

AFRICAN AMERICAN BUSINESS DEVELOPMENT SUCCESS METRICS



ABC Associated
Black Charities



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AFRICAN AMERICAN BUSINESS DEVELOPMENT SUCCESS METRICS FOR ASSOCIATED BLACK CHARITIES

By Johns Hopkins Institute for Policy Studies
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FOREWORD

In April, 2009, a Work Group of the More in the Middle initiative of Associated Black Charities and Strategic Collaborative began meeting to develop consensus metrics for assessing the success and improving the delivery of efforts to grow African American-owned businesses in Baltimore. The group consisted of an invited set of established African American business owners and leaders of majority firms and institutions that have a track record of working successfully with African American business partners. Marsha Schachtel, a Senior Fellow at the Johns Hopkins Institute for Policy Studies (IPS) and her research assistant, Megan Brown, an IPS Master's of Public Policy graduate student, were engaged to staff and facilitate the meetings of the Work Group. Monthly meetings were held through the spring and summer, including a session that focused on defining the characteristics of healthy and successful strategic relationships generally and mixed-race partners specifically. Roundtables of providers of African American business development assistance were also held to learn about current programs and success metrics in use today.

The Work group reviewed the research commissioned by Associated Black Charities related to African American-owned business growth in Baltimore, reviewed metrics used today to assess the success of African American business development projects and programs, discussed the characteristics of mutually beneficial partnerships, reviewed lessons from other places and programs, and developed consensus about useful metrics. This report summarizes the findings of the Work Group and its conclusions.

Work group members included (revenues¹):

- President & CEO, Associated Black Charities
- Senior VP, Consumer Market Executive, Bank of America (\$72.8B 2008)
- Vice President and Chief Supply Chain Officer, Constellation Energy (\$8.2B 1st half 2009-2010)
- Director of Purchasing, Johns Hopkins Institutions (\$3.9B 2009)
- President, Healthcare Resolution Services (\$20M 2009)
- President, Mahogany, Inc. (\$11.3M 2008)
- President & Founder, Maricom Systems (\$9.5M 2008)
- Director, Business Development Partnerships, Northrop Grumman (\$7B 2008))
- President & CEO, Ross Technologies, Inc. (\$5.3M 2009)
- Managing Partner, SB & Company, LLC (N/A)
- Senior Vice President, Government and Regulatory Affairs, University of Maryland Medical System (\$2.1B 2009)

¹ Revenues data from Baltimore Business Journal Book of Lists 2010; Healthcare Resolution Services and Ross Technologies from ZoomInfo.

INTRODUCTION

After two years of research and consultation, Associated Black Charities (ABC) and the Strategic Collaborative of business, civic, and faith community leaders formally launched the *More in the Middle* initiative on January 10, 2008. Through the initiative, the Baltimore community is being enlisted in an effort to change economic outcomes for the region by growing, retaining, and attracting middle income African Americans and addressing the related issues of wealth gap and leakage of wealth.

A *More in the Middle*-commissioned analysis of the case for retaining, growing, and attracting the Black middle class in Baltimore was conducted by the Brookings Institution in 2007. (See *Appendix A* for a full summary.) Brookings' researchers concluded:

“For Baltimore, the trends affecting African Americans are the trends that shape the entire city. Nearly two-thirds of the city’s population is African American, so any improvement in blacks’ rate of homeownership, income levels, and educational attainment will have a large, positive impact on the city as a whole. In short, building a larger African American middle class in Baltimore will be key to the city’s—and region’s—future competitiveness....

- A larger black middle class puts more money in the Baltimore economy.
- Building the black middle class builds a more competitive workforce.
- A larger black middle class in Baltimore city will aid the entire metropolitan region.”

Associated Black Charities' *More in the Middle* initiative has six objectives:

1. Increase (grow) and retain African American homeowners in Baltimore City
2. Increase (grow), retain and attract the number of African American students who go to college, stay in college in the City, graduate from college, and ultimately work and live in Baltimore
3. Through career development, expand the opportunities for African Americans who are low income and those who are low middle income to join the middle class, as well as opportunities for career advancement of middle class African Americans
4. Increase, attract and retain African American businesses, especially businesses that have the potential for significant long term employment growth in this region. (Also, explore cooperative businesses for low-wealth African Americans as a business expansion option that could potentially benefit low income African Americans at an even greater rate)
5. Develop an attraction strategy targeted on African Americans, middle income individuals and families who might move to Baltimore
6. Increase and broaden educational tools to support asset building among African Americans across all income levels

In pursuit of objective #4, “increase, attract and retain African American businesses,” ABC and the Annie E. Casey Foundation commissioned a scan of the current state of African American business in Baltimore, which included interviews with 40 African American-owned businesses,

their majority partners, and organizations that provide assistance to both; looked at the potential impact of African American business expansion; held two roundtables of business development providers; and analyzed the role of social networks in the success of African American businesses.

In April 2009, ABC created a 20-member time-limited Work Group of experienced business leaders to develop success metrics for efforts to support the launch and growth of the next generation of African American businesses in Baltimore. ABC believes that particularly in these rocky economic times, when Baltimore's African American-owned companies need help the most and the resources are scarcest, business development success needs to be defined clearly and progress toward expanded opportunity measured rigorously.

CHAPTER I: What do we know?

Both *More in the Middle*-commissioned research and that from other governmental and academic sources have deepened our knowledge of the status and potential of African American-owned businesses in Baltimore. *Summaries or complete texts of the reports cited below (or website addresses) can be found in the appendices noted.*

African American-owned businesses are more likely to hire African American employees and help them to achieve or maintain middle class status.

Professor Timothy Bates, economist at Wayne State University, cited three different studies from three different time periods to demonstrate that most urban workers employed by white-owned small firms are white, and most of those working for black-owned firms are black. The latter were more likely to operate in central-city areas and to recruit workers in low-income minority communities. “Even among the businesses physically located within minority communities, the majority of the workers in the nonminority small firms are white.”

Traditional black-owned businesses were small and served captive black markets that were circumscribed by segregation. These businesses have been declining since desegregation widened black consumers’ choices. New black-owned businesses have been formed by college and MBA-educated entrepreneurs and serve a wide range of emerging markets, both government and commercial. These firms have chosen locations throughout metropolitan areas that enable them to serve their clients, but continue to employ a majority of African American employees and actively recruit workers in poor minority neighborhoods. Bates cites a study by Thomas Boston and Catherine Ross of the new Black entrepreneurs in Atlanta in 1997: “they are heavily concentrated in providing business services...80% of their employees are African American; 62% of their customers or clients are non-African Americans.” Most of the growth of minority firms generally, and African American-owned firms in particular, has not been reliant on public-sector procurement. (*See Appendix B.*)

African American firms of mid-size are most likely to contribute to the economic development of the region. (US Census 2002 Survey of Business Owners – *see Appendix C*)

Further analysis by David Birch and others after Birch's 1979 initial pronouncements that small firms created all the new jobs in the U.S. has shown that it is "gazelles" -- high growth companies (revenues of at least \$100,000, growing at 20 percent per year for four or more years) – that generate 80 percent of net employment growth. The most recent analysis, both internationally and in the U.S. has shown that these "gazelle" firms or "high impact" firms are not necessarily small and young. Swedish analysts' research review found that gazelles are younger and smaller *than other firms*, but it is young age rather than small size that is associated with rapid growth.² Zoltan Acs, formerly of University of Baltimore, now at George Mason University, has examined "high impact" firms – firms with significant revenue growth and expanding employment. He finds that these firms, representing two to three percent of total

² Henrekson, Magnus and Dan Johansson (2008, rev. 2009). "Gazelles as Job Creators – A Survey and Interpretation of the Evidence," Stockholm, Sweden: Research Institute of Industrial Economics, Working Paper No. 733.

firms, are an average of 25 years old and account for almost all of the private sector employment and revenue growth in the economy.³

Similar analysis shows that ***African American-owned firms grossing \$100,000 or more in 1997 generated most of the jobs – 92.1 percent of the employees worked for these larger firms.*** Annual earnings averaged \$20,884 per employee (96.5 percent of the payroll). These larger firms were growing in number at over three times the rate of smaller black-owned enterprises. (Bates) In 2006, the Minority Business Development Agency (MBDA), part of the U.S. Department of Commerce, released the State of Minority Business Enterprises based on data from the U.S. Census Bureau 2002 Survey of Business Owners. The report concluded that minority firms with annual receipts of \$500,000 or more generated a much larger percentage of all minority revenues and paid employees compared to minority firms with annual gross receipts under \$500,000. MBDA's Strategic Growth Initiative (SGI) was launched.

In a recent interview, ***MBDA director David Hinson said, “Systematically, we are embarking on a strategy to ... create larger minority business entities.*** Our focus is ... to take that company that is currently a \$10 million company and work very hard to get that company up to \$100 million in revenue because typically the \$100 million level is ... where you are perceived to have the size and the capacity to bid for these larger [stimulus] contracts...As an agency, we are striving for economic parity. Economic parity is \$2.4 trillion in revenue, 16 million jobs created, and \$100 billion in tax receipts to the government. If we had economic parity in the minority business community, broadly defined, that is what we would be generating. Today, we are generating unfortunately only about \$660 billion of revenues or gross receipts and we're creating somewhere around 8 million jobs... As these companies grow, they become a tremendous source of employment for the minority communities that they're in...[and] they become a source of contracts for smaller business that are growing at the \$500,000 level or million level...We call economic parity the amount of goods and services that you would generate predicated on the [minority] proportion of the population.”⁴

MBDA's strategic plan for FY2007-FY2009 stated that, “[O]ver the past three decades, MBDA has focused over 80 percent of its funded resources on developing and sustaining small MBEs. Now, ***during the past three years, MBDA has made the transition from an agency providing administrative and managerial services to represent an agency facilitating major contracts and financial transactions for medium to large scale minority businesses.***”⁵ “This strategy was affirmed by the new Administration in 2009: “The focus on providing capacity building, access to capital and market opportunities must continue to be the prime components of the SGI. Likewise, MBDA's *Business-to-Business (B2B) Linkage Forums* promote joint ventures and teaming solutions among MBEs for improved competitiveness with respect to larger contracts and financial opportunities.”⁶

³ Acs, Zoltan, William Parsons and Spencer Tracy (2008). "High-Impact Firms: Gazelles Revisited," Small Business Administration, Office of Advocacy, Small Business Research, /www.sba.gov/advo/research/rs328tot.pdf.

⁴ Faye Anderson, founder of Tracking Change Wiki, August 7, 2009, <http://trackingchange.pbworks.com/David-Hinson,-National-Director,-MBDA>

⁵ FY 2007-FY2010 MBDA Strategic Plan, www.mbda.gov (now superseded)

⁶ FY 2009-2012 MBDA Strategic Plan, www.mbda.gov

White-owned new businesses out-perform African American-owned start-ups, which can be traced to the industries African American entrepreneurs have chosen and under-capitalization of their ventures.

A summary of evidence from multiple research studies was included in a recent book by Prof. Scott Shane, formerly of the University of Maryland Smith School of Business, now at Case Western Reserve University:

- While more likely to be launching a business, African Americans are 50% less likely than whites to get a new business up and running within seven years of beginning the start-up process.
- The four-year survival rate of African American-owned start-ups is 34.8%, compared to 48.7% for white-owned start-ups.
- African Americans exit from self-employment at twice the rate of whites.
- The average annual sales (receipts) of an African American-owned business are \$86,478 compared to \$448,294 for a white-owned business.
- While 75.1% of white-owned businesses show a positive net profit, only 60.7% of African American-owned businesses do.
- White-owned firms have an average of 3.1 paid employees, while African American-owned firms have an average of 0.9 paid employees.⁷

After careful analysis, Shane rules out a number of conventional explanations for the relatively poor performance of African American-owned firms. He concludes that African American entrepreneurs do not have less knowledge than white entrepreneurs, or desire, or fewer mentors, or lower human capital (business and managerial experience), nor do they start their businesses in less favorable locations. Instead, he points to the industry of their firms – the concentration of African American-owned start-ups in the personal services sector accounts for as much as 20 percent of the difference in performance of white- and African American-owned start-ups; and ***initial capitalization, which explains as much as 43 percent of the difference in performance of the two groups.*** Under-capitalization can 1) explain the choice of industry in favor of those with low start-up costs, and 2) be the result of low levels of personal or inherited wealth, less access to credit, lower capacity to raise sufficient funds because the size of the owner's investment is relatively small, and discrimination in lending – white entrepreneurs can borrow approximately 15 percent more from financial institutions per dollar of equity capital in their businesses than can African Americans.⁸

African American-owned firms use less external capital to start and grow their businesses.

The Census Bureau's 2002 Survey of Business Owners (SBO) shows that African American firms with employees used their own or family resources plus credit card debt far more extensively than did whites or Hispanics. They tended to be heavier users of government loans and guarantees and less likely to have received business loans from a bank or financing from an outside investor than white firms.

⁷ Shane, Scott A. (2008). *The Illusions of Entrepreneurship: The Costly Myths That Entrepreneurs, Investors, and Policy Makers Live By*, New Haven: Yale University Press, p. 139.

⁸ Shane (2008), chapter 9, pp. 135-145.

