



A Minority Business Development Framework for The Cleveland Foundation

Background

The purpose of the report is to provide information to assist The Cleveland Foundation in developing its minority business development approach, with an emphasis on supporting the growth and health of established and mid-level businesses. The report provides an assessment of the status of current local minority business development, and identifies promising focus areas for the Foundation as it moves ahead. The report also outlines national best practices for minority business development in the areas of business development assistance, financing, business networking, research, and advocacy.

It's important to note that although a vibrant minority business community contributes significantly to the economic and social health of a community, this report is not a prescription for revitalizing inner city neighborhoods or distressed inner suburbs. There are many other factors in addition to minority business development that contribute to neighborhood vitality. So while strengthening minority businesses should contribute to improving distressed areas, strengthening these businesses also deserves to be engaged in as an end in and of itself.

Our goal is to provide The Cleveland Foundation with recommendations that are strategic, actionable, and more likely to result in changes that improve the success rate of minority business development in Cleveland. To accomplish this goal we use a unique approach that combines sectoral and spatial analysis, national best-practice identification, and local first-person interviews. The sectoral analysis allows us to determine the strengths of MBEs in Cleveland by industry sector by comparing the market share of Cleveland MBEs to national figures. These local MBE sector strengths can form the basis for ongoing MBE promotion and development. At the same time, more targeted strategies can be utilized to develop MBEs in industry sectors that are strong nationally for MBEs, but weak in Cleveland, thus showing high growth potential.



What's Working among MBEs and Intermediaries in Cleveland

Minority business enterprises (MBEs) in Cleveland are a vital part of the regional economy, and this analysis reveals many encouraging signs regarding their relative health:

- Larger MBEs are doing relatively well in Cleveland compared to other metropolitan regions. Sales and receipts of African American-owned businesses grew by 284% from 1992 to 1997, the third highest rate among 20 large metropolitan regions.
- MBEs, especially African American-owned businesses, are doing especially well in the construction, wholesale trade, engineering and architecture, and manufacturing sectors in Cleveland, in comparison to other regions. With strategic support, MBEs in these sectors can continue to grow.
- Supplier diversity efforts by large majority companies are beginning to take root in Cleveland, led by companies like the Eaton Corporation and organizations like the Northern Ohio Minority Business Council and the Greater Cleveland Partnership.

Challenges for Cleveland's MBEs

Despite these encouraging findings, the evidence demonstrates that the minority business community faces many challenges:

- Recent statewide data from Ohio is not positive — sales and receipts of African American-owned and Hispanic-owned MBEs each dropped by 8% from 1997 to 2002, while sales by all firms increased by 13%. Cleveland-specific data for 2002 will be available in 2006.
- Sales and receipts of African American-owned businesses grew from 1992 to 1997 but continued to lag behind white-owned firms. African American-owned businesses generated only 0.66% of sales and receipts of all firms in the region in 1997 even though they made up 5.3% of all firms.
- Most Hispanic MBEs tend to serve the local neighborhood economy.
- MBEs in the Cleveland area, especially African American-owned businesses, are doing rather poorly in the retail trade, personal and non-professional business services, automotive dealership, local transportation and trucking, and legal services sub-sectors, compared to other regions of the country.
- **Figure 1** on next page shows that MBEs take at least two-and-a-half years longer to reach the ten-employee-level than all businesses overall. However once they reach this level, MBEs and non-MBEs have virtually identical growth rates — both reach the 40-employee level within an additional four-and-a-half year span. **Figure 2** below shows that MBEs have an average credit rating slightly higher

than non-MBEs precisely during the period when they are growing slower than firms overall — in the time-span before reaching ten employees. Because their average credit rating is as good as that of companies overall, one could infer that ineffective business practice is not the cause of the slow growth among MBEs during their first nine years. The first-person interviews we conducted as part of this research revealed a number of possible reasons for this slow early growth including limited access to capital, less extensive business connections, and less prior business experience.

