Inner City 100 firms get connected. Nearly 80% of respondents supplied some combination of governments, corporations, colleges and universities and hospitals. Nearly half of CEOs belong to at least one business network or association. As many as 74% engage in a social media strategy.
- Inner City 100 firms leverage inner city assets such as access to transportation nodes, customers and suppliers and a diverse workforce.
- Inner City 100 firms have also given back to their communities. These firms have collectively created approximately 70,000 new jobs since the program's inception, hiring an average of 37% of their workforce from their local inner city.

Methodology

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 10 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 Survey database includes 13 years of survey data from Inner City 100 awardees each year. ICIC administers this survey in January of each year, and the companies typically provide responses as they pertain to the preceding year. In total, the database includes data for 302 unique questions, and this report will cite the sample size [n] for each analysis. Benchmarks will be drawn from the following sources: ICIC's proprietary State of the Inner City Economics (SICE) database, U.S. Census, Department of Health and Human Services, Small Business Administration and Bureau of Labor Statistics.

SNAPSHOT OF THE INNER CITY 100

Median Company Age: 11 Years

Median Number of Employees: 45 Full-time,
2 Part-time, 47 Total

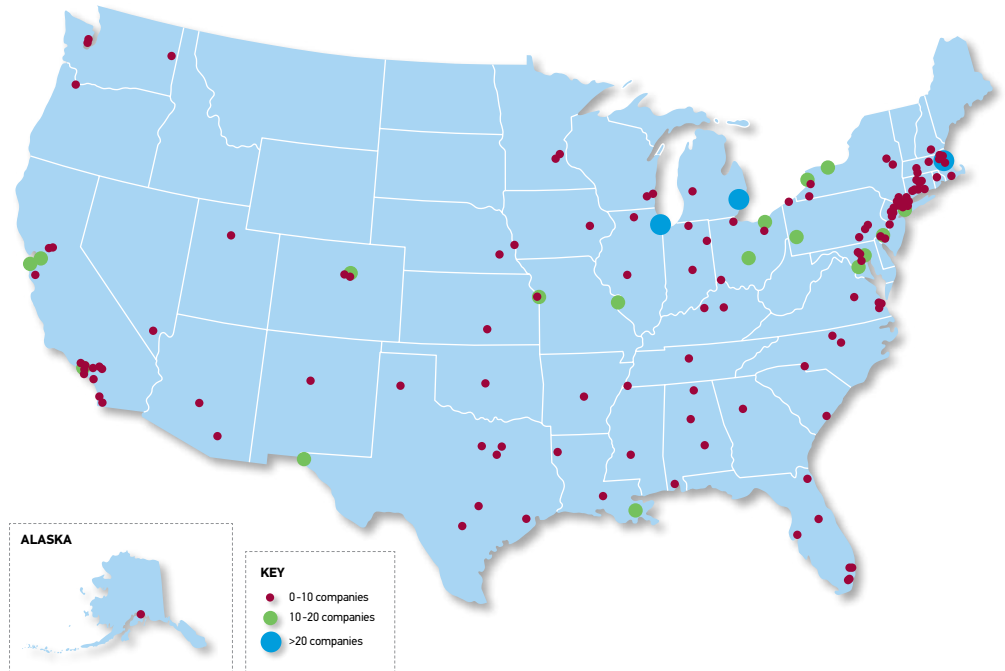
Median Revenue: \$8M

Median 5-Year Revenue CAGR: 39%

Median EBITDA Margin: 5.7%

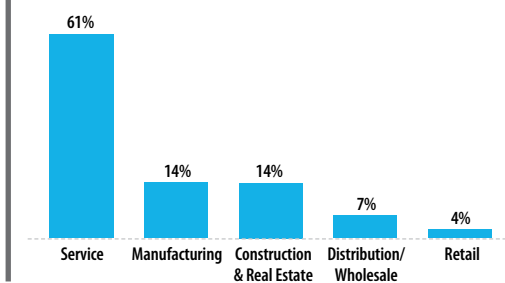
Geographic Representation

Inner City 100 firms come from 143 different inner cities across 41 states.



