Key Drivers for Inner City Growth

Michael E. Porter
Harvard Business School
Economically distressed urban core neighborhoods account for 15% of U.S. unemployment, nearly one-quarter of U.S. poverty, and over one-third of minority poverty.

Inner cities have been disproportionately impacted by the weak overall US economy.

However, there have been economic success stories in these communities over the last two decades.

Much has been learned about what works.
COMPETITIVENESS AND ECONOMIC DEVELOPMENT

- Successful economic development only occurs by improving competitiveness

A nation or region is competitive to the extent that firms operating there are able to compete successfully in the regional and global economy while supporting high and rising wages and living standards for the average citizen

- Competitiveness depends on the long-run productivity of a location as a place to do business
  - The productivity of existing firms and workers
  - Ability to achieve high participation of working age citizens in the workforce

- Competitiveness is not:
  - Low wages
  - Jobs per se
  - A weak currency
DISTURBING TRENDS
ROLLING 10-YEAR COMPOUND ANNUAL GROWTH RATE IN TOTAL NUMBER OF U.S. PRIVATE NONFARM EMPLOYEES, JUNE 1975 - JUNE 2013

Note: Household income includes wages, self-employment, retirement, interest, dividends, other investment, unemployment, disability, alimony or child support, and other periodic income.

Endowments, including natural resources, geographical location, population, and land area create a foundation for prosperity, but true prosperity arises from productivity in the use of endowments.
Endowments

Macroeconomic Competitiveness

- Sound Monetary and Fiscal Policies
- Human Development and Effective Political Institutions

WHAT DETERMINES COMPETITIVENESS?

• Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity
• Endowments, including **natural resources**, **geographical location**, **population**, and **land area**, create a foundation for prosperity, but true prosperity arises from **productivity in the use of endowments**
Productivity ultimately depends on improving the microeconomic capability of the economy and the sophistication of local competition revealed at the level of regions and clusters.

Macroeconomic competitiveness sets the economy-wide context for productivity to emerge, but is not sufficient to ensure productivity.

Endowments, including natural resources, geographical location, population, and land area, create a foundation for prosperity, but true prosperity arises from productivity in the use of endowments.
QUALITY OF THE BUSINESS ENVIRONMENT

Context for Firm Strategy and Rivalry

Factor (Input) Conditions

- Access to high quality business inputs
  - Qualified human resources
  - Capital availability
  - Physical infrastructure
  - Scientific and technological infrastructure

Demand Conditions

- Sophisticated and demanding local needs
  - e.g., Strict quality, safety, and environmental standards

Related and Supporting Industries

- Availability and quality of suppliers and supporting industries

- Local rules, incentives and competition that encourage investment and productivity
  - e.g. incentives for capital investments, IP protection, sound corporate governance standards, strict competition laws, openness to foreign competition

Many things matter for competitiveness

Successful economic development is a process of successive upgrading, in which the business environment improves to enable increasingly sophisticated ways of competing
STATE OF CLUSTER DEVELOPMENT
TOURISM IN CAIRNS, AUSTRALIA

Public Relations & Market Research Services

Food Suppliers

Property Services

Maintenance Services

Travel Agents

Tour Operators

Hotels

Attractions and Activities
  e.g., theme parks, casinos, sports

Restaurants

Airlines, Cruise Ships

Local Retail, Health Care, and Other Services

Local Transportation

Souvenirs, Duty Free

Banks, Foreign Exchange

Government Agencies
  e.g., Australian Tourism Commission, Great Barrier Reef Authority

Educational Institutions
  e.g., James Cook University, Cairns College of TAFE

Industry Groups
  e.g., Queensland Tourism Industry Council

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
• Regions are **essential economic units** for competitiveness
The economies of states are often an aggregation of distinct economic areas with differing circumstances.

WAGES AND JOB GROWTH 2003-2011
LARGEST U.S. ECONOMIC AREAS

Source: Private, non-agricultural employment from Census CBP. Showing Economic Areas with greater than 610k employment in 2011 plus Dayton, Toledo, and Charleston, WV
SPECIALIZATION OF REGIONAL ECONOMIES
LEADING CLUSTERS BY U.S. ECONOMIC AREA, 2011


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Cleveland National Employment Share, 2011

Employees 6,500 =


TRADED CLUSTER COMPOSITION OF THE CLEVELAND ECONOMIC AREA

Overall change in the Cleveland EA Share of US Traded Employment: -0.242%

Cleveland EA Overall Share of US Traded Employment: 1.68%

Overall change in the Cleveland EA Share of US Traded Employment: -2.1%
Overall change in the Cleveland EA Share of US Traded Employment: -0.242%

Cleveland EA Overall Share of US Traded Employment: 1.68%
REGIONS AND COMPETITIVENESS

• Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)

• Many essential levers of competitiveness reside at the **regional level**

• Regions **specialize** in different sets of clusters

• Regions are a **crucial unit** in competitiveness

• Each region needs its own distinctive **strategy and action agenda**
  • Business environment improvement
  • Cluster upgrading
  • Improving institutional effectiveness
CLEVELAND METROPOLITAN AREA
CENTRAL AND INNER CITY

Source: State of the Inner City Economies (SICE) database; ICIC analysis.

