



Living Cities

# THE INTEGRATION INITIATIVE

ALIGNING PEOPLE, PLACE AND POLICY



## THE SMALL BUSINESS DEVELOPMENT WORK OF THE INTEGRATION INITIATIVE

### EXECUTIVE SUMMARY

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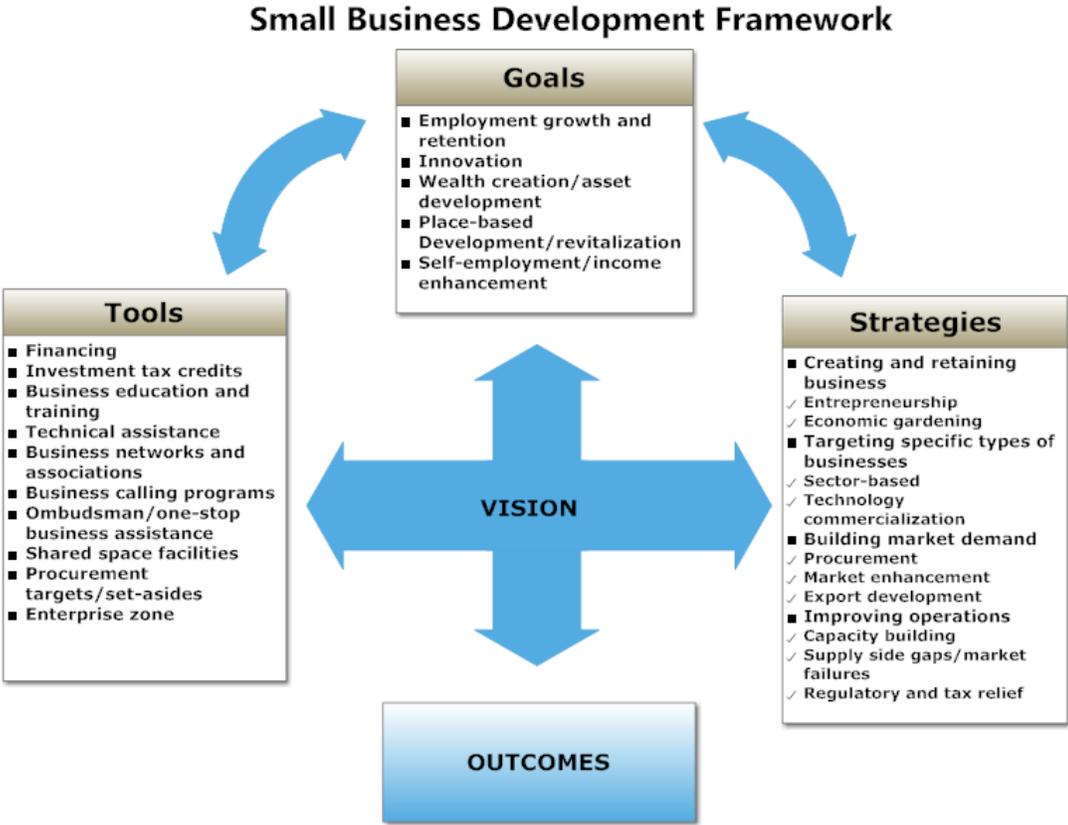
# Executive Summary

## THE CONTEXT

This report is the second of two “deep dive” investigations into The Integration Initiative (TII). The first study addressed the role of the public sector in the five TII sites. This report looks at the small business development activities that are being implemented as part of the Initiative. By midway through TII work, small business development had become incorporated into the work across all five sites, and thus emerged as a leading common element in TII.

Small business development may be undertaken to pursue a range of economic and community development goals and utilize different strategies and tools. A framework for thinking about small business development initiatives guided the analysis in this report. This framework looked at the variety of *goals* associated with small business development work, the range of *strategies* developed to address the barriers to business growth, and the variety of *tools* that can be used to implement strategies.

Given the growing importance of the small business development work, Living Cities was interested in documenting the activities at each site, identifying what has been achieved through this work, and assessing the factors related to implementation progress and outcomes.



## OVERVIEW OF SMALL BUSINESS DEVELOPMENT WORK AT TII SITES

### GOALS, STRATEGIES, AND TOOLS

- *Most sites focused their small business development efforts primarily on place-based goals.*

Most sites have linked small businesses to neighborhood or corridor revitalization. In Baltimore, Cleveland, and Detroit, this for the most part meant attracting and growing new small businesses to bring investment, jobs, and amenities to reverse past disinvestment. In the Twin Cities, the focus has been on mitigating construction impacts on small businesses related to the construction of a new light rail line. Job creation for low-income residents was an associated goal in a number of sites, particularly those focused on anchor procurement.