Source: Inner City 100, n=661

Sector

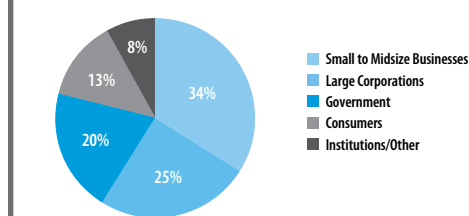


Source: Inner City 100, n=661

“Our inner cities represent some of America’s best economic potential and the Inner City 100 winners are proof of that. These companies demonstrate, without question, that the private sector can transform urban America.”

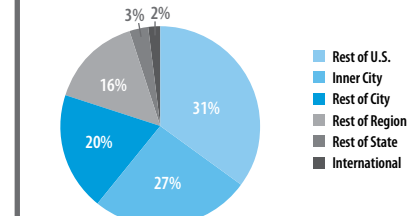
HARVARD BUSINESS SCHOOL PROFESSOR
MICHAEL E. PORTER, FOUNDER AND CHAIRMAN, ICIC

Primary Customer Type



Source: Inner City 100 Survey, 1999-2011, n=595

Primary Customer Location



Source: Inner City 100 Survey, 1999-2011, n=423

Doing More With Less

Inner City 100 winners have many important lessons to share with all small business owners about how to build sustainable companies that grow, adapt to business and economic challenges and emerge stronger in the end. These are not the typical growth companies that are celebrated for their rapid revenue acceleration right out of the starting gates. Rather, these are businesses that have slowly built a steady operating base and are hitting their rapid growth stride after several years in business. In fact, a more conservative approach to building their businesses is something that is ingrained in these CEOs from the outset. With only \$60,000 in average start-up capital, nearly two-thirds of which comes from the founders' personal assets, Inner City 100 firms have had to do more with less. Bootstrapping the company is merely a way of life, and even as the business grows and can access outside capital, many of these entrepreneurs still prefer to fund their growth from internal cash flow rather than take on significant debt.

Financial conservatism has not only ensured discipline in managing overall growth, but it has also enabled Inner City 100 firms to withstand downturns in the market, resulting in a business survival rate of 94% over the lifetime of the program. Inner City 100 firms are not just surviving; they are thriving. Against the backdrop of the recent economic downturn, during which 45% of companies have reported experiencing slow/restructured payments or defaults from customers, 2011 Inner City 100 winners experienced average revenue growth of 39% from 2005-2009.

Maintaining Continuity in a Downturn

Inner City 100 companies have demonstrated a remarkable ability to continue growing through even the toughest economic conditions. The companies' staying power comes as a result of the conscious strategic decisions of Inner City 100 CEOs who are proactive about seeking out new revenue sources within growing markets, continue to invest through downturns and reinvest in their workforce.

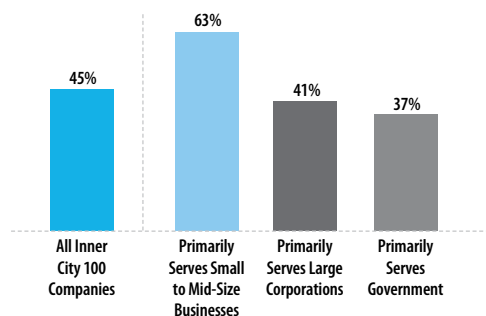
Uncovering Opportunity: Through the program's 13 years, Inner City 100 companies have creatively identified unique market opportunities across a range of industries. In 2002, Betsy Weaver was a serial entrepreneur who noticed the rising popularity of the internet and saw the platform

Impact of Credit Crisis

Inner City 100 businesses most frequently cited:

- Slow, restructured or default on payments from customers
- More information required by current lenders
- Difficulty obtaining a commercial bank loan
- Difficulty obtaining expansion of existing line of credit

Percentage of businesses who cited slow, restructured or default from customers, by primary customer type



Source: Inner City 100 Survey, 2008-2011, n=326

as a new way for healthcare providers to communicate with their patients. In 2002, Weaver founded TPR Media/Ubicare based in Jamaica Plain, Mass., and the company has nearly quintupled revenues over the last five years.

For decades, W Industries of Detroit was highly successful in building custom container systems for automobile components. When Ed Walker acquired the company from his father in 1996, he anticipated that opportunities in the automobile supplier market would become more limited. He began to examine other industries in which he could leverage the company's expertise in delivering precision-machined components and very large-scale metal fabrication. Today, 90% of W Industries' revenue comes from aerospace, defense and other non-automotive industrial work. Ed invested in the high-tech equipment needed to compete in the long haul within this sector.

