

Community Investments Vol. 10, Issue 2 Recent Study Supports the Competitive Advantages of America's Inner Cities

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"Inner cities represent vast, untapped markets with significant opportunities for job and business growth." In his 1995 article, entitled "The Competitive Advantage of the Inner City" (May/June 1995, *Harvard Business Review*), Harvard Business School Professor Michael E. Porter offered a new vision for inner-city economic development. A pragmatist *and* a visionary, Professor Porter had already laid the groundwork to address inner-city economic development. In 1994, he helped establish a national non-profit organization, the Initiative for a Competitive Inner City (ICIC).

The findings of a recent national study support Porter's premise of inner cities as untapped markets. The study, conducted jointly by the ICIC and The Boston Consulting Group, revealed that inner cities represent \$100 billion in annual retail spending. Furthermore, companies operating within the inner city are strategically located on the periphery of urban centers and adjacent to transportation nodes, giving logistically-sensitive companies in industries such as food processing, light manufacturing, and equipment rental a competitive advantage. Inner cities are also home to a diverse and underutilized work force, which in a time of very tight labor markets, is attractive to companies seeking available labor within the United States.

The potential competitive advantages of the inner city include business location and a base of existing companies upon which to build. A sustainable

economic base in these areas will depend on private, for-profit business development, and investments based on economic self-interest and genuine competitive advantage. The present disadvantages of the inner city as a business location must also be understood and directly addresses. However, without an economically lively inner city, the surrounding region suffers.

Initiative for a Competitive Inner City (ICIC)

The mission of the ICIC is to foster healthy economies in America's inner cities. The organization seeks to transform thinking, reinvigorate market forces and engage the private sector to create jobs, income, wealth, and economic opportunities for inner-city residents. And, it approaches urban economic development in a pioneering: linking the immense resources of the private sector with inner city companies that have potential for high growth. The ICIC is also involved in an extensive research effort to develop strategies for inner-city business and cluster development.

The ICIC has rapidly established itself as a national force with activities in cities across America. It has a staff of 26, affiliates in Boston, Oakland, Baltimore, Kansas City, and significant activities in five additional cities.

Oakland Advisors

The Advisors component of ICIC are local consulting firms that translate research into action by catalyzing private sector activity in inner cities around the country to achieve measurable improvements in jobs, income, wealth, and economic opportunity for inner-city residents. Oakland Advisors, for example, serves as a "market maker" by identifying high potential inner-city businesses and linking them with pro bono, first-rate private sector resources. The Advisors establish and disseminate an overall strategy for inner-city business growth, and implement proven business concepts from other cities.

The "target clients" of Oakland Advisors are existing inner-city businesses with high growth potential. This target market is comprised of firms with revenues between \$1 and \$20 million. The companies are committed to hiring a diverse workforce from Oakland's inner city (at least 30% of their work-force) and demonstrate significant potential for job growth.

Business Opportunities in Inner-City Oakland

In 1997, The Boston Consulting Group (BCG) entered into a significant partnership with the ICIC, contributing \$1.5 million in pro bono professional services to ICIC's national research effort. BCG and ICIC have completed studies of the inner-city economies of Boston and Chicago as well as a national inner-city retail study. Most recently, BCG worked with Oakland Advisors to conduct extensive research of Oakland's inner-city economy. The objective of the study was to identify opportunities for employment growth in selected industry clusters and to develop specific, well-defined strategies to achieve this growth.

An advisory board, consisting of local representatives from the public and private sector, including the Oakland Chamber of Commerce, the East Bay Development Alliance for Business (EDAB), the Bay Area Council, the Telecommunications Incubator and the City of Oakland, was established to provide strategic direction and form to the Oakland study.

Research Findings

Oakland's inner city suffers from a significant economic disadvantage. Over half of Oakland's population lives in the inner city, where per capita income is 35 percent lower than the average overall, and the unemployment rate is about 50 percent higher. These disparities in income and employment result in a \$1 billion income gap.