Figure 1. FIRM GROWTH RATE

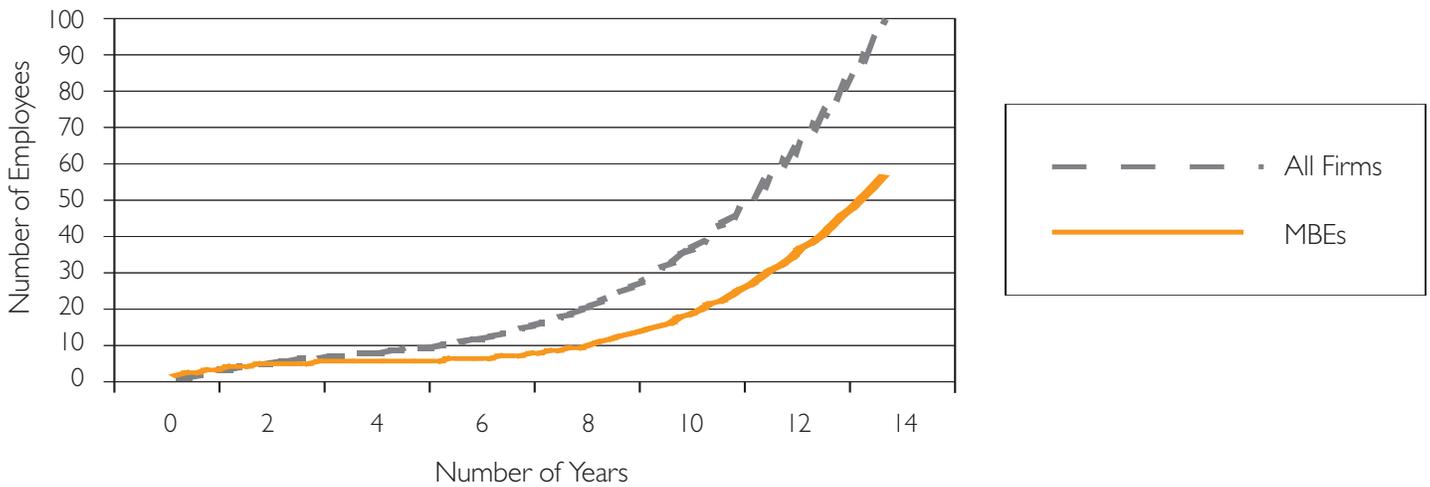
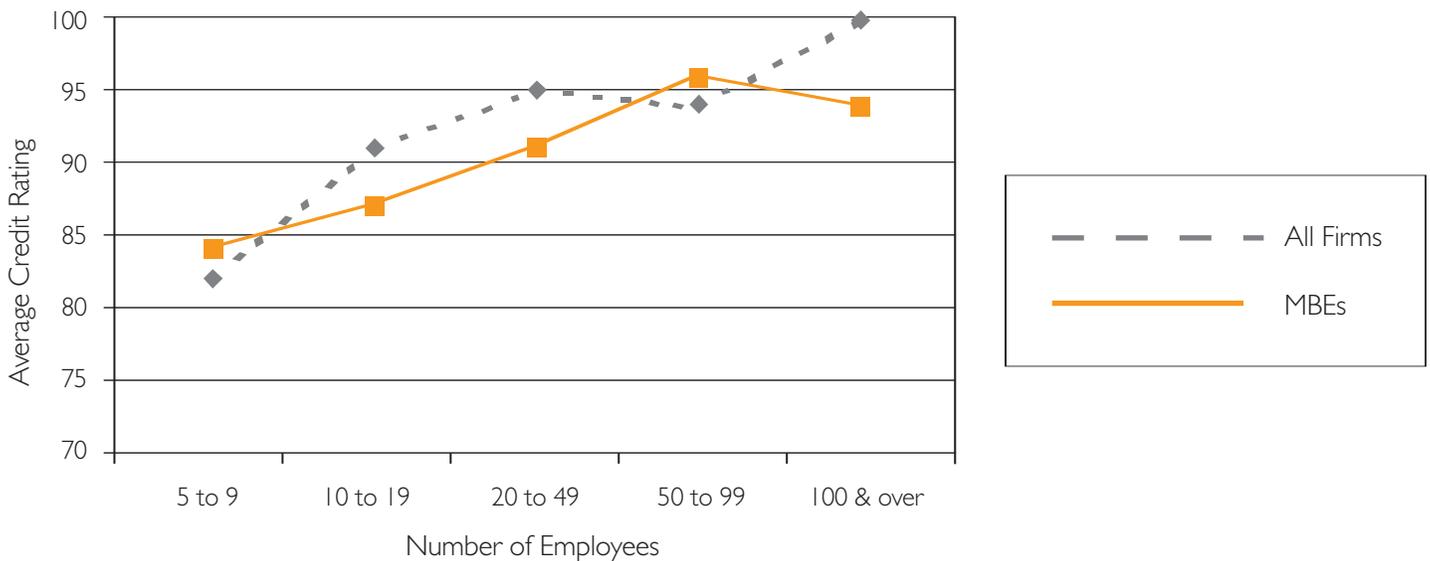


Figure 2. CREDIT RATINGS — CLEVELAND MBEs vs. ALL FIRMS



Geographic Distribution of Minority Business Enterprise in Cleveland

As the map below shows, successful MBEs are distributed throughout Cuyahoga County, but location does matter; at least in certain circumstances. Some MBEs, especially ones with annual sales over \$10 million, are strategically located in or near downtown Cleveland and the University Circle area, as well as in growing suburban areas of Cuyahoga County.

