



Leveraging Anchor Institutions to Grow Inner City Businesses

A Resource for Inner City Entrepreneurs

ICIC's mission is to drive economic prosperity in America's inner cities through private sector investment to create jobs, income and wealth 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

Columbus Woodruff, founder and CEO of Inner City 100 winner Hotcards.com, a full-service Cleveland-based printing and graphic design shop, looked for opportunities to supply the Cleveland Clinic for many years. With an annual budget of \$5 billion, the Clinic is a major "anchor institution" that offers an enormous market opportunity for local businesses. Through the Greater Cleveland Partnership (GCP)'s Minority Business Accelerator 2.5+ supplier diversity program, Woodruff met Clinic purchasers and impressed them with Hotcards' offerings. The Clinic has since become one of Hotcards' largest customers, while Hotcards has streamlined the Clinic's design and print operations. Hotcards has leveraged the Clinic relationship to attract other large clients, including LiveNation, Budweiser and Anheuser Busch.

Anchor institutions like the Cleveland Clinic are large organizations, typically educational, medical or cultural, that are deeply rooted in their local geographies and that play an integral role in the local economy.ⁱ These institutions draw billions in funding from often non-local sources, spend sizeable amounts on the procurement of local goods and services, act as major employers that train the local workforce and utilize their vast resources to benefit their local communities.

The seven thousand U.S. colleges and universities collectively spend over \$200 billion on goods and services annually, while hospitals spend \$320 billion annually. Approximately one quarter of both educational and medical institution spending is done by organizations located in inner cities.ⁱⁱ While the recent economic downturn has negatively impacted large parts of the economy, anchors have continued to thrive with educational and medical institutions growing revenues and adding jobs at double-digit rates from 1998 to

2008.ⁱⁱⁱ Colleges and universities conferred over three million degrees in 2009, and hospitals trained thousands of medical professionals as part of their core practice. In addition to developing human capital, anchors develop intellectual capital and help to advise and support small businesses nationwide.

Business owners, especially those in underserved urban areas, can take advantage of these opportunities with anchor institutions located in their own backyards. In each of the 20 largest US cities, an institution of higher education or academic medical center is among the top 10 private employers.^{iv} One third of the largest hospitals are located in cities, while many large corporations, including 18% of the S&P 900 firms, are headquartered in inner cities across the nation.^v These corporations often act as anchors in their communities, directing significant portions of their spending to local and disadvantaged small businesses, collaborating on workforce development efforts and providing networking, consulting and advising opportunities.

Anchors invest in their local communities because doing so is in their own best interests. These world-class institutions must compete globally for students, talent and funding, and their ability to attract the best resources hinges not only on their own health, but also on the health of their surrounding communities. When the University of Pennsylvania saw enrollment rates drop in the mid-1990s because applicants perceived West Philadelphia to be unsafe and economically depressed, the university led a major multi-faceted effort to revitalize the community. Ten years later, former President Judith Rodin reflected, "Today Penn celebrates its ongoing transformation into a world-class urban research university that is nourished by the neighborhood it helped to develop and revitalize....the University's engagement as urban developer has played a critical role

in enhancing Penn’s academic reputation...our investment in West Philadelphia paid strong academic dividends.” The neighborhood now enjoys a healthier economy, recovered real estate market and reduced crime, while the university has higher rankings, student applications and funding.^{vi}

What are the opportunities for inner city businesses?

Anchor institutions play seven distinct roles within their communities as originally defined by ICIC and CEOs for Cities in 2001 and updated by ICIC in 2010.^{vii} Local inner city businesses can benefit both directly and indirectly under nearly all of these roles, however, we will focus on the roles of purchaser, workforce developer and community infrastructure builder. From an inner city business owner perspective, we identify three primary business opportunities to work with anchor institutions in these roles: (1) Become a trusted supplier; (2) Identify and train your employees; (3) Seek world-class advisory and consulting services to build your business capacity.

ICIC’s Updated Anchor Institutions Framework, 2010^{viii}



Become a trusted supplier of goods and services to local anchor institutions

Many anchor institutions actively direct their institutional purchasing to local or diverse businesses. From the anchor’s perspective, these purchasing initiatives spur healthy competition, innovation and local relationships that have the potential for greater flexibility.

Make the business case for why your local anchor should work with your business. Purchasers will never select a supplier based solely on its status as a local or diverse business. When working with an anchor, it is important to communicate the ways the anchor benefits by sourcing locally. For example, local small businesses can be more nimble and open to more customized solutions which are tailored to the anchor’s needs. Furthermore, proximity to the anchor facilitates shorter turnaround times for orders and reduced transportation costs. Hotcards, for example, ensured that the Cleveland Clinic’s customer service experience was streamlined and tailored to the institution’s unusual needs, such as splitting up orders and shipping them to many different locations.