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WHAT IS AN INNER CITY?

ICIC defines an inner city as contiguous census tracts within central cities that are economically distressed, based on the following criteria:

- Poverty rate (excluding students) of 1.5x or more than the MSA
- Median household income 50% or less than the MSA
- Unemployment rate 1.5x or more than the MSA

And at least one of two other criteria:

- Poverty rate 20% or higher, excluding currently enrolled undergraduate and graduate students

Example:
Inner City Areas in New York City

Source: State of the Inner City Economies (SICE) database; ICIC analysis.
WHY ARE INNER CITIES IMPORTANT TO NATIONAL ECONOMIC SUCCESS?

The 339 inner cities in cities with over 75,000 residents represent 15% of U.S. unemployment, nearly one-quarter of U.S. poverty, and over one third of U.S. minority poverty.

Poverty and unemployment are concentrated in inner cities. Targeting inner cities allows wholesale rather than retail approach to poverty, minority poverty, and unemployment reduction.

Source: State of the Inner City Economy Database (SICE) Database 2011; ACS 2007-11; ICIC Analysis
INNER CITY ECONOMIES: KEY FACTS

Share of U.S. Employment by Geography, 2011

- Inner cities (IC): 7%
- Rest of Central City: 16%
- Rest of MSA: 40%
- Rest of U.S.: 37%

Inner cities account for over 7% of the U.S. workforce

Source: State of the Inner City Economy Database (SICE) Database 2011; ACS 2007-11; ICIC analysis for largest 100 cities
THE COMPETITIVENESS OF INNER CITIES

- Overall, distressed urban cores in U.S. cities continue to struggle.

- 64% of inner cities have performed worse than their regions.

- There have been some success stories over the past decade.

Source: State of the Inner City Economies (SICE) database; ICIC analysis.
During 2003-2011, inner cities lost significant jobs while the rest of the central city gained jobs

<table>
<thead>
<tr>
<th>2003-2011 Net Job Growth</th>
<th>CAGR</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner City (IC)</td>
<td>-0.6%</td>
<td>-628,000</td>
</tr>
<tr>
<td>Rest of Central City</td>
<td>0.3%</td>
<td>730,000</td>
</tr>
<tr>
<td>Rest of MSA</td>
<td>-0.2%</td>
<td>-852,000</td>
</tr>
<tr>
<td>Rest of U.S.</td>
<td>-0.2%</td>
<td>-326,000</td>
</tr>
</tbody>
</table>

Source: State of the Inner City Economy Database (SICE) Database 2003-2011; ICIC Analysis

Source: SICE Database; ICIC Analysis

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INNER CITY PERFORMANCE: POVERTY AND UNEMPLOYMENT
INNER CITIES IN LARGEST 100 CITIES

Note: In some inner cities, changes in poverty levels may be largely attributed to population migrations
Source: State of the Inner City Economies (SICE) Database, Decennial Census 2000, American Community Survey 2007-11; ICIC analysis

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PERFORMANCE OF INNER CITIES VERSUS THE MSA

The correlation between regional and inner city growth is only 8% for inner cities in largest 100 cities.

Source: State of the Inner City Economies (SICE) Database, ICIC analysis
The inner City, Central City, and MSA of Los Angeles all experienced **poverty rate decreases** from 2000 to 2011.

The Inner City also experienced a reduced **unemployment rate**.