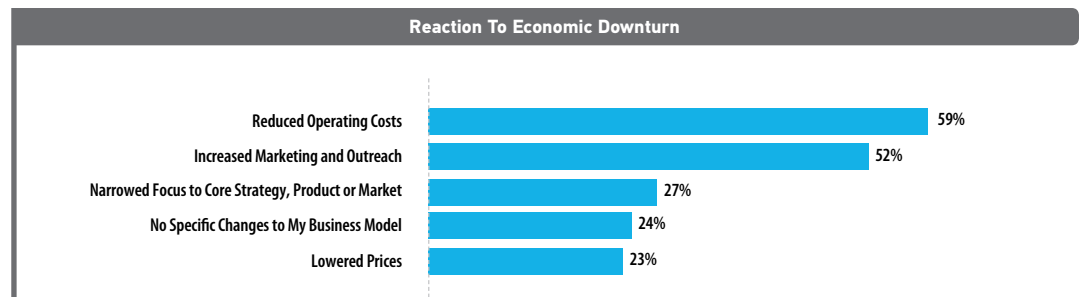
Investing Steadily: Inner City 100 CEOs have continued to invest in their companies through economic downturns. As the national economy faltered from 2007-2009, 86% of this year's Inner City 100 class either increased or maintained the size of their workforce, while 52% increased their marketing and outreach. These companies also continuously invest in their employees through higher levels of training, compensation and benefits. These investments have built loyalty among employees: the average employee turnover rate for Inner City 100 firms is only 12%, which is less than one-third the national average. Bedrock Consultants of Oakland, Calif.,

FACTORS LIMITING GROWTH

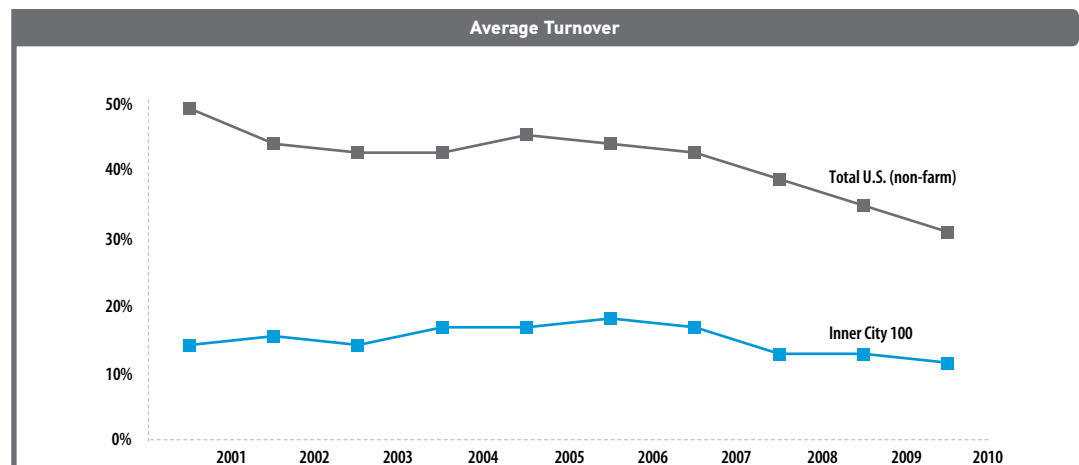
- Access to capital
- Access to potential business partners
- Finding the right talent
- Unstable economy

RESOURCE GAPS

- Access to potential business partners
- Help building sales infrastructure
- Information about or connections to capital sources
- Help devising strategic plan



Source: Inner City 100 Survey, 2003-2004, 2009-2011, n=450



Sources: Inner City 100 Survey 2001-2011, n=958; Total U.S. Data from Bureau of Labor Statistics Job Openings and Labor Turnover Survey

for example, hired through the downturn, enabling the company to recruit higher-quality staff and respond more quickly to an uptick in business. Orbit Media Studios of Chicago is an interactive marketing agency that, like other professional services firms, has been challenged by the economic downturn. Notwithstanding these conditions, CEO Andy Crestodina has avoided layoffs, believing that holding onto his highly skilled staff would prepare the company to take advantage of the eventual economic recovery.

