Reinvesting in Dallas' Southern Sector

SOUTHERN DALLAS INITIATIVE

Report to the Dallas Together Forum and the Greater Dallas Chamber of Commerce

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Dallas Together Forum and the Greater Dallas Chamber of Commerce

On many measures, Dallas is flourishing. The City has enjoyed sensational growth during the past decade. Companies contemplating relocation put Dallas high on the list of cities they consider. Unemployment is below 4 percent. Average household income is 16 percent higher than the national average. The cost-of-living index remains highly competitive.

For Dallas to reach its full potential, however, it must have a broad economic base, one which includes a large percentage of the city's neighborhoods, communities, and citizens. Today this is not the case.

In the summer of 1997, the Greater Dallas Chamber of Commerce and the Dallas Together Forum initiated an examination of Southern Sector reinvestment opportunities. Under their leadership, McKinsey & Company, Inc., conducted a pro bono study with a dual purpose:

¶ Determine whether there were strong economic incentives for mid-size and large private companies to invest and operate in the Southern Sector (as defined by the Dallas Plan and approved by the Dallas City Council to include the area south of I-30 on the east and the Trinity River on the west).

¶ Identify management best practices employed by companies operating successfully in the Southern Sector.

Put another way, the Greater Dallas Chamber and the Dallas Together Forum believed it was vitally important to develop a fact-based view of the opportunities in the Southern Sector and to understand how companies were making money there. Armed with this information, companies could make more thoughtful decisions about investing in the Sector and – potentially – accelerate the Sector's revitalization and its long-term economic prospects. The McKinsey team focused its efforts on these priority areas.

To develop the findings and conclusions presented in this report, we collected and analyzed data on the Southern Sector's labor, real estate, and consumer markets. In addition, we reviewed articles and books, descriptions of other cities' improvement programs, past studies of economic development in the Southern Sector, and Dallas' current improvement programs and plans.

Supplementing these sources, we conducted interviews, site visits, and roundtable discussions with more than 100 business, civic and community leaders and economic development experts. We met with managers of small and large companies who are already doing business in Southern Dallas and firms that have yet to make a substantial investment in the Sector. In addition, we talked with members of community development corporations (CDCs), Chambers of Commerce, workforce training organizations, real estate brokerage and development firms, city and county government representatives, and other community organizations.

3. Many companies evaluating expansion options should seriously consider investing in the Southern Sector of Dallas.

¶ Among its many resources, the Southern Sector offers investors a large and under-served consumer market, and a large, stable labor pool. Equally important strengths include cost-effective locations strategically located near uncongested transportation arteries, downtown Dallas, and institutions ranging from Fair Park to the Methodist Medical Center. Sustained economic development and proposed projects such as the Trinity River Corridor development would further augment the region's competitiveness.

¶ The Southern Sector retail market is currently under-served relative to its aggregate buying power. This market imbalance creates an opportunity for smart retailers and service providers to earn competitive returns by offering Southern Sector residents higher quality purchasing alternatives at more convenient locations.

¶ The Southern Sector also merits inclusion on many firms' short lists as they consider alternative sites for facility locations or other capital investments. The relative attractiveness of Southern Sector cost structures and operating environments will depend on the specifics of each investment decision; but for a range of labor-intensive manufacturing, distribution and business services industries, a Southern Sector site should prove competitive.

¶ Although the basics of sound management do not change because an operation is located south of I-30, tailored management practices can lead to improved performance. Such "tailoring" typically requires raising – not lowering – expectations and standards.

¶ Both small firms and large investors face critical challenges relating to public safety, workforce readiness, government services, and negative perceptions. By working together to address these and other concerns, the public and private sectors can create a "virtuous cycle" that will accelerate the economic development of Southern Dallas.

In summary, we find that well-run businesses, especially those with management practices matching the area's specific resources and needs, can earn attractive returns by addressing under-served consumer markets, tapping a large, diverse labor force, and acquiring strategically valuable cost-competitive locations. Having evaluated the region's strengths and weaknesses and having conducted interviews with more than 100 civic, nonprofit, and business leaders, we conclude that there are good business opportunities within the Southern Sector for a wide range of firms.

Location and land-based factors

The Southern Sector offers potential investors several location-dependent advantages. Undeveloped land within the Southern Sector is readily available. With over one third of its land vacant, the Southern Sector contains approximately 65 percent of the city's remaining undeveloped space. Relatively inexpensive, this land sells on average for slightly over $2.00 per square foot, less than one third the price in northern Dallas. Although little vacant commercial space can be found within the Southern Sector, rents are approximately 20 percent lower than the remainder of the Metroplex*. Claimed the owner of a building component manufacturer, "As far as my business is concerned, dirt is dirt as long as you can find good employees. I pay a fraction of what I would pay in rent elsewhere, and the majority of our shop workers can walk to work."

Adding to these location strengths is the excellent North-South and East-West freeway access enjoyed by many parts of the Southern Sector – especially along the I-20 and I-45 corridors. Southern Dallas' transportation network is much less congested than that of the northern half of the city. As growth within northern suburbs tests the limits of the region's transportation infrastructure over the next decade, this advantage will be amplified. The emergence of I-35 as a NAFTA superhighway should further augment these transportation access advantages.

The continued expansion of the DART light rail system also supports economic development initiatives within Southern Dallas. DART projects a daily ridership of 15,000 in the South Oak Cliff and West Oak Cliff corridors by 2010. The existing network is already making a difference by creating real estate development opportunities adjacent to stations and by better connecting potential employees with employers. Planned extensions to the network will create new development opportunities and will likely increase the value of those locations currently near a DART station.

Finally, some businesses may be able to take advantage of the Southern Sector's proximity to downtown and to other assets such as the Dallas Zoo, Fair Park, and the Methodist and VA hospitals. Planned or potential developments, especially those involving the Trinity River and the Redbird Airport, will further augment the location strength of the Southern Sector. Early phases of the Trinity Parkway project, for example, will facilitate traffic flow between downtown and West Dallas and will improve transportation access throughout much of the Southern Sector.

Other resources

The Southern Sector's competitive strengths do not end with labor and location factors. When evaluating Southern Dallas opportunities, potential investors should also consider:

1. **Tax incentives:** A variety of tax incentives are available to companies investing capital in and/or creating jobs within Southern Dallas; both the city and county governments participate in these programs. The tax abatement eligibility requirements for Southern Dallas projects are typically lower than those for other parts of the city. For example, a 10-

* Land and rent costs depend on the specific location and use considered.

Exhibit 1

OVERVIEW OF SOUTHERN SECTOR RESOURCES

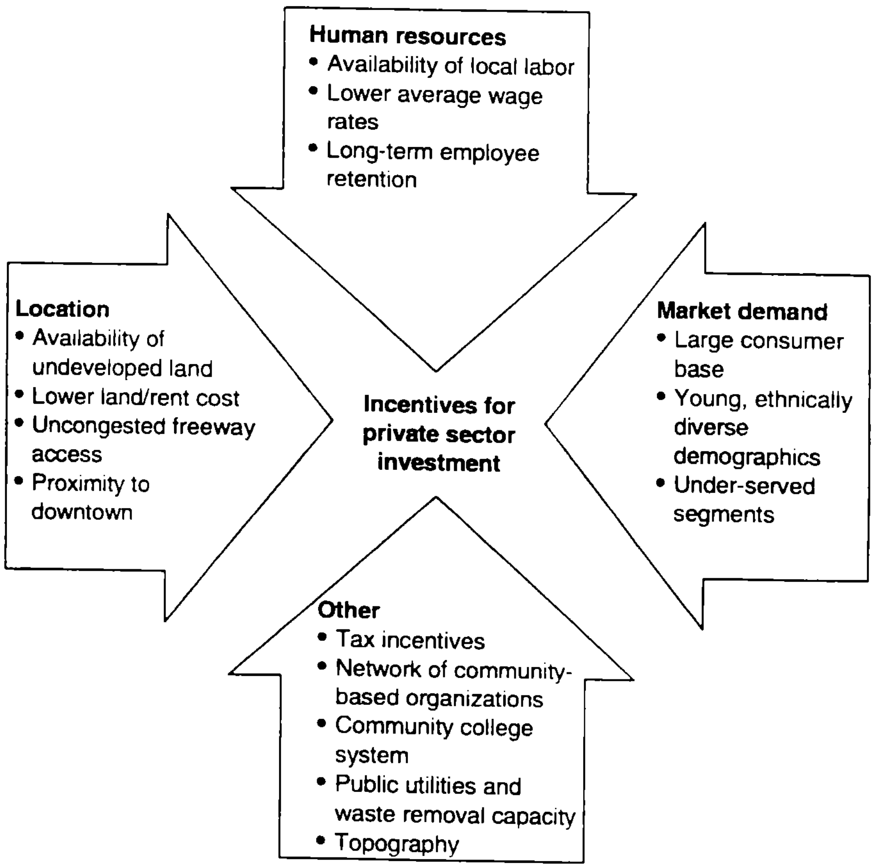
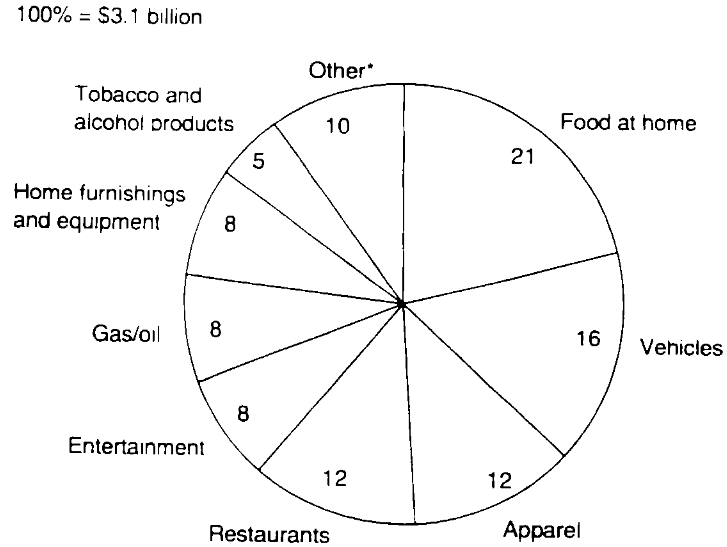


Exhibit 2

SOUTHERN SECTOR RETAIL DEMAND *ESTIMATE*

Percent of total



* Includes drugs and medical supplies, housekeeping supplies, personal care products, and reading

Source: CACI Marketing Systems – Sourcebook of Zip Code Demographics; National Decision Systems; U.S. Department of Labor – Consumer Expenditure Survey, 1992-93

Southern Sector consumers are currently under-served

Despite figures such as these, the Southern Sector has relatively few retail stores. While Northern Dallas has more than 5,700 retail establishments, Southern Dallas has approximately 1,400 (see Exhibit 3). The Southern Sector has approximately half as many stores per household and approximately 65 percent fewer stores per capita than the northern half of the city. Examining store size differentials further illustrates the degree to which this market is under-served: the Southern Sector contains only 21 percent of the city's total retail square footage. Southern Dallas enjoys 61 percent fewer square feet of retail space per capita and 13 percent less per dollar of income than the remainder of the city. In terms of retail space per capita, 15 out of 17 Southern Sector zip codes are at least 40 percent below the city's average (see Exhibit 4).