But inner-city Oakland has some key competitive advantages from a business perspective, which should act as a foundation for business and employment growth. They include:

- A strategic location within the Bay Area, with proximity to a large consumer base, a large and growing commercial customer base, and a growing Silicon Valley high-tech cluster;
- A strong transportation infrastructure, with four major interstates, a leading port, an international airport, and a well-developed local passenger transportation system; and,
- An ethnically diverse labor force, which is critical for service-oriented businesses such as home health care.

Oakland is additionally attractive because:

- Commercial real estate rates are competitive, with more than 3.5 million square feet of office and industrial space currently and historically available at below-market rates and
- There is an available labor force; a key benefit given the tight labor market in the Bay Area.

Oakland has approximately 15,000 businesses, the majority of which are situated in the inner-city. The study identified 21 industry clusters in inner-city Oakland, and examined in detail the health care, commercial services, retail food, high-tech, air transportation, food processing, entertainment and tourism industries. The ability to capitalize on the competitive advantages and market opportunities of these seven industry clusters could lead to the creation of 10,000 jobs within five years - jobs that match the skill level of unemployed inner-city residents.

In response to study findings, Oakland Advisors will direct its consulting activities primarily to those companies that operate within the key clusters.

Further, it will disseminate the study findings among public, private sector, and community-based organizations as a way to establish partnerships that support initiatives directed at job creation.

A Case Study: Home Health Care

Here's an example of how all of this works. The research study identified health care, specifically home-health care, as a significant market opportunity in inner-city Oakland. Currently, the home-health care market is under-served in Oakland, making this a near-term opportunity.

Coincidentally, a large Kansas City-based home-health care ambulatory care company started researching an expansion into Oakland. Through ICIC's affiliate in Kansas City, the company enlisted the support of Oakland Advisors. Oakland Advisors has served as a "market maker" by identifying market opportunities, arranging introductions to key players in the Oakland health care arena, and soliciting support from a local business school in developing an Oakland-focused business plan. Potential logistics and information systems support has also been requested from current and prospective corporate partners.

This is one example of how "market making" supports business attraction, business development, and job growth. In addition to the home-health care firm, Oakland Advisors will provide similar services to 10-15 potential clients in such diverse areas as security, food processing, food retail, telecommunications, high technology services, and public relations.

Measuring Future Success: Validating the Model

The success of the ICIC and Oakland Advisors will be determined by measures such as:

- the increased profitability and growth of client companies,
- the number of new businesses formed,
- measurable improvements in the business environment,

- meaningful job creation, and
- increased national awareness and investment in inner cities.

There is much work to be done, but the national study validates Dr. Porter's premise that inner cities can be competitive market players. Oakland Advisors will continue to draw on the clear business strengths inner-city Oakland has to offer by working to expand businesses and create jobs. Copies of the Oakland study can be obtained by phoning Oakland Advisors at (510) 451-1415, or the Initiative for a Competitive Inner City at (617) 292-2363.

Oakland Advisors Provides.

- Management consulting, training, and merchant banking for high potential inner-city companies.
 - Brokerage of corporate and business school services to inner-city clients in areas such as: strategic planning, operational improvement, information systems upgrades, and purchasing relationships.
 - The creation of realistic business development approaches for local government and community leaders.
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ABOUT THE AUTHOR

Cletis Shelby is Managing Director of the Oakland Advisors, an affiliate of the Initiative for a Competitive Inner City (ICIC). He joined ICIC in 1997 after several years in finance at Genentech Corporation, Pacific Gas & Electric Company, and Wells Fargo Bank. He received his M.B.A. in International Finance from the Columbia Business School with honors in 1989, and is a graduate of Wharton School (International Finance), class of 1986. Mr. Shelby has seven years of business management experience in commercial banking, biotechnology, and finance.

In addition to his work with the Oakland Advisors, Mr. Shelby is also a member of the board for A Better Chance, Inc., and is actively involved with the Summer Search Foundation, East Bay Outreach Program, and the Cate School of Carpenteria. He is also a member of the Commonwealth Club of San Francisco.