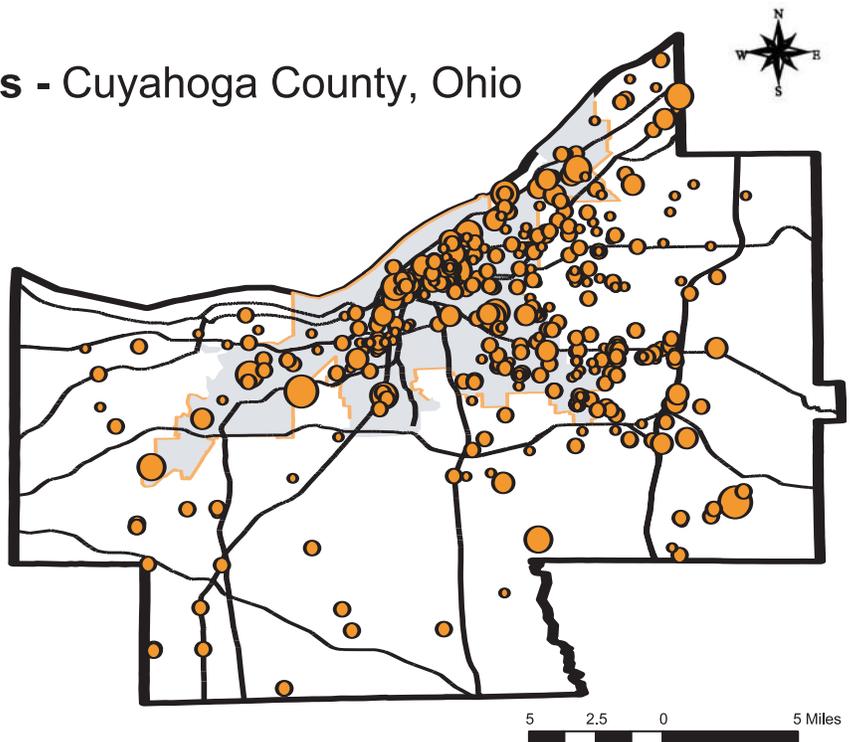
Of concern, many smaller MBEs are isolated from regional job and population growth and business start-ups. For MBEs in the retail and business service sectors, the declining residential and commercial base makes their development more challenging.

2005 Sales Volume of MBEs - Cuyahoga County, Ohio

Annual Sales Volume

M=Millions of \$US

- below \$500,000
 - \$500,000 to \$2.5 Million
 - \$2.5 to \$10 Million
 - \$10 to \$50 Million
 - above \$50 Million
- Major Highways
 - ▭ City_of_Cleveland
 - ▭ Cuyahoga County



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Prepared: November 1, 2005
Projection: Ohio State Plane North 1983
Sources of Data: InfoUSA;
MBE locations from multiple MBE directories

- Since 2001, MBE start-ups have tended to locate in downtown Cleveland, in the south and southwest suburbs, and on the east side of Cleveland, compared to the 15 years prior. The increase of MBE start-ups on Cleveland's east side likely indicates the success of targeted micro-enterprise and business development programs in these neighborhoods.
- MBEs located on the western side of Cleveland or in the downtown area were more likely to have improved credit ratings and growing or stable sales volume from 2001 to 2005, compared to MBEs in the eastern suburbs or on the east side of Cleveland.

How do Cleveland's African American-owned Companies Compare to Other Regions?

This report analyzes MBEs as a whole in addition to African American-owned companies specifically, since they make up 80% of Cleveland's MBEs. In order to compare the status of Cleveland's MBEs to other MBEs in U.S. cities with a significant African American population, a group of 20 cities was identified. This group, which forms the basis of an "African American owned business index," includes 16 cities that had a population of at least 200,000 African Americans in the year 2000, and four additional cities that were chosen to provide a regional comparison.

Cleveland ranked 12th out of the 20 cities on the African American-owned business index, with an index of +0.015 (on a scale from -1 to +1), placing it nearly in the middle of the largest cities. As the chart below details, this index takes into account four variables: number of firms per capita, total sales and receipts per capita, growth in number of firms, and growth in sales and receipts. So while Cleveland's MBEs are not the most successful in the country, they are also not the weakest.

AFRICAN AMERICAN-OWNED BUSINESS INDEX, 1997

| Ranking | City | Firms per 1000 Persons | Sales/Receipts per Capita | Growth in Firms 1992 to '97 | Growth in Sales/Receipts 1992 to '97 | INDEX |
|-----------|------------------|------------------------|---------------------------|-----------------------------|--------------------------------------|---------------|
| 1 | Dallas | 24.3 | \$4,915 | 8% | 368% | +0.472 |
| 2 | Atlanta | 30.4 | \$3,913 | 36% | 261% | +0.456 |
| 3 | Columbus | 22.1 | \$3,747 | 23% | 268% | +0.298 |
| 12 | Cleveland | 13.9 | \$1,928 | 18% | 284% | +0.015 |
| 20 | Jacksonville | 14.7 | \$725 | 28% | 41% | -0.304 |

Note: Only five of the 20 cities in the sample are shown above. See full report for entire list. The "Index" is an average of the four data points listed above, each scaled from -1 to +1. All per capita figures are based on the African American population. Growth in firms and sales and receipts are based on per capita percentage change.