Source: State of the Inner City Economy Database (SICE) Database 2003-2011; Decennial Census 2000 and 2007-11 American Community Survey; ICIC Analysis
Newark’s inner city registered unemployment and poverty rate decreases from 2000 to 2011.
The Indianapolis Inner City, Central City and MSA all registered increasing unemployment and poverty rates from 2000 to 2011.
THE COMPETITIVE ADVANTAGES OF INNER CITIES AS A BUSINESS LOCATION

- **Strategic Location**: Located near regional, national, and international infrastructure nodes
- **Unmet Local Demand**: Underserved markets and income density that is 8x higher than the rest of the region
- **Under-Utilized Workforce**: Large pool of available workers
- **Link to Regional Growth Clusters**: Opportunity to leverage proximity to regional clusters

*Source: Porter 1995*
# Types of Clusters in Regional Economies

**Traded Clusters**

- Compete to serve national and international markets
- Representative Clusters:
  - Automotive
  - Transportation and logistics
  - Higher wage jobs
  - Higher productivity and innovation potential

<table>
<thead>
<tr>
<th>Relative Productivity</th>
<th>Traded Clusters</th>
<th>Local Clusters</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Annual Wage (2011)</td>
<td>$62,000</td>
<td>$39,500</td>
</tr>
<tr>
<td>National Wage Growth (2003 – 2011)</td>
<td>10.0%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Patents (per 10,000 employees)</td>
<td>23.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Share of National Employment (2011)</td>
<td>28%</td>
<td>72%</td>
</tr>
<tr>
<td>Share of Inner City Employment (2011)</td>
<td>24%</td>
<td>76%</td>
</tr>
<tr>
<td>National Employment Growth (2003-2011)</td>
<td>-5.0%</td>
<td>+0.7%</td>
</tr>
<tr>
<td>Inner City Employment Growth (2003-2011)</td>
<td>-11.8%</td>
<td>-2.4%</td>
</tr>
</tbody>
</table>

**Local Clusters**

- Serve almost exclusively the local market. Not directly exposed to cross-regional competition
- Representative Clusters:
  - Local health services
  - Local retail
  - Preponderance of jobs
  - Lower wage jobs
  - More jobs that match resident skills

**Source:** State of the Inner City Economies (SICE) Database, 2003-2011; ICIC analysis; Porter (2010)
EMPLOYMENT CHANGE IN U.S. INNER CITIES BY CLUSTER TYPE, 2003-2011

Source: ICIC's SICE Database, 2003-2011; ICIC Analysis

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INNER CITY EMPLOYMENT CHANGE BY CLUSTER 2003-2011
CLEVELAND

Source: ICIC's SICE Database, 2003-2011; ICIC Analysis

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Local Clusters
Traded Clusters

Jobs Added, 2003-2011

Local Health Services
Entertainment
Business Services
Local Community and Civic Organizations
Local Hospitality Establishments
Local Retail Clothing and Accessories
Construction Materials
Local Education and Training
Heavy Machinery
Motor Driven Products

10,100
2,200
1,300
1,100
600
600
200
200
100
100
LOCAL CLUSTERS: WAGES AND SKILL REQUIREMENTS AND JOB ACCESSIBILITY

National Local Cluster Average Wages

<table>
<thead>
<tr>
<th>Cluster Type</th>
<th>Average Annual Wage, 2011 (k)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Utilities</td>
<td>$71</td>
</tr>
<tr>
<td>Local Financial Services</td>
<td>$60</td>
</tr>
<tr>
<td>Local Industrial Products and Services</td>
<td>$56</td>
</tr>
<tr>
<td>Local Commercial Services</td>
<td>$55</td>
</tr>
<tr>
<td>Local Real Estate, Construction</td>
<td>$50</td>
</tr>
<tr>
<td>Local Health Services</td>
<td>$47</td>
</tr>
<tr>
<td>Average Wage, National</td>
<td>$46</td>
</tr>
<tr>
<td>Average Local Cluster Wage</td>
<td>$40</td>
</tr>
<tr>
<td>Local Logistical Services</td>
<td>$38</td>
</tr>
<tr>
<td>Local Motor Vehicle Products and Services</td>
<td>$34</td>
</tr>
<tr>
<td>Local Household Goods and Services</td>
<td>$33</td>
</tr>
<tr>
<td>Local Entertainment and Media</td>
<td>$32</td>
</tr>
<tr>
<td>Local Food and Beverage Services</td>
<td>$28</td>
</tr>
<tr>
<td>Local Education and Training</td>
<td>$28</td>
</tr>
<tr>
<td>Local Community and Civic Services</td>
<td>$25</td>
</tr>
<tr>
<td>Local Personal Services (Non-Profit)</td>
<td>$22</td>
</tr>
<tr>
<td>Local Retail Clothing and Services</td>
<td>$20</td>
</tr>
<tr>
<td>Local Hospitality Establishments</td>
<td>$15</td>
</tr>
</tbody>
</table>

National Educational Requirements by Cluster Type

<table>
<thead>
<tr>
<th>Cluster Type</th>
<th>% of Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>College or Higher</td>
<td>23%</td>
</tr>
<tr>
<td>Some College</td>
<td>32%</td>
</tr>
<tr>
<td>High School or Less</td>
<td>45%</td>
</tr>
<tr>
<td>Local Clusters</td>
<td>41%</td>
</tr>
<tr>
<td>Traded Clusters</td>
<td>29%</td>
</tr>
</tbody>
</table>

Note: Stats are for the USA
Source: Source: State of the Inner City Economies (SICE) Database; BLS; ICIC Analysis.
Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions. Source: State of the Inner City Economies (SICE) Database, 2011; ICIC analysis.