Although store quality is difficult to measure quantitatively, our interviews and previous surveys of Southern Dallas community needs consistently highlight the demand for improved retail services. In a 1995 Community Needs Assessment survey, residents in Southern Dallas districts were seven times more likely than other Dallas respondents to identify access to quality shopping as a major neighborhood problem. We also conducted informal store visits to over 30 establishments within the Southern Sector. By no means a scientific study, this preliminary assessment finds that most, but not all, retail establishments within Southern Dallas offer a less attractive physical plant, a more limited assortment of goods, and a lower level of customer service than comparable or same chain stores in other sections of the city.

Retail reinvestment can make a difference

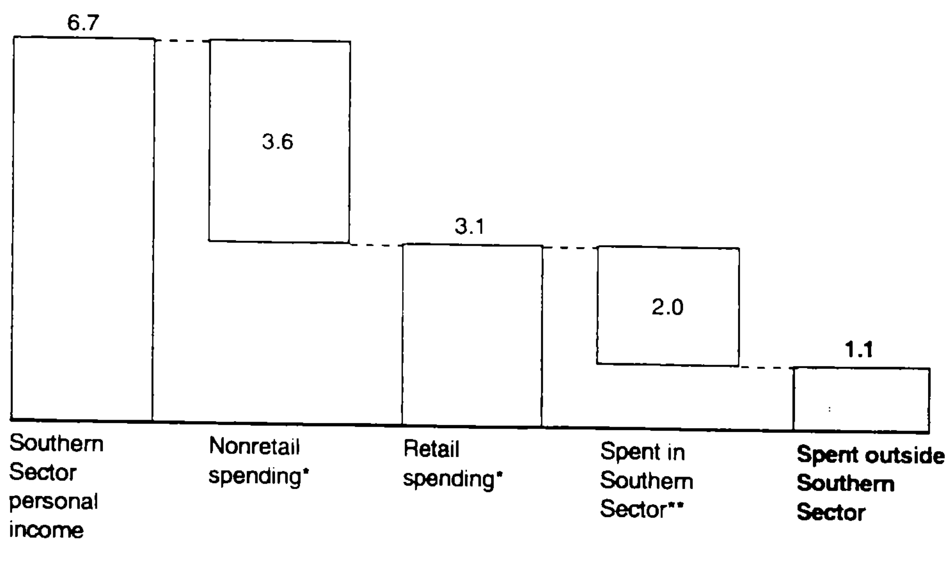
Given these differences in store quantity and quality, it is not surprising that Southern Dallas residents spend a significant portion of their retail budget outside the area. Increased retail investment within Southern Dallas would benefit the area's residents by offering them higher quality goods and services at more convenient locations and at more competitive prices. We estimate that approximately $1.1 billion in consumer spending by Southern Sector residents leaves the region annually (see Exhibit 5). By retaining a larger portion of this spending within the community, retail investments create jobs, expand the local tax base, and make the region more attractive to both current residents and other potential investors. Although many entry-level retail positions are not living wage jobs, they do provide residents with another opportunity to enter the workforce and to build job skills. In fact, approximately four out of every ten working Americans' first job was in retailing.

Improved retail services alone will not drive Southern Dallas' economic revitalization, but it constitutes a move in the right direction. Because retail profit margins are relatively low, retail businesses – even those owned by outside entities – typically transfer wealth into the communities in which they are located. If built and operated well, a large retail establishment can have a positive, stabilizing impact on the surrounding neighborhood. In addition, retail franchising can provide an important vehicle for local wealth creation.

Exhibit 5

SOUTHERN SECTOR RETAIL TRADE DEFICIT *ESTIMATE*

$ Billions



* Ratio based on national weighted average spending patterns of similar income groups

** Actual retail sales in Southern Sector minus suburban shopper spending at Southwest Center

Source: CACI Marketing Systems – Sourcebook of Zip Code Demographics; National Decision Systems; U.S. Department of Labor – Consumer Expenditure Survey, 1992-93; Texas Comptroller of Public Accounts; Interviews

Smart retailers can and do earn attractive returns

To further examine the attractiveness of Southern Dallas retail markets we analyzed comparative store performance data provided by a set of retail companies managing both Southern Dallas and Northern Dallas locations. We also investigated how retailers across the country are performing in similar environments.

In retail locations across the country, most chains experience considerable variability in performance by store. These differences are due to: 1) macro-location characteristics such as the demographics of the surrounding trade area; 2) micro-location issues including traffic flows, ease of access, and proximity of competition; and 3) store management practices. The results in Southern Dallas show similar patterns of variability, with some stores performing relatively well and others performing relatively poorly. On average, the retail chains we examined earn returns in the Southern Sector comparable to those earned elsewhere, with the best sites doing quite well. The following cases demonstrate that retailers, especially those offering basic goods and services, can and do succeed within Southern Dallas.

1. **Gasoline/convenience stores:** A national chain of gasoline/convenience stores with more than 20 locations throughout D/FW finds Southern Dallas central to its local strategy. In fact, the company's Southern Sector locations are approximately twice as profitable – on a per store basis – as others within the Metroplex. Although only 17 percent of the company's D/FW locations are within the Southern Sector, these storefronts generate approximately 30 percent of the firm's regional profits.

2. **Full-service grocery:** The newer Southern Sector locations of a leading grocery chain post higher sales per square foot than comparable stores from the remainder of the Metroplex (comparing stores of similar size, age, and range of services). In fact, the sales per square foot posted by the Southern Sector locations are higher than the national average for grocery stores of similar size. Counterbalancing these higher volumes, however, are higher security costs (including shrinkage) and a mix of sales that results in lower gross margins.

3. **Apparel/department store:** Of course, not every Southern Sector retail location outperforms same-chain averages. One department store executive described the results posted by his company's largest Southern Sector asset as, "Not the worst, but certainly disappointing." An examination of this company's numbers reveals that the Southern Dallas location of this retailer lags behind both D/FW and chain-wide benchmarks but remains well above the worst quartile. Although gross margins are only slightly below average, lower than average sales per square foot and sales per employee result in operating margins approximately 45 percent below the chain-wide mean.

Nationally, the momentum behind inner-city retailing is strong, and many retailers are aggressively moving to serve lower income areas similar to Dallas' southern half. With suburban markets saturated, firms that looked overseas in the past for growth are now recognizing the potential inherent in domestic inner city and lower income markets. A review of recent headlines confirms this trend:

- "Shunned no more, New York's Harlem entices big chains seeking fresh turf" – *The Wall Street Journal*

Responded a manager with responsibility for several convenience store locations, "We have substantially less difficulty with graffiti, shop lifting, and loitering at our new or refurbished store fronts. It may be as simple as better lighting, I don't know, but we have better sales with fewer problems." Explained another retailer with significant experience serving inner city markets, "We work hard to set an example by making our stores safe, clean, and comfortable for both our employees and our customers. We want our stores to stand-out as something the community can be proud of. I think that's why we have almost no serious problems with crime or vandalism."

Finally, crime, customer service, and community relations concerns are by no means unique to inner city locations. One executive told us, "Public security is a concern everywhere these days. We're upgrading our security systems and installing new parking lot lights across all of our stores. That's not just a Southern Dallas issue." Another store manager explained, "You'd be very surprised by which of our stores have the highest shrinkage." Concerning employee hiring and training requirements, several retailers commented that these are common, industry-wide challenges associated with entry-level positions.

2. But inner city retailing is not simply business as usual. Many inner city retailers have successfully tailored their management practices to meet the specific requirements of the communities in which they are located. Although approaches vary from location to location and retailer to retailer, our research consistently notes the following practices.

Profit from positive community relations. "The biggest mistake a business can make is to underestimate the importance of community to the people here. This isn't a faceless suburb where people come and go. Most of us grew up here and have family here. There is a lot of history here. That's why it is not as simple as opening up a shiny new store and expecting everyone to say thank you." These words, spoken by the leader of a Southern Dallas neighborhood association, begin to reveal the powerful sense of community that characterizes many Southern Dallas neighborhoods. Although some retailers may find his words alarming or even threatening, our interviews and research suggest that the community spirit to which he refers creates important opportunities.

More than simply the *price of entry* – as some claim, investing in community relationships can lead to improved store performance. As the marketing director of one retailer told us, "Working with the community is an integral part of our strategy. It allows us to better understand the local market, to build customer loyalty, and to attract good employees. It is one way we distinguish ourselves from competitors." Another company describes its approach by saying, "Many of the communities in which we locate have been economically or socially isolated from the rest of the city. With that in mind, we try and make each store opening a community celebration, not a company celebration. For example, we might sponsor a parade through the neighborhood streets. They don't teach that in marketing seminars, but believe me, it works."

Finally, a grocer focusing on inner city markets reveals the rationale behind his firm's community investments as follows: "For us, investing in the community is simply good business. We win big if our store can anchor further commercial development, and we win big as the community revitalizes in other ways." Profitability – built on social responsibility – drives the community relations strategies of these and other successful urban retailers.

Some inner city retailers have found it valuable to invest very heavily in employee training. Smart & Final, a California based retailer of bulk food service items, has altered its strategy to take advantage of its primarily urban locations. Believing that the convenience of its locations could constitute a meaningful advantage vs. suburban club stores, Smart & Final refurbished its stores, extended its hours of operations, and more than doubled its SKUs. In conjunction with these concept renewal efforts, the company created "Smart & Final University," a program to train its front-line employees. According to an equity analyst who covers the company, "Given how nimble they needed to be, they had to raise the basic skills of their staff. It has also helped reduce turnover and, therefore, costs. They blamed themselves for having a relatively low-skilled workforce because they had never demanded much from them." Smart & Final, with sales growing at nearly 17 percent annually, now sells spaces in its training programs to other retailers.

Adjust the marketing mix. Most retailers are familiar with adjusting the merchandising and marketing mix to fit the needs of a specific trade area. The challenge, therefore, is to apply these same skills to lower-income, urban markets like Southern Dallas. The appropriate tactics will depend on both store type and store location. While some retailers may address a specific market segment, others will deliver a broad assortment of goods to customers from many different socioeconomic groups. A Southwest Center department store and a West Dallas grocer, for example, may modify their products, prices, and promotions in very different ways. One real estate broker highlighted this distinction, saying, "Most retailers looking at Southern Dallas will face a choice between edge strategies and niche strategies."