Source: Economic Census, 1992 and 1997, Survey of Minority-Owned Business Owners for firms and sales and receipts. Population figures from 1990 and 2000 census. City-level data from the 2002 Economic Census may be released in 2006.

Growth in sales and receipts among African American-owned firms in Cleveland increased by 284% from 1992 to 1997, ranking third among the 20 cities, behind Dallas and Cincinnati. City-level data from the 2002 Economic Census is due out in 2006, and may show this positive trend ending in 1997, as statewide sales by African American firms were down 8% from 1997 to 2002.



EMERGING OPPORTUNITIES FOR MINORITY BUSINESS DEVELOPMENT IN CLEVELAND

The Cleveland Foundation has a strategic opportunity to build on the strengths of the MBE community and intermediaries working with MBEs. This opportunity is generated by an exciting combination of private, public, and non-profit initiatives and market conditions that create the right mix for the next phase of MBE development in Cleveland. Following are some emerging opportunities revealed by our analysis:

1. There is an openness and desire for partnership and collaboration amongst many intermediaries, universities, the public sector, and the business community.
2. The national trend toward supplier diversity, led locally by the Eaton Corporation and the Greater Cleveland Partnership, is an exceptional opportunity for MBEs.
3. There are five industry sectors that build a foundation for MBE development in Cleveland due to their relative strength to MBEs nationally, including construction, professional and technical business services, wholesale trade, manufacturing, and financial institutions.
4. Many public sector agencies may soon be adopting new or revised “affirmative procurement” programs and some are very interested in partnering with intermediaries.
5. Ohio passed legislation in 2004 creating a Minority Business Venture Capital Tax Credit Program that provides 30% tax credits for MBE investments.
6. The City of Cleveland has a large land bank that could be utilized by MBEs that don’t depend heavily on the local neighborhood economy, such as those in the manufacturing and wholesale trade sectors.
7. The city and county Workforce Investment Boards (WIBs) are adopting new workforce development strategies. MBEs in the WIBs’ targeted sectors — healthcare, manufacturing, construction and “small business” — could take advantage of the employee job-training opportunities of these programs.
8. Certain industry sectors have had relative success for smaller-scale MBE development in other cities but are weak in Cleveland, including automotive dealerships and child-care services. With strategic support, MBEs in these sectors have growth potential.
9. MBEs in the Latino community are just as strong as MBEs in other communities of Cleveland. With a significant Latino population growth rate, MBEs serving Cleveland’s Latino market have strong growth potential.

ACTION RECOMMENDATIONS FOR THE CLEVELAND FOUNDATION:



The Cleveland Foundation and its intermediary partners could soon be poised to move MBEs forward and to determine how MBEs fit into and contribute toward overall community economic development in Cleveland. We make the following recommendations related to the Foundation's strategy for supporting MBE development:

- Support a “clearinghouse” intermediary to coordinate and refer clients to the appropriate intermediaries.
- Provide professional development support to intermediaries to increase their capacity to better serve minority businesses.
- Fund research and evaluation to support the continued refinement and development of MBE services.
- Support MBE development in accord with national best practices, including effective business development assistance; access to finance; access to business networking opportunities; and minority certification assistance. This includes the following practices:
 - Business development assistance built on successful mentoring and board-to-board initiatives, such as MBE-to-MBE mentoring;
 - Expanding community-development venture capital funds, matching local utilization of the state MBE venture capital fund, and creation of a loan guarantee program; and
 - Minority certification assistance for certification locally and in other cities, counties and states.
- MBE support strategies should take a more individualized approach by industry sector; since not all industry sectors require the same conditions in order to thrive. For example, it may not be prudent to support business service sector start-ups in neighborhoods suffering from job and population declines because that sector depends on people and commerce in order to succeed. However, manufacturing and wholesale trade MBEs might do very well in those same neighborhoods because rather than population, they need inexpensive and plentiful land in order to succeed, and distressed neighborhoods tend to have both.
- Develop multi-organizational and regional strategies that target specific industry sectors, including construction, professional services, manufacturing, wholesale trade, financial services, legal services, and health services.
- Assist public policy formulation and advocacy efforts, such as monitoring public and private procurement, commercial lending, and bonding practices, as well creating programs that link with public procurement offices.

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This report was commissioned by The Cleveland Foundation

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