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INNER CITY CLUSTER DEVELOPMENT: DISTRIBUTION SERVICES, LOS ANGELES

Los Angeles Distribution Services Employment Trends, 2003-2011

Los Angeles Inner City Distribution Services as Percent of Central City and MSA Employment

Distribution Services Employment Trends, 2003-2011

Source: State of the Inner City Economy Database (SICE) Database 2003-2011; ICIC Analysis
The Distribution Services cluster grew naturally from L.A.’s strong fashion industry and geographic location. Growth in wholesaling is related to growth in fast fashion apparel.

Most of the economic activity involved in commercial fashion production (design, manufacture, market, wholesale, distribution, retail) can be found within L.A.’s Fashion District.

The L.A. apparel cluster is dominated by fast fashion (low volume, high-fashion merchandise with a short concept-to-product time).

- L.A. based fast-fashion retailers include Forever 21, Wet Seal, and Papaya.

Overseas merchandise also arrives in L.A. weeks faster than the East Coast, helping maintain short concept-to-product times.

L.A. wholesalers benefit from proximity to retailers, domestic manufacturing, and global supply chain.

Apparel distributors benefit from distribution network and trade facilitators (customs brokers, freight forwarders, trade attorneys, 3rd party logistics) already available from L.A.’s import and export services.

Source: AECOM, Los Angeles County Economic Development Corporation.
TRADED CLUSTER EMPLOYMENT GROWTH IN U.S. INNER CITIES, 2003-2011

Note: Chart only shows clusters with over 10,000 total employees in 2011; Reported percentages reflect percent growth

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LOCAL CLUSTER PERFORMANCE IN INNER CITIES VS. THE U.S.

## TYPES OF LOCAL CLUSTERS

<table>
<thead>
<tr>
<th>Definition</th>
<th>Business-to-Consumer (B2C)</th>
<th>Business-to-Business (B2B) and Hybrid (B2B/B2C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serve local consumers</td>
<td>Serve both local consumers and local businesses</td>
<td></td>
</tr>
<tr>
<td>Local health services</td>
<td>Local commercial services</td>
<td></td>
</tr>
<tr>
<td>Local hospitality establishments</td>
<td>Local logistical services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Local utilities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Local real estate</td>
<td></td>
</tr>
<tr>
<td>Offers important entry-level jobs</td>
<td>Offers middle-wage jobs</td>
<td></td>
</tr>
<tr>
<td>Promotes availability of goods and services</td>
<td>Strengthens business environment</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Representative Clusters</th>
<th>Local health services</th>
<th>Local hospitality establishments</th>
<th>Local commercial services</th>
<th>Local logistical services</th>
<th>Local utilities</th>
<th>Local real estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of National Employment (2011)</td>
<td>41%</td>
<td>31%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of Inner City Employment (2011)</td>
<td>43%</td>
<td>33%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Employment Growth (2003-2011)</td>
<td>+6.0%</td>
<td>-5.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inner City Employment Growth (2003-2011)</td>
<td>+3.0%</td>
<td>-8.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Annual Wage (2011)</td>
<td>$34,600</td>
<td>$45,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: State of the Inner City Economies (SICE) Database 2003-2011; BLS; ICIC analysis.
EVOLUTION OF INNER CITY CLUSTER STRATEGY

**Local B2C Clusters**

- Initial focus was on B2C clusters such as **local retail** that serve local populations and improve quality of life
- These clusters provide the most accessible entry-level jobs
- ICIC and others spent a decade addressing the inner city retail gap, lending to good progress

**Local B2B Clusters**

- Our focus now needs to be on **B2B clusters** such as local commercial services
- These clusters provide higher-wage jobs and improve the operating environment for inner city businesses
While inner city economies face challenges, almost two decades of work has resulted in **new learning** about what works in inner cities.

Inner cities require **tailored economic development strategies**. Traded and local clusters are both important to inner city economies.

