



Inner Cities Offer Competitive Advantages

Although attitudes have changed slightly over the past decade, the widespread perception remains that inner cities have little to offer for-profit businesses. A closer look, however, proves otherwise. In fact, America's inner cities are home to more than 800,000 small and midsize businesses.

According to research conducted by the Initiative for a Competitive Inner City (ICIC), nearly 12,000 new businesses are started each year in the inner cities of the country's 100 largest cities, and New England cities are well represented.

by **Deirdre Coyle**

Other fast-growing inner city companies cater to the underserved inner city population. Still others supply support services—printing, back-office functions, just-in-time supplies—to dominant industry clusters in the region, such as financial services, health care, and education.

Harvard Business School professor Michael E. Porter, who founded ICIC in 1994, believes that in generating jobs and economic opportunity, for-profit businesses do more to improve conditions in inner cities than short-term social programs with uncertain funding cycles. Such programs are valuable, but only the private sector has the resources to solve the intractable social problems that beset low-income urban neighborhoods.

Inner cities have inherent competitive advantages. If understood correctly, these advantages—location, available workforce, untapped consumer market, and opportunities to support major regional industrial clusters—can be leveraged to build profitable businesses. Companies will prosper if they pursue economic self-interest founded on genuine competitive advantages and do not rely on government subsidies and incentives.

A major barrier to business development in low-income urban neighborhoods is the perception that inner cities either have nothing to offer a business or that crime and isolation offset competitive advantages. But research shows that under the radar thousands of companies operate profitably in inner cities. Of course, among the many companies are mom-and-pop enterprises that appear and disappear. But the overwhelming majority of inner city companies are profitable businesses that have passed the test of time.

A more accurate picture is seen in the list of the 100 fastest-growing businesses located in the inner city, presented annually since 1998 by ICIC and *Inc.* magazine.

Consider the statistics for the companies selected for the 2006 Inner City 100:

- The average five-year standard

growth rate of the winners is 655 percent.

- Average revenue (2004) is \$31.1 million.
- Average estimated value of companies is \$24 million.
- The number of people employed by the 100 companies is 17,181.
- The number of jobs created by the companies between 2000 and 2004 is 10,381.

When asked to name the advantages of their inner city location, 46 percent of the owners cited access and proximity to transportation nodes; 42 percent said proximity to downtown customers; 37 percent cited the diversity of the local workforce; and 35 percent cited the size and availability of the local workforce as a major competitive advantage.

The Workforce Advantage

Over the next decade the workforce is projected to grow less than 1 percent. Considering that during the past decade the economy was producing jobs at twice that rate, new sources of labor are needed. Inner cities, with their dense populations of immigrants and unemployed and underemployed residents, are a mostly untapped resource.

Although unfit workers do exist in the inner city, there is a far greater number of eager workers who make excellent employees. The challenge for urban economic development is to create jobs that are more accessible and then to connect people to them.

Companies that need a large pool of unskilled and semiskilled workers have a clear competitive edge in inner cities. Consider Dancing Deer Bakery, which bakes gourmet cookies and cakes. Dancing Deer employs 20 workers during most of the year, but during the busy season around the holidays the number may reach 60. The company's regular employees, mainly Latino immigrants, recruit their neighbors and relatives to provide the seasonal manpower.

Underserved Markets

Because of the density of housing, inner cities often have more consumer spending capacity per square mile than wealthy suburbs. Research conducted in 2004 by ICIC and the Boston Consulting Group found that inner-city residents nationwide have \$90 billion in retail buying power.¹ Several major supermarket operators reported that their inner city stores were among their most profitable.





An earlier study looked at four small-to-large supermarkets implementing inner-city strategies: Schnucks in St. Louis, Shaw's in New Haven, Pathmark in Newark, and America's Food Basket in Dorchester.² Each company adapted its business plan to accommodate the characteristics of potential customers—stocking shelves with hard-to-get ethnic foods and hiring neighborhood people who understood the culture and could speak the language.³

Regional Clusters

Inner-city companies are a boon to a region's leading industries. They provide back-office support for the financial-services industry, maintenance services for hospital and educational institutions, and catering services for business meetings. The central location of urban suppliers allows just-in-time service, a competitive edge.

Argus Communications, a Latino-owned advertising and marketing company in the warehouse district of South Boston, is an example. It provides services to companies that want to reach ethnic clients, particularly Latinos. Argus's offices are lofts in a renovated factory. The rental rate is reasonable, and yet the location is convenient to

downtown customers.

Similarly, Horizon Staffing Services in East Hartford provides recruiting services for administrative-support,

information-technology, engineering, and biotech openings. The company benefits from proximity not only to clients, but also to a large pool of motivated immigrant workers. Company owner, Ahmed Ahsan, himself from Bangladesh, reports that close to a quarter of his employees are immigrants. Those employees, in turn, have helped Horizon find qualified immigrants when it recruits for clients.

The Future

Many inner city companies are doing well, but challenges remain. One barrier owners have identified is accessing the capital needed to take their companies to the next level. In a 2005 survey conducted by ICIC of past

Inner City 100 winners, owners reported that accessing equity capital was a significant barrier to further growth, that there were no clear channels available for them to access capital, and that in general they lacked knowledge of how the private equity investment process works. Meanwhile, a survey of equity investors conducted by ICIC at the same time showed that investors are not very familiar with opportunities in the inner city.

ICIC is currently engaged with partners at Bank of America and other major capital sources in an effort to accelerate the flow of capital to inner city companies so that they can scale up, providing more jobs and more economic opportunities for residents.

Deep-rooted misperceptions take time to change. But market opportunities have a way of attracting savvy entrepreneurs who are willing to look beyond the negative images. And the sooner that happens, the sooner the

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inner city will be able to share in the benefits of the mainstream economy.

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¹ See http://imaps.indygov.org/ed_portal/studies/bcg_inner_city_retail.pdf.

² Michael E. Porter, *The Changing Models of Inner City Grocery Retailing* (Boston: ICIC, 2002), http://www.community-wealth.org/_pdfs/articles-publications/cdcs/report-porter.pdf.

³ Although in recent months, America's Food Basket has experienced difficulties, none is related to the market plan. AFB was attracting customers from as far away as Brockton, 40 miles to the south.