Sources of Capital Used to Start or Acquire Employer Firms (2002)
(% of employer respondent firms)

	Personal/ family savings	Other personal/ family savings	Personal/ business credit card	Business loan from govt	Govt- guarantee d loan	Business loan from bank	Outside investor	No financing needed	Item not reported
All repondent firms	64.2	13.1	9.2	1.7	1.7	22.2	4.7	11.8	3.7
White	67.1	13.8	9.5	1.6	1.7	23.1	4.1	10.3	2.6
Black	69.0	13.1	15.0	2.9	2.7	17.6	3.7	9.3	4.0
Hispanic	71.0	12.7	12.8	1.8	1.5	14.8	3.3	8.7	3.2
Asian	74.8	13.3	10.4	1.7	2.0	20.1	4.4	5.8	2.8

SOURCE: U. S. Census Bureau, 2002 Survey of Business Owners

The U.S. Minority Business Development Agency also concluded from its own analysis of the 2002 SBO that **a lower proportion of larger minority respondents (gross receipts of \$500,000 or more) used bank loans** to start or acquire the business (23%), or to expand or finance capital improvements of the firm (25%), compared to larger non-minority respondent firms (29% and 30%, respectively). However, the larger minority firms were more likely to use bank loans than were smaller minority firms. Use of different sources of capital also varied by industry.⁹

A 2006 analysis of the Federal Reserve Board's 2003 Survey of Small Business Finances (SSBF) looked at financial services used by small businesses. It found that African American-owned firms were **less likely to have used any financial services or to have liquid asset accounts (checking, savings)**. They were **far less likely to have obtained any credit line or loan than white-owned firms**. African American-owned firms were less likely to have used financial management services such as transaction services and credit and debit card processing. African American owners were somewhat more likely to have made a loan to their business. They were less likely than white owners to have used personal or business credit cards in the financing of their companies, and **much less likely (34% vs. 61%) to have obtained trade credit from their suppliers of goods and services**. With regard to suppliers of financial services, African American-owned companies were **less likely to use commercial banks** than white-owned firms and more likely to use (higher cost) finance companies or factors. The African American-owned firm sample size was small, which limited some of the more detailed analysis of financing types and sources.¹⁰

DePaul University Professor Dr. Rebel Cole, previously a staff economist at the Federal Reserve Bank, analyzed the SSBF for 1993, 1998, and 2003 to ask, "who needs credit and who gets credit."¹¹ He first looked at previous research, which concluded that:

⁹ U.S. Department of Commerce, Minority Business Development Agency (2008). "Characteristics of Minority Businesses and Entrepreneurs: An Analysis of the 2002 Survey of Business Owners," March, http://www.mbda.gov/?section_id=6&bucket_id=16&content_id=6299&well=entire_page

¹⁰ Mach, Traci L. and John D. Wolken (2006). "Financial Services Used by Small Businesses: Evidence From the 2003 Survey of Small Business Finances," October. <http://www.federalreserve.gov/pubs/bulletin/2006/smallbusiness/smallbusiness.pdf>

¹¹ Cole, Rebel A. (2009). "Who Needs Credit and Who Gets Credit," DePaul University, April 9, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1131064

- Firms with stronger *relationships with their prospective lenders* are more likely to receive credit, including lines of credit, at lower rates of interest;
- It is the existence rather than the length of the firm-lender relationship that affects the likelihood a lender will extend credit;
- However, longer lender relationships reduced the likelihood of collateral requirement for lines of credit;
- There are significant differences in credit availability by race;
- *African American small businesses are less likely to even apply for a loan because they expected to be turned down (a "discouraged borrower")*;
- Personal wealth affects credit availability and varies significantly by race; and
- Small banks rely more upon relationship variables than do larger banks.

Cole's study categorized companies by 1) those that did not need credit (non-borrower), 2) those that needed credit but did not apply because they did not believe they would be approved (discouraged borrower), 3) approved applicants, and 4) denied applicants. The study found that *African American-owned firms were disproportionately turned down when applying for credit – 10 to 18 percent more likely to be rejected than other firms*, even after incorporating an extensive set of control variables. This percentage worsened from 1993 to 1998 to 2003. However, the study, which analyzed "discouraged borrowers" for the first time, found that these firms had characteristics more similar to approved borrowers than denied borrowers, which "suggests that *a significant portion of the 'discouraged' firms would be successful in obtaining credit if only they would apply.*"¹²

The picture on the equity side is even grimmer. The Kauffman Firm Survey permits researchers for the first time to examine capital acquisition, both debt and equity, in each year after start-up for individual firms. Early returns from 2004, 2005, and 2006 detail the following patterns of capital use, which reveal *large racial differences in both the amounts and types of financing used by young firms*:

- African American firms have lower financial injections at start-up and in the two years following start-up, an average¹³ of \$28,000 compared to \$82,000 for white firms.
- These disparities in absolute dollars of funding persist in each of the next two years of firms' growth. In year two, white firms enjoyed injections of an average of \$60,000 while African American firms attracted less than half that amount -- \$29,000. In year three, white firms had average injections of \$60,000 more, while African American firms had \$26,000.
- In these early years, African American firms continued to rely more heavily on injections of debt and equity by owners—by the third year, African American businesses received more than 42% of their total financial capital injections through owner financing, compared with just one-quarter of white-owned firms.
- The remainder of funding came from other debt (53% of total financing for African American firms, 62% for white firms) and other equity (4.7% for African American firms and 12% for white firms).

¹² Cole (2009), p.27.

¹³ Mean.

Outsiders provided an average of \$7,000 equity to white start-ups versus \$460 to African American firms (a ratio of 15:1); over the next two years, white firms received \$13,000, compared to \$1,900 for African American firms (7:1).¹⁴

Fewer than 800 African American-owned firms in Baltimore City have employees. An opportunity scan of African American-owned business in Baltimore City conducted in 2006 by Marsha Schachtel, Johns Hopkins Institute for Policy Studies, for the More in the Middle initiative found that while Baltimore City African American-owned firms were numerous, there were fewer than 800 African American-owned firms with employees in 2002, and their sales and receipts, employment, and annual payrolls made up a tiny proportion of the Baltimore City totals. A comparison to Prince George's County, which has one of the highest concentration of African American-owned firms in the country, other Maryland counties with more than 100 African American-owned firms with employees, and the state and national totals shows that:

- A higher percentage of Baltimore City African American-owned firms have employees than all but those in Montgomery County, but all are lower than the U.S. percentage of 7.9%.
- Baltimore City African American-owned firms with employees have more employees per firm than all other Maryland counties, the state, and the nation.
- Baltimore City African American-owned firms with employees realized slightly higher receipts/firm than than U.S. average and slightly lower than the state average, but substantially lower than Montgomery, Howard, and Prince George's Counties, with their concentrations of government contractors.
- Baltimore City African American-owned firm payrolls exceed the national average, but trailed the state and other metropolitan counties
- Baltimore County is the exception in almost all categories, clearly home to many African American-owned firms in low value/low pay industries.

Maryland Counties with More Than 100 African American-Owned Firms with Employees

	Balti- more City	Balti- more County	Howard County	Mont- gome- ry County	Prince George's County	MD	U.S.
# of African American-owned firms	9,764	7,834	3,293	11,417	28,389	69,410	
# of AA-owned firms with employees	713	519	247	702	1,577	4,399	
% of all AA-owned firms	7.3%	6.6%	7.5%	6.1%	5.6%	6.3%	7.9%
# of employees	7,573	4,209	2,154	6,632	13,896	39,858	
Employees per firm with employees	10.6	8.1	8.7	9.4	8.8	9.1	8.0

¹⁴ Robb, Alicia M., Robert W. Fairlie, and David T. Robinson (2009). "Patterns of Financing : A Comparison Between White- and African-American Young Firms," February. Ewing Kauffman Foundation, February, [tp://www.kauffman.org/uploadedFiles/kfs_black_firms.pdf](http://www.kauffman.org/uploadedFiles/kfs_black_firms.pdf)

	Balti- more City	Balti- more County	Howard County	Mont- gomery County	Prince George's County	MD	U.S.
Receipts for firms with employees (\$1,000)	530,286	255,001	204,384	702,752	1,262,126	3,320,003	
Receipts per firm with employees	\$743,739	\$491,331	\$827,466	\$1,001,071	\$800,333	\$754,718	\$696,158
Receipts/employee	\$70,023	\$60,585	\$94,886	\$105,964	\$90,826	\$83,296	\$87,270
Annual payroll (\$1,000)	179,163	64,871	92,205	249,238	405,757	1,116,242	
Payroll/firm	\$251,281	\$124,992	\$373,300	\$355,040	\$257,297	\$253,749	\$185,680
Payroll/employee	\$23,658	\$15,412	\$42,806	\$37581	\$29,200	\$28,005	\$23,277

Source: U.S. Census Bureau (2005). *Survey of Business Owners: Black-Owned Firms 2002*. <http://www2.census.gov/econ/sbo/02/sb0200csblkt.pdf>

The results of the Bureau of the Census' 2002 Survey of Business Owners, shows that the situation in Baltimore City deteriorated from 1997, a 22% decline in the number of African American-owned firms with payrolls, an 11.8% decline in receipts (20.9% if inflation is taken into account), and a 7.5% decline in employment. The only exception is in payrolls, which once again may indicate higher skilled African American work forces in diversified higher value-added industries. (See Appendix D)

African American-Owned Firms: Data Profile (2002)

	Baltimore City	Baltimore City	% Δ Baltimore City	% Δ MD
African American population, 2002 ¹⁵	398,599	65.1% of all residents	+2.3% since 1997	+11.8% since 1997
African American population of working age, 2002 ¹⁶	237,162	62.8% of population of working age	-3.6% since 1997	+7.4% since 1997
# African American firms with paid employees	713	6.9% of all African American firms	Δ 1997-2002: -22.0%	Δ 1997-2002: +4.4%
Sales and receipts of African American firms with paid employees	530,286	1.8% of all BC firm sales receipts	Δ 1997-2002: -11.8% w/ inflation: -20.9%	Δ 1997-2002: +4.4% w/ inflation: -6.4%
Employment of African American firms with paid employees	7,573	3.8% of all BC employees	Δ 1997-2002: -7.5%	Δ1997-2002: -4.5%
Annual payrolls of African American firms with paid employees (\$000)	179,163	3.0% of all BC payrolls	Δ 1997-2002: +47.0% w/ inflation: +31.9%	Δ1997-2002: +18.1% w/ inflation: +6.0%

Source: *Survey of Business Owners: Black 2002*

¹⁵ Population estimate from the 2002 American Community Survey.

¹⁶ Population of "working age" is defined as total population between 16 and 65 years of age.

Gap between Parity and Actuality

This chart shows the difference between projected parity (equal to the share of the population of working age – 16-64) estimates of African American businesses in 2002, and actual 2002 numbers.

Baltimore City	Parity 2002	Actual 2002
Total establishments with paid employees	8,057	713
Employment	180,214	7,573
Annual payroll	\$7,083,599,000	\$179,000,000

If African American-owned businesses made up the same share of total businesses as African Americans of working age are of the total working age population in Baltimore City, there would be approximately 10 times as many African American-owned establishments (with employees) employing about 24 times more employees, with 40 times larger payroll (\$7 billion vs. \$179 million).

Even the largest Baltimore African American-owned firms are small for their industry.

For its definition of "small" small businesses, the U.S. Small Business Administration (SBA) has established size standards¹⁷ for each detailed industry category (6-digit NAICS¹⁸). Some of the standards are revenue ceilings, and some are employment ceilings. Only four (shaded area on the following chart) of the largest African American-owned firms in the Central Maryland area would not be classified "small" by the SBA in 2008.¹⁹

Firm	2008 total revenues	Total Emp	Industry	SBA industry standard: revenue	SBA industry standard: empl't
Radio One Inc.	\$316.4 M	1, 395	Radio broadcasting	\$7.0 M	
TeleCommunication Systems, Inc.	\$220.1 M	675	Networks, wireless data communications, VOIP	\$25.0 M	
Brown Capital Management	\$63.0 M	30	Investment management	\$7.0 M	
Commercial Interiors Inc.	\$31.0 M	136	General contracting Interior construction	\$33.5 M \$14.0 M	
Technology Specialists Inc. (TSI)	\$19.6 M	18	Technology reseller		150
Exceptional Software Strategies Inc.	\$18.0 M	121	IT consulting	\$25 M	
Harbor Bank of Maryland	\$18.0 M	80	Commercial banking	\$175 M in assets	
Mahogany Inc.	\$11.3 M	50	Gen'l contracting, int.	\$14.0 M	
Cain Contracting Inc.	\$11.0 M	37	General contracting, Interior construction Waste remediation	\$33.5 M \$14.0 M \$12.5 M	

¹⁷ U.S. Small Business Administration (2008). Table of Small Business Size Standards Matched to North American Industry Classification System Codes, August 22, <http://www.sba.gov/contractingopportunities/officials/size/table/index.html>

¹⁸ North American Industry Classification Codes, latest revision 2007.

¹⁹ Data from Baltimore Business Journal (2010 and 2009). Book of Lists. Baltimore.