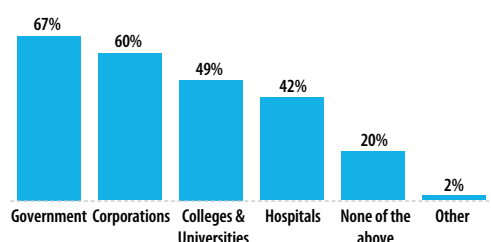
Getting Connected

Inner city firms cannot sustain themselves as isolated or independent entities. Ties to the larger business community generate new opportunities, ideas and partnerships. Our survey of Inner City 100 firms showed that connections to a larger network – of customers, advisors and mentors, and peers – are critical success factors in company growth. These networks include membership organizations, certification authorities, procurement groups, virtual communication platforms and information exchanges.

Tapping into Procurement Opportunities: Inner City 100 firms have successfully tapped into supply networks for large institutions within their markets. In fact, 80% of the most recent respondents supplied some combination of governments, large corporations, colleges and universities and hospitals. These large customers were a primary source of growth over the past five years, providing breakthrough opportunities for the firms that successfully developed these relationships. An impressive 39% of firms cited government contracts and 31% cited large corporate contracts as their major drivers of growth during the most recent five-year period. Inner City 100 CEOs cited additional benefits from developing supplier networks with large purchasing organizations, including enhanced reputation when selling to other large customers, long-term stability to allow for planning and growth, enhanced knowledge on how to serve other large customers, referrals to other large customers and cash to grow their companies.

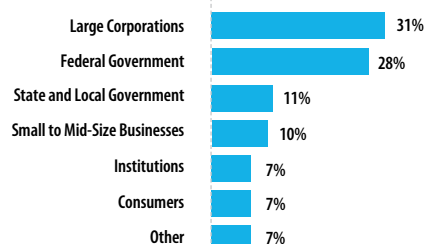
Relationship with Large Purchasers

Do you supply any of the following large purchasers of goods and services?



Source: Inner City 100 Survey, 2011, n=84

Primary Source of Growth In Last Five Years



Source: Inner City 100 Survey, 2003-2011, n=541

John Rowady, the CEO of rEvolution, a 40-person sports marketing firm located in Chicago, leveraged a personal relationship to meet Motorola, which became the company's first big client. rEvolution started by winning a small bid and over time grew their business with Motorola. rEvolution has been able to leverage this relationship, now that they have proven themselves, to win bigger jobs with other corporations, helping the company achieve scale. The company now has revenues in excess of \$16 million.

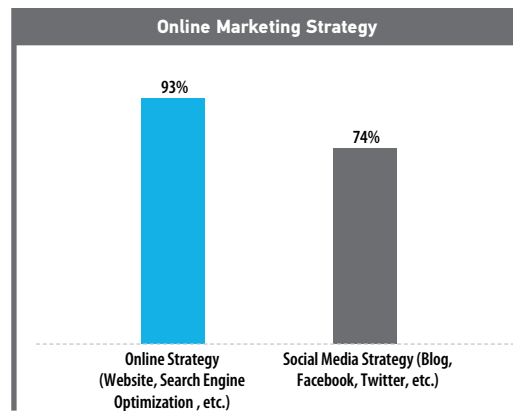
In the government realm, 55% of Inner City 100 firms have used at least one federal program, the most common being HUBZones, Empowerment Zones, Renewal Communities, Enterprise Communities, 8(a) acquisitions, SBA 504 loans and SBA 7(a) loans. Utilizing these networks has opened up new business opportunities for inner city firms. CEO Ernie Gutierrez moved his environmental remediation company, Allied Industries, into California's San Fernando Valley, a HUBZone where Gutierrez also grew up. The company's HUBZone status allowed it to successfully pursue more government business. Silva General Construction of San Diego, Calif. is a certified SBA 8(a) and HUBZone business that

leverages its certifications to find mentors and customers. Accessing large institutions expands business networks and can catapult a company's growth to the next level.