Inner cities should be **integrated into regional economic development strategies** to allow inner cities to benefit from regional growth.
KEY LEVERS FOR INNER CITY GROWTH

• Improve the local business environment
  1. Pursue an anchor institution strategy to capture shared value opportunities
  2. Invest in the local business environments (e.g., infrastructure, workforce)

• Implement a cluster-based growth strategy
  3. Strengthen existing and emerging clusters

• Support company growth and upgrading
  4. Increase recognition, networking and contracting opportunities for inner city companies
  5. Connect companies to growth capital
  6. Capacity building: leadership and management education for companies
LEVER 1: PURSUE AN ANCHOR INSTITUTION STRATEGY TO CAPTURE SHARED VALUE OPPORTUNITIES

• Anchor institutions are large, place-based organizations with strong roots in Inner City communities.

• Anchors include universities, hospitals, and medical centers, but can also include local government organizations, community foundations, sports teams, arts and cultural organizations, and large corporations.

• Anchors are rooted in inner cities due to their history, institutional mission, facility investments, land holdings, reliance on local markets, and relationships with the community.

• Anchor institutions play a significant role in the local economy due to purchasing power, real estate, employment, and long-term interest in seeing the local community thrive.
• Anchor institutions depend on a healthy community to provide a positive environment for employees and students and a strong local business community to support its operations. Engaging with their community also allows for improved reputation, community relations, and applied learning opportunities.

• A healthy community depends on strong anchors to provide jobs, purchase local goods and services, improve local infrastructure, and support its education, health, and social needs.
ANCHOR INSTITUTIONS AND COMMUNITY VITALITY: STRATEGIC FRAMEWORK

Actor: Anchor’s own business activities

Leader: Lead a joint effort with other organizations

Collaborator: Use resources and influence in collaboration with a broad range of stakeholders to identify and serve anchor and community needs
The Cleveland Foundation initiated the Greater University Circle Initiative in 2005, a partnership with Cleveland’s leading anchor institutions, philanthropies, financial institutions, community groups, and the city of Cleveland.

The Cleveland Clinic is the largest employer in Cleveland and the second largest in Northeast Ohio.

The Clinic provides incentives for employees to live locally through forgivable loans, rental subsidies, and matching funds for renovations.

The Clinic has committed to source locally whenever possible, including from the Evergreen Cooperatives located in Greater University Circle and has sourced over $165m from Cleveland businesses.

The Clinic has collaborated on a workforce development program to support the training of local and diverse construction workers in the area.

The Clinic has implemented a childhood wellness programming in local school districts.

**Notable Keys to Success**

- Large scale collaborative partnership between public, private, and non-profit leaders throughout the area
- Targeted focus on a limited geographic area makes public and private funds more impactful
- Grants and incentives to relocate various institutions to the Greater University Circle area
- Additional transformative initiatives such as Evergreen Cooperatives and NewBridge Cleveland Center for Arts and Technology increase impact
- City of Cleveland implemented a high-profile Community Benefits Agreement that required developers to hire locally and actively engage in local workforce development programs

Source: Cleveland Foundation, Cleveland Clinic, Democracy Collaborative
CREATING SHARED VALUE THROUGH REAL ESTATE DEVELOPMENT: BON SECOURS HEALTH SYSTEM, BALTIMORE, MD

• Ongoing deterioration and vacant real estate around Bon Secours hospital in Baltimore had a negative impact on employee recruitment and demand for elective procedures. Poor quality housing was a health concern for local residents.

• Operation ReachOut began in 1995 with the purchase of 31 vacant row houses. Today, Bon Secours Community Works has rehabilitated over 650 units of residential housing, including six buildings of senior housing and 119 family apartments.

• Since 2007, Community Works has provided approximately 60 small improvement grants totaling $775k to area homeowners for residential improvement projects.

• Since 2002, the Clean & Green initiative has revitalized more than 640 vacant lots in the surrounding neighborhoods, cleaning up over 1.1 million square feet of open space, 133 tons of waste, and planting over 1,000 trees.

Notable Keys to Success

• Bon Secours does not act unilaterally in the community but partners with community stakeholders to identify needs and priorities.

• Bon Secours created a community advisory board and appointed a steering committee comprised of neighborhood residents, local nonprofits, a city-wide planning and housing association, and others including pro-bono legal and architectural service providers to guide development in the neighborhood.

• Initiatives were integrated into a larger comprehensive program that seeks to respond to the social determinants of health, including poor housing and environmental factors.

• Long-term commitment to improve the community around other hospitals in their system.
Johns Hopkins University has a goal to “increase addressable local spend by 10%”, although it must balance this goal with cost effectiveness, capacity of local small businesses for growth, as well as the identification and availability of new local vendors.