Firm	2008 total revenues	Total Emp	Industry	SBA industry standard: revenue	SBA industry standard: empl't
Maricom Systems, Inc.	\$9.5 M	73	IT consulting and solutions	\$25.0 M	
Baines Mgmt. Corp./Stop-Shop-Save	\$9.0 M	100	Grocery store operator	\$27.0 M	
Plexus Installations Inc/Plexus Com Group	\$9.0 M	75	Integrator of network communication systems	\$25.0 M	
Ascellon Corp.	\$8.8 M	55	IT consulting and services	\$25.0 M	
Dynis LLC	\$8.5 M	200	Network infrastructure services	\$25.0 M	
Otis Warren & Co.	\$8.0 M	75	Real estate sales, leasing, devt, mgmt	\$20.5 M \$2.0 - \$7.0 M	Leasing to fed'l govt by owners
Admiral Elevator Co. Inc.	\$6.4 M	45	Elevators, escalators, vertical transport		500
Dunn & Associates Public Relations	\$5.5 M	dtd*	Public relations, corporate events	\$7.0 M	
Advance Bank	\$5.0 M	39	Mutual savings bank	\$750 M assets	
Cotten Construction Co.	\$5.0 M	16	Excavation, utilities	\$33.5 M	
Firm	2008 total revenue	Total Emp	Industry	SBA industry standard: revenue	SBA industry standard: empl't
K&K Adams Inc.	\$4.6 M	18	Excavation, wrecking, grading, hauling	\$14.0 M	
Afro-American Newspapers Co of Baltimore Inc.	\$3.8 M	45	Newspaper publisher		500
Mainstreet Technologies	\$3.5 M	28	Network services, software, IT staffing	\$25.0 M	
Douglas Consulting & Computer Services Inc.	\$3.5 M	47	Content mgmt, e-business Web development	\$7.0 M	
Carpet for Pennies LLC	\$2.7 M	dtd	Carpet installation & sales	\$7.0 M	
NEO Technologies Inc.	\$2.5 M	9	Computer hardware maintenance	\$25.0 M	
Organicare Inc.	\$2.2 M	30	Tree and lawn care	\$7.0 M	
HR Anew	\$2.1 M	88	HR management, recruitment, training	\$7.0 M	
Nixon's Farm	\$2.1 M	17	Catering & special events	\$7.0 M	
Sue-Ann's Office Supply Inc.	\$1.9 M	5	Office supplies	\$7.0 M	
Swift Staffing	\$1.8 M	4	Staffing services	\$7.0 M	
Global Design Interactive	\$1.5 M	12	Custom software, brand management, design	\$25.0 M	

Firm (Not in top 50 on 2010 list)	2007 total revenues	Total Empl	Industry	SBA industry std: revenue	SBA empl size standard
Peart-Hannon Consulting LLC	\$6.2 M	50	IT consulting, business intelligence, app. devt	\$25.0 M	
P-B Health Home Care Agency	\$4.5 M	152	Home health care	\$13.5 M	
Visionary Marketing Group Inc.	\$3.5 M	10	Marketing, branding, strategic events	\$7.0 M	
ETC Information	\$2.5 M	3	Advertising, marketing, media placement	\$7.0 M	
Devnix Inc.	\$1.6 M	27	Data backup services	\$25.0 M	
Systems Integration & Support LLC	\$1.5 M	8	IT support, multimedia integration	\$25.0 M	
Rej & Associates Inc.	\$1.3 M	8	Advertising, video, film production	\$7.0 M	
All Pro Vending, Inc.	\$1.2 M	260	Food & beverage mgmt	\$7.0 M	
VBP OutSourcing Inc.	\$850 K	6	Marketing & accounting	\$8.5 M	
Solomon's Termite & Pest Control	\$497 K	9	Pest control services	\$7.0 M	
On Trak Transportation LLC	\$485 K	10	Limousine, chauffeured transportation	\$7.0 M	
DEL Studio Architects Inc.	\$328 K	4	Architects	\$4.5 M	
NRG Commercial LLC	\$250 K	5	Commercial interiors, tenant improvements	\$14.0 M	
Chester Recording & Abstract Services	\$200 K	5	Recording	\$2.0 M	

**declined to disclose*

SOURCE: Baltimore Business Journal (2009) (2008); U.S. Small Business Administration

The industries in which African American-owned firms in the Baltimore region are engaged are different from those of the nation.

More in the Middle studies by the Johns Hopkins Institute for Policy Studies found that the industry distribution of the Baltimore region's²⁰ African American firms is somewhat different from that of the nation, and of all companies. Nationally, four in 10 African American-owned firms were in health care and social assistance, personal services, and repair and maintenance industries. In the Baltimore metropolitan area (city-level statistics are not available), only about 30 percent of African American-owned firms were in those industries, while 16.4% of African American-owned firms provided professional, scientific, and technical services; 10.4% provided administrative and support services and were involved in waste management and remediation; 8.8% were in the construction industry; and 6.2% were transportation and warehousing companies.

Industry Distribution of Firms 2002

(percentage of total firms)

NAICS Code-Industry Description	African-American owned		All firms		
	Baltimore Metro	United States	Baltimore Metro	Maryland	U.S.
23-Construction	8.8	9.2	14.1	14.8	13.2
31-33 Manufacturing	N/A	2.2	4.0	3.7	5.6

²⁰ Industry breakdown for Baltimore City African American firms not available from the Bureau of the Census.

NAICS Code-Industry Description	African-American owned		All firms		
	Baltimore Metro	United States	Baltimore Metro	Maryland	U.S.
42-Wholesale trade	1.7	2.1	6.2	5.2	6.3
44-45 Retail trade	6.3	9.3	12.3	12.3	13.5
48-49 Transportation & warehousing	6.2	5.0	3.4	3.2	3.0
51-Information	0.3	1.5	1.3	1.6	1.4
52-Finance and insurance	3.0	3.9	4.6	4.1	4.4
53-Real estate rental and leasing	3.4	2.7	4.1	4.4	4.8
54-Professional, scientific & technical services	16.4	11.7	16.1	16.4	13.2
55-Mgmt of companies & enterprises	N/A	0.2	0.6	0.6	0.5
56-Admin & support; waste management and remediation	10.4	10.4	6.6	6.4	5.5
61-Educational services	N/A	1.3	1.4	1.5	1.2
62-Health care & social assistance	22.5	21.4	10.2	10.7	10.2
71-Arts, entertainment & recreation	N/A	2.0	1.6	1.7	1.9
72-Accommodation & food svcs	N/A	7.0	7.3	7.1	7.9
81-Other services (except public administration)	8.2	9.1	7.2	7.1	7.1

Source: U.S. Bureau of the Census 2002 Survey of Business Owners

NOTES: Health care and social assistance includes ambulatory health care services, hospitals, nursing and residential care facilities, social assistance.

Information includes publishing (except Internet); motion picture and sound recording industries; broadcasting (except Internet); telecommunications; data processing, hosting and related services; and other information services.

Professional, scientific, and technical services includes legal and accounting services; architectural, engineering, and related services; computer systems design and related services; management, scientific, and technical consulting; scientific research and development services; advertising and related services; and other professional services

Other services includes repair and maintenance; personal and laundry services; religious, grantmaking, civic, professional and similar organizations.

Baltimore metropolitan area African American-owned firms are under-represented in the following industries, relative to all firms in the region, the State of Maryland and the U.S. and African American-owned firms throughout the nation. The annual payroll per employee in the Baltimore region for each industry is shown in parentheses:

- Construction (\$37,384)
- Wholesale trade (46,313)
- Retail trade (\$21,841)
- **Information (\$46,765)**
- Finance (\$54,695)
- Real estate rental & leasing (\$32,778)

Baltimore metropolitan area African American-owned firms are over-represented in the following industries, relative to all firms in the region, the State of Maryland, and the U.S.

- Professional, scientific, & technical services (\$55,144)
- Administrative & support, waste management and remediation (\$23,650)
- Health care & social assistance (\$33,657)
- Other services (\$24,026)

The region's high-paying African American-owned professional, scientific and technical service firms make up a considerably larger share of total African American-owned firms than the national average of both all firms and of African American-owned firms, and on par with the statewide and regional averages for all firms. As noted above, in the North American Industry Classification System (NAICS), the professional, scientific and technical services sector, *not* the information sector, includes computer systems design & related services, into which many of the Central Maryland firms fall. To estimate the distribution of these African American firms among the sub-categories in this industry, two investigations were undertaken.

In 2002, of the 11,014 U.S. African American-owned firms with employees in the professional, scientific and technical services sector:

- 24% were legal firms;
- 18% provided management, scientific, and technical consulting services
- **18% provided computer systems design & related services;** and
- 17% were accounting firms.²¹

The 2007 Survey of County Business Patterns showed the following distribution of all 1,547 firms in the professional, scientific, and technical services sector in Baltimore City:

- 37% legal firms
- 13% management, scientific, and technical consulting services
- 11% architectural and engineering firms
- 10% computer systems design providers
- 10% accounting firms

The professional, scientific, and technical services industry and the information industry receive large sums of federal contract dollars.

Because of its relatively small manufacturing sector and significant missing data, the industry distribution in federal procurement for Baltimore's African American-owned firms looks quite different from the U.S. as a whole.

²¹ U.S. Census Bureau, Survey of Business Owners 2002. Detailed data not available at the local, metropolitan, or state level.

Total Federal Procurement: United States FY2009

NAICS	Total Dollars (\$000)	% of Total Dollars
33 – Manufacturing – heavy	114,041,080	29.7%
54 – Prof'l, scientific & technical svcs	107,514,467	28.0%
56 – Admin'ive & support; waste mgmt & Remediation	39,974,546	10.4%
32 – Manufacturing – non durable	20,281,111	5.3%
23 – Construction	15,522,489	4.0%
42 – Wholesale trade	13,624,775	3.6%
No category specified	13,107,124	3.4%
52 – Finance & insurance	9,994,037	2.6%
48 – Transportation	9,721,956	2.5%
51 – Information	8,102,318	2.1%

Source: Federal Procurement Data System

From 2000 through 2008, Baltimore City African American firms that won contracts were concentrated in the following industries (by contract value):²²

- Construction (26%)
- Administrative & support; Waste management & remediation (19%)
- Professional, scientific, and technical services (11%)
- Manufacturing (10%)
- Transportation & warehousing services (3%)

From 2000 through 2008, 143 African American-owned firms in Baltimore won \$287 million in federal contracts. The top five agencies contracting with African American-owned firms were, in descending order of contract value:

- Department of the Army (41% of total contracts value)
- Center for Medicaid and Medicare Services (14%)
- Public Building Service (General Services Agency) (12%)
- Department of the Navy (8%)
- Department of Education (6%)

From 2000 through 2008, the 36 African American-owned firms that won \$1 million or more in awards accounted for 96% of the total contracts to Baltimore African American firms.

The Base Realignment and Closure Commission’s (BRAC) decisions to move military functions to Maryland are creating additional opportunities for Baltimore African American-owned firms.

The move of the Army Team C4ISR (Command, Control, Communication, Computers, Intelligence, Surveillance & Reconnaissance) from Ft. Monmouth, NJ; the U.S. Army Test and Evaluation Command (ATEC) from Alexandria VA; and various chemical/biological R&D organizations to Aberdeen Proving Ground will move billions of dollars of procurement contract authority to Harford County. The Defense Information Systems Agency, Defense Media and

²² Due to missing data, 28% of the contracts (by value) went to Baltimore City African American firms with no industry classification specified. Source: Federal Procurement Data System.

Publications Activity and the Defense Security Clearance Activity moves to Ft. Meade, and small moves to Ft. Detrick, Andrews Air Force Base, and the National Naval Medical Center will add not only direct jobs but also federal purchasing to Maryland’s economy.

An analysis for the Governor’s Office of Minority Affairs of small and minority business opportunities associated with BRAC concluded that “Maryland small, minority-, women- and veteran-owned business firms appear to be well positioned to increase their procurement activities with federal [civilian] and military installations in and around Maryland, particularly with Aberdeen Proving Ground and Fort Meade.” Interviews conducted by Towson University and Bowie State University and the Central Region of the Maryland Small Business Development Center with small businesses and federal procurement officers found that:

- Contracting officers and small businesses themselves feel that the businesses do not have the capacity to win and perform federal work
- Maryland firms have generally fared well when competing for federal procurement dollars; before the BRAC moves, Maryland firms had won 29% of procurements by Fort Meade, the National Naval Medical Center, Aberdeen Proving Ground, Andrews Air Force Base, and Ft. Detrick.
- Maryland small businesses won 48% of the contracts (by value) from these agencies, of which 12% went to minority businesses.
- Before the moves, Maryland firms had won 23% of procurements by agencies that will be affected by the BRAC moves: General Services Administration (contracting for construction), Fort Monmouth, and the Defense Information Security Agency.
- Maryland small businesses won 40% of the contracts received by Maryland businesses from these agencies, of which 19% went to minority businesses.

The report summarized the ”small”²³ and minority business procurement levels from all the installations studied, by industry. The highest procurement totals for small and minority businesses were in the following industries:

Federal Procurement Levels by Industry Sector FFY 2002-2007

All installations studied

Industry	Procurements received by MD small businesses	Procurements received by MD minority-owned small businesses
Professional, scientific, & technical services	\$970,587,404	\$150,710,014
Construction	\$411,051,788	\$107,381,534
Information	\$347,710,106	\$184,597,818
Real Estate	\$308,417,129	\$8,137,373
Manufacturing	\$247,361,652	\$12,474,900

Source: Maryland BRAC Small and Minority Business Opportunities Study (2008)

The BRAC study team also projected small business procurement opportunities for 2008, 2009, 2010, and 2011 by industry for all installations studied. Overall procurement from Maryland small businesses was projected to increase from \$473 million in 2008 to \$570 million in 2011.

²³ Small businesses are defined by industry in the state’s Small Business Reserve Program, ranging from 50 to 100 employees and \$2 to \$10 million in gross sales.

By far the largest sector was professional, scientific, and technical services, in which the small business awards were projected to grow from \$177 million to \$230 million. *(See Appendix E for the executive summary of the report)*

African American business owners agree that market access and ongoing, mutually beneficial teaming relationships are key to their growth. On behalf of ABC's More in the Middle initiative, during 2005 and 2006, the Johns Hopkins Institute for Policy Studies conducted 40 interviews with various stakeholders in the nonprofit community, African American and white business communities, local government, and state government on the topic of minority business development and inclusion. The conclusion: skilled and capable entrepreneurs, access to human and financial capital and technology, and access to markets are all needed to grow African American businesses in Baltimore. Recommended strategies included: 1) Focus on medium-to-large African American-owned business enterprises; 2) Fill the pipeline with new entrepreneurs; 3) Move policy from “economic inclusion” to “partnerships for growth.” *(See Appendix D for full summary.)* More recent conversations with medium-to-large African American-owned business owners who are members of the Success Metrics Work Group reinforce these findings and conclusions.

A third of middle income African American survey respondents living outside Baltimore City indicated that better paying jobs would attract them to live in Baltimore.

For the More in the Middle initiative, in the third quarter of 2006, Jacobs Jenner & Kent conducted a quantitative study of middle income African American residents of Baltimore City and surrounding counties. Interviews were conducted with current city residents, individuals who have moved out of the City and suburban residents who were asked about living in the City. Concerns about crime are still paramount and suburban parents want to know their children will have activity options available to them. While only 11% of city residents say that they stay in Baltimore City for their jobs, 24% of relocatees report that they moved to the suburbs for employment opportunity, and 31% of suburban respondents say that good-paying jobs (second to affordable housing) would entice more African Americans to move to the City. *(See Appendix F)*

Firm owners rely on social networks they have built throughout their lives to provide access to resources needed to launch and grow a business – human capital, financial capital, and market and collaboration opportunities.

Research shows that social networks of adolescents, college students, neighbors, entrepreneurs, borrowers and lenders, business managers, even of minority corporate board members and on-line communities have profound effects on personal efficacy, including health and economic opportunity. Social networks provide the pathways for all types of resources needed to launch and sustain a business to be connected – human capital (both of the entrepreneur and of mentors), financial capital, and market and collaboration opportunities. Most successful business owners have had previous business experience working for others before starting their own companies. Social networks among whites may also work against African Americans' accumulation of work experience; they have also been shown to powerfully limit the access of equally well-trained, well-prepared young black working class job seekers to employment.