- *The strategic focus on small business development was emergent, evolving as sites adapted to new learning, challenges, and opportunities.*

Small business development activities grew in importance and became a more explicit focus for all sites over the course of TII. For most sites, this meant increasing attention and investment in small business development as a means to advance both place-based and system change goals. Several factors drove this change, including slower than expected progress in some other areas, new leadership and participants, and emerging learning and thinking about how to advance place-based and system goals.

- *The sites used a relatively narrow set of strategies and tools.*

Overall, procurement, business capacity building, and addressing supply side gaps (primarily financing, but also real estate in Detroit and Baltimore) were the most common strategies employed. Of the sites, Cleveland has taken the most diversified approach to small business development, implementing a broad set of strategies including entrepreneurial development, business assistance, procurement, addressing financing needs, and regulatory relief. Baltimore expanded its work to include entrepreneurial assistance and has a strong focus on minority-owned businesses. Cleveland and Detroit worked on business regulatory relief activities.

- *Small business development was related to the system change agenda in several sites.*

The small business work was a component of broader system change strategies in many of the sites. Economic inclusion is the system change frame for Baltimore, with small businesses seen as a pathway to inclusion through both business ownership and the hiring of local low-income residents. Cleveland is similarly seeking to change systems that link poor residents to economic opportunity, primarily focusing on anchor institutions. Small business growth and resident hiring was seen as emerging from new procurement policies and systems. Detroit's system change agenda emphasizes making the city more competitive to start and grow small businesses. In the Twin Cities, the small business work was related to the broader goals of ensuring that local residents and businesses benefited from the new light rail lines. Finally, Newark's small business efforts were part of an integrated approach to building a "wellness economy" to improve social outcomes in low-income neighborhoods.

- *Most sites targeted multiple types of businesses and used broad categories that cut across industries and business sizes.*

Neighborhood-serving businesses were the most commonly targeted business types (four sites), followed by potential anchor suppliers (three sites). Three sites also targeted a particular sector or industry: Cleveland—biotech/healthcare and companies that service healthcare institutions; Detroit—creative businesses; and Newark—grocery stores and healthcare providers. Baltimore and the Twin Cities targeted minority-owned and immigrant-owned businesses.

- *The small business development system itself was a system change target in three sites.*

Three sites have attempted to fill gaps, expand capacity, or strengthen coordination among parts of the small business support system. Baltimore and Cleveland attracted new providers to fill identified gaps in the system. Cleveland used its governance table as a platform to improve coordination among small business development organizations. And, Detroit focused on addressing weaknesses in the governmental support system while working with a new related business support collaborative under the Detroit Economic Growth Corporation (DEGC).

### **Use of Financing for Small Business**

Another aspect of implementation is how TII financing resources—commercial debt and Catalyst Fund loans—have contributed to small business development activities.

- *The Neighborhood Development Center (NDC) in the Twin Cities had the most success deploying this capital, with five completed loans, but found disconnects between its original vision and the demand for loans.*

While NDC intended to use the fund to help businesses acquire their buildings and to make large-scale exterior improvements at key intersections, it found businesses reluctant to take on debt in the midst of a disruptive construction process. Given these challenges, NDC refined its initial expectations and, while not financing building acquisitions, has financed several exterior renovation projects, augmented by its façade grants and city of St. Paul funds, in Little Mekong, a section of University Avenue with a concentration of Asian businesses.

- *In Cleveland, the plans for TII capital have gone through several iterations with small business lending growing in importance over time.*

This was a logical progression in Cleveland with the Neighborhood Development Council's (the CDFI working with Cleveland) expertise in this area and the Initiative's broadening focus on small businesses. However, it also reflected challenges finding real estate projects that fit the underwriting criteria for TII capital and anchor supplier facilities that needed financing.

- *TII lending in Baltimore and Detroit financed real estate projects that contributed to small business growth.*

In both cities, real estate loans financed new retail and commercial space to house businesses. Three projects financed by Capital Impact Partners (previously NCB Capital) in Detroit include 93,000 square feet of retail and commercial space. The Reinvestment Fund's (TRF) loans in Baltimore have created over 374,200 square feet of new multitenant commercial space and directly financed real estate or leasehold improvements for three businesses.

## SMALL BUSINESS OUTCOMES

Detroit and the Twin Cities quickly implemented multiple small business development activities while leveraging partnerships and resources from other organizations. These two sites began TII with focused small business development goals that built on existing initiatives and capacity. Other sites faced unique barriers to implementation of each one's small business strategy. Cleveland has had to focus more time and resources than expected to create new employee-owned businesses and adapt its strategies. Baltimore is dealing with a fragmented small business development system with limited collaboration among providers.