All retailers, however, should recognize that household incomes are not the only factor distinguishing Southern Sector consumers from the general marketplace. Remarked the marketing manager for a successful inner city retail chain, "I think we simply invest more in understanding our customers than does our competition. We try not to make assumptions about what they want or don't want. We ask them." As noted above, responding to lower-income markets by simply offering lower quality goods and services – even if prices are very competitive – constitutes an uninformed and self-defeating strategy. In order to capture the full potential value of Southern Dallas' consumer markets, retailers will need to better understand differences in values, interpersonal relations, language preferences, and consequent patterns of media consumption, as well as shopping and spending behaviors.

For many store locations, small changes to marketing, merchandising, and customer service practices may result in higher customer loyalty and increased sales productivity. As the adage goes, "retail is detail." One store manager with whom we visited explained that allowing the store's security guard to walk customers to their cars made a big difference. Another noted small adjustments to Spanish language advertisements and in store promotions made to match the specific national heritage (in this case Salvadoran) of the store's Hispanic customers. Retailers must always balance the benefits of these specialized tactics against the assumed cost advantages of a more uniform and standardized approach.

Commit the organization. As noted above, successfully serving inner city markets will require many firms to adjust management practices and to overcome long-held beliefs about lower-income consumers. Consequently, clearly demonstrated, top-down commitment to the effort can prove critical. "The strategic decision to tap these markets has been made at the top. Consequently, it is much easier for the front-line staff to do what it takes to be

A RANGE OF OTHER INDUSTRIES ALSO FIT WELL WITH SOUTHERN DALLAS' CURRENT STRENGTHS AND WEAKNESSES

In no way limited to the retailing opportunity described above, the Southern Sector merits inclusion on many firms' short list as they consider alternative sites for facility locations or other capital investments. In evaluating alternative locations, companies examine transportation access, tax codes, labor supply, crime rates, operating expenses, proximity to customers and suppliers, the quality of public services, options for expansion, and a variety of other factors. The relative attractiveness of Southern Sector cost structures and operating environments will depend on the specifics of each investment decision; but for a range of labor-intensive manufacturing, distribution and business services industries, Southern Dallas should on average prove quite competitive.

Within the Metroplex and northern Texas, the Southern Sector faces tough competitors for new business investment, and, consequently, not every Southern Sector resource constitutes a true competitive advantage. Undeveloped land, for example, is an important Southern Sector resource, but one that other Metroplex competitors share. However, our review of the region's *combined* resources and strengths, as well as its current weaknesses, argues that many businesses should consider Southern Dallas investment opportunities much more seriously. The Southern Sector will not be the best choice for all businesses, but if considered on the facts, it will win some investment competitions with other regions on straight-up economic grounds.

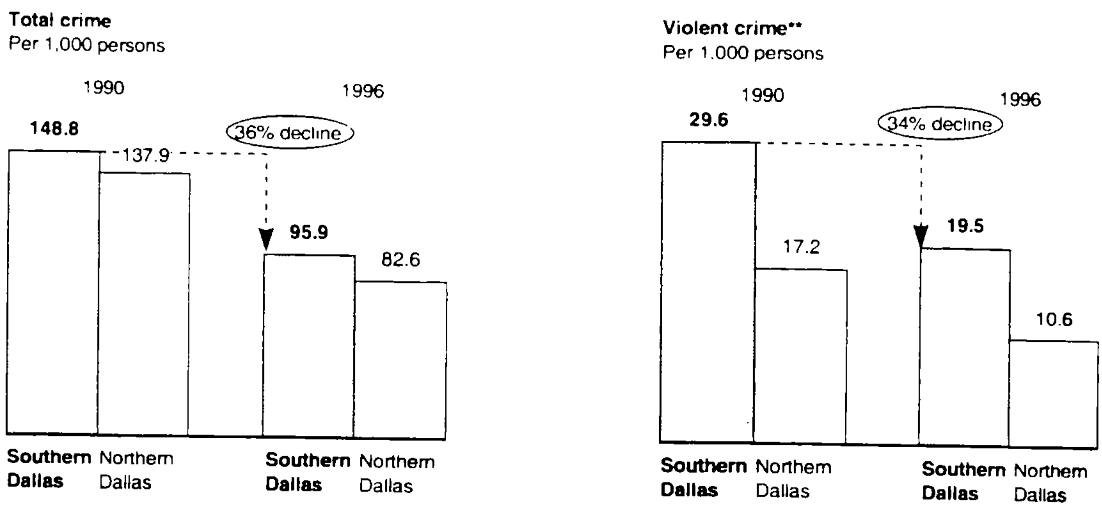
Current strengths and weaknesses

Southern Dallas possesses many resources of value to new investors (see Exhibit 1, p. 6). Southern Sector locations offer advantaged access to a diverse pool of entry-level and semiskilled labor, including the ability to draw employees from neighboring suburbs. According to the manager of a manufacturing plant in Oak Cliff, for example, "I'd say about two-thirds of our employees come from within a five mile radius of the plant, and we usually hire through internal referrals. But some of our staff, including a couple of our quality control specialists, come from as far away as Arlington. For most of us the commute is not very long because we're going against traffic." Citing labor turnover advantages, another manufacturing manager claimed, "I think we are able to keep good people partially because we maintain a good working environment and partially because the nearby population is very stable. Not many of our employees move away to other cities or even to other parts of Dallas."

Other managers have highlighted the area's location-based benefits, as explained by the owner of a distribution and office services firm. "Many of my customers office downtown, so being less than 10 minutes away is a real advantage. No one realizes it, but we're only about 20 minutes from D/FW Airport. We can afford to expand at this site and our trucks are on the freeway almost from the moment they leave our lot." The owner of a metal fabrication business told us, "We ship products all over the country, with about 10 percent of our sales going overseas. For us it is a real advantage to be in a low cost location yet still be in a big city that all our customers can recognize by name." The owner of health services firm warned, "Don't underestimate the importance of being able to provide adequate parking."

Exhibit 6a

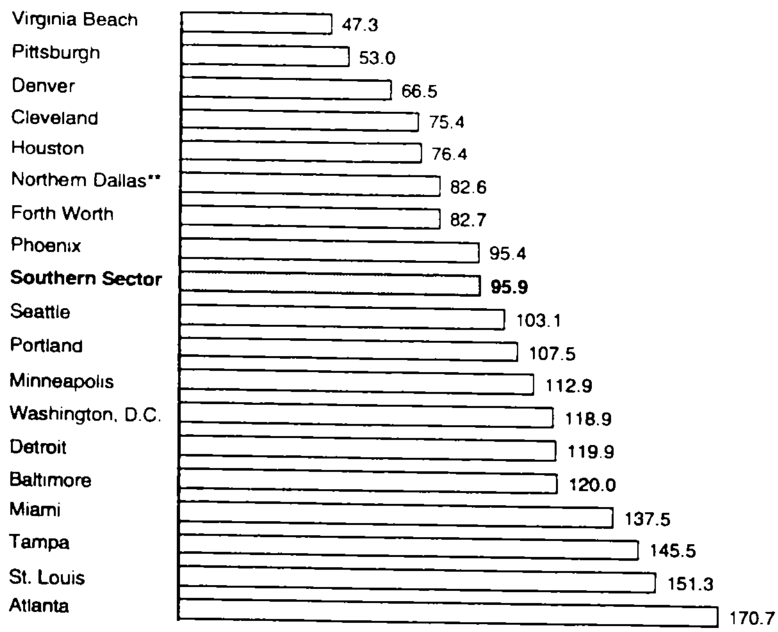
CRIME COMPARISON
Southern Sector vs. Northern Dallas*



* Includes Park Cities and excludes Central Business District (75201, 75202)
** Includes murder, rape, robbery, and aggravated assault
Source: Dallas Police Department – Statistical Reports; CACI Marketing Systems – Sourcebook of Zip Code Demographics; Federal Bureau of Investigation – Uniform Crime Report

Exhibit 6b

SOUTHERN SECTOR CRIME COMPARES FAVORABLY WITH PEER* CITIES
Number of crimes per 1,000 population 1996



* Primary cities within growing metropolitan areas that are similar in size to Dallas' metropolitan area (±50%)
** Includes Park Cities and excludes Central Business District (75201, 75202)
Source: Federal Bureau of Investigation – Uniform Crime Report; Dallas Police Department – Statistical Reports; CACI Marketing Systems – Sourcebook of Zip Code Demographics

Exhibit 7

HIGH-POTENTIAL INDUSTRIES AND FUNCTIONS

Labor-intensive light industrial

- Food processing
- Textile production
- Wood products
- Furniture
- Paper products
- Chemicals
- Construction materials
- Rubber and plastic products
- Leather items
- Fabricated metal products
- Commercial machinery
- Light assembly
- Recycling
- Printing and publishing
- Other light industrial

Distribution

- Transportation (motor freight/trucking)
- Warehousing*
- Nondurable wholesale/distribution
  - Paper products
  - Textiles
  - Apparel*
  - Groceries
  - Chemicals*
  - Plastics
  - Other nondurable goods*
- Durable wholesale/distribution
  - Construction materials
  - Furniture/home furnishings
  - Office equipment*
  - Other durable goods*

Business and commercial services**

- Printing/copying
- Secretarial and word processing services
- Data entry
- Bookkeeping
- Billing
- Collection
- Payroll
- Temporary personnel services
- Call center/customer service
- Other administrative business services
- Building maintenance and cleaning
- Catering/food service
- Equipment rental and leasing
- Records and equipment storage
- Office supplies
- Security services
- Convention services
- Medical supplies
- Other physical business services