Engaging Business Networks: A vital component of Inner City 100 success is engagement with customers and peers for the purposes of receiving feedback, sharing ideas and making connections for future collaboration. Forty-four percent of 2011 Inner City 100 CEOs belong to at least one business network or association, ranging from local chambers of commerce and trade organizations to national associations such as the Women's Business Enterprise National Council (WBENC) and CEO peer groups such as Vistage International, Entrepreneur's Organization (EO) and Young Presidents' Organization (YPO). Larry Closs, CEO of New Orleans-based New Bath and a member of Vistage International, credits the organization with helping him gain valuable business perspectives from fellow CEOs that has enabled him to continue to grow his company.

Among the Inner City 100, 36% of companies are taking advantage of certifications as either minority- or woman-owned businesses. Small and diverse business designations have opened up new business opportunities for the firms that have used them. Companies that have received the MBE and/or WBE designation show a slightly higher five-year revenue CAGR than eligible but non-certified Inner City 100 companies (44% versus 38%).

Connecting Online: Inner City 100 entrepreneurs understand the importance of getting connected electronically. An emerging trend among the Inner City 100 is a savvy use of technology. In the most recent cohort, 93% of Inner City 100 firms have an online strategy and 74% engage in a social media strategy through blogs, Facebook, Twitter, podcasts and/or LinkedIn. Inner City 100 firms deploy social media for several strategic purposes, including keeping customers aware of internal company developments (58%), announcing new product offerings (46%), creating a user community and allowing customer-to-customer interaction (32%), announcing promotions (27%) and seeking feedback on existing products (25%). Indeed, engagement with social media is an important priority for these firms, as evidenced by the fact that 36% of Inner City 100 CEOs devote their own time to managing social media.



Source: Inner City 100 Survey, 2011, n=86

TerraCycle leverages social media to its full benefit. The Trenton, N.J.-based manufacturer of eco-friendly products from recycled materials operates in a market niche that requires a great deal of consumer education, which it accomplishes through its own YouTube channel, an active Twitter feed and a Facebook page with over 20,000 “Likes.” The company’s social media strategy highlights its innovative upcycling business model and promotes the company’s sourcing strategy – buying back waste from consumers, schools and non-profits.

Leveraging Inner City Assets

Where others see challenges, Inner City 100 CEOs see economic opportunity. These entrepreneurs understand inner city neighborhoods and their assets, as 77% of them have lived in the inner city. Inner City 100 entrepreneurs recognize that inner cities offer several strategic assets, including access to highway, rail and public transportation, customers and suppliers, related businesses and talent.

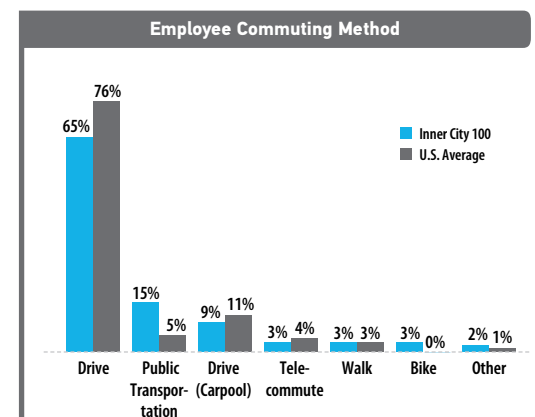
Access to Transportation: Inner cities offer access to transportation nodes that help businesses get better connected with customers, suppliers and employees. Consumers Choice Coffee, a specialty wholesale coffee and beverage provider based in Louisville, Ky., chose its current inner city location to gain direct access to the freeway, the Louisville airport and the UPS shipping facility, all of which are critical for the distribution of their products. The company’s proximity to these facilities allows for cost and time savings and helps the company be more nimble in responding to customer needs.

Access to Customers, Suppliers and Related Businesses:

Inner cities also offer proximity to other businesses that can act customers, suppliers or business partners. U.S. Specialty Coatings & Supplies, a manufacturer of specialty chemicals and industrial coatings based in Jackson, Miss., chose to locate in an inner city industrial park which includes plastics and other manufacturing, warehousing and distribution businesses, to be close to many of their customers and suppliers who operate nearby as well as in the park itself. The company also hires almost all of its workers from inner city Jackson, which is accessible via the local bus system.