The outcomes from this work largely fall within four categories:

1. **Place-based business growth and retention outcomes.** These were most significant in Detroit where 35 businesses opened in Midtown, and in the Twin Cities where business closures were limited to only four among over 350 assisted firms.
2. **Place-based results from expanded local anchor procurement.** Although data on the exact amount of new contracts were not available, there was evidence of increased local sourcing by anchor institutions in Detroit, Cleveland, and Baltimore. However, there was limited evidence of significant job creation associated with this increased procurement.
3. **Expanded capacity and improved systems to support small businesses.** Baltimore, Cleveland, and Newark have added lending, training, and technical assistance capacity with new organizations and programs. Baltimore also completed analysis and convened parties as important precursors to addressing more systemic changes. In the Twin Cities, NDC expanded its capacity to capitalize its lending programs by gaining experience in using debt as a major funding source and expanded its work to suburban communities. Detroit has strengthened its business support system and made some advances in streamlining its business permitting system.
4. **Policy- and institutional-level system change.** Baltimore has encouraged its anchor partners to consider establishing economic inclusion procurement policies, and through TRF is demonstrating how these policies can be integrated into the development finance process. Anchor procurement work in Detroit contributed to a citywide business-to-business procurement initiative. Some changes in local procurement policies are under review or being implemented at the Cleveland Clinic and Case Western University.

## FACTORS RELATED TO SMALL BUSINESS DEVELOPMENT IMPLEMENTATION AND OUTCOMES

- *Anchor procurement work has proven difficult and time consuming to implement.*

Cleveland has found that it takes some time to develop agreements among multiple institutions on common goals and definitions and the sharing of information and databases. Both Detroit and Cleveland found the creation of vendor databases hard to implement and unproven in their ability to expand local procurement. Sites also realized that many small, local firms lack the capacity to respond to large-scale contracts or to be the low-cost supplier, and the time and cost to add new capacity to serve anchors is often prohibitive.

- *The local environment and small business ecosystem impacted TII implementation across the sites.*

The nature and strength of pre-existing capacities and adjacent efforts influenced TII small business development work in each city. It provided a strong foundation for expanded work in some cities, provided key complementary services to realize outcomes, and facilitated partnerships to extend work in some cases.

- *Having a sufficient pipeline of small businesses and projects was a factor affecting implementation success and outcomes.*

In Baltimore, this included a limited supply of Minority Business Enterprise (MBE) contractors to meet inclusionary goals for construction contractors and businesses with the capacity to address anchor procurement needs. Cleveland faced limited business growth opportunities and the associated demand for capital within its targeted Health-Tech Corridor and Greater University Circle geographies. In Detroit, while business growth was robust in Midtown, there were limited business opportunities in the North End and other neighborhoods. Although there was no shortage of small firms on University Avenue, Twin Cities faced limited demand for its target lending priorities.

- *Having a service delivery system with the capacity to connect with target businesses and respond to and address their development needs was a critical factor related to achieving outcomes.*

All sites reported gaps and challenges in their “street level” delivery system. NDC (Twin Cities) had to determine the best way to engage businesses in utilizing technical assistance services and financing, while building its capacity to deliver door-to-door outreach and technical assistance. Detroit’s small business organizations had to adjust their programs to provide appropriate services with the growth in neighborhood-serving and retail enterprises. Baltimore had limited outreach capacity to identify and connect business owners and entrepreneurs to services.

## KEY FINDINGS

The Integration Initiative experience highlighted some broader lessons and insights on small business development practice and the integration of small business development into larger community and economic initiatives. These lessons include:

1. *Without an understanding of businesses, markets, business development needs, and specialized needs related to target business sectors, efforts can have overly ambitious or overly simplified goals and strategies.* Without expertise in small business development, there is a danger, for example, of focusing on providing capital to small business without sufficient attention to both identifying and nurturing entrepreneurs and building business capacity. Similarly, strategies may be based on the faulty assumption that local small businesses have the capacity to take advantage of procurement opportunities of local anchors.
2. *Creating a table of interested parties that includes business associations, small business development organizations, government economic development offices, and CDFIs has been useful in gaining a deeper understanding of small business development needs and formulating more holistic strategies.* Bringing in the appropriate stakeholders to the process once small business development is identified as a strategy is extremely important. This approach was used to create the Twin Cities business mitigation programs and has guided the expanded focus of Cleveland's Greater University Circle Wealth Building Initiative.
3. *It is important to be clear about the relationship of small business development to the goals and desired outcomes of a larger initiative and to develop the specific strategies and the types of businesses that are most able to realize these goals.* While there was a very clear relationship between the sites' goals and the small business strategies and targets in some sites (i.e., mitigating the impact of light rail construction in the Twin Cities), in some cases the connection was not entirely clear, leading to implementation barriers and limited outcomes. Once there is clarity about targeted business types whose development is tied to specific goals, the current capacities and development needs of these businesses (in relation to achieving desired goals) need to be assessed to define which business development strategies and tools are likely to be most effective.
4. *More attention needs to be given to the relationship of anchor procurement initiatives with goals.* Direct business and employment growth-related outcomes have proven difficult to achieve and time-consuming to implement. Moreover, the connection between increased local procurement and job creation for targeted populations has not yet been proven.
5. *Anchor strategies require highly targeted efforts that focus on procurement needs that are aligned with local business capacities, build targeted vendor capacity, and change anchor procurement practices to facilitate local procurement.* Procurement efforts focused on large anchor institutions may be better suited to support the growth of medium and large businesses rather than small firms. Those goods and services for which anchor procurement has the potential to impact targeted business types (local, small, minority-owned, etc.) also need to be identified and targeted. In addition, more attention needs to be paid to the interest and capacity of targeted firms to competitively respond to anchor requirements. Finally, previous research has found that there are certain products and services (such as food and maintenance services) that tend to be well matched to local business capacity.

6. *Better tracking of data is needed on the specific outcomes of the small business development work, the relationship of these outcomes to the desired results from the work, and how the specific initiatives and outputs contributed (or failed to contribute) to these outcomes.* The framework developed to guide this report notes potential goals of small business development work, including employment growth and retention, innovation, wealth/asset development, place-based revitalization, and poverty alleviation through self-employment. Effective small business efforts would establish these goals with some clarity and measure how well they were achieving these outcomes. For example, if a minority business development goal is associated with asset development, the actual income and assets of business owners could be tracked, not just the number of minority firms starting up or assisted. If the goal is commercial revitalization, the measures to be tracked would involve vacancy rates and changes in sales amongst businesses in the specified district. Many sites have measured outputs, not outcomes.
7. *Branding and graphic design assistance, which is a common need for all businesses, can be an effective way to engage existing businesses, quickly deliver something of value, and create a foundation for longer-term relationships and development assistance.* This approach provided a foundation for NDC's work with small businesses along University Avenue. Maryland Institute College of Art (MICA), a partner in Baltimore, also enhanced its partnerships with small local vendors by providing pro bono graphic design services.
8. *An effective small business development service delivery system with "on-the-ground" capacity is fundamental to any effort to work with small businesses and entrepreneurs.* Understanding the capacity of the existing small business service delivery system should be part of developing any small business development strategy. Important parts of a service delivery system include marketing and outreach to engage and build trust with business owners; staff capacity to manage the service delivery; and partnerships and/or effective referral networks to access specialized technical or subject matter expertise (e.g., marketing and branding, accounting and financial management, food safety, etc.).
9. *The delivery systems for place-based commercial corridor business development, microenterprises, and growth-oriented businesses have different dimensions.* For commercial corridors, small business owners often have basic business management skills needs, and there are common assistance needs around consumer-oriented marketing, merchandising, store layout/design, and displays. Business assistance also has greater impact when integrated with district-wide management that addresses the design, safety, management, development, and marketing for the larger commercial corridor or district. Business collaboration is more localized and often hyperlocal around specific blocks and intersections. Delivery systems to spur business growth for job creation need to support marketing and market development on a larger scale, including business-to-business and international trade components, access to higher risk growth capital and support in helping firms address more diverse management, and industry-specific technical assistance needs. Business collaboration is also more likely to function on a citywide or regional scale around the industry, technology, or profession.

## IMPLICATIONS OF RESEARCH

The findings of this report are preliminary as the work in sites is still underway. In addition, the sites engaged in a relatively limited range of small business development strategies and tools. However, the experience to date does provide some recommendations that Living Cities could consider as it enters the next phase of its work and adds new sites to The Integration Initiative.

- look more strategically at the small business service delivery system in a city and region to identify its strengths and challenges and targeted improvements needed to support desired goals and strategies;
- ensure that there is a clear connection between the results that sites are seeking to achieve and the strategies that they are pursuing. If the result is related to job creation for low-income residents, provide a plausible theory about how the small business development strategy will achieve the desired results;
- if supporting efforts around anchor procurement, encourage more strategic targeting and assessment of how the work contributes to net new jobs for the targeted population; and
- include appropriate stakeholders from the public, private, and nonprofit sectors involved in small business development in cross-sector collaboratives.