* Especially good with a low dollar value/cubic foot or space-intensive goods

** These services can be performed as a back-office function of a large firm or as a separate outsourcing business

Source: Standard Industrial Classification Manual, team analysis

Comparative economics

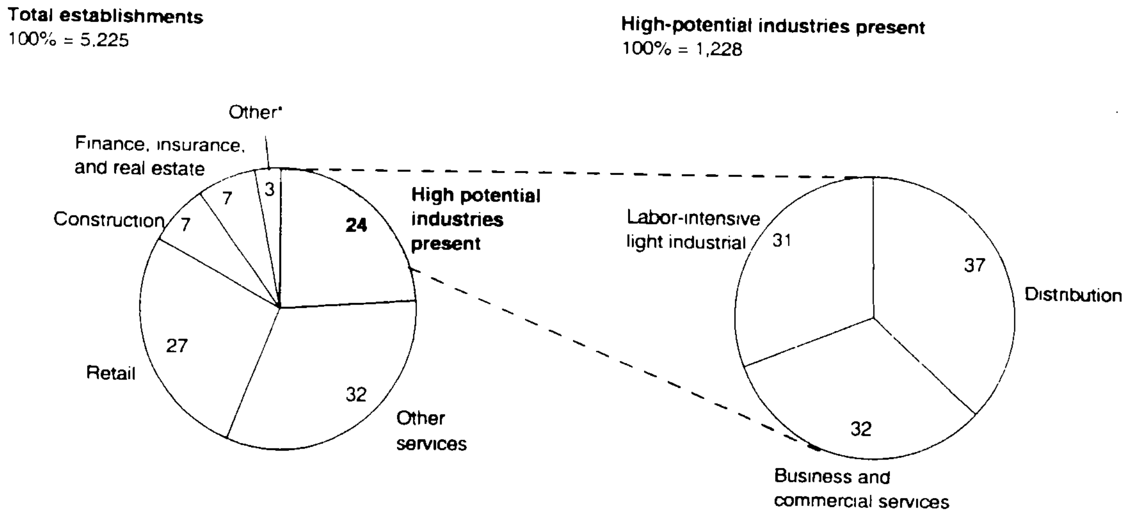
These industries and business functions share an ability to take advantage of the Southern Sector's human resource and location strengths without being excessively penalized by the area's current challenges. The Southern Sector will not prove to be the best choice for every firm in these industries, just as these are not the only types of firms that can succeed within Southern Dallas. For each specific investment decision, the Southern Sector's competitiveness will depend primarily on how the enterprise's projected economics vary from one location alternative to another. To illustrate this point, we use the cost structure of a national food processing firm to compare two hypothetical plant locations: one in Alliance and one in Southern Dallas (see Exhibit 8).

Under this set of assumptions, the Southern Sector offers the hypothetical investor a more profitable location choice. Lower rent, labor, and utility rates yield an approximately 5 percent operating cost advantage*. Our interviews with facility location decision makers and real estate brokers suggest that attracting additional corporate investment dollars to the Southern Sector will require demonstrating the area's competitiveness along these cost dimensions. Of course many other factors enter into capital investment decisions of this type, including perceived risks to long-term real estate values. These risks, both real and perceived, should be reduced if the momentum behind economic development builds over time.

* Differences in up-front capital costs between the two alternatives would also be important.

Exhibit 9

BREAKDOWN OF SOUTHERN SECTOR ESTABLISHMENTS



* Includes other transportation and public utilities, other manufacturing, and agriculture
Source U.S. Census Bureau – Zip Code Business Patterns 1994

1. Customer call center. Having grown rapidly since its 1996 launch, this facility now employees over 300 individuals. The location offers space for parking and expansion, Enterprise Zone status, and access to a large pool of potential employees. Although comparisons are made difficult by the different clients and functions handled in each center, the call handling statistics for the Southern Dallas location are 'very comparable, maybe better' than the firm's other sites. Asked to note the keys to his facility's success, the manager explained, "To get a better product, the bar must be raised. We provide a first-class working environment and demand first-class service. No call center has better equipment than we do."

The vast majority of the staff live within five miles of the center, and to date the operation has been able to rely on referrals and word-of-mouth to source applicants. Describing the appeal of his business to potential employees, the facility's manager told us: "Yes, these are entry-level jobs. But we sell opportunity. We emphasize that our business is the business of our clients [for whom they outsource this customer service function]. We develop skills that they can go on and apply in other environments."

2. Metal fabrication plant. This business, located just south of downtown, fabricates low-value metal parts for sale to customers in all 50 states and 12 foreign countries. A winner of numerous quality competition and business recognition awards, the firm is ISO-9002 certified and employs a diverse workforce of approximately 65 individuals. Total revenue has more than doubled over the past five years while productivity more than quadrupled.

The company's owner noted, "The workforce here is ideal for us. We hire on attitude, not education. Only about 60 percent of our employees have high school diplomas, yet 90 percent of our managers have been promoted from within." Further explaining what he sees as a human resource advantage, the owner argued, "Blaming the local labor supply for

Although management heralded the area's labor availability and land cost advantages, crime remains a concern. Describing the benefits of their location, the company owners remarked, "Most of our production people live within walking distance . . .we have great highway access . . . and I could buy more land across the street for $1.50 a square foot." But crime issues detract from these strengths. "[Crime] is exactly why we're moving the bulk of our operations to [suburb]. I can't tell you how many times our building and our trucks have been vandalized and broken into. You wouldn't believe what is going on in front of this building when we open at 3 a.m."

With respect to city services, the management team expressed mixed views. "We haven't really had problems with the city, and we did consider expanding our plant here. But there was just so much red tape, and it was going to take two to three months to get a hearing on a variance we needed," commented one owner. Expanding upon this point, another manager noted, "We should have planned ahead better on our end, so we can't really blame the city. That said, if they had been able to rush things through it might have made a big difference in our decision."

Our interviews included three companies located within two miles of this food processor's Southern Dallas facility. Indicative of how crime and the overall business climate can vary from location to location, none of these nearby firms cited crime as a major concern. This case also exhibits the importance of supporting and retaining those companies currently operating within Southern Dallas.

5. Rubber and plastics manufacturer. This 70,000 square foot industrial facility produces approximately $20 million worth of product each year and employs nearly 250 people. Labor availability, utility costs, and adequate waste disposal capacity initially attracted the company to their current location. Payroll is the company's most significant cost. According to the plant manager, the facility's performance on quality and cost measures is "above average on most, but not the best on many" in comparison to similar operations in the Midwest, California, and Canada.

Approximately 85 percent of the plant's employees earn hourly wages, and the firm draws the majority of this staff from surrounding neighborhoods. Although pleased with the performance of his current employees, the plant manager has recently found it more difficult to attract qualified workers. "Up until a year or two ago, we had no trouble recruiting employees as we grew and our labor costs were very competitive. Lately, however, I've begun to worry that all of the employable people already have jobs."

In response to these labor challenges, the plant's management has begun to utilize a variety of job training resources. In addition to working with the Bill J. Priest Institute and other Dallas Community College District institutions, the facility has been involved extensively in the state-funded Smart Jobs program. In exchange for subsidized ESL, math, and quality control classes, the plant agrees to pay course graduates a specified hourly wage (approximately $8). "We've sent more than 50 people through the program in the last year and a half, and I hope to send another 50 this year. We are trying to implement a total quality management initiative, and this training is invaluable."

6. Textile goods manufacturer. This company, struggling to grow as fast as its customers would like, designs and manufactures specialty textile goods for large retailers. Based in a 75,000 square foot facility, it aims to reach $25 million in sales by the year 2000. The

2. Local hiring: An emphasis on local hiring can yield many benefits, including improved community relations, lower labor turnover, and reduced crime risks. Many Southern Dallas businesses chose the location for the express purpose of tapping the area's labor supply. Some businesses take this practice one step further, as described by the owner of a distribution and logistics businesses: "Even though we didn't have any openings when we first moved to this location, we sent a letter to the local residents to introduce ourselves and to invite them to interview for positions should they come open in the future. That's how we met two of the employees you've spoken with today."

3. Managing employees: Consistent with the views of leading inner city retailers, many industrial and services firms emphasize the need to raise, not lower, performance expectations and standards. "It may sound corny, but I give a speech to each group of new hires explaining that to be the best you have to demand the best. I promise to deliver the best possible working environment and to provide the best training, and make it clear that in turn I expect their best efforts," explained the manager of an office services center. To create the "best possible working environment," many employers invest heavily in the quality of the physical plant and in employee training programs. These firms also give notice to details which at first pass may seem insignificant. Examples we have seen include: adding name badges to employee uniforms, hiring a local artist to paint a mural on the break room wall, addressing staff with "Mr. and Ms.," and recognizing relatively brief tenure achievements (e.g., three months).

Successfully managing an inner city business is not only about creating a "kinder and gentler" working environment. In fact, many of our interviews suggest that the opposite may be true. Although some companies adopt more flexible hiring practices (hiring, for example, job applicants with criminal records), the more successful firms strictly enforce termination policies. Remarked the manager of a West Dallas manufacturing facility, "We recognize the need to take a few chances and they usually work out well, but we are very careful to not let any bad apples drag everybody else down." Reinforcing this position, the founder of a firm specializing in job training services for the city's more disadvantaged residents described his company's policy with the phrase, "Grace first, zero tolerance forward." Another manager described his company's experience by saying, "We lose a lot of people in the first month because we can't tolerate tardiness or no-shows and because a few hires just lack some basic life skills – and that's not very different from other places. But for those who make it, the results are excellent. Our overall labor turnover is really very low."

4. Utilizing job training resources: A number of Southern Dallas firms benefit from job training programs available through the community college system and other organizations, and many companies claim these investments in skill development result in both higher labor productivity and lower labor turnover. The range of resources available is broad, and many initiatives are subsidized by state and federal funds. While one manufacturer sends line managers to Spanish language classes, another places employees in total quality management seminars. In other instances, consortia of similar companies sponsor training courses tailored to their specific needs. The Bill Priest Institute, for example, has designed and managed job-training programs to meet the needs of multiple telecommunications firms.

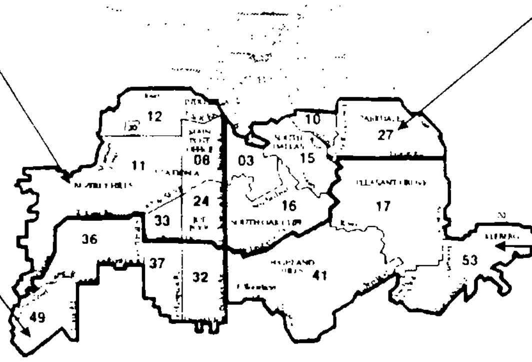
5. Proactively managing public safety risks: The crime-related experiences of the Southern Dallas businesses we interviewed differed dramatically. While some companies highlighted public safety as the Southern Sector's biggest challenge, others saw no threat and

Exhibit 10

SOUTHERN SECTOR REGIONAL DIFFERENCES

Western region	
• Population	152,439
• **Per capita income**	**$11,165**
• Indexed crime*	78.9
• Race (percent)**	
– Black	26.2
– White	37.2
– Hispanic origin	52.3

Eastern region	
• Population	147,974
• **Per capita income**	**$9,840**
• Indexed crime*	116.9
• Race (percent)**	
– Black	67.8
– White	19.2
– Hispanic origin	17.8



Southwestern region	
• Population	61,137
• **Per capita income**	**$15,859**
• Indexed crime*	94.5
• Race (percent)**	
– Black	65.8
– White	26.9
– Hispanic origin	9.2

Southeastern region	
• Population	96,876
• **Per capita income**	**$11,103**
• Indexed crime*	91.5
• Race (percent)**	
– Black	48.1
– White	38.6
– Hispanic origin	20.2

* Offenses per 1,000 residents

** Hispanic refers to ethnicity since persons of Hispanic origin may be of any race

Source: Dallas Police Department – Statistical Reports; CACI Marketing Systems – Sourcebook of Zip Code Demographics

* * *

Many businesses can be found thriving throughout Southern Dallas communities. These companies profit from advantaged access to a large, stable labor supply. In addition, these firms benefit from cost-effective locations offering proximity to downtown and critical transportation nodes. Many other companies should examine the opportunities created by the Southern Sector's underutilized resources. Firms within labor-intensive industrial, distribution and logistics, and commercial services industry segments are especially likely to find attractive location alternatives within Southern Dallas. Although businesses within the Southern Sector face important challenges, adjusting certain management practices can mitigate these difficulties and enable companies more fully to take advantage of the region's competitive strengths.