The exploration of social networks conducted for the More in the Middle initiative by the Johns Hopkins Institute for Policy Studies revealed that it is an issue that pervades all of the More in the Middle Initiative's components – not only business development, but also career development, college education, homeownership, leadership, and wealth education and creation. ***NOTE: It is important to differentiate the process of activating or converting social ties to achieve desired outcomes from the ties themselves. Networks (and the resources within them) alone are neutral.***

Social networks are a set of reciprocal relationships among two or more people. Social networks reflect the underlying socioeconomic characteristics of a population group and structural context (neighborhood, city). Strong network ties provide social support. Strong ties are not always positive. They can hold an individual in his or her old status with traditional ties and inhibit the effective action needed to seize opportunities to advance. They can also reinforce a set of negative beliefs among whites about African Americans. Weak ties among acquaintances provide access to useful information, other social networks, and job opportunities because weak ties tend to be non-redundant. Social networks, like all human relations, are highly complex. Contradictory theories and findings abound. The differences between African American social networks of all types and those of whites are still not fully explored. Gender and age differences further complicate the picture.

Social networks grow as an individual ages and assumes various roles. An individual's entire social network is, like the Internet, a network of networks, accumulated over a lifetime. Childhood friendships among racial peers survive into adulthood. Adolescents' aspirations are influenced by social networks. College attendance provides an opportunity to broaden social networks. Post-graduate education and the connections gained there set an individual's life course and affects future generations. Finding and landing a job depends on social networks. Line and management experience are important for would-be business owners, and getting ahead at work depends on social networks. Social networks affect the rate of business start-up by African American entrepreneurs, their growth aspirations, and their access to resources and opportunities. Social networks built in their pasts affect the success rates of African American-owned business owners. Successful African American-owned businesses help build pathways to the middle class for their African American workers.

The report of the More in the Middle study conducted by the Johns Hopkins Institute for Policy Studies recommended strategies for activating social networks among children and adolescents, college students, graduate/professional school students, workers, managers, business leaders and owners. It also suggests actions to help medium-to-large companies achieve the next level of growth and to expand access to opportunities. *(See Appendix G for full summary.)*

What would an African American renaissance look like?

Under contract to the More in the Middle initiative, Sage Policy Group (2006) estimated the economic and fiscal impacts associated with an African-American renaissance in Baltimore City using IMPLAN modeling software and standard modeling techniques. Specifically, the analysis projected the potential impact of closing the income gap between African-Americans in Baltimore and African-Americans statewide.

With the renaissance and accompanying income growth, total African-American household income would increase 48% and Baltimore's overall household income would increase 26% relative to current projections. The result would be a \$3.33 billion increase in total income by 2015 above and beyond current trend growth. Income increases among African-American residents will have direct and indirect impacts on the local economy: a two-thirds increase in consumer spending, which would create 31,000-33,000 new jobs with \$1.1-\$1.2 billion in wages, salary, and other compensation in Baltimore City. Direct and indirect income effects would combine to increase total African-American income by between \$4 and \$4.3 billion. With the increase in income, housing values would increase by \$50 thousand to \$60 thousand per housing unit, increasing total housing values in the city and also increasing City and State property tax revenues. (See *Appendix H* for the complete study.)

CHAPTER II: What are the goals of African American-owned business development efforts?

With this chapter, we begin to present the conclusions of the Work Group on African American Business Development Success Metrics.²⁴ Because metrics are only useful for measuring progress toward a specified goal, the group began by articulating what its members believed to be the goals of African American business development.

Revenue growth of African American-owned businesses

“Sales, shipments, receipts, revenue, or business done” is the U.S. Census Bureau’s definition of what we will call “revenue” or “sales.” Long term growth and survival of a firm depend on revenues and the profit that the company is able to make on its sales. These two indicators are at the top of the list in all assessments of the performance of companies.

More than half of African American-owned U.S. businesses had less than \$10,000 in business receipts in 2002, compared to one-third of white-owned firms and 28.8 % of Asian-owned firms. African American-owned companies' receipts were 43% of white-owned firms.²⁵

Profitability of African American-owned businesses

If a company is losing \$5 on every \$100 sale, however, increasing sales will not contribute to its success, and employment will not grow. Airline employment is a good example. Through 2003, increased passenger volume was directly related to employment growth. When the industry began to recover in 2003 from the effects of the terrorist attacks in 2001, however, financial losses stemming from fare competition and fast-growing fuel costs caused the industry to suffer the largest financial losses in its history, and layoffs continued even as revenue miles increased.²⁶ Using confidential microdata from the Census of Business Owners, Fairlie and Robb (2007) found that in 1992, ***only 13.9% of U.S. African American-owned firms had annual net profits before taxes of \$10,000 or more, compared to 30.4% of white-owned firms. Nearly 40% of African American-owned firms had negative profits.***²⁷

Employment growth of African American-owned businesses

In general, revenue growth drives employment. Studies of various industries have concluded that there are strong relationships between revenue and employment. For example, an analysis of three studies of the biopharmaceutical industry found that a 10% reduction in industry revenues would be associated with a loss of 24,000–100,000 direct jobs in the industry.²⁸ Others have estimated the jobs per \$1 million in agricultural revenue in California and Georgia.²⁹ This

²⁴ See the Foreword for information about the Work Group and its members.

²⁵ Lowrey, Ying (2007). "Minorities in Business: A Demographic Review of Minority Business Ownership," Small Business Administration, Office of Advocacy.

²⁶ Goodman, Christopher (2008). "Takeoff and Descent of Airline Employment," *Monthly Labor Review*, October.

²⁷ Fairlie, Robert W., and Alicia M. Robb (2007). Why Are Black-Owned Businesses Less Successful than White-Owned Businesses? The Role of Families, Inheritances, and Business Human Capital," *Journal of Labor Economics*, 25:2. These data continue to be used by current researchers despite their age.

²⁸ PricewaterhouseCoopers (2009). "Exploring the Relationship Between Revenues and Employment in the Biopharmaceutical Industry," A PwC research report, June 16.

²⁹ Eberhardt School of Business, Business Forecasting Center (2009). "Unemployment in the San Joaquin Valley in 2009: Fish or Foreclosure?" August 11.

relationship differs in magnitude across industries, depending on labor intensity and value-added through capital investment and employee skill and productivity.

Economic Census 2007: United States* (all firms with payroll)

NAICS Code-Industry	# of Establishments with payroll	Employees per Establishment	Revenue/Employee (\$)	Annual payroll/Employee (\$)
21-Mining and extraction	21,169	33.2	525,069	53,060
22-Utilities	16,879	37.5	919,552	80,473
23-Construction	725,101	10.2	240,812	47,052
31-33 Manufacturing	293,919	45.4	400,449	45,935
42-Wholesale trade	432,094	14.6	959,352	53,395
44-45 Retail trade	1,122,703	13.9	251,880	23,381
48-49 Transportation & warehousing	217,926	20.4	147,857	38,813
51-Information	141,034	24.3	313,615	65,157
52-Finance and insurance	503,156	13.0	554,828	75,350
53-Real estate rental and leasing	382,725	6.0	213,840	38,481
54-Professional, scientific & technical services	844,552	9.6	166,445	63,349
55-Mgmt of companies & enterprises	N/A		N/A	
56-Admin & support; waste management & remediation	389,073	26.2	62,444	28,816
61-Educational services	60,689	9.3	84,027	25,941
62-Health care & social assistance	779,074	21.6	100,669	39,493
71-Arts, entertainment & recreation	123,965	16.7	91,269	27,793
72-Accommodation & food services	626,558	18.5	52,896	14,657
81-Other services (except public administration)	537,820	6.5	118,753	28,389

*Data for states and localities not yet available; Survey of Business Owners: Black is scheduled for release 2011.
 Source: U.S. Bureau of the Census. Economic Census 2007, Advance Summary Statistics

Heavily capital-intensive industries such as wholesale trade, utilities, mining, and manufacturing can sustain high revenue without significant employment. They are not mass employers. Industries that employ highly skilled workers, such as finance and insurance, information, and professional, scientific and technical services, pay high wages. The largest numbers of establishments are in low-wage sectors such as retail trade; health care and social assistance; and accommodation and food service. Construction is the exception – a large industry, mostly of small firms, with moderately high payrolls/employee.

The path to profitability varies in each of these industries. However, it is clear that relatively low receipts and profits among African American-owned firms translate into a relatively small impact on employment and economic growth.

African American-owned firms with employees earned 1.8% of all Baltimore City firms' receipts in 2002, accounted for 3.8% of total employees and 3.0% of all payrolls.³⁰

The Work Group concluded that African American business development metrics should be focused on business performance – first on sales/receipts.

³⁰ U.S. Census Bureau (2007). Survey of Business Owners 2002: Black-Owned Businesses (see page 8).

CHAPTER III: What do African American-owned businesses need to succeed?

The Work Group next focused on the ingredients necessary to achieve sales growth.

What contributes to sales growth?

First, a firm must have knowledge of opportunities. Rigorous market validation and development of market strategies help focus the quest for sales. The Internet-driven avalanche of data requires time and skill and a strategic target to use in filtering the information for maximum benefit. Likely to be more tailored and relevant are leads from acquaintances, customers, suppliers and others within the social network of the firm's managers. Many African American companies lack these informal connections to timely information about market opportunities.

Of course it is equally important to make sure that potential buyers and partners have knowledge of the African American firm's capabilities. As one work group member said, "Who knows what you do?" The successful market strategy will include proactive marketing activities.

Harder to achieve are connections to opportunities, preferably face-to-face. An impersonal bid in response to an impersonal request for bids is enriched by personal connections with buyers that provide insights into the procurement. Participation in vendor fairs is required for exposure, but can be little more than an opportunity to exchange introductions and business cards without follow-up.

Both the interviews of African American business owners conducted by Johns Hopkins Institute for Policy Studies for More in the Middle and the deliberations of the Work Group identified African American-owned companies' *limited access to opportunities* as a key obstacle to success.

The Work Group strongly suggested that a major part of the response to this issue needed to come from buyers/majority team members. Critical elements of a genuine supplier/teaming diversity effort include: 1) *leadership understanding of the financial and economic benefit of diversity and leadership commitment*; 2) a sustained initiative that becomes integrated into the company's way of doing business; 3) retooling of purchasing processes, including unbundled procurements; 4) regular and meaningful participation in vendor fairs and other opportunities for face-to-face meeting of potential suppliers/team members; 5) provision of feedback to unsuccessful bidders; and 6) for proven suppliers/team members, a commitment to sharing market intelligence and support for business development.

In 2005, the Ewing Marion Kauffman Foundation commissioned James H. Lowry and Richard Holland of The Boston Consulting Group to update the minority business development study they had done 25 years earlier for the U.S. Department of Commerce. The authors collaborated with the Billion Dollar Roundtable, comprised of corporations that have spent more than \$1 billion annually with minority- and women-owned businesses, leaders of the National Minority Supplier Development Council, the alumni of the J.L. Kellogg Graduate School of Management's Advance Management Education Program (AMEP), and members of The

Executive Leadership Council, as well as scholars, government officials, and practitioners. In order to narrow the gap between minority business success and that of the majority community, they recommended new mindsets for corporations, government, and minority entrepreneurs. In perfect agreement with the Work Group's conclusions, they ***call for corporations to "elevat[e] minority business development to a higher level in terms of strategic importance*** and fostering increased collaboration between minority entrepreneurs, consumers, and employees."³¹

The other piece of the puzzle is the response of African American-owned entrepreneurs and companies to opportunities. To state the obvious, a company's ability to take advantage of opportunities it has identified determines whether it exploits sales or teaming opportunities to generate sustained growth. Persistent follow-up and the ability to articulate what value the firm brings to the transaction or relationship are critical. Does the African American firm have the ability to access contracting vehicles that others cannot? Does the firm have contacts that could help the team win contracts? Does its product or service uniquely meet a particular need? Both start-ups and growing companies require careful and hard-headed market analysis. Is the perceived need real? What other companies are meeting this need? Can the African American-owned company compete on price or quality or speed to win market share? ***Can it make a profit on sales?*** What other markets might be more profitable?

Strategic marketing plans that focus efforts on the most promising markets save precious time not spent chasing every opportunity. ***The execution of the strategic marketing plan -- new business development -- was identified by the Work Group as a gap in the capabilities of many medium- to large-sized African American-owned companies.*** How can the company present the value that it will add to a team or a buyer? How does it strategically follow up on contacts made at vendor fairs or in the course of doing business and social interactions? Does it have a crisp value-added statement that can be used in marketing materials or brief discussions? For longer interactions, can the company produce a more detailed and tailored value-added statement that displays a studied knowledge of the potential buyer's or teaming partner's needs?

What are potential buyers and partners looking for?

The threshold question for potential buyers and partners is whether the goods, services, or capabilities being offered are needed. The successful African American vendor or potential team member understands the patterns of procurement and history of teaming of prospective customers or partners. Once beyond this basic alignment, the focus is on management, capacity, and finances.

The top concern is management's experience, both in the industry and in the company making a proposal. Why did they get into business? How long has the company been in business? How long have key managers been working in the industry? What is the company's ratio of bids to contracts won? How does it compare to industry standards? What is the explanation for unsuccessful bids?

³¹The Boston Consulting Group (2005). "The New Agenda for Minority Business Development," June, http://www.kauffman.org/uploadedfiles/minority_entrep_62805_report.pdf

A review of multiple studies of entrepreneurship reveals that the longer entrepreneurs have worked for someone else before starting their own companies, the lower their failure rate and the higher their profitability and likelihood of growth. The more successful entrepreneurs have previously held management positions, and those with the highest rate of success have previously started one firm.³²

Management's capacity to deliver gets the most intense scrutiny. How has the company performed on similar contracts in the past? Does the company have the technical capacity to do the work? Just as importantly, does the company have the project management capacity to meet the requirements? Does the firm have the experience and capacity – management, human, and capital resources – to deliver at the scale that is required?