Inner cities are home to bustling local economic clusters of related businesses which frequently create their own ecosystems. In addition to attracting business resources and talent, these clusters promote innovation and collaboration. OriGen Biomedical of Austin, Texas, benefits from being part of a robust cluster of 77 biotech companies in Austin. Local research institutions, including University of Texas-Austin and Austin Community College, help nurture this cluster. The latter has developed strong clean-room programs which produce a qualified pool of skilled technical workers from which OriGen regularly hires.

Access to Talent: Inner cities provide access to a local and diverse workforce. Inner City 100 companies and their employees are passionate about their urban locations, which offer easy access to public transportation and a vibrant downtown community. Indeed, 35% of Inner City 100 employees take alternative transportation to work, including 15% who take public transportation, a rate that is three times the national average.



Sources: Inner City 100 Survey, 2010-2011, n=145; U.S. Census Bureau American Community Survey 2005-2009

W Industries moved from suburban Detroit to its current inner city location to access the pool of skilled labor. The metal fabrication company hires approximately 80% of its workers from inner city Detroit, where it finds qualified workers with the necessary backgrounds to perform the welding, quality inspection and machining work the company requires.

Impacting Neighborhoods

Inner City 100 firms are uniformly proud of a single fact: their presence in the inner city has made a difference. The stability of these inner city companies within their communities has been a part of their neighborhoods' revitalization and a source of community pride. Our survey of the Inner City 100 showed that CEOs rate a commitment to the city and community as the number one reason for locating their business in the inner city, and this commitment continues to shape urban environments nationwide.

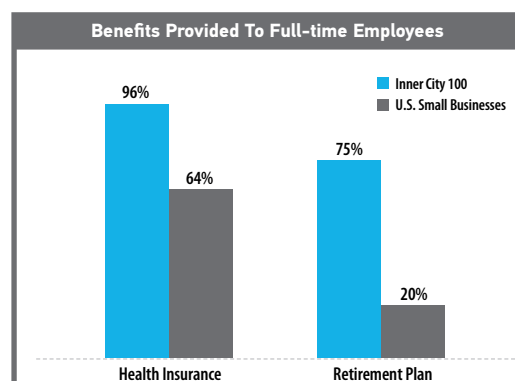
Developing Real Estate: Inner City 100 firms frequently have a powerful impact on the built environments of inner cities. For example, when Benefit Strategies decided to locate in inner city Manchester, N.H., it purchased an abandoned 22,000 square foot building built in 1879 for \$300,000. The company invested \$1.8 million to renovate the facility, using loans from HUD and the Manchester Development Corporation. Now 75 people are employed at the building. Recently, the company has again changed the Manchester skyline by purchasing an empty 4-story building next door for \$250,000. They have demolished it and are investing \$1.1 million in building another one in its place. Manchester residents make up half of Benefit Strategies' employees, and they are drawn to the downtown location's convenience and vibrance.

Investing in the Local Workforce: Inner City 100 firms have generated approximately 70,000 jobs over the life of the program. On average, each Inner City 100 company hires 37% of its workforce from the inner city. Many Inner City 100 firms have instituted local workforce development programs to ensure a pipeline of local talent. Yerba Buena Engineering & Construction, located in San Francisco, partners with city government on the City Build program, which interviews and pre-trains young people who want to enter the construction industry. After about 12 weeks of on-the-job training, the city approaches the company to gauge its interest in hiring the youth.

CEO Miguel Galarza says that this private-public partnership has worked well, and he has enjoyed having such a diverse workforce.

Inner City 100 firms are providing high-quality jobs. On average Inner City 100 firms spend 4.8% of payroll on employee training, significantly more than the 2% spent by the average large corporation. Ninety-six percent of Inner City 100 firms provide health insurance to their full-time employees, while 75% provide a retirement plan. Inner City 100 employers cover 73% of the employee health care premiums, slightly higher than the national average of 70%.

DIVERSITY Half of the Inner City 100 workforce is minority, and 14% are foreign-born.