Many positive efforts are under way to enable more Southern Dallas residents to meet the needs of today's employers and to link those residents with job opportunities, yet approximately 35 percent of the area's population is neither employed nor actively seeking employment. Effective job training requires real employment opportunities, and businesses will need to be active participants in workforce development programs to ensure the necessary relevance, rigor and responsiveness. Finally, interviewees from nonprofit organizations, training organizations, and Southern Dallas businesses have repeatedly noted that no single model or "quick fix" can meet the region's workforce development needs.

City and county services

More than half the companies interviewed cited concerns about the quality of city and county services. Many of these same interviewees admitted that city and county governments "are easy targets and sometimes scapegoats," and still others claimed that their firms receive "pretty fair value given our low tax burden." We have not attempted to independently assess the quality of government services or to identify disparities between segments of the city. We believe, however, these are important issues and deserve mention in an analysis of the Southern Sector's ability to attract additional private investment.

Explained one Southern Dallas business owner, "Whether or not the trash gets cleaned up across the street from our building may not have the biggest impact on my bottom line, but I'm telling you it is one of things that I care most about. We finally got tired of complaining and now we just take care of it ourselves. I get angry just talking about it." In the words of another corporate decision-maker, "The quality of our experiences with local government officials is a key determinant in our facility location decisions, and I'm not just talking about tax incentives. My job requires me to be somewhat risk averse, and if I see evidence suggesting that the local government might not hold up its end of the bargain, most of the time we'll move on to the next alternative."

We were surprised by the passion and regularity with which interviewees expressed their opinions concerning the quality of government services ranging from code enforcement to infrastructure maintenance to tax administration. As with public safety concerns, addressing perceptions (e.g., marketing the city's commitment to Southern Sector development) will prove critical. There appears to be little doubt that the effective provision of these services is critical to long-term competitiveness of the county, city, and Southern Sector.

Communication between segments of the community

Our interviews highlighted an unfortunate lack of communication, trust, and cooperation among various segments of the Dallas community. According to one leader of a successful community-based organization, "Dallas is in many ways the most segregated city you will ever see. Many people will see your study as just another instance of northern Dallas people trying to figure out what's wrong with folks in Southern Dallas. Don't forget that you and your neighbors may very well be part of the problem."

Although the causes of the current economic disparities are complex and debatable, mistrust and miscommunication clearly adversely impact investment flows into the city's more

Integration of Southern Dallas firms into the regional economy

The long-term economic revitalization of the Southern Sector will ultimately depend on the retention and growth of the thousands of small businesses currently operating within the region. As throughout the overall economy, small businesses will drive the majority of job and wealth creation. For these smaller businesses to reach their full potential, they must participate more fully in the economic activity of the entire region. Mechanisms to more efficiently connect potential customers and suppliers across the artificial I-30/Trinity River boundary will benefit the Dallas economy as a whole while accelerating the economic development of the city's southern half.

* * *

If the Southern Sector is to reach its full economic potential, factors inhibiting its longer-term competitiveness must be addressed. Although the private sector must actively support these initiatives, public sector leadership is required. In conjunction with outside private investment and local entrepreneurship, public sector efforts to address crime, workforce readiness, infrastructure, and site acquisition issues would accelerate the Southern Sector's economic revitalization.

considering investments in the D/FW region. The Southern Sector merits more consistent inclusion in the consideration set of location choices simply because it will offer many investors the most attractive, for-profit business opportunity.

Economic polarization threatens the continued prosperity of Dallas. If current trends are not reversed, over 40 percent of the city's population will contribute increasingly little to the tax base while placing higher demands on the public budget; one half of the Dallas community will carry the burden of the other. Fortunately, the private sector can help avoid this scenario by simply doing what it does best: identifying market opportunities, creating jobs, and making profits.

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Contest to foster new businesses in southern Dallas

Consulting firm, coalition team up to encourage entrepreneurship

09/11/98

By Stephen Power / The Dallas Morning News

A consulting firm and a Dallas business group said Thursday that they are starting a contest to encourage new businesses in southern Dallas.

The Venture 98 Southern Dallas Competition will award $50,000 in prizes to individuals or teams submitting original, viable plans to create or expand small businesses with annual revenue of less than $2 million.

A series of selection panels - including corporate executives, academics and economic development officials - will choose the winners. Most of the $50,000 in prizes will be in cash, although some may take the form of in-kind services, said Bill Barnett, director of McKinsey & Co.

"My hope is this will be a spark that lights a fire," said Mr. Barnett, whose company is leading the competition with the Dallas Together Forum, a business coalition that seeks to improve race relations.

Mr. Barnett declined to say how much money local businesses have committed to the contest, which he described as a pilot program.

Applicants do not have to live in southern Dallas, Mr. Barnett said, but their proposed businesses must be located there. Judges will not look specifically at credit histories, he added, and applicants do not need to have other financing lined up, but their plans must be economically attractive.

Entrepreneurs must submit two-page summaries of their ideas by Friday, Nov. 6. Semifinalists will be picked by Wednesday, Nov. 11, and go on to compete in subsequent rounds until the winners are announced in January.

Prospective applicants may attend one of three overview training sessions. The first will be Saturday, Sept. 26, from 9 to 11 a.m. at the Bill J. Priest Institute for Economic Development, 1402 Corinth St., Dallas. Call (214) 665-1550 or e-mail

venture98@mckinsey.com for more information.

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EDITORIALS

Southern Dallas

Contest will place focus on area development

Southern Dallas' economic potential has been discussed widely at City Hall and within the business community. Myriad strategies are in the works to convince more companies to invest in the southern half of the city.

But one group of prospective investors still could use an added boost to get them involved — small businesses. Fledgling companies with limited budgets may not see the benefits of Dallas' efforts to bring more balanced economic growth.

An interesting competition sponsored this fall by a consulting company and a Dallas business organization could change that situation. The Venture 98 Southern Dallas Business Plan Competition asks entrepreneurs to submit viable plans to create or to expand small businesses in the southern sector.

The competition, sponsored by McKinsey & Co. and the Dallas Together Forum, will award prizes totaling $50,000 to the businesses that come up with the best financial development plans.

Similar competitions have generated strong public interest in other cities. There are reasons to believe Venture 98 will achieve the same goal in Dallas.

The financial reward serves as an attention-getting device. But the more important element of this project is the vast assistance provided to businesses that participate in the bidding.

Three training sessions for people who want to submit plans will be held at the Bill J. Priest Institute for Economic Development, beginning at 9 a.m. Saturday. The deadline for entering is Nov. 6.

Limited to companies with revenue of less than $2 million annually, Venture 98 seeks the people who can have a real impact on southern Dallas — those who want to create new jobs and new hope.

YOU HAVE THE POWER

If your company wants to participate in the Venture 98 competition, call the following number for more information: (214) 665-150. Prospective participants also can e-mail: venture98@mckinsey.com.

Contest to foster new businesses in southern Dallas

Consulting firm, coalition team up to encourage entrepreneurship

By Stephen Power

Staff Writer of The Dallas Morning News

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Immediate Release:
January 15, 1999

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WINNERS RECEIVE OVER $50,000 IN SOUTHERN DALLAS BUSINESS PLAN COMPETITION

Four winners of the Venture 98 Southern Dallas Business Plan Competition were announced at a luncheon held on Friday, January 15 at the Hall of State in Fair park.

TransportCenter, led by Garry Castro, received the top award and $20,000. TransportCenter will be a series of freight terminals and express distribution centers located south of the Trinity River. These freight terminals and distribution centers are supported by shared auxiliary services comprised of a non-profit logistics career training center, maintenance and repair center, fuel depot, and information technology. Other TransportCenter team members are Ed Franco, Arcilia Carrasco-Acosta, Terri Adkisson, & Pedro Aguirre.

The Silver award went to Memorial.com. Memorial.com will be an on-line company using the internet as a global platform for promoting, marketing, and selling electronic memorials, funeral arrangements, related services and merchandise. Memorial.com team members are Jeff Smith, Stuart Smith, and Lisa Gott. They will receive $15,000.

1Crome/CTIS and Urban Constructions will be sharing the Bronze award and receive a cash prize of $6,000 each. 1Crome/CTIS was submitted by Clarence C.

Alexander & Yvonne May. Their business will provide web design and hosting services to small businesses in southern Dallas.

Urban Constructions is a fashion cooperative that is run by teenage designers under the supervision of a professional designer. The focus of the cooperative is to design and manufacture urban wear for consumers between 12 and 25 years old. Urban Constructions team members are Marion Adele Marshall, Aja Boyd, Nathan Boateng, Carlton Burton, Michael Cleveland, and Patrick Washington.

The remaining six finalists received $1,000 each. All winners are expected to use the prize money to help launch their businesses. In addition to the cash prizes, American Airlines donated two airline tickets to each of the ten finalist teams.

"This contest and these new businesses are a crucial part of the economic revitalization of southern Dallas" says J. McDonald Williams, co-chair of the Southern Dallas Development Committee, Dallas Together Forum.

Venture 98 was a collaborative community effort to help support entrepreneurship within the Southern sector and draw attention to the opportunity for potential growth in the area. The Dallas Together Forum and McKinsey & Company, Inc. spearheaded the project. Venture 98 was sponsored by 20 area corporations.

Following the competition's kickoff in September, more than 450 individuals received information regarding the contest. Contestants were eligible to receive training from various resources in the community including business plan seminars, networking sessions and coaching from prominent area business people.

More than 130 entrepreneurs submitted business plans for the contest. The list was narrowed to 68 semifinalists in Round 1 and then to ten finalists in Round 2.

Eighteen organizations endorsed Venture 98, including local chambers of commerce, academic and economic development organizations.

Disclaimer: The decision of the Venture 98 Judging Panel is final. Neither the Venture 98 Organizers or Sponsors approve or endorse for investment purposes any of the Venture 98 winners or finalists.