Managing for growth requires a different set of skills and often a different business structure than starting up a venture and early stages of expansion. Growing firms move from founder-centric selling and doing, to marketing and managing others who perform the work, and then to a corporate structure in which specialists in operations, finance, marketing, and human resources join the executive team and help manage the company. Seasoned African American business leaders who were interviewed for this project suggested that ***support is needed for company founders who are transitioning from a stage in which the entire enterprise is within their own span of control to a corporate structure.*** New strategic management skills and often new equity financing are required.

The 2005 Boston Consulting Group (BCG) analysis for the Kauffman Foundation called for ***a new mindset for minority business owners, focused on growing their "businesses beyond the 'sole proprietorship' model of business ownership."*** Almost 90% of African American firms are sole proprietorships, compared to 72% of non-minority firms. They "have not positioned themselves to utilize the benefits inherent in corporate organizational structures... To succeed, minority-owned companies must shift from a '100-percent CEO' model to hire strong managers who will bring alternate approaches and ideas to enhance business solutions."³³

In order to deliver on bids won or sales made, these managers need to focus on the productivity of their labor force. BCG cites studies that show that "revenue per employee (productivity) at majority-owned companies can run as much as 16 times higher than at minority counterparts." These productivity advantages arise from the more effective use of technology, particularly computer technology. Technology not only creates productivity gains, but also enhances firms' capabilities and ultimately enables them to generate more revenue. BCG cites studies that indicate that for the majority of small and minority businesses, new technology's cost is not the issue. Rather it is the lack of management and technical skills to put technology to work efficiently that accounts for lower adoption. The Urban Institute study cited estimated that if women and minority-owned companies fully exploited technologies and translated them into

³² Shane, Scott A. (2008). The Illusions of Entrepreneurship: The Costly Myths That Entrepreneurs, Investors, and Policy Makers Live By, New Haven: Yale University Press, chapter 7, pp. 111-124.

³³ The Boston Consulting Group (2005), p. 31.

productivity gains, they could generate \$100 to \$200 billion in additional revenue with their existing workforces.³⁴

Of equal importance is the firm's financial strength. Does it have access to the internal or external financial resources necessary to fuel the work that is called for? Of particular interest are cash flow, equity, liquidity, break-even point, the efficiency of operations, trends, credit history (of the business and owner), market positioning, and financial management and controls.

Research cited earlier (p.3) highlighted the widespread under-capitalization of start-up African American firms, which persists into maturity. As Shane concludes, "this problem isn't going to go away on its own. The ratio of white net worth to black net worth has shrunk only from 11.5 to 1 to 9.5 to 1 since 1983...As a result, blacks are no more likely to have the capital necessary to start new businesses or to have them perform effectively now than they did twenty years ago"³⁵

The authors of the BCG study for the Kauffman Foundation, who have examined both the statistics and the track record of successful African American and Hispanic firms, reach the following conclusions:

Minority firms have long shrunk from pursuing private financing, and equity financing has largely seemed—and been—a near impossibility for them. Most avoided the markets either because refusal seemed a forgone conclusion or because they were unaware that options existed beyond the personal and government financing with which they were familiar.

But the time has come for minority firms to fully access and deploy the capabilities of the financial markets, going not "hat in hand" in search of altruistic loans but understanding that they present attractive value propositions and lucrative investment opportunities. These companies must recognize that the unique market niche they serve as well as the unique cost and contracting advantages they often enjoy make them highly attractive to banks and venture capitalists.

To secure more and larger loans from government and private lenders—and to attract the attention of venture capital firms in search of a promising opportunity—minority entrepreneurs must radically alter the financial mindset that they and their firms hold. They must replace “lone wolf” founders/CEOs with experienced management teams, formulate and articulate high-quality deal opportunities, and demonstrate a willingness and capability to partner with others to acquire needed capabilities.³⁶

They found that in contrast to the situation 25 years ago in their earlier studies, "financiers across the board are recognizing the newest prescription for success and funding it richly: focusing well-educated entrepreneurs around sound business opportunities that utilize capital to create

³⁴ BCG p. 30 - 31.

³⁵ Shane, p. 145.

³⁶ Boston Consulting Group (2005), p.33.

many jobs and much wealth and deliver superior products to growing markets."³⁷ They found that on the equity side, minority entrepreneurs had historically been unwilling to give up a share of equity to financiers, believed that they could grow their businesses solely on the basis of increased revenue and cash flow, have not been able to identify potential venture and angel investors, have been unwilling to grow their businesses and show financial statements that are attractive to equity investors, and rarely do research on the trends and niche players in the venture industry.

When the BCG authors broke down their findings by ethnic sector, they found that ***African American firms were positioned least favorably***. They point to successes in attracting funding for radio and television opportunities, telecommunications, and information technology, "primarily due to the early identification of opportunities by venture capitalists such as Herb Wilkins and Terry Jones."³⁸ Wilkins and Jones were pioneering African American venture capitalists who began growing Syndicated Communications Inc. (Syncom), a communications venture capital investment company, in 1977. In 1980, they were the majority investor in Catherine Hughes' Almic Broadcasting, which became Radio One. Wilkins has served on the board of the Maryland Small Business Development Financing Authority.

BCG notes that minority companies that have attracted investors share "two critical success factors: ***a focus on growth and ...entrepreneurs who possess the management sophistication necessary to make the deals work***."³⁹

What do productive relationships look like?

Successful African American firms turn strong performance in early transactions into a growth of trust between the parties, and a deepening two-way relationship.

Work Group members described healthy relationships as those that are built on understanding that ***buyers and sellers and teaming partners each have multiple objectives***. These may include: 1) building a reliable set of partners and subcontractors, 2) meeting government or other buyer or regulator requirements, 3) expanding markets, or 4) reducing costs. The Work Group participants emphasized that both parties must be able to add value to the relationship, and to articulate that added value. One of the parties may be able to access opportunities for which the other is not eligible or capable of capturing alone. One of the parties may be able to share connections to resources such as financing, production or management expertise, or marketing channels.

The members of the Work Group agreed that if both parties are not ***continuously learning and growing***, the relationship – or more frequently, transaction – can become exploitative. Of particular importance is feedback on unsuccessful bids to seller or partner. To avoid misunderstanding, both parties must have aligned expectations about the timing of pipelines of opportunities and be "thinking beyond certified." African American firms and their partners

³⁷ BCG, p. 34.

³⁸ BCG, p. 35-36.

³⁹ BCG, p. 36.

should expect that the former will lead teams when it is advantageous, rather than being consigned to forever subcontract.

The 2005 Boston Consulting Group (BCG) study notes that "because minority entrepreneurs have not typically pursued growth aggressively or have preferred to 'go it alone' as business founders/leaders, the vast majority of minority businesses have not yet entered into alliances or embraced other options such as mergers or acquisitions to reposition their businesses for greater opportunity. But ***in the larger business community, alliance strategies have been proven to help companies to respond to the pressures of supply chain management and other business demands.***"⁴⁰ The consultants have developed a typology for collaborations ranging from standard supply arrangements to alliances, to joint ventures (all partner strategies) to purchase strategies such as merger or acquisitions, and provide examples of innovative collaborative arrangements that feature majority and minority parties both in the U.S. and globally.

BCG notes that all industries are contending with supply chain management challenges:

- Global sourcing
- Real-time, transparent flows of critical information as a key enabler
- Enhanced strategic sourcing beyond commodities to value-added services
- Supplier segmentation and efficiencies (through e-auctions) that keep suppliers of commodities at arm's length
- Lower transaction costs that allow suppliers to coordinate activities more efficiently
- Return to core competencies by major companies, resulting in rapid growth of outsourcing and off-shoring
- Pushing suppliers to become partners in innovation to spread the risk and reduce capital requirements of the buyers
- Customer-driven supply chain that links demand to replenishment requirements

These trends present opportunities for African American and other minority firms, but they have generally not developed capabilities, either internally or through external alliances, to exploit them. Most lack global capabilities – through alliances and relationships – that provide access to global markets. As noted earlier, most have limited technological capabilities. Most have traditionally operated in lower-value-added sectors, forcing them to compete as commodity suppliers. Most lack the capabilities to make themselves strategic sourcing options by integrating upstream or downstream in the value chain, or partnering with those who have these capabilities. Most are positioned to lose in outsourcing arrangements. Minority-owned businesses that have ties to companies operating internationally have the potential to exploit opportunities for joint ventures with foreign companies.⁴¹

⁴⁰ The Boston Consulting Group (2005), p. 31

⁴¹ BCG, pp. 37-38.

CHAPTER IV: What is currently being done to support growth of mid-sized African American-owned employer firms?

African American business development nationwide

As part of its *Reviews of Economic Development Literature and Practice* series, the U.S. Economic Development Administration (EDA) sponsored an analysis of African American business development agencies activities in the 50 largest U.S. metropolitan areas in 2002. Based on the results of a survey of 250 minority business development program managers in government, nonprofits, and universities, the authors⁴² found:

- The majority (58%) of the agencies were nonprofit organizations.
- Approximately half had missions to serve businesses, while 44% were oriented toward serving communities (a specific place, e.g. Main Street, neighborhood revitalization); only eight percent were individual-serving (helping low income individuals become self-sufficient).
- Forty-five percent of the programs targeted low income or minorities in general, **11% had a client base of almost exclusively African American businesses, 24% had a client base of 50-89% African American businesses; 20% had a client base of 10-49% African American businesses.**
- The majority of the programs did not target a specific type of firm or industrial sector, eight percent targeted construction-sector firms, and 20% targeted start-ups.
- The **agency managers identified major obstacles to minority business development as access to capital (27%), managerial experience and education (20%), neighborhood conditions and misperceptions (13%), and negative perceptions of MBEs (10%).**

The study categorized business development programs in the following groups:

- **Technical Assistance:** Services that focus primarily on information and referral, learning about the basics of entrepreneurship, and MBE certification processes. Offerings by surveyed business development programs:
 - 90% business counseling
 - 85% business seminars
 - 75% business plan preparation
 - 65% business start-up training
 - 56% MBE certification
- **Training Programs:** Services that emphasize education and training, such as start-up entrepreneurial training and e-commerce education. Offerings by surveyed programs:
 - 52% bookkeeping or accounting systems
 - 46% computer literacy
 - 37% tax planning
 - 33% information or database management
 - 21% web site design

⁴² McLean, Beverly and Anneliese Vance (2002). "Building Competitive Networks in the Black Business Community," *Reviews of Economic Development Literature and Practice: No. 13*, Washington DC: U.S. Economic Development Administration, www.eda.gov/PDF/SUNY-Buf_LR1.pdf. Baltimore is one of the responding cities.

- Financial Assistance: Services that facilitate access to capital such as micro-business loan programs, business packaging, and venture capital programs. Offerings by surveyed programs:
 - 48% micro-business loan programs
 - 21% venture capital funds
- Entrepreneurial Assistance: Services that assist businesses to expand their orientation to the mainstream economy. Offerings by surveyed programs:
 - 77% promotion and marketing assistance
 - 69% business networking
 - 56% managerial training
 - 54% business mentoring
 - 46% advertising training
 - 44% leadership development
 - 42% e-commerce
 - 40% Internet for business
 - 25% business incubator program
- Communication Services: Services that emphasize exchange of business information. Offerings by surveyed programs:
 - 58% business trade fairs
 - 38% newsletter
 - 17% electronic bulletin boards
 - 17% Internet hosting service
 - 13% job fairs

Over 80% of the agencies indicated that they *worked with other agencies to offer programs* for technical assistance, 73% for entrepreneurial assistance, 46% for training, 42% for communications services, and 40% for financial assistance.

Less than half of the agencies collaborated in communication services directed to the local business community to *promote network-building activities among African American businesses, or facilitate connections between African American businesses and mainstream institutions*. Specifically, 12% promoted job fairs, 40% promoted trade fairs, 10% used newsletters, 4% used Internet hosting, and 2 percent used electronic bulletin boards.

The authors of the study conducted a literature review of activities that mainstream businesses commonly work on together, which include joint marketing and advertising, public procurement matching services, joint construction projects, joint purchasing, joint production, private sector supplier matching, and joint employee training. Business development agencies reported the following activities that *encouraged businesses to work together*:

- 48% joint marketing and advertising
- 40% public procurement matching service
- 38% joint construction
- 31% joint purchasing
- 29% joint production
- 27% joint office activities

- 27% private sector supplier matching service
- 15% joint employee training

The study authors reached the following conclusions about the surveyed programs:

- The programs to meet the challenges facing minority businesses have placed "**greater emphasis on services for starting and maintaining a business rather than on expanding a business.**" (p.27)
- Even though the participating agencies rank inter-African American network-building and building connections between African American-owned companies and the broader communities highly, **most of the programming is generic rather than industry-specific.**
- Network-building efforts are more prevalent, however, than indicated in the ethnic business literature. **Two promising models are emerging:**
 - Building "minority networking capital from efforts to level the playing field for African American entrepreneurs. The emphasis is on building intracommunity relations among African American businesses and intercommunity relations to established mainstream businesses and institutions. Programs not only target networking events, but also focus on **building the managerial skills and know-how necessary to take advantage of networking opportunities.**
 - Producing "minority niche capital from cooperative efforts targeted [on] strengthen[ing] relations within a particular industrial sector. The agencies function as **an intermediary to assist smaller firms to acquire the skills and sophisticated relationships necessary to partner with established mainstream businesses.** These efforts [to date] have been limited primarily to construction firms involved in large public works programs." (p. 28)

Private sector initiatives

As they have recovered from the credit crisis, and with prodding from the federal government, several financial behemoths have announced that they will take steps to help smaller employers overcome barriers to growth and job creation. Goldman Sachs Group announced on November 17, 2009 that it was launching a \$500 million initiative called '10,000 Small Businesses.' Based on "the **broadly held view of leading experts that a combination of education, capital and support services best addresses the barriers to growth** for small businesses," the initiative combines greater access to business education, mentors and networks, and financial capital."⁴³ Sixty percent of the total will be disbursed to community development financial institutions (CDFIs) to increase capital and technical assistance to small businesses in underserved communities. The remaining \$200 million will be contributed to community colleges, universities and other institutions to provide scholarships to small business owners and to expand the institutions' educational capacity. Goldman Sachs will also partner with national and local business organizations to provide advice, technical assistance, and professional networking opportunities. First awards were to LaGuardia Community College in New York City, which houses a Small Business Development Center, and to CDFI Seedco Financial Services.