JHU has set additional goals awarding 20% of its construction contracts to minority companies and partnering with workforce providers to hire from the neighborhoods.

As a “university of firsts” and the largest anchor institution in Baltimore, JHU is widely recognized as a leader in economic inclusion and community development.

The recent Homewood Community Partners Initiative focuses on five priorities: (1) clean and safe neighborhoods, (2) blight elimination and housing creation, (3) public education, (4) commercial and retail development, and (5) local hiring, purchasing, and workforce development.

Notable Keys to Success

- Conducted overview of local region to determine which industries were growing and declining
- Identified “industry pools” where significant opportunity for these growth sectors in local communities
- Identified small businesses that would meet the purchasing needs of JHU
- Worked with procurement officials to change processes to better accommodate local businesses in process
- Held workshop for procurement officials and buyers of neighboring anchor institutions to help them better understand the business case for “buying local”
If Detroit business bought more from each other they could add 7,700 more jobs and increase their revenue by $2.5 billion over the next ten years, and help rebuild the city’s economy. In order to reinvigorate the local business services cluster, the Detroit Economic Growth Corporation launched the Detroit 2 Detroit procurement initiative.

Next Street is supporting the Buyers’ Council, comprised of approximately 15 leading anchor institutions in Detroit to share resources and best practices. Anchors include Detroit Lions, Quicken Loans, Wayne State University, Comerica, and Blue Cross Blue Shield.

Of the hundreds of Detroit businesses, the Council identified 130 shared suppliers and Next Street will create a Capacity Building Program that focuses on scaling these local suppliers. Additional cohorts may emphasize growing and emerging industries, as well as those companies that will meet present and future supplier needs.

Program will be based on identified needs of participating anchors, the contract opportunities which will soon become available, and linking Detroit’s small businesses with these opportunities.

**Notable Keys to Success**

- Buyer’s Council has diverse membership of Detroit anchors that can share individual learnings
- Members of the Council convene quarterly to determine a shared agenda and strategic focus
- Next Street is working one-on-one with six of the key anchors to help them track and increase their spend with local small businesses
- Buying power of multiple anchors working collaboratively has larger local impact than any anchor working independently
LEVER 3: CLUSTER DEVELOPMENT STRATEGY
HARBORCENTER, BUFFALO, NY

- The HARBORCenter development in Buffalo, NY is an example of investing in:
  - Its existing cluster strengths – hospitality and tourism (recreational boating, for example)
  - The interests of its residents – hockey is very popular in the region and in neighboring Canada
  - And its natural assets – the waterfront and the lake

- To develop an underutilized and contaminated parking lot in the inner city of Buffalo, NY, HARBORCenter is a $172m project currently under construction that will deliver over $150m in private investment to the area, create a new hockey destination in the region, and enhance the local hospitality cluster along the port of Buffalo

- Started in March of 2013, and financed by the Sabres and team owner Terry Pegula, it will occupy 1.7 acres across from the First Niagara Center and the Erie Canal Harbor once complete and will complement the canals, ships, parks and other waterfront amenities

- Plans call for two NHL-quality skating rinks; a full-service 205-room Marriott hotel; a five-level garage with 845 parking spaces; 20,000 square feet of retail and restaurant space, and a center for excellence to train hockey players and coaches

Notable Keys to Success

- Builds on current uses in the port to create a more attractive tourist destination
- Strong leadership from Sabres’ owner Terry Pegula to create a regional hockey cluster for Buffalo
- Buffalo’s community benefits agreement requires 25% of construction workers to be minorities and 5% to be women, and additional goals for permanent local hires and prevailing wages on construction jobs

Source: The Buffalo News, Buffalo Sabres
CLUSTER DEVELOPMENT STRATEGY: WORKFORCE DEVELOPMENT
“IT. IN THE D”, DETROIT

• Metro Detroit has more than 57,000 unfilled tech jobs. Many applicants lack the skills and technology background to fill local IT jobs and the traditional college curriculum isn’t keeping up with advances.

• Since 2010, Detroit’s tech startup revolution has been driven by Compuware Ventures, Detroit Venture Partners, and Detroit Labs. Companies such as Galaxe Solutions, Quicken Loans, and Atomic Object have also moved to downtown Detroit and further energize the city’s tech community.

• “IT. in the D” is a partnership of Detroit-area IT companies and colleges committed to providing education and work experience for IT students and professionals as they advance their technology knowledge and careers, supported by the Michigan Economic Development Corporation.