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The Boston Globe

August 30, 1998

GLOBE STAFF PHOTOS / FRANK O'BRIEN

University of Rhode Island student Carmelo Rodriguez works in the shop at Job Link Inc. in Providence.

Wealth, not welfare

Dennis R. Iacobbo (left) and Ali T. Cabral founded Job Link 15 years ago. The first 14 years were spent in survival mode. With an investment from BankBoston, the two can now take more of a long-range approach.

By Lynnley Browning
GLOBE STAFF

For decades bankers looked at inner city and saw only poverty and hopelessness. Today, BankBoston sees opportunity

THEY HAD HELPED scores of down-and-out New Englanders find work, building a job placement company whose cornerstone is a conviction that entrepreneurship can succeed where welfare has failed. Then Ali T. Cabral and Dennis R. Iacobbo ran into a wall.

The men needed cash to keep their Providence firm growing. But banks did not want to lend to a scrappy inner-city outfit serving a low-income market. "How many banks did we go to?" asks Cabral. "How many banks are there?"

Hope lay in a trash can, where a tossed flier described an investment bank for entrepreneurs to whom "the street" means not Wall Street, but the grittier streets of the inner city.

A year later, the bank, which is part of BankBoston Corp., owns a stake in the men's company, Job Link Inc. The investment is a test case of what many say is a long overdue reappraisal of the economic viability of inner-city America.

In financial circles, BankBoston's newest urban banking effort, known as BankBoston Development Co., is seen as a pioneering experiment in what has been called America's last emerging market. By looking at blighted areas through the lens of potential wealth and profits, rather than welfare and philanthropy, the venture hopes to disprove the notion that minority-owned and low-income businesses exist in an economic no-man's land.

Low-income housing loans and inner-city branches of mainstream banks have become more common in recent years. But direct investment in small businesses in poor areas is still rare.

Doubters say the inner city cannot be as good a business bet as other areas. Some bankers term such investment "strategic philanthropy." And community advocates disagree over the power of markets to triumph over decades of discrimination.

But to some policy specialists and activists, BankBoston's urban venture capital initiatives suggest a potential sea change in financial America's relationship to the troubled inner city.

As financial institutions merge and pledge billions of dollars to meet low-income banking needs as required by law, community activists are pressuring the behemoths to go beyond cheap loans and to invest in urban businesses the way they would in technology start-ups.

The pressure reflects a major shift in approach to the inner city. What began in the 1960s as the civil rights movement and moved on to antipoverty campaigns and grass-roots community activism may be evolving from a social model into an economic paradigm rooted in market principles.

With 46 branches in poorer Boston neighborhoods, BankBoston already has one of the most aggressive inner-city banking programs in the nation. Now, New England's second-largest financial institution is one of a thimbleful of banks nationwide to buy stakes in low-income, minority-owned, and disadvantaged

60 EMERGING BUSINESS, Page C4

BankBoston unit sees wealth in urban areas

Its strategy is based on economic principles, not on philanthropy

■ EMERGING BUSINESS 40

Continued from Page C1

businesses. Formed last year, BankBoston Development Co. plans to provide more than $100 million in funding to such businesses over the next four years.

Even South Shore Bank, the Chicago institution that pioneered banking in poor urban areas, began investing directly only earlier this year.

"BankBoston is increasingly seen as the model, bar none," said professor Michael E. Porter of Harvard Business School, who studies inner-city economics. "Their strategy is causing banks across the country to think about how they serve inner cities."

Other banks are following in BankBoston's footprints.

Citicorp, the big bank that is merging with insurance giant Travelers to form the nation's largest financial services firm, recently came through BankBoston for pointers on inner-city banking. So did Chase Manhattan, which already has an inner-city branch system, and Dime Savings Bank of New York. And a group of big New York banks has formed the New York Community Investment Co., pooling $7 million to fund equity investments in low-income businesses.

Standing on a side street in Roxbury, BankBoston Development Co. president Grady B. Hedgespeth described what may become a national model for urban business revitalization. BBDC's goal, he said, was less to redress societal wrongs and more to create wealth among businesses and areas locked out of the mainstream. "We joke that we just want to be the bank in the 'hood," Hedgespeth said, Boston's Financial District towering in the distance. "We think it's very critical to be unapologetic about creating wealth in neighborhoods like this. No community without wealth has power."

The bank in the 'hood is a far cry from the nonprofit outfits, social service organizations, and government agencies traditionally associated with urban renewal. These days, profits are the name of the game.

"What we do is not charity or philanthropy – it's a business. We make money on this," said Gail Snowden, who heads BankBoston's community banking practice, which includes the inner-city branch network and urban investment unit. With $1.6 billion in deposits, the branch network, founded in 1989 and known as First Community Bank, has been profitable for the past six years.

• • •

Tapping into spending power

NURTURED IN COMMUNITY GROUPS AND AT a few universities, the notion that the economic basket case of many inner cities may actually be a financial breadbasket is just now filtering out to banks. A recent study estimated that US inner-city consumers have $85 billion in retail buying power – 7 percent of the nation's total. That's more than the total buying power of Mexico. The study, by Boston Consulting Group and The Initiative for a Competitive Inner City, a Boston-based community development organization, also found that inner-city retail areas often have higher sales per square foot than their suburban counterparts.

The concentrated buying power offsets costs related to crime and employee turnover, researchers found. But a dearth of competitive shops and a lack of business financing mean inner-city demand often goes unmet – in Boston, by 30 percent. The figure reflects the percentage of disposable income that inner-city consumers take to more upscale neighborhoods because they lack retailing choices in their own areas.

Still, inner-city wealth is an oxymoron to many bankers.

Despite an increase in low-income loans and mortgages under the Community Reinvestment Act – a 1977 federal law requiring banks to meet the credit needs of disadvantaged areas – many banks still view low-income banking as a nuisance and inner-city venture capital as a pipe dream. A few have set up their own community financing units – but many simply hand CRA money and investment decisions over to community organizations.

"There is still an attitude among many banks that all you really have to do is buy tickets to community group events, take out an ad in the newspaper, and say you're done," said A. William Boler, economic director of Business for Social Responsibility, a San Francisco group that helps firms do business in the inner city.

So far, BankBoston Development Co. has made 10 equity investments worth $7 million and committed another $5 million in debt financing. It has also spent $58 million on traditional low-income housing. If things go well, Hedgespeth said, the bank could spend up to $1 billion on venture capital, affordable housing, and loans to inner-city and low-income businesses by 2002.

That BBDC lumps together cheap mortgages with its novel venture capital business has sparked criticism that BankBoston's initiatives are not so dramatic. The bank has moved into venture capital at a time when the strong economy has lifted many boats, suggesting to some that its commitment is one of timing, not of investment principles.

And despite touting the bottom-line value of urban banking, BankBoston largely coordinates its required community reinvestment out of its public relations section. "There's no question they see this as strategic philanthropy, and not as business as usual," said a policy specialist who asked not to be named.

• • •

Linking capital with need

GROUND ZERO FOR BANKBOSTON'S EXPERIment is a converted stable in the hard-scrabble heart of south Providence.

The building is home to Job Link, which has placed 100,000 workers, 90 percent of them minorities, in jobs since Cabral and Iacobbo founded the firm in 1983. Around half the positions have turned into full-time jobs. For 15 years, the men have scrambled every week to make sure clients, who range from a national hardware chain to local data entry firms, pay on time so that they in turn can pay the 600 or so workers they place. The hand-to-mouth exercise had kept its owners, who became friends in high school, from growing the business.

"We never had a big chunk of cash to build," Iacobbo said.

A friend who found the discarded BankBoston flier told the bank about Job Link. In June Cabral and Iacobbo sold about one-third of their company to BBDC for $500,000. In addition to the money, they get strategic advice on marketing and planning designed to take Job Link – which had profits last year of $150,000 on revenues of $10 million – to new levels. The goal of BBDC, which now has a board seat at the company, is to sell its stake for a profit down the road.

Job Link recently landed a contract to provide up to 500 workers to a local catalog company – a deal Iacobbo said he and Cabral would not have had the time or skills to analyze without the bank's advice.

Now, after years of scrabbling, Job Link aims to double the number of workers it places each year.

"The BankBoston deal has boosted our ability to go out and get clients and compete with the big guys, like Manpower," Cabral said, referring to the national job placement company. "Before, we'd always had one hand tied behind our backs."

Cabral stood in a pleasant, warehouse-style room, where disabled workers seated under an old-fashioned ceiling fan assembled shiny grommets for one of Job Link's clients, a hardware store. A bright blue tarpaulin, stretched across one ceiling corner, caught water dripping from a leak. An adjoining room hummed with activity as workers packaged glue sticks. "This is a training area and testing ground, where we can try people out and prepare them before sending them on to other things," Iacobbo said.

Next door is a training room full of new computers. The company regularly offers English-language tutorials. When Job Link opens its doors at 6 a.m. each workday, the main room quickly fills with applicants. "Some walk two miles to get here, because they know they can get on our vans and we'll take them to the suburbs, where the jobs are," Cabral said.

• • •

To many, 'jury is still out'

HARVARD BUSINESS SCHOOL'S PORTER grounds his thesis of inner-city economic viability in the power of information to open up markets. Research on low-income spending patterns, for example, will result in promising retailers receiving financing and more companies opening urban branches. Financial institutions that open the ledgers of entrepreneurs such as Cabral will find diamonds in the rough. To ignore this market, Porter said, is to ignore a changing America's growth market of the future.

But data and studies are not enough to convince most bankers that inner-city businesses are a good bet. "What motivates things is not an academic explaining it, but a bank making money on it," said Jean Pogge, senior vice president at South Shore Bank. "The jury is still out."

Still, if Boston's past role in jumpstarting low-income lending across the country is any sign, BankBoston's urban venture could set a standard. A 1991 study by the Federal Reserve Bank of Boston showing massive discrimination, or "red-lining," by banks in mortgage-lending to minorities is widely credited with toughening the Community Reinvestment Act.

Nearly 6 percent of the $145 billion in loans made by US banks to small businesses in 1996 went to firms serving low-income areas, an amount proportionate to that group's share of the US population, according to the American Bankers Association. But community organizations complain the figure is distorted by elastic definitions of poorer areas and inner-city businessmen.

BankBoston is unapologetic about targeting not just minority-owned businesses but any company serving disadvantaged groups. Two men who don't live in Roxbury recently received $670,000 from BankBoston's community banking group for doing business in that neighborhood. Hedgespeth said the bank had selected the men, James LaFond-Lewis and Richard Letarte, because they would build one of the few restaurants in the vicinity. BBDC has also paid $250,000 for a stake in Meyers Capital Management, an asset management firm that caters to gay and lesbian investors.