⁴³ "Goldman Sachs Launches 10,000 Small Businesses Initiative," press release www2.goldmansachs.com/our-firm/press/press-releases/current/10-k-business.html.

Begun in March 2008, *10,000 Women* is a five-year investment by Goldman Sachs to provide 10,000 underserved women around the world with a business and management education. *10,000 Women* operates through a network of more than 50 academic and non-profit partners in the Africa, Asia, Europe, the Middle East and U.S. to develop locally relevant coursework for students and to improve the quality and capacity of business education. The *10,000 Women* initiative is based on research conducted by the World Bank, Goldman Sachs, and others, which found that educating women is one of the most effective ways to increase economic growth and improve living standards in developing economies. Studies conclude that, on average, a one percentage point increase in female education raises annual GDP growth rates by 0.2 percentage point.⁴⁴

Existing business development programs in Baltimore

Baltimore enjoys a rich web of support organizations for business start-up and growth. Public, private, and nonprofit organizations⁴⁵ provide a wide range of services to entrepreneurs and small businesses. Most of them serve all emerging and growing businesses; a few are focused on "minority businesses," and none on African American-owned businesses exclusively.⁴⁶

Business Planning, Mentoring, and other Non-Financial Training and Technical Assistance Programs that assist mostly young businesses by offering coaching, business skills training sessions (including business planning and strategies), management assistance, or networking opportunities

- Emerging Technology Centers (business incubators)
- Advantage Incubator (UMBC) for minority-, women-, and veteran-owned technology businesses in state and federal government markets
- W.O.M.E.N. (EDAC⁴⁷)
- T.I.E. (EDAC)
- U.S. Department of Defense Mentor/Protégé program (EDAC)
- Business Core (EDAC)
- BriefCase Media (EDAC)
- Bridging the Gap (Greater Baltimore Committee)
- Technology Partnership for Innovation (TEDCO)
- Maryland Washington Minority Contractors Association
- SCORE
- Smart Start Your Business (SBRC/SBDC)
- Developing a Winning Business Plan (SBRC/SBDC)
- Entrepreneur Start-up Guides (SBRC)
- Business plans (SBRC)
- Contractors' College (SBRC)
- Technology Extension Service (UMD)
- ACTiVATE (Alex Brown Center for Entrepreneurship, UMBC)
- First Step (WEB)

⁴⁴ Goldman Sachs website, www2.goldmansachs.com

⁴⁵ See key to organization acronyms on page 36.

⁴⁶ For program detail, see Appendix I.

⁴⁷ Guide to acronyms at the end of this section.

- CORE (WEB)
- MBE Workshops (GOMA)

Marketing: Research, Training, Procurement Opportunities

Programs that teach businesses how to conduct market research and develop and execute a marketing plan, that publish procurement opportunities, or that assist firms with obtaining qualifying certifications

- Bridging the Gap (Greater Baltimore Committee)
- Maryland Procurement Technical Assistance Program (PTAP)
- Procurement opportunities (Maryland Washington Minority Contractors Association)
- Market research through SBDCNET (SBDC)
- "Developing a Strategic Marketing Plan" (SBRC/SBDC)
- Foundations of Marketing course (SBDC)
- Certification programs (SBDC)
- Marketing Your Business (SBRC)
- Baltimore Local Contractor Development Program (SBRC)
- Marketing Communications (SBRC)
- Procurement Opportunities (SBRC)
- Small Business Reserve Program (GOMA)
- Business Resource Guide for Businesses Seeking Contracts with Maryland's Federal Facilities (DBED)

Financing: Pre-Finance Assistance, Debt and Equity Financing

Programs that train small business on financial matters, including personal and business finance; offer pre-loan counseling and technical assistance; help companies find financing; administer loan programs aimed at small business; or provide equity financing

- Community Development Ventures, LP
- Financial Fitness (EDAC)
- Community Express (EDAC)
- Financing assistance (SBDC)
- Maryland Minority Research and Development Initiative (TEDCO)
- Maryland Working Capital Loan Fund (TEDCO)
- Maryland Technology Transfer Fund (TEDCO)
- Maryland Johnson & Johnson Joint Investment Program (TEDCO)
- Loan application checklist (SBRC)
- Information about lenders (SBRC)
- Active Capital (formerly ACE-Net)
- New Vantage Group
- Chesapeake Emerging Opportunities Network
- Challenge Investment Program (DBED)
- Enterprise Investment Fund (DBED)
- Maryland Industrial Development Financing Authority (DBED)
- Microloans (SBA)
- Small Business Innovation Research Program (12 federal agencies)
- Small Business Technology Transfer Program (12 federal agencies)

- 7a loan guarantees (SBA)
- Certified Development Company 504 Loan Program (SBA)
- Maryland Industrial Partnerships Program (MIPS, University of Maryland)
- Contract Financing Program (MSBDFFA, administered by MMG Group)
- Surety Bond Program (MSBDFFA, administered by MMG Group)
- Neighborhood BusinessWorks Program (DHCD)
- Linked Deposit Program (DHCD)

Human Resources Programs

Programs that assist businesses with recruiting, screening, and training employees

- Employ Baltimore (MOED)
- Other business-focused workforce development programs not funded by Baltimore City/DOL

Organization acronyms:

BDC – Baltimore Development Corp.

EDAC – Entrepreneurial Development and Assistance Center, Morgan State University

ETC – Emerging Technology Centers, a subsidiary of the Baltimore Development Corp.

DBED – Maryland Department of Business and Economic Development

DHCD – Maryland Department of Housing and Community Development

GOMA – Governor's Office of Minority Affairs

MOED – Mayor's Office of Employment Development

MSBDFFA – Maryland Small Business Development Financing Agency

SBA – U.S. Small Business Administration

SBDC – Central Maryland Region Small Business Development Center, housed at Towson U.

SBRC – Small Business Resource Center, Baltimore City, also a satellite of Central MD SBDC

SCORE – SBA Service Corps of Retired Executives, accessed at SBDC offices

TEDCO – Maryland Technology Development Corp.

WEB – Women Entrepreneurs of Baltimore

How are current efforts contributing to Baltimore African American-owned companies' ability to meet potential buyers/partners needs identified in Chapter III?

Opportunities

In Baltimore, the *Greater Baltimore Committee's Bridging the Gap* is the only initiative that focuses on **commitments by private sector buyers/team members**. Other government and non-profit programs sponsor vendor fairs, organize sessions with project developers, and provide tailored electronic opportunity alerts of procurements by government or government-supported projects.

African American-owned companies' preparation for sales success

Many of the Baltimore area providers are sources of market analysis materials and counseling, and provide mentoring for management in the development of business plans based on a sound understanding of potential markets.

Members of the Work Group reported that they respond most favorably to companies that execute their business development strategies professionally, and find that they are often called on to help others remedy this missing element in their capabilities.

In Baltimore, only in the high technology world of the *Emerging Technology Centers* is there an emphasis on the "elevator speech" and rehearsals of pitches to be made to potential partners and financiers.

SBRC/SBDC sample workshops: "Developing a Strategic Marketing Plan," "Government Contracting," including seeking contracts and proposal presentation tips; "The Psychology of Selling;" "Basic Digital Photography For Small Business," how to use digital cameras to create promotional materials.

The *Maryland Procurement Technical Assistance Program*, which is managed by the Maryland Small Business Development Center (SBDC) Network, helps companies identify, bid and perform on government contracts and subcontracts.

The *Maryland Department of Business and Economic Development (DBED)*'s publication (available online) "Business Resource Guide for Businesses Seeking Contracts with Maryland's Federal Facilities" includes sections on how to prepare a capabilities statement, how to find the right contact at a federal facility in Maryland, how to price a response, and how and where to get information about procurements and help bidding.

Management – strategic growth planning and execution

As highlighted on pp. 5-6, almost all Baltimore African American-owned companies are considered "small" using U.S. Small Business Administration (SBA) industry-specific definitions. SBA, in partnership with states and localities, funds many of the management assistance programs offered to Baltimore area companies. Their programs are geared for start-ups and early growth.

SBRC Contractors' College: As noted by the EDA study, new industry-specific efforts to make connections and prepare companies to take advantage of them have begun in the construction sector. The Baltimore Small Business Resource Center, with the support of the City's Department of Public Works and the Department of Transportation, several years ago launched a Local Contractor Development Program. Often referred to as the Contractors' College, the program provides comprehensive training on a variety of construction-related topics to develop and build capacity to competitively bid on major capital projects, not only government procurements, but those of private sponsors as well. In addition to a set of 10 core courses (including project management and green construction) taught by industry experts in weekly early evening sessions, the program includes networking opportunities at Lunch and Learn sessions with owners and prime contractors for major projects. Partners include the major construction companies in the region (Whiting-Turner, Hensel Phelps, Clark, Banks, Struever Bros. Eccles & Rouse), engineering firms, accounting firms, insurance firms, the Small Business Development Center, Maryland's Procurement Technical Assistance program, and MMG Group, which manages Maryland's small business financing programs.

The *Central Region Small Business Development Center (SBDC) and Citi Foundation* have recently launched the *CEO Accelerator Program*, "a two-year training and mentoring program for CEOs of qualified small businesses interested in leading their organization to the next level

of advancement." Applicants must be the leaders/owners of their companies, have been in business three to five years, and currently employ 2 to 25 employees. The 15 leaders selected will commit to participate in counseling and coaching sessions, attend seminars and workshops, and develop and implement a strategic growth plan within eight months. The registration fee is \$495 per year for two years.

Partnerships

The Emerging Technology Centers, the SBRC's Local Contractor Development Program, and GBC's Bridging the Gap seek to foster productive partnerships among suppliers as well as with buyers or large companies. In many cases, large company partners bring valuable marketing channels that would be difficult for younger or smaller companies to develop from scratch.

Financing

Baltimore's business financing programs focus on helping young companies to be "finance ready" – to have their financial statements in order, personal credit cleaned up, potential financiers identified, and in some cases, introductions provided. For the investment and loan cash, the City must rely primarily on state- and federally-funded programs and incentives. In general, these programs are under-funded and in recent times, hamstrung by the required participation of private lenders, which are facing their own challenges. Many of the state's financing programs have been depleted in successive rounds of budget-cutting for the current year. (See Appendix J for financing program detail.)

In the Baltimore area, as in the rest of the country, the departure of non-bank lenders (mortgage brokers, investment bankers) has created a smaller supply of credit. Community banks continue to lend to their *longtime customers* and are fighting for deposits to bolster the liquidity needed to make the loans. Larger banks are advising their clients to implement cash management strategies, reexamine their capital structure, re-emphasize the fundamentals of business development – marketing, making relationships, visiting top customers, and reassessing cost structure relative to revenues.⁴⁸

The top 20 largest volume SBA lenders in the Baltimore District region in the first nine months of the 2009 federal fiscal year (ended June 30, 2009) were:⁴⁹

Lender Name	# Loans	Amount (\$000)
Manufacturers & Traders Trust Company (M&T)	120	12,146
K Bank	10	4850
Branch Banking and Trust Company (BB&T)	31	3362
Susquehanna Bank	12	3281
PNC Bank	8	2962
Lender Name	# Loans	Amount (\$000)
Howard Bank	15	2305
CommerceFirst Bank	11	2075
First United Bank & Trust	1	2000
Home Loan Investment Bank	1	2000

⁴⁸ "On the Availability of Credit in Our Marketplace" and "Advice for Business Clients," Baltimore Business Journal Financial Business Report 2009.

⁴⁹ Small Business Administration Baltimore (2009). The Lender's Advantage, July.

Compass Bank	3	1990
NBRS Financial Bank	5	1902
Wachovia Bank (at 1/1/09, subsidiary of Wells Fargo)	4	1806
Small Business Loan Source, LLC	3	1782
Eaglebank	2	1765
TD Bank	2	1635
Wilshire State Bank	3	1582
Suntrust Bank	12	1421
Sandy Spring Bank	13	1240
Sonabank	3	1150
First Chatham Bank	1	900
TOTAL ALL LENDERS	344	60,031

Efforts over the past year to use federal American Recovery and Reinvestment Act (stimulus) funds to augment credit for small businesses did not meet with immediate success. The ARRA law gave SBA \$375 million to temporarily eliminate or reduce fees on its regular 7(a) loan guarantees and 504 loans for purchase of owner-occupied commercial real estate and equipment. Lending through both programs was down dramatically in the first half of 2009 and it was hoped that slashing the fees would make the loans more attractive to borrowers and lenders. The ARRA authorized SBA to guarantee up to 90 percent of 7(a) loans, except for loans made through the SBA Express program, which will remain at 50 percent. The current guarantee limits are 75 percent for loans above \$150,000 and 85 percent for smaller loans. The law also temporarily increases the SBA's guarantee on surety bonds from \$2 million to \$5 million to allow small businesses to bid on bigger projects funded with recovery funds.

After a slow start, ***SBA has exhausted its \$375 million stimulus appropriation*** for 7(a) and 504 loans, and has begun a queue for requests, hoping to take advantage of funds returned from projects that did not go forward. As of November 23, there were \$236 million in 7(a) requests pending. Even with the stimulus, however, SBA loan volume is down.

In the SBA's Baltimore District, 379 7(a) loans worth \$70.5 million were closed in the first nine months of 2009, compared to 498 7(a) loans worth \$96.5 million in the same period in 2008. SBA Baltimore closed 29 loans valued at \$19.6 million under the 504 program in the first three quarters of 2009, compared to 37 loans for \$30.05 million in 2008. A vice president of Mid-Atlantic Business Finance Co., which was hired by SBA to administer loan programs in the Baltimore area, said that the reductions in loan volume are not the result of less demand from borrowers, but rather from tightening of lending standards by larger banks.⁵⁰ More SBA loan activity has been seen in community banks, which tend to have personal relationships with their borrowers.