Notable Keys to Success

• Private sector expansion into downtown Detroit creates demand for technology workers of varying skill and ability.
• Training providers are responding to market demand for specific types of technology workers in consultation with the private sector to develop curriculum.
• Commitment from and partnerships with the business community to hire graduates of training programs.
• Public sector support from the City of Detroit and State of Michigan encouraging downtown Detroit development and IT cluster growth.

Sources: The Detroit News, Dice.com, Automation Alley Technology Industry Report, payscale.com
LEVER 3: IMPLEMENTING A CLUSTER GROWTH STRATEGY

• Create a private sector-led cluster upgrading program with matching support for participating private sector cluster organizations

• Build on existing and emerging regional cluster strengths rather than chase hot fields

• Focus on both traded and local clusters
  • Including local B2B clusters

• Focus on clusters where the inner city has potential competitive advantages

• Catalyze the formation of cluster-focused Institutions for Collaboration

• Align other economic development policies with clusters, including targeted workforce development, export promotion and specialized infrastructure and research initiatives.
CLUSTERS AS A TOOL FOR ECONOMIC POLICY

- A forum for collaboration between the private sector, trade associations, government, educational, and research institutions
- Brings together firms of all sizes, including SME’s
- Creates a mechanism for constructive business-government dialog
- A tool to identify problems and action recommendations
- A vehicle for investments that strengthen multiple firms/institutions simultaneously
- Fosters greater competition rather than distorting the market
- Enhances the efficiency and effectiveness of traditional economic policy areas, such as training, R&D, export promotion, FDI attraction, etc.

- Sound cluster policy addresses all clusters, and does not pick winners
Clusters provide a framework for organizing the implementation of many public policies and public investments directed at economic development.
INNER CITY CLUSTER GROWTH: HOSPITALITY AND TOURISM, NEWARK

Newark Hospitality and Tourism Employment Trends, 2003-2011

Indexed Emp., 2003=100

Inner City (IC) Rest of Central City Rest of MSA USA

Newark Inner City Hospitality and Tourism as Percent of Central City and MSA Employment

IC as % of CC, 2003 89%
IC as % of CC, 2011 95%
IC as % of MSA, 2003 2%
IC as % of MSA, 2011 2%

Hospitality and Tourism Employment Trends, 2003-2011

Emp Delta, 03-11

Inner City (IC) Rest of Central City Rest of MSA USA

-200 +400 +14,100 +90,300

Source: State of the Inner City Economy Database (SICE) Database 2003-2011; ICIC Analysis
Newark’s Hospitality and Tourism cluster benefits from Newark’s strategic location and recent community development initiatives.

Access to 7 major highways, Newark Liberty International Airport, Penn Station, Port Newark, and close proximity to Manhattan.

In the past 10 years, $1.4B was invested in community development initiatives, including the expansion of the New Jersey Performing Arts Center, construction of the Prudential Center (home of the NJ Devils), residential and retail development, and a subway extension.

In 2008, The Greater Newark Convention & Visitors Bureau was formed to rebrand the downtown and attract new visitors.

In 2012, a Marriott opened next to the Prudential Center and was the first hotel to open in Newark in 40 years.

In June 2013, Rutgers-Newark hosted the inaugural Visitor Service Training Program, a workforce development program for local residents in hospitality and tourism.

Sources: Brick City Development Corporation, Newark Alliance, Rutgers - Newark, www.nj.com
In the 339 inner cities in cities with over 75,000 residents, inner city businesses employ more than 12.2 million workers.

Source: State of the Inner City Economies (SICE) database, 2011; ICIC analysis.
MAJOR DRIVERS OF BUSINESS GROWTH IN INNER CITIES

Recognition, Networks and Contracting Opportunities

- Provide visibility for inner city companies
- Support a network of peers, advisors and customers
- Access to public and corporate contracts

Leadership and Management Education/

- Access to business planning, organizational development, marketing and strategy education

Capital Access

- Understanding capital sources
- Access to capital providers
- Support in qualifying for financing
LEVER 4: RECOGNIZING GROWTH IN INNER CITY COMPANIES
INNER CITY 100

- **ICIC’s Inner City 100** program has identified, showcased and supported the fastest-growing private companies based in America’s inner cities since 1999.

- Over 750 cumuluate winners include some of today’s most creative urban entrepreneurs: Coyote Logistics, Happy Family, Revolution Foods, Numi Organic Tea, Pandora, Pinnacle Technical Resources and TerraCycle.