To Cabral and Iacobbo, whose first jobs were administering antipoverty programs in the late 1960s, abstract debate over what kinds of disadvantaged firms merit investment is not important. "Back then, we saw a lot people coming through the doors just looking for jobs, not welfare," Cabral said. "You know, those welfare pro- [illegible]"

GLOBE STAFF PHOTOS / GEORGE RIZER

BankBoston's Grady Hedgespeth discusses the plans of James LaFond-Lewis (left) and Richard Letarte for a restaurant in Roxbury.

"We think it's very critical to be unapologetic about creating wealth in neighborhoods like this," says BankBoston Development Co. president Grady B. Hedgespeth

INITIATIVE FOR A COMPETITIVE INNER CITY

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10. *Opportunity for Growth and Economic Development at Franklin Park Zoo*, ICIC & The Boston Consulting Group, January 1997*	$6		
Inner-City Retail Studies			
11. *The Business Case for Pursuing Retail Opportunities in the Inner City*, ICIC & The Boston Consulting Group, June 1998	$6		
12. *The Inner-City Shopper: A Strategic Perspective*, ICIC & PriceWaterhouseCoopers, January 1999*	$6		

* Can be downloaded free of charge from the publications page at www.icic.org.

Other Topics			
13. *National Business School Network Conference*, Business School Inner-City Leadership Conference Documents (Program, Appendix of Presentation Handouts), April 1998	$20		
14. *Ownership and Employment of Inner-City Based Businesses: Who is Employed and Why?* Ami Horgan, Harvard Business School Student for ICIC, March 1997	$6		

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U.S. Small Business Administration

Fax Transmission Cover Sheet

To: Lisa Green

Organization: NEC

Telephone: 456-2803 Fax:

Date: 4/27/99 Time: 456-2223

Number of Pages (including this page):

From: Millicent Hodge

Office: New Mkts

Telephone: 401-1353 Fax:

Message:

I hope that this is helpful!

On January 1, 2000, some computer-based systems will begin processing information as if it were January 1, 1900. This is called the Year 2000 problem or the *"Y2K bug."* It may cause problems for your small business unless you act now. This is not just a computer problem. It could affect any equipment that uses a computer chip as well as the suppliers and business partners you rely on.

Are You Y2K OK?

For more information contact the SBA at
1-800-U-ASK-SBA
Y2K Fax-Back: 1-877-RU-Y2K-OK
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Saumweber, George W.

Full Name:	Dr. Timothy T. Childs
Job Title:	President
Company:	TLC Precision Wafer Technology
Business Address:	1411 West River Road North Minneapolis, MN 55411
Business:	(612) 341-2785
Categories:	Success Story, 0508, 8(a), 504/CDC, SBIR

2583
June 12, 1998

George Saumweber
(612) 370-2322

LOCAL SMALL BUSINESS OWNER HELPS OTHERS FIND SUCCESS

MINNEAPOLIS - Dr. Timothy T. Childs, owner of Minneapolis-based TLC Precision Wafer Technology, was recently honored by the U.S. Small Business Administration (SBA) for his efforts to hire and train the unemployed and underemployed.

The SBA named Childs the Minnesota Welfare To Work Small Business Owner for 1998. This award is presented annually in each state to a small business owner who has made concerted efforts to help move people from public assistance into the work force.

Childs company, located on West River Road in North Minneapolis, develops and manufactures high-frequency circuits for the telecommunications industry.

TLC is also one of only a handful of firms worldwide that have perfected the technology to commercially produce gallium arsenide wafers. These wafers are sold to the military and high-tech manufacturers to produce sophisticated radar, satellite communications and electro-optical guidance systems.

From 1988 to 1991, Childs was one of the leading research scientists in Honeywell Corporation's molecular beam epitaxy research group.

The opportunity for Childs to start his own company came in 1991 when Honeywell refocused research efforts away from in-house computer chip development. Childs then started TLC as a direct spin-off of the Honeywell effort.

Childs has a doctorate in physics from Stanford University. He received his bachelor's degree in physics from Florida A & M University graduating with honors.

--more--

While at Florida A & M, he played varsity football and was the captain of the defense. He selected Stanford for his doctoral studies because it is located near the San Francisco 49ers football team. He was considering a career in professional football but eventually chose physics over football.

Even though Childs has a doctorate in physics, he readily proclaims that the most important lessons he has learned were from his mother. She taught by example the importance of education, work ethic, high moral character and concern for the less fortunate. Childs took these life lessons to heart.

He established his business in the inner city with the goal of employing local residents. Two years ago when a city project forced him from his original location, he resisted enticing offers to move his business to the suburbs.

For Childs, his present location puts him exactly where he wants to be. It is located near enough to Honeywell to maintain a close working relationship, and it is a short distance to the University of Minnesota where he has access to the latest technology and frequently collaborates with various professors on research projects.

He also employs and trains University of Minnesota students as interns and often sends regular employees back to school for further training.

Most importantly, his inner city location brings the jobs he has created near to the people most in need of such opportunities. Locating on a bus line to allow employees ready transportation to their jobs was also a top priority.

Long before the welfare to work initiative took on national prominence, Childs was already involved in helping to provide employment and training opportunities to the unemployed.

Since the inception of his business, he has participated in job training programs sponsored by Hennepin County, the Metropolitan Economic Development Association, the Minneapolis Community Development Agency and the Urban League.

As a result of Childs commitment to follow his mother's example of concern for others, numerous individuals have developed job skills and the means to support their families.

--more--

Childs says, "The most important element to me is seeing the self-esteem and sense of achievement on the faces of my employees."

Ed Daum, Director of the SBA Minneapolis District Office said, "Tim Childs has combined his technical and management expertise with his concern for the less fortunate to build a successful enterprise. He serves as a model for other small business owners to emulate."

In addition to his accomplishments helping people move from welfare to work, Childs and his wife, Lorraine, have opened their home as foster parents for at-risk youth.

The SBA Welfare to Work Award honors Dr. Childs for demonstrating that people formerly on public assistance can and do successfully make the transition from welfare to work.

He was nominated for this honor by Minnesota Project Innovation.

Daum invites small business owners who are interested in finding quality employees through SBA's welfare to work initiative to call his office at 612-370-2324.

Dr. Timothy T. Childs, President
TLC Precision Wafer Technology
1411 West River Road North
Minneapolis, MN 55411 (612) 341-2795

-0-

America's 22 million small businesses employ more than 50 percent of the private work force, generate more than half of the nation's gross domestic product and are the principal source of new jobs in the U.S. economy.

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/3200 CQ

Local small business owner helps others find success

MINNEAPOLIS SPOKESMAN
MINNEAPOLIS, MN
WEEKLY 16,000

JUL 16 1998
Minnesota Clipping Service

Dr. Timothy T. Childs, owner of Minneapolis-based TLC Precision Wafer Technology, was recently honored by the U.S. Small Business Administration (SBA) for his efforts to hire and train the unemployed and underemployed.

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Dr. Timothy Childs, President of TLC Precision Wafer Technology

has learned were from his mother. She taught by example the importance of education, work ethic, high moral character and concern for the less fortunate. Childs took these life lessons to heart.

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■ See CHILD on page 8A

Continued from 1A

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In addition to his accomplishments helping people move from welfare to work, Childs and his wife, Lorraine, have opened their home as foster parents for at-risk youth.

Sarah Rosen Wartell
05/10/99 06:04:25 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP@EOP, Jonathan A. Kaplan/OPD/EOP@EOP, Lisa Green/OPD/EOP@EOP, Richard L. Siewert/WHO/EOP@EOP

cc: See the distribution list at the bottom of this message
Subject: Guidance on SBIC Political Investments

Melissa and Jake -- Please provide to whomever needs. You might attach the Wash Times article that I faxed to you.

nmsbicpol.guid.do

Message Copied To:

michael.barr@do.treas.gov
Kris.swedin@sba.gov
Millicent.Hodge@sba.gov
Don.christensen@sba.gov
Jane.Merkin@sba.gov

don.christensen@sba.gov
05/12/99 08:10:08 AM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP

cc: Lisa Green/OPD/EOP, Sonyia Matthews/OPD/EOP
Subject: FW: Guidance on SBIC Political Investments

This apparently never made it through the internet, so I am resending it for info.

Don A. Christensen X6513

-----Original Message-----
From: Christensen, Don A. (Investment)
Sent: Tuesday, May 11, 1999 8:19 AM
To: 'Sarah_Rosen_Wartell@opd.eop.gov'
Cc: Levine, Nina D.; Miller, Saunders
Subject: RE: Guidance on SBIC Political Investments
Importance: High

The last sentence is in error. Over 40% of the NUMBER of institutional venture capital investments are made by SBICs. (Not value!)

Don A. Christensen X6513

-----Original Message-----
From: Sarah_Rosen_Wartell@opd.eop.gov
[mailto:Sarah_Rosen_Wartell@opd.eop.gov]
Sent: Monday, May 10, 1999 6:04 PM
To: Melissa_G._Green@opd.eop.gov; Jonathan_A._Kaplan@opd.eop.gov; Lisa_Green@opd.eop.gov; Richard_L._Siewert@who.eop.gov
Cc: michael.barr@do.treas.gov; Kris.swedin@sba.gov; Millicent.Hodge@sba.gov; Don.christensen@sba.gov; Jane.Merkin@sba.gov
Subject: Guidance on SBIC Political Investments

Melissa and Jake -- Please provide to whomever needs. You might attach the Wash Times article that I faxed to you.

(See attached file: nmsbicpol.guid.doc)

Sarah Rosen Wartell
05/13/99 08:03:04 AM

Record Type: Record

To: don.christensen@sba.gov

cc: Lisa Green/OPD/EOP@EOP, Sonyia Matthews/OPD/EOP@EOP
Subject: Re: FW: Guidance on SBIC Political Investments

for future reference we'll correct.

A proposed rule was published on April 14, 1999. The proposed rule would prohibit federal, state, and local contributions, including soft-money donations, by all SBICs. Comments on the proposed rule must be submitted by May 14th. No comments have been received to date.

SBA examinations have identified four political contributions by four different SBICs – three of them to the DNC in 1996 for $5,000 each and one to a Republican State Fund for $5,000 in 1998. [THIS INFORMATION IS NOT IN THE PUBLIC DOMAIN.]

The Washington Times reported on May 10, 1999 "SBA hopes tighter rules will curb political contributions: Skeptics doubt measure will prevent "handful" of cases." In the article, a Common Cause spokesperson and an FEC official were quoted as saying that the language used in the SBA's regulation will not curb soft money. If true (lawyers yet to determine), that is SBA's intent and will be addressed in the final rule.