Research anchor institutions’ procurement policies and goals for local and diverse businesses. Anchors establish local and diverse supplier programs with various intentions, such as improving relations with local communities or complying with legal requirements for contracts given to small and diverse businesses. Therefore, each program’s individual goals, policies and definitions of target suppliers differ. Some anchor institutions are looking to source from *local* businesses, while others seek *diverse* suppliers. Targeted “diverse” suppliers may include businesses owned by women, minorities and veterans or those located in Historically Underutilized Business Zones (HUBZones). Qualification for these programs requires certifications that are typically provided by the Small Business Administration, state agencies or non-governmental associations.^{ix}

Examples of anchors with local and diverse purchasing programs are found nationwide. The Reimagining Detroit Project unites three Detroit anchors, the Detroit Medical Center, Henry Ford Health Care System and Case Western University to work collectively to accelerate local business growth. Together, these institutions have committed to spending 16% of their collective \$6 billion in operating budgets with local suppliers.^x The University of Pennsylvania increased spending with local suppliers from \$2.1 million to over \$90 million from 1987 to 2009 under its “Buy West Philadelphia” program aimed at spurring local economic growth,^{xi, xii} while the University of Virginia has committed to increase spending with small businesses and women and minority-owned businesses by 5% each year.^{xiii} In identifying supplier opportunities, businesses should pay

particular attention to anchor institutions that receive federal or state contracts, many of which are subject to laws requiring specific amounts of procurement to be subcontracted out to small and diverse businesses.^{xiv} States such as Illinois, New York and Virginia also stipulate subcontracting requirements for public universities and other recipients of large state contracts.

Taking advantage of these supplier opportunities can be made easier if you do your research and understand the anchor institution's needs. Bronx-based Borax Paper learned of Columbia University's recent efforts to reach out to local vendors. Vice President of Business Development Jeffrey Konowitz researched the university's local purchasing program, saw a potential opportunity to supply biodegradable foodservice products and registered Borax with Columbia's purchasing program as a local vendor. It took Konowitz two years to convince Columbia to place a small initial contract in 2006, but the university has subsequently increased its business with Borax every year and is now one of their largest customers. Konowitz attributes the relationship's success not only to Borax's continued delivery of excellent service at a fair price, but also to the fact that Borax has responded to Columbia's needs by providing innovative, environmentally friendly products and by increasing the minority representation in its workforce.

As with Borax Paper and Columbia, developing supplier relationships may require continued persistence, patience and flexibility. When Richmond, VA-based Canterbury Enterprises first approached nearby University of Virginia (UVA) seeking a construction contract, university purchasers felt Canterbury was bidding on larger contracts than it could reliably fulfill. Over the next several months, Canterbury's CEO met with UVA several times until both parties agreed that the company should pursue small contracts while it built capacity to be able to meet the university's larger needs. Canterbury took on a string of smaller contracts that helped the company learn the ropes at the university, improve the company's operations and build stronger relationships. UVA also mentored the company. Now the two collaborate regularly on larger contracts, enabling Canterbury to grow and take on other large customers.

Use anchors to help identify and train your employees

For any small business, having the right talent is critical. ICIC's analysis of more than 600 successful inner city firms shows that these firms invest heavily in their workforce, spending more than twice as much on training as the national average, resulting in significantly lower turnover rates and higher productivity. Educational institutions, in particular, develop human capital as part of their core mission, and they can help businesses find and build talent. Many of these institutions, including the community colleges that enroll nearly half the nation's college students, are located in your immediate local community.

Use local educational institutions to identify qualified job candidates. Academic institutions attract vast pools of talented people and prepare them with technical expertise that is increasingly important in today's information-based economy. These talent pools can provide affordable, proven talent for your enterprise without requiring the time and expense of wading through unqualified applicants. Inner City 100 winner Paniaguas Enterprises is a turn-key communication construction company based in Baltimore that specializes in voice, data, and video fiber optic cable installation. CEO Jaime Paniaguas is a strong supporter of Morgan State University's engineering program, from which he can reliably recruit qualified local job candidates.

Find job training opportunities for your existing workforce at local community colleges. Many community college programs can equip your existing employees with practical, relevant skills. Training employees through community colleges can be efficient and cost-effective. Origen Biomedical is an Austin-based medical device manufacturer that leverages Austin Community College's "clean-room" manufacturing programs by both hiring from them as well as training existing employees through them. Austin's community college system uses such programs to support the region's IT and biopharmaceutical clusters. CEO Richard Martin praises, "Austin Community College is really amazing. They have an incredible array of training courses, including both technical and medical education." Both entities benefit from this partnership. Origen draws from a pool of well-trained candidates able to contribute on the job immediately, while the college increases enrollment and improves the employment prospects of its students.