- The median Inner City 100 firm has $7.6m in annual revenue, 46 full-time employees and a five-year compound annual growth rate (CAGR) of 38%.

- Inner City 100 firms have created more than 73,000 new jobs over the past 15 years.

Source and notes: ICIC analysis of Inner City 100 survey data, 1999-2013
In 2012, only 31% of participants in the Inner City Capital Connections (ICCC) Program reported having a good or excellent understanding of what investors are looking for.
ICIC’s Inner City Capital Connections program helps inner city businesses understand when and how to access equity and debt financing, and facilitates access to capital providers.

- 375 alumni of the Inner City Capital Connections program raised $703 million of debt and equity capital, over the 2005 to 2011 period.
- These companies have created 5,694 total jobs through 2011.
- 43% of employees are inner city residents.
LEVER 6: IMPROVING LEADERSHIP AND MANAGEMENT EDUCATION

INTERISE

TRAINING IMPACT, EXECUTIVE EDUCATION PARTICIPANTS

- Hired New Employees: 73%
- Increased Revenue: 64%
- Average Job Growth: 14%

Source and notes: Interise 2011.
ICIC is a nonprofit research and strategy organization and leading authority on U.S. inner city economies and the businesses that thrive there. The organization was founded in 1994 by Harvard Business School Professor Michael Porter, who remains actively involved.

Next Street was started in 2005 to equip urban business owners with the same level of expertise that Wall Street, Madison Avenue, and the elite management consultancies provide to Fortune 500 companies. In addition to high quality advice, Next Street provides access to growth capital and customized financing solutions.

> In 2011-2012, Next Street’s small business clients increased revenues by an average of 14% and hired 8% more workers. The active client portfolio includes over 4,000 jobs and $600M in revenue.
### NEXT STREET PROGRAMS TO SUPPORT EDUCATION AND CONTRACTING OPPORTUNITIES FOR BUSINESSES

<table>
<thead>
<tr>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-on One Planning Support</td>
<td>“Deep dive” strategic planning support for high-potential corporate suppliers</td>
</tr>
<tr>
<td>Anchor Institution Suppliers</td>
<td>Customized capacity building and training workshops for a targeted group of local suppliers</td>
</tr>
<tr>
<td>Massachusetts Construction Contracts</td>
<td>Development of training program to enhance the ability of small firms to compete and participate in public construction contracts</td>
</tr>
<tr>
<td>Massachusetts Supplier Diversity</td>
<td>Innovative State of MA – Next Street partnership to prepare high potential small businesses to bid on state-wide procurement contracts in an effort to increase the number of successful M/WBE bid opportunities and wins</td>
</tr>
</tbody>
</table>

- 173 businesses supported as of October 2013
- Another 105 participants will participate in training by end of year
Next Street followed up with one cohort of 15 companies at 3 months and 6 months. Graduates had made significant strides in growth, had won contracts, and saw further opportunities to their companies.

- 20% won contracts (including state, federal and private) within 3 months after the program.
- At 6 months, 40% won contracts (including state, federal and private).
- Contract award amounts ranged from $25,000 to $8 million.

• 29 companies enrolled in the Spring Cohort, 86% “graduated” from the program.

• Revenues ranged from $12,000 to over $5 million.
SUPPORTING COMPANIES ACROSS ALL THE KEY LEVERS:

GOLDMAN SACHS 10,000 SMALL BUSINESSES

• **10,000 Small Businesses**: ICIC has partnered with Goldman Sachs and Babson College to connect business owners to a comprehensive program of education, support services and access to capital for high-growth companies in underserved communities across the U.S.

**EDUCATION FOR BUSINESS GROWTH**

Developed in partnership with world-class academic institutions. Focuses on skills that can be applied immediately.

**A NETWORK OF SUPPORT**

Participants and alumni connect to collaborate on ideas with peers, subject matter experts and business advisors.

**CAPITAL TO EXPAND**

Opportunities provided through Community Development Financial Institutions (CDFIs) and other local mission-driven lenders.

47% have created new jobs

63% have increased their revenues

76% are doing business with each other

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HARNESSING THE POTENTIAL OF INNER CITIES

Inner cities must become an important engine of metropolitan and regional growth.
This will require specific inner city economic development strategies:

- Supporting an anchor institution strategy
- Investing in the local business environment
- Implementing a cluster-oriented growth strategy
- Connecting businesses to sufficient capital
- Providing leadership and management education for businesses
- Recognizing and connecting businesses to networks and contracting opportunities

Catalyzing market based business development in Inner Cities is the only true solution for revitalizing underperforming urban communities and reversing the tide of rising income inequality
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