The article also noted that, even with the new SBA rules, individual investors, owners, managers, and employees of SBICs will continue to be able to make political contributions. That is true. They can make contributions just like all other Americans – it is a constitutionally-protected First Amendment right. In addition, the article noted that the trade association for SBICs has formed a Political Action Committee – also their right under our campaign finance laws. The PAC, however, only takes contributions from individuals, not from the SBICs themselves.

SBICs are investment companies licensed by the SBA. Once the funds are licensed, private investors make investments in the fund. For every $10 million (for example) of private investment, the SBIC can also issue debt of up to $20 million. The government will guarantee the debt so that the bond holders would be repaid if the SBIC is unable to repay its debt. (Note: the government guarantee is only invoked if the $10 million in private capital, for example, has been exhausted.) The $30 million in fund capital is then invested in small businesses to help them grow and create jobs. The return on investment in the small businesses is used to repay the debt and provide a return to the fund investors.

Over the years, SBICs have invested in hundreds of small firms that are now household names including: AOL, Dell Computer, Outback Steak House, Federal Express, and others. Over 40% of the venture capital investment in small business in the United States is invested through SBICs.

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Social Compact Sees Neighborhood Value

BY DARRYL HICKS

Washington–Some of the nation's "stereotypically" poorest neighborhoods in reality contain hundreds of millions of dollars in untapped equity that can be used to finance new home purchases and home improvement projects, according to newly released data.

Two years ago, Social Compact, a non-profit organization, here, started collecting data through its "emerging neighborhood markets initiative" to determine the condition of America's urban neighborhoods.

The organization, whose membership includes mostly senior level executives from private sector businesses, examined three minority neighborhoods in Chicago and found that each community offered exciting business opportunities for investors.

The information collected by the non-profit was condensed into a study that was made available to the media last week.

Roger Haughton, president and CEO of PMI Mortgage, San Francisco, said he was initially hesitant about investing his company's resources in low-income neighborhoods, like the ones in Chicago.

"But there is money to be made in minority neighborhoods," the PMI executive, a Social Compact board member, told reporters.

A decent percentage of the minority residents in Chicago could qualify for a conventional, Fannie Mae/Freddie Mac mortgage – products like the Flex 97 loan, Mr. Haughton added.

PMI this year was awarded a Social Compact award for a mortgage deal it is involved in with the Chickasaw Nation in Oklahoma. Freddie Mac and First Americans Mortgage of Kansas are also participants.

"There are emerging markets right in our own yard that deserve attention," said William Goodyear, a former executive at Bank of America who currently is heading up the emerging markets initiative. Some of the borrowers living in the profiled neighborhoods – Little Village, South Shore and Forest Glen – have high levels of disposable income and live in homes that have dramatically increased in value over the past five years.

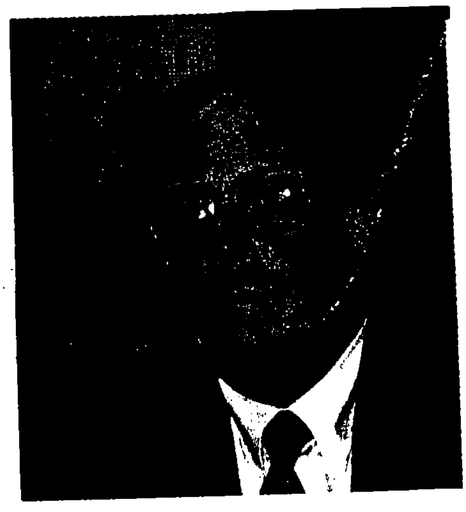
"The debt-to-income ratios of these borrowers hovered in the mid-20s, which is as good as any conventional borrower," said Lynn Reilly Whiteside, executive director of Social Compact.

All told, there is more than $500 million in equity built up in the Chicago neighborhoods profiled by Social Compact, the study says.

Mr. Goodyear said the data gathered by Federal, state and local governments on inner city communities often paints an inaccurate picture of the residents.

"These negative portraits ultimately impact not only how public and private sector decision-makers view inner city areas but also how the residents themselves view and define their communities," the study adds.

"Through the emerging markets initiative, we are challenging many of the negative stereotypes and poverty-based data that have defined and discouraged investment in inner-city markets," the study notes.



Roger Haughton

Sarah Rosen Wartell
05/10/99 04:39:03 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: SBIC Issue -- URGENT ATTENTION

Melissa and Jon -- Please figure out who else needs to know. Thanks.

Today's **Washington Times** reported: "SBA hopes tighter rules will curb political contributions. Sceptics Doubt Measure witll Prevent "handful" of Cases." The story involves the discovery by SBIC examiners in 1997 who found that 4 SBICs (whose debt is backed by gov't guarantees) had made 4 sepearate political contributions (3 to the DNC each for $5k in 1996 and one for $5k to Victory 98 in 1998 (endorsed by the Alabama Republican Party). (This detail is not in the public domain.) SBA regs provide that they can not engage in activities that "do not contribute to the growth, expansion, and modernization of a small business." SBA was thought its current regs prohibited the practice but was not clear. They decided it was advisable to issue a regulation to clarify the view that it was impermissible to use SBIC assets for political contributions, although contributions by individual investors, of course, are protected by first amendment. That regulation was published on April 14, 1999 as a proposed rule. No comments have been received yet. The comment period closes later this week -- May 14th.

I am nervous about this because SBICs are the model for the President's New Markets Initiative investment fund. The APICs and NMVC are modelled after them. It is possible that a question might get raised by a Washington Times reporter tomorrow, if they are hunting for a problem.

In this case we can say clearly that SBA found the problem and has taken steps to remedy it.

Note however that In the story (faxed to melissa and jake) Common Cause is quoted as saying the rule won't ban soft money because of how it is drafted. (Easily fixed in drafting.) The story also focuses on how individuals in SBICs can continue to make contributions and how the SBICs have their own PAC -- the National Association of Small Business investment Companies PAC.

Message Sent To:

Jonathan A. Kaplan/OPD/EOP@EOP
Gene B. Sperling/OPD/EOP@EOP
Melissa G. Green/OPD/EOP@EOP
Lisa Green/OPD/EOP@EOP
Richard L. Siewert/WHO/EOP@EOP

Small Business/
BusinessLINC

Statement of Needs and Purposes

BusinessLINC

Section 126. Section 8 of the Small Business Act is amended by adding section 8(m) to read as follows:

"(m) BUSINESSLINC GRANTS.

(1) IN GENERAL --The Administration is authorized to make grants to or sign contracts or cooperative agreements with, any coalition of private ~~and public sector representatives that~~firms and organizations that seeks to (1) expand business-to-business relationships between large and small businesses and (2) provide businesses, directly or indirectly, with ~~an on-line~~ information and a database of companies ~~with an interest in mentor-protégé programs or community-based, local or statewide~~and business development programs that support such relationships, including mentor-protégé programs.

(2) The Administration is authorized to make grants on the condition that the coalition provides a matching amount, either in-kind or in-cash, equal to the grant amount.

(3) In the best interests of the program, the Administration may waive the requirements for matching funds to be provided by the coalition

BusinessLINC

Section 126. This section would establish a BusinessLINC ~~grants program in SBA which provides for a BusinessLINC~~ discretionary grants ~~awards program. The purpose of the program is to fund leadership coalitions made up of both private and public sector representatives to (1) expand business-to-business relationships between large and small businesses and (2) provide businesses with on-line information and databases of both companies interested in mentor or protégé programs and community-based, local or statewide business development programs that support such relationships~~program in SBA.

The purpose of the program is to fund leadership coalitions made up of private firms and organizations to (1) expand business-to-business relationships between large and small businesses and (2) provide businesses with information and databases of companies and business development programs that support such relationships, with a focus on businesses in economically distressed communities.

The program will:

(1) Provide a resource that helps small businesses find ~~an~~ interested large businesses that could provide the technical assistance needed for small business growth ~~and expansion~~, innovation, increased productivity and management improvement;

(2) Encourage large businesses to ~~consider~~develop linkages with smaller firms to their mutual economic benefit;

(3) Encourage low-income communities to identify their ~~business assets, including~~ existing and potential ~~help low-income communities identify potential~~business assets,

including local businesses that could benefit from technical assistance with large businesses;

(4) Support new initiatives or collaboratives in low-income communities and historically underutilized business areas that support ~~small business technical assistance~~these business-to-business relationships; ~~and~~

(5) Develop innovative approaches, case studies and other supportive materials to encourage these large business-to-small business linkages.

(6) Promote such other activities as the Administrator shall direct to further the purposes of this section.

SBA would require as a condition of the grant that an applicant provide a matching amount equal to the grant amount. Matching amounts may be in-kind or in-cash. The match requirement may be waived.

SBA would make non-competitive grants, including contracts and cooperative agreements to any prospective BusinessLINC coalition ~~within a State~~.

GUIDANCE ON SMALL BUSINESS INVESTMENT COMPANIES (SBICs) AND POLITICAL CONTRIBUTIONS
May 10, 1999

Question:

I note that the basis for the President's New Markets Initiative is the Small Business Investment Company (SBIC) program at the SBA. It was recently uncovered that government-backed SBICs were making political contributions. Given all his campaign finance troubles, is it appropriate for the President to use such a tainted program as the model for his new initiative? Will the new America's Private Investment Companies (APICs) and New Market Venture Capital Firms (NMVCs), modelled after SBICs, also be able to make political contributions?

Answer:

- SBA first uncovered the problem of a handful of SBICs making political contributions and has taken appropriate steps to remedy the situation. While this was an inappropriate activity for a government-licensed investment company, no public funds were used to make the contributions.

- While SBA believes that the practice was probably impermissible under the Small Business Investment Act, they determined that it was advisable to clarify the Agency's position in regulation. They proceeded to publish a proposed rule in the Federal Register on April 14, 1999. The comment period will close at the end of this week (May 14^{th}). Then SBA will put in place a final rule clarifying that such contributions are impermissible.

- A similar rule would be incorporated into the regulations for the new programs proposed by the President – APICs and New Market Venture Capital Firms.

Background:

During a routine examination early in 1997, an SBA examiner found that, in 1996, an SBIC had written a $5,000 check to the DNC "Non-Federal Account" – indicating a "soft money" contribution. The examiner issued a finding, concluding that the contribution was not an activity contemplated by the Small Business Investment Act.

Under the Act, SBA does not permit activities by an SBIC that do not contribute to the "growth, expansion, and modernization of a small business." SBA determined that an SBIC's political contributions have, at best, only a remote and speculative connection to the growth, expansion, and modernization of small businesses. They viewed the contributions as impermissible, but the General Counsel, and the Agency's Oversight Committee, chaired by the Deputy Secretary, determined that they should publish a regulation to clarify the issue.