A June 2009 effort – America's Recovery Capital (ARC) – to offer short-term, interest-free loans to profitable businesses affected by the economic downturn has not so far been able to overcome lender reluctance to make loans for which they can charge no processing or late fees.⁵¹ Eligible

⁵⁰ Haber, Gary (2009). "Even SBA's Standard Loans Are More Difficult To Come By These Days," Baltimore Business Journal, October 16.

⁵¹ Huntemann, Chris (2009). "Few Takers for New Small-Business Loans," Business Gazette, July 31.

businesses ***must have a strong relationship with participating banks***, because there is a good deal of paperwork required of lenders for these relatively small transactions (maximum \$35,000). Significant paperwork is also required of borrowers.⁵² Only three ARC loans had been made in SBA's Baltimore District as of September 2009.⁵³

The state's equity financing programs, Maryland Department of Business and Economic Development's Challenge Investment and Enterprise Investment Programs, TEDCO's Johnson and Johnson Joint Investment Program, and MMG's Community Ventures, LLP and MMG Ventures all have very low or no balances to invest this year.

Private equity firms like MMG that target minority companies are estimated to have only three percent of all venture capital funds under management, and after some stellar successes in the early part of this decade, are experiencing downturns like other VC firms.

Are programs focused on growing medium- and large-sized African American-owned businesses?

National

The U.S. Small Business Administration limits its funding to programs and financing for companies with fewer than 500 employees.⁵⁴

As cited on page 2, the U. S. Department of Commerce's Minority Business Development Agency (MBDA) has for the past several years moved its focus to support of larger minority-owned businesses, with a goal of achieving entrepreneurial parity. "[T]he larger MBEs with revenues over \$500,000 are now trying to compete and grow within an environment of reengineered business practices, bundled contracts, global competition and an intense push on efficiencies of scale at every level of the supply chain. These firms represent the main power of the MBE community, and they are responsible for the overwhelming proportion of jobs. Many of these large MBEs are hungry for expansion, and with the right kind of assistance, they can become significant players in the domestic and global economy."⁵⁵

The agency has changed its metrics to drop "clients assisted" and instead to focus on not only dollar value of contracts awarded but also dollar value of financial packages awarded (combinations of loans, credit lines and surety bonds to enable companies to compete for larger contracts); to set goals and measure not only number of jobs created but also increase in annual gross receipts; and most importantly, to track national and regional partnerships that the agency has facilitated (target is 200 per year), and measure satisfaction every two years using the American Customer Satisfaction Index.

⁵² Dance, Scott (2009). "Paperwork Stymies Interest in SBA's Emergency Loans," Baltimore Business Journal, October 16-22.

⁵³ Robbins, Lindsey (2009). "Auto Business Snags One of State's Small Business Stimulus Loans," Gazette.Net, September 4, www.gazette.net/stories/09042009/businew173601_32537.shtml

⁵⁴ This threshold varies for different industries.

⁵⁵ MBDA, p.7.

MBDA's Strategic Growth Initiative (SGI) and Business to Business (B2B) Partnership Forums aim to incorporate businesses owned by minority entrepreneurs into the economic mainstream. B2B Partnership Forums are scheduled in select geographic areas where, in partnership with federal, state and local organizations, opportunities are forecast. For each of the opportunities, specific industries are identified, new SGI clients are identified, supply chains are identified, joint ventures are planned, and financial needs assessed.

States

Only 13% of all entrepreneurs in North America were involved in starting a business that aimed to create 20+ jobs, but these firms added 73% of all jobs. Only 10% of new firms will ever grow. In recognition of the need for targeting, the State of Kansas has adopted a new model. KTEC PIPELINE, a two-year-old program of the Kansas Technology Enterprise Corporation that has recently been incorporated as a separate 501(c)3 nonprofit corporation, is the first in the country to focus on helping carefully selected entrepreneurs build high growth firms. The goals are not only to nurture the growth of 9-10 start-ups per year, but also to support repeated entrepreneurial efforts in Kansas by their founders.

The 18 Fellows who are alumni own companies that range in age from 0 to 25 years. Innovators spend a year in systematic entrepreneurial immersion – intensive training, close mentoring, networking with resources nationwide. **Early results are promising.** Graduates highly rate the direct benefits they receive in market positioning, sales, efficiency, financing, strategic alliances, and innovation. Seven of the companies have experienced revenue growth that put them on track to qualify as "gazelles"⁵⁶ – average revenue growth 2006-2008 was 496%, 82% if the largest growth company is removed from the total. Chosen because they are innovators, almost 90% of the PIPELINE Fellows said that they had been aided by the program in the introduction of innovations in products, services, or processes and 100% saved money on new products, services, or processes. The companies have filed 15 patent applications, and have raised a total of \$11.3 million in financing, including SBIR awards totaling \$1.6 million. Total revenues for the PIPELINE companies in 2008 were \$36 million. While jobs are a longer-range goal of the program, PIPELINE companies have already added 68 new employees (with benefits) in the two years of the program, at an approximate cost to the State of Kansas of \$7,407. The first two classes of PIPELINE fellows are geographically (within the state), racially, and gender diverse.

Baltimore

Most of the Baltimore programs are focused on start-up and small companies. African American owners of medium-sized businesses interviewed for the More in the Middle initiative concur that the existing programs in Baltimore have been very useful in their start-up and early stages but were not designed and were not being used to support subsequent phases of growth.

⁵⁶ From a base of at least \$100,000, revenue growth of at least 20% per year for four years.

Baltimore Business Development Programs (by agency and focus)

Agency/Organization	Start-up?	Growth? Small->Medium	Growth? Medium->Large
Active Capital (formerly ACE-Net)	X	X	
Alex Brown Center for Entrepreneurship: ACTiVATE	X		
CEO Accelerator Program		X	
Chesapeake Emerging Opportunities Network	X	X	
Community Development Ventures LP (MMG's CDFI)	X	X	
Emerging Technology Centers (business incubators)	X		
Entrepreneurial Development and Assistance Center (EDAC)			
W.O.M.E.N.		X	
T.I.E.		X	
Business Core	X		
BriefCase Media	X		
Financial Fitness	X	X	
Community Express	X	X	
Mentor/Protégé		X	X
Greater Baltimore Committee: Bridging the Gap		X	X
Maryland Department of Business and Economic Development (DBED)			
Challenge Investment Program	X	X	
Enterprise Investment Fund		X	
Maryland Industrial Development Financing Authority		X	X
Maryland Department of Housing & Community Development (DHCD)			
Neighborhood BusinessWorks Program		X	
Linked Deposit Program	X	X	
Maryland Small Business Financing Authority (MSBDFA)			
Contract Financing Program		X	
Surety Bond Program		X	
Long Term Guaranty Fund Program		X	
Equity Participation Program		X	X
Maryland Technology Development Corporation (TEDCO)			
Technology Partnership for Innovation	X		
Minority Research and Development Initiative		X	
Working Capital Loan Program	X		
Technology Transfer Fund	X	X	
Johnson & Johnson Joint Investment Program	X	X	
Maryland Washington Minority Contactors Association	X	X	X
Mayor's Office of Employment Development (MOED)		X	X
MMG Ventures (SSBIC)		X	
New Vantage Group (manages angel networks)	X	X	
SCORE	X	X	
Small Business Administration			
Microloans	X		
7a loan guarantees		X	
Certified Development Company 504 Loan Program		X	
Small Business Development Center (SBDC)			
Smart Start Your Business	X		
Developing a Winning Business Plan	X	X	
Counseling/mentoring	X		
Financing assistance	X		
Foundations of Marketing	X	X	

Agency/Organization	Start-up?	Growth? Small->Medium	Growth? Medium->Large
Small Business Innovation Research program (SBIR) (multiple federal agencies)	X	X	
Small Business Resource Center (SBRC)			
Entrepreneur Start-Up Guides	X		
Business Plans	X	X	
Counseling/Mentoring	X	X	
Contractors' College		X	X
Loan application checklist	X	X	
Information about lenders	X	X	
Procurement opportunities		X	X
Marketing communications	X	X	
Small Business Technology Transfer Program (STTR) (multiple federal agencies)	X	X	
University of Maryland – Maryland Industrial Partnerships Program (MIPS)	X	X	X
Women Entrepreneurs of Baltimore (WEB)			
Core	X		
First Step	X		

The Central Region Small Business Development Center (SBDC) and Citi Foundation's CEO Accelerator Program " (see pages 36-37) may lay the foundation for a selective program to strategically grow small companies. The focus is not exclusively on African American-owned companies.

Policy issue

The State of Maryland's standards for a certified MBE is that the company must be 51% owned by a socially or economically disadvantaged individual. As a result, venture capital and private equity firms are discouraged from investing large sums in firms that are successful MBEs because their investment, if sizeable, may jeopardize the firms' ability to compete successfully in this marketplace. A state task force⁵⁷ has gathered information from the business and investment communities and been able to achieve its goal of ensuring that minority firms continue to benefit after they have graduated from the MBE program, when their revenue exceeds an industry-specific benchmark or the owner's net worth exceeds \$1.5 million. Solutions being discussed include changes to the 51% ownership requirement, or encouraging minority firms to create different classes of stock that allow investors to assume significant stakes without violating the 51% criterion.⁵⁸

⁵⁷ Members include Special Secretary for Minority Affairs Luwanda Jenkins, State Senator Joan Carter Conway, Delegate Michael Vaughn, and MMG Group CEO Stanley Tucker

⁵⁸ Dance, Scott (2009). "State Task Force: Minority Business Program Discourages Investment," Baltimore Business Journal, October 23-29.

Are programs focused on capitalizing on federal procurement opportunities, amplified by Base Realignment and Closing--driven consolidations in Maryland?

The federal-state sponsored Procurement Technical Assistance Program (PTAP) is part of the Small Business Development Center (SBDC) network; its office for Maryland is located at University of Maryland, College Park. Among the services offered is "help in locating subcontracting opportunities." The Baltimore SBRC is an element in the state-federal SBDC network. Its procurement assistance services have focused on state and Baltimore City contract opportunities (the City's Departments of Public Works and Transportation are partners in its Local Contractor Development Program).

The City's BRACtion Plan for 2007-2012 includes a section on exploiting M/WBE opportunities in contracting, with actions (and responsible agencies) including:

- Reach out to defense industry
 - Create an alliance with the defense industry to formalize connections with small, local, minority & women-owned businesses (MO-MWBD, SBRC, BDC, DoD agencies and regional alliances)
 - Explore reciprocity certification process for firms certified by Baltimore, state MDOT, and federal SBD certifications (MO-MWBD, MO-MWBOO, MDOT)
 - Seek out opportunities for direct and indirect product and services contracts with military, military contractors, surrounding community (MO-MWBD, SBRC, Chambers of Commerce, BDC, Planning)

- Reach out to contractors
 - Use the MBE Directors Alliance to seek opportunities for targeted firms (MO-MWBD, MBE Directors Alliance)
 - Continue procurement outreach fairs and provide a BRAC connection (MO-MWBD, SBRC)
 - Support efforts to create small-business incubators (MO-MWBD, SBRC, BDC)
 - Provide good news information for the media about M/WBE firms benefiting from BRAC (MO-MWBD, MOCC)
 - Tailor BRAC marketing strategies to minority ethnic groups and M/WBE firms (MO-MWBD, Live Baltimore, minority business groups, Chambers of Commerce, BDC)

- Coordinate with business and workforce development initiatives
 - Use the MBE Directors' Alliance to coordinate efforts (MO-MWBD, SBRC, MOED, BDC)
 - Actively provide marketing and outreach to the business community about BRAC opportunities (MO-MWBD, SBRC, BDC, Chambers of Commerce)

- Track BRAC-related M/WBE Outcomes
 - Create a web database of contractors (MO-MWBD, MOIT, CitiStat)
 - Create a monthly BRAC MBE Stat report (MO-MWBD, CitiStat)
 - Explore ways to quantify forecasted contracting opportunities that will result from BRAC (MO-MWBD, Planning)

ACRONYMS:

<i>BDC</i>	<i>Baltimore Development Corp.</i>
<i>MDOT</i>	<i>Maryland Department of Transportation</i>
<i>MO-BOO</i>	<i>Mayor's Office – Business Opportunity Office</i>
<i>MOCC</i>	<i>Mayor's Office of Communications</i>
<i>MOED</i>	<i>Mayor's Office of Employment Development</i>
<i>MO-MWBD</i>	<i>Mayor's Office of Minority and Women-owned Business Development</i>
<i>MOIT</i>	<i>Mayor's Office of Information Technology</i>
<i>SBRC</i>	<i>Baltimore Small Business Resource Center</i>

A number of the elements on the City's BRAC-related agenda have been advanced by the Maryland BRAC opportunities study (see *Appendix F*). It is unclear how much of the action plan has been executed to date, particularly the ambitious steps toward making links between larger defense contractors and Baltimore's M/WBEs.

Locally, the Howard County Economic Development Authority's Center for Business and Technology Development, its one-stop resource for small business owners and entrepreneurs dedicated to "driving businesses to the next level of profitable growth," has created a Government Contracting Institute. The Institute offers instruction from leaders in government contracting on topics such as registering as a government contractor, certifications, business development, market research, proposal writing, oral presentations, accounting and legal issues, project and contract management, and security clearances. One of the classes in the series in 2009 was focused on "The Business of BRAC and Stimulus Opportunities." The Center includes the County's NeoTech incubator, and has a network of corporate and government affiliations that provide access to area technology leaders and connections to investors. SCORE, SBDC, j-ref (a local public-private business financing program), and DBED offices are located within the Center.

CHAPTER V. Success metrics

What metrics are in use today?