CITATIONS

- ¹ Museums, libraries, performing arts centers, sports franchises, civic centers, religious institutions, military bases and some corporations can also act as anchors.
- ² US Department of Education National Center for Education Statistics 2008 Finance data, American Hospital Association 2008 Survey data, and ICIC Analysis, September 2010
- ³ ICIC State of Inner City Economy Research
- ⁴ The Brookings Institution, "Eds and Meds: Cities Hidden Assets," 1999
- ⁵ ICIC, "Putting the Inner City First," May 2010
- ⁶ Judith Rodin, "The University and Urban Revival, Out of the Ivory Tower and Into the Streets," 2007
- ⁷ ICIC and CEOs for Cities, "Leveraging Colleges and Universities for Urban Economic Revitalization: An Action Agenda," 2001 and 2010 Inner City Economic Forum
- ⁸ 2010 Inner City Economic Forum
- ⁹ Further information on certification process can be gathered at Business.gov: <http://www.business.gov/expand/government-contracting/certification.html>
- ¹⁰ Omar Blaik and U3 Ventures, Presentation to Michigan Municipal League, September 23, 2009.
- ¹¹ David F. Shaffer and David J. Wright, "A New Paradigm for Economic Development," in Higher Education, March 2010, p. 43.
- ¹² Tony Sorrentino, University of Pennsylvania Public Affairs Office, July 2010
- ¹³ University of Virginia Procurement Services, <http://www.procurement.virginia.edu/pagediversity>
- ¹⁴ Federal Acquisition Regulation Parts 19 and 52 specify that for federal contracts over \$550,000 in size must spend approximately 23% of expenses with small businesses, 5% with small disadvantaged business, 5% with women-owned small business, 3% with historically underutilized business (HUBZone) businesses, and 6% with veteran-owned businesses.
- ¹⁵ Coopers and Lybrand, "L.L.P. University and Growth Company Relationships: A Coopers and Lybrand Trendsetter Barometer Survey," Presentation to the Northern Virginia Roundtable by Jim Lafond, 1995.

SELECT RESOURCES TO LOCATE ANCHOR INSTITUTIONS

- **Community-Wealth.org:**
<http://community-wealth.org/>
- **Coalition of Urban Serving Universities:**
<http://www.usucoalition.org/>
- **American Hospital Association:** <http://www.aha.org/>

Use your local community college to create a specialized job-training program. Job-specific training can be found at community college systems in every state, and nineteen states designate specific community colleges for workforce training. North Carolina and Georgia provide workforce development programs through community colleges. The North Carolina community college system creates and implements training programs for local businesses that are free of charge and tailored to the needs of companies. The colleges provide this service to 600-700 fast-growing businesses every year. Talecris Biotherapeutics, a Durham county-based manufacturer of critical care treatments using blood plasma, uses its local community college to provide an annual three-week training course for all staff members.

Get World-Class Advisory and Consulting Services from Anchor Institutions

Anchor institutions often look for ways to use their human capital and expertise to help build capacity in the local community. Many offer advising, consulting or mentoring to small, local businesses.

Seek advising and networking opportunities from anchor institutions. A study of 424 fastest-growing businesses found that 40% take advantage of services offered by colleges and universities.^{xv}

Companies can use anchor universities' students and faculty in a variety of ways including: inviting faculty to serve on company boards, seeking business or legal advice and serving as live case studies for research. Many of these services are offered at low or no cost to entrepreneurs and can be found at anchors like the University of Pennsylvania, Stanford University, Case Western Reserve University, Columbia University, University of Chicago Law, Harvard Law School and University of Michigan. Additionally, such programs often host conferences, forums or other events, whereby local businesses can network with university affiliates and other businesses.

Deborah Ramsey used a range of services from the University of Pennsylvania to help launch and grow a multi-service spa in West Philadelphia. As a first-time entrepreneur in 2007, she attended entrepreneurial workshops at the university's Wharton Small Business Development Center

(SBDC) and drafted a business plan for Natural Wellness & Spa. She also used the Penn Law Entrepreneurship Legal Clinic to establish the legal structure of the business and manage its lease and contracts. To tackle the spa's financial troubles during its first year, Ramsey returned to the Wharton SBDC for one-on-one consulting services. Ramsey credits these lines of support with the continued viability of her business. Advisers from the university have helped her navigate difficult legal terrain, improve profitability by reducing costs and running operations more efficiently and formulate key strategies. Most recently, Ramsey has learned to cope with the challenging macroeconomic conditions by offering medical spa services, which are reimbursed by most health insurers.

Seek mentorship opportunities from purchasers.

Anchor purchasing offices from both the public and private sectors may offer generous mentorship opportunities for their local and diverse suppliers. Health insurer Blue Cross Blue Shield of Massachusetts (BCBSMA) worked with Next Street Financial to develop a program to help build capacity for potential local suppliers, such as Global View Communications. The largest healthcare provider in Massachusetts, Partners Healthcare, began using local minority-owned vendor Westnet for its medical, surgical and lab supplies in 2006. In order to facilitate its business with Westnet, Partners helped the company streamline their vending and billing processes, enabling Westnet to take on other large customers, including the Massachusetts Institute of Technology (MIT) and the Dana-Farber Cancer Institute.

Conclusion

Successful small businesses constantly explore new avenues to grow revenues, improve operations and increase profits. Local anchor institutions can provide numerous opportunities including buying goods and services from inner city businesses, streamlining the process of hiring and training qualified employees and providing world-class advice or consulting at minimal cost. With such a high concentration of anchors in inner cities, businesses in these areas can take advantage of resources right in their own backyards, while helping anchors meet their own business and community development goals.



ICIC

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