Sources: Inner City 100 Survey, 1999-2011, n=1,204; Health insurance data from the Medical Expenditure Panel Survey (MEPS), Department of Health & Human Services, September 2004; Retirement plan data from Small Business Research Summary conducted by the Small Business Administration, 2009

Building Business Communities: Many successful Inner City 100 firms who recognize the opportunities that exist within their inner city economies have become fierce advocates for other local businesses. Pro-Liquitech, a flavor product development company in Louisville, Ky., has been a key player in developing the Park Hill Business Association, a collaboration of local businesses in the distressed Park Hill district. The association, which was started in 2009 with the help of the local chamber of commerce and just four businesses (including Pro-Liquitech), now boasts more than 45 members. As it expands, Pro-Liquitech is helping to bring new businesses into the neighborhood. The company purchased the building adjacent to its current headquarters and is in the process of remodeling it. A portion of the former mechanic shop will be used to expand Pro-Liquitech's business while the remainder will be leased to other businesses to bring more economic development to the area.

SERIAL ENTREPRENEURSHIP 54% of Inner City 100 CEOs have founded at least one other company

MEMBERSHIP TO CEO NETWORKING GROUPS 44% of Inner City 100 CEOs belong to at least one business network or association

ANATOMY OF A TYPICAL INNER CITY 100 CEO

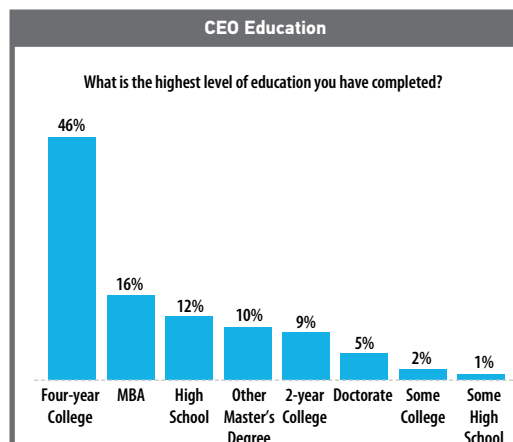
Average age = 47

77% have lived in the inner city

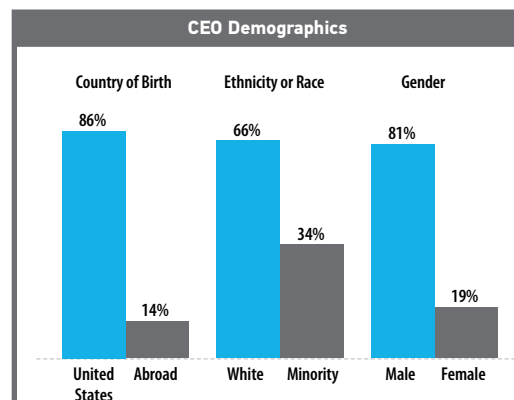
45% are either female or minority

77% hold a four-year college degree

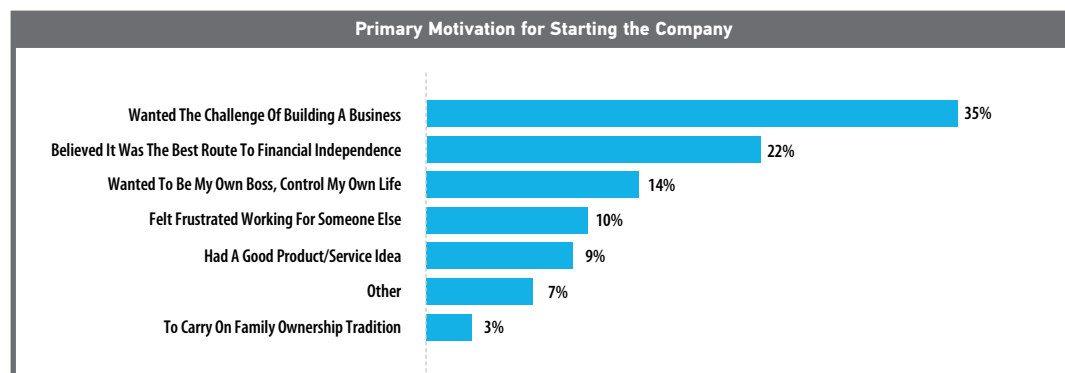
31% hold a master's degree or beyond



Source: Inner City 100 Survey, 1999-2011, n=620



Source: Inner City 100 Survey, 1999-2011, n=589, 628 and 660, respectively



Source: Inner City 100 Survey, 2001-2011, n=378



ICIC

Initiative for a Competitive Inner City

200 High Street, Third Floor ■ Boston, MA 02110 ■ www.icic.org