Metrics are often driven by the requirements of programs' funding sources. Until FY 2006, for example, the U. S. Small Business Administration (SBA), which co-funds Small Business Development Centers (Baltimore SBRC and Central Maryland SBDC are included), set goals and asked its centers to report only output performance:

- Number of nascent or start-up clients counseled and hours they spent in counseling
- Number of established clients counseled and hours they spent in counseling
- Number of nascent or start-up clients trained, and hours they spent in training
- Number of established clients trained, and hours they spent in training

Based on a growing recognition of the kinds of assistance that make an appreciable difference to small businesses and in response to states, which provide much of the required matching funds for SBDCs, beginning in FY07 SBA abandoned the "body count" approach that had dominated its metrics and therefore SBDC programming, and began to focus on long-term relationships with clients, which had been shown to yield higher economic impacts for the client firms and for their local economies. The performance indicators now in use are:

- Multi-year extended engagement clients (output measure)
- Small businesses created (outcome measure)
- Capital infusions to client companies (outcome measure)
- Cost per multi-year extended engagement client (efficiency measure)
- Cost per small business created (efficiency measure)
- Client satisfaction

SBA programs also support small businesses that compete in the federal marketplace, in particular to increase their role as prime contractors. Metrics used include:

- Federal contract dollars awarded to small businesses (output)
- Jobs created/retained (outcome)
- Cost per job created/retained (efficiency)

The U.S. Department of Commerce's Manufacturing Extension Partnership (administered by the National Institute of Standards and Technology) has undergone a similar evolution. Originally focused on helping small and medium-sized manufacturers to compete in global markets by improving their production efficiency, the program once measured reduction in scrap, lowered cycle times, and other manufacturing process achievements. Today, as its federal/state-funded centers help companies improve management, and develop and introduce new or enhanced products, its performance measures include:

- New sales
- Retained sales
- Cost savings
- Clients' new investment in modernization
- Jobs created
- Jobs retained

States like Ohio have become more sophisticated in analyzing not only the direct effects of its programs on the businesses assisted, but also the impact of the success of those businesses on the state's economy. With the help of SRI International, an independent non-profit research institute, Ohio was able to document that the sales (economic activity), jobs, and employee wages and benefits returned \$10 on every dollar of state investment in its technology-based economic development program.⁵⁹

Because most economic development outcomes require multiple inputs from multiple parties, milestone metrics tied to ultimate goals are also useful. For example, to achieve the *More in the Middle* objective of **regional economic growth**, more **African American-owners employing more African American residents** must be making profits on more **sales**, sales fueled by capital and marketing/management savvy. In order to acquire **financing**, the companies must demonstrate:

- Repayment ability, including personal credit history
- Sufficient equity
- Liquidity
- Break-even operations
- Market demand for goods or services
- Amount and quality of competition
- Market strategy
- Experienced key management
- Track record of performance
- Quality collateral

As described in Chapter III, buyers or partners may have similar criteria for the firms they choose to buy from or team with. Some African American business development actors may focus on helping companies address one or more of these "finance-ready" or "seller/partner-ready" criteria, but need to be able to monitor their clients' subsequent success in 1) obtaining financing, 2) making sales, 3) maintaining or growing their workforce. There may be a need for "milestone" metrics for each stage of "sales preparedness" – business planning and launch (market analysis, sales strategy, management capability, financial management); growth in capacity and performance; tracked if possible to continuing growth in employment and sales, and strategic relationships. An integrated system of metrics across providers is required, because many may work with the same companies.

Particularly problematic are measurements of efforts to connect African American-owned businesses to opportunities and to build productive networks.

The U.S. MBDA offers an example of an effort to not only measure success in terms of sales, but also to measure the results of expanding networks and introducing minority businesses to potential global partners. MBDA is **measuring its efficiency** as a return on agency investment (ROAI) – dollars obtained for clients in transactions divided by the total MBDA appropriation

⁵⁹ SRI International (2009). "Making an Impact: Assessing the Benefits of Ohio's Investment in Technology-Based Economic Development Programs," http://www.thirdfrontierproject.com/Documents/RecentPublications/OH_Impact_Rep_SRI_FINAL.pdf

for the fiscal year. The target for FY2009 and FY2010 is \$45 for each \$1 agency investment. The **effectiveness goal** for the year is to achieve at least 80% satisfactory or better on 45 funded projects. Long term goals for new jobs creation are 2,000 per year. It also measures its capacity-building for sustained development success for mid-to-large size SGI firms by **increases in gross receipts**. The goal for FY07 and every year thereafter is to serve 3,000 firms annually to achieve an average increase per firm of \$50,000 in gross receipts.⁶⁰

Work Group's recommended metrics

While retaining the ultimate goals of regional growth powered by African American employers and their employees, the Work Group focused on the key dynamic element: **sales**, because sales represent a firm's success in marshalling resources to meet identified market demand. African American business development efforts focused on this goal receive a market test of their effectiveness.

While sales may be the logical yardstick, the practicalities of measurement pose significant challenges:

- Following up on "clients" exposed to Internet-enabled sales leads or passersby at a vendor fair booth
- The time lag between initial exploration of market opportunities and contract execution, which can routinely be 6 to 18 months
- Measuring not only the initial sales but also follow-on success that results from relationship-building
- Sharing activity tracking among entities that contributed to sales success (matchmaking, mentoring, financing, market analysis) to enable them to report results that enable them to continue to attract resources
- Widespread reluctance of companies to report sales to third parties

Work Group members had a number of suggestions, many of which required commitments on the part of majority firms, project owners, or opportunity initiative sponsors:

- Record the identity of vendor fair registrants or website users or recipients of other market exploration assistance
- Match attendee/visitor records to subsequent sales, direct or as part of a team:
 - Buyer/partner-driven option: Adopt mechanisms to routinely check buyer/partners records for subsequent sales, even if months later. Sincere majority firms have set success metrics for their own purchasing/teaming staff - new potential African American-owned vendors met, follow-up conducted, matching with a database of purchases, and active dissemination within decentralized purchasing units of potential African American vendors/partners identified
 - Sellersponsor-driven option: Repeated follow-up through email, telephone calls to ascertain results

⁶⁰ MBDA, pp. 15-16.

The Work Group concluded that it may be useful for major buyers/teaming partners or opportunities fair organizers to intensively track a limited number of "prospects" over time through email, telephone, and/or surveys to gain insights about the mechanics of tracking sales.

The Work Group members also noted that African American-owned businesses or entrepreneurs might also purchase businesses or divisions that already have a track record of sales success as a means of jumpstarting or ramping up revenues. Most often, external sources of financing would be required to effect such an acquisition.

CHAPTER VI. Implications for Baltimore African American-owned business development efforts

Are Baltimore African American business development efforts aligned with what is needed for sales success?

To summarize Chapter III, companies need:

- Market understanding and marketing strategy
- Knowledge of strategic opportunities
- Business development capacity
 - Articulation of value the firm can deliver
 - Understanding of buyer/team member requirements
 - Tactics for approaching and maintaining the interest of buyers or teaming partners
- Management experience
- Management capacity to deliver
- Financial strength
- Access to capital

Where are the gaps?

More emphasis on market analysis and validation is needed, not only for start-ups but also for growing companies of mid-size. Many of the entrepreneurs who are part of the KTEC PIPELINE program reported in their evaluations that the individualized market validation consulting and initiatives they were able to undertake were the most valuable assistance they received. It enabled them to play out the likely trajectory of their current marketing strategy, to see how their assets could be used to successfully pursue more lucrative markets, to shorten product development timeframes, to evaluate what product concepts would have the highest probability of success, and to focus strategies on market penetration.

Building capacity to execute a strong market strategy also needs greater attention. Work Group members cited business development know-how as a critical deficit among many of the their potential African American business suppliers or teaming partners.

Management of projects/contracts, not only in construction, needs support if African American-owned companies are to develop the performance track records they need to win progressively larger bids/contracts.

Capital, perhaps (as suggested by a number of the senior African American business leaders interviewed for the opportunity scan in 2005) tied to management coaching, is needed by most African American-owned businesses to finance growth. Equity capital, in many cases to counter original undercapitalization, is needed for both technology and non-technology firms in strong market positions. As a result of the economic contraction, both private and public sources of both equity and debt capital in Baltimore are limited; new strategies are needed to expand capital availability.

The critical gap repeatedly identified by researchers, opportunity scan interviewees, and Work Group members is one that does not easily lend itself to a "program" – the need to broaden the

social/business networks of African American business owners, which are key elements in business success.

Most importantly, how can growth to the next level of successful African American-owned businesses be supported?

As in the rest of the country, most of the business development programs in Baltimore are targeted to nascent and start-up company owners. None of them specifically targets African American-owned businesses.

Valuable business development support resources need to be *concentrated on a limited number of African American-owned companies* with the greatest likelihood of and commitment to sustainable growth, those that have already proven themselves in the market and that employ five or more workers. In the words of Professor Scott Shane,

Only a select few entrepreneurs will create the businesses that will take people out of poverty, encourage innovation, create jobs, reduce unemployment, make markets more competitive, and enhance economic growth... We need to concentrate our time and money on extraordinary entrepreneurs... who have the education and work experience to allow them to be successful... [Put] resources into companies with well thought-out ideas; the ones that are exploiting innovations that have the potential to create economic value, that seek to meet real needs of customers, and that are pursuing opportunities worth going after.⁶¹

These elite business owners require a combination of:

- Hard-nosed *market validation*
- Expert and peer support in growing beyond the "100% CEO model" to a corporate structure built around a management team – an *executive institute* has been suggested, with access to capital a built-in element.
- *Connections* to partners that in turn have connections to domestic and global markets and other resources

The two year-old KTEC PIPELINE program described on page 37 provides a useful entrepreneurial immersion model (not only for start-ups):

- Aimed at helping carefully selected entrepreneurs build high growth firms
- The ~10 PIPELINE Fellows per class participate in four three-day intensive "modules" that combine training, mentoring, and networking with regional and national advisors and experts. Modules are focused on strategy, operations, alliances, and capital.
 - 100% of the 2008 class said they had gained new communication, financial, and strategy skills; 70% new sales skills, 60% new management skills, and 50% new marketing skills.
- Throughout the year, participants work in groups and one-on-one with an assigned mentor, peers, and a wide network of national and regional advisors to pursue new markets and sales opportunities, explore their changing roles as founders and leaders,

⁶¹ Shane, Scott A. (2007). The Illusions of Entrepreneurship: The Costly Myths That Entrepreneurs, Investors, and Policy Makers Live By, New Haven: Yale University Press, p. 162-3.

prepare to work more effectively with board members and advisors, improve operations, and identify and execute strategic alliances.

- In addition to the quantifiable results reported on page 40, all the participants in the first two years of the program said that they were introduced to businesses, advisors, or resources that furthered their ventures and 100% are using the network after their year as PIPELINE fellows was over. A majority developed new strategic alliances. A sample of evaluation comments:
 - "Through PIPELINE I have become part of a large network and have a new list of contacts and business associates that would have taken years to develop without PIPELINE."
 - "We have created several very important strategic alliances over the past 12 months, and again, the key to executing once the alliances are in place is to have adequate capitalization, and in many cases the ability to look much larger than we are. The ability to clearly communicate with stakeholders and to talk intelligently about salient business issues has been a focus of the PIPELINE fellowship and has paid big dividends as we have moved forward with strategic alliances."
 - "Building new partnerships and strategic alliances is the best thing they [PIPELINE] do."
 - "The PIPELINE network of mentors and advisors is second to none. Both as part of the fellowship modules and outside of them, I have met with truly astounding business people from around the country, and from right here in Kansas. I still keep in close contact with my Pipeline mentor and many of the other amazing resources that I have been introduced to as part of the fellowship."
 - "Provided the opportunities to demo to national key distributors who will sell the [product], introduction to Kansas businesses that may be contractors for [second product], provided the opportunity to develop a streamlined marketing message. Saved four jobs and provided the opportunity to scale [second product] with its innovative ... technology!!"
 - "PIPELINE market analysis methods along with better personnel management have greatly improved our business and market share"
 - "We've been more focused, better market research, understanding that execution is more important than great ideas or smart people."
 - "Adequate capitalization has been critical to our success. The contacts provided through PIPELINE and "stamp of approval" that comes with being a part of the fellowship has really helped us to secure the funding needed."

The EDA study cited in chapter IV points to two promising networking-building models:

- Building "minority networking capital from efforts to level the playing field for African American entrepreneurs. The emphasis is on building intracommunity relations among African American businesses and intercommunity relations to established mainstream businesses and institutions. Programs not only target networking events, but also focus on ***building the managerial skills and know-how necessary to take advantage of networking opportunities.***

- Producing "minority niche capital from cooperative efforts targeted [on} strengthen[ing] relations within a particular industrial sector. The agencies function as *an intermediary to assist smaller firms to acquire the skills and sophisticated relationships necessary to partner with established mainstream businesses*. These efforts [to date] have been limited primarily to construction firms involved in large public works programs." (p. 28)

Implications for public policy

The words of the Boston Consulting Group in 2005 are still relevant today: "Government programs can further support this focus [on African American-owned firms] if federal, state, and local programs come to view minority businesses as critical for economic development, rather than seeing them as "preferential" initiatives." (p.23) Minority business growth is essential for the economic development of the City of Baltimore and the State of Maryland, which should be reflected in policy and programs that foster the development of African American-owned firms of size, which are those that will drive accelerated growth. In the Central Maryland environment of government contracting opportunities, with preferences for minority- and women-owned businesses that have helped many of the larger African American companies grow to their current size, public/private attention is needed for the transitions as they "graduate" from state and federal certified status. State policies to support the growth of African American-owned businesses might be profitably re-examined to determine whether they penalize the very companies that can be contributing to economic growth – the larger ones.

Implications for private companies and institutions that have a clear diversity agenda

The Work Group spent considerable time discussing the importance of private companies and institutions' commitments and actions that would not only support the growth of African American-owned businesses but also the economic health of their own enterprises and the Baltimore community. They identified critical elements, including 1) leadership understanding of the financial and economic benefit of diversity, 2) leadership commitment, 3) a sustained initiative that becomes integrated into the enterprise's standard way of doing business, 4) retooling of purchasing processes, 5) regular and meaningful participation in vendor fairs and other opportunities for face-to-face meeting of potential suppliers/team members, 6) provision of feedback to unsuccessful bidders, and 7) for proven suppliers/team members, a commitment to sharing market intelligence and support for business development (see page 25.)

Conclusion

More in the Middle, because of the broad networks of its leaders, is ideally positioned to stimulate the focused capacity-building and network-expanding that is required to grow Baltimore's African American-owned businesses to the level at which they realize their potential for regional economic impact. The Success Metrics Work Group, if its members are willing, can play a vital role in shaping and launching this effort.

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