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BusinessLINC

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BusinessLINC

Learning, Information, Networking and Collaboration

Business-to-Business Relationships
that Increase the Economic
Competitiveness of Firms

A Report to Vice President Al Gore

December 1998

Presented at the
Second White House Business and
Entrepreneurial Roundtable:
New Opportunity, A Stronger Economy



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Executive Summary

Vice President Al Gore launched an initiative in June 1998 called "BusinessLINC"-- Learning, Information, Networking, and Collaboration -- to galvanize business-to-business relationships that build the competitive strengths of small businesses, especially those located in economically distressed urban and rural areas. The Vice President asked Treasury Secretary Robert E. Rubin and U.S. Small Business Administration's Administrator Aida Alvarez to co-chair the effort to research business-to-business advisory services in all contexts and to suggest how best practices could be applied in urban and rural economically distressed communities.

Small businesses are critical to job growth and the economic vitality of the United States. Of the approximately 6.6 million employers in the U.S., over 5.5 million are businesses that employ fewer than 100 employees.¹ Small businesses with fewer than 100 employees employ over 37 percent of all full-time employees.² As America grows more diverse, the face of small business is also changing: in the most recent survey of business ownership prepared by the Bureau of Census, the number of minority-owned small businesses grew at a 62 percent rate while the total number of firms grew 26 percent, from 1987 to 1992. Yet relatively little attention has been paid to the ways that business relationships with larger firms can help smaller firms thrive and compete effectively.

The Department of the Treasury and the Small Business Administration, in partnership with other Federal agencies, held a series of BusinessLINC Regional Meetings across the country with over 500 business people, civic leaders and practitioners in the summer and fall of 1998. In addition, Treasury staff have conducted additional research, including in-depth interviews with experts from corporate and civic organizations, to learn from a wide array of experience. Because there has been little academic research on this topic, Treasury also contracted with Harvard Business School Professor Michael Porter's research and consulting firm, the Initiative for a Competitive Inner City, which has expertise in business strategy and economic development, to conduct additional research and develop detailed case studies of several business-to-business relationships. Finally, members of a CEO working group put together by Secretary Rubin, and outside expert reviewers, provided additional material and extensive input for the report. The report is based on our findings from these meetings, interviews and additional research.

Our work suggests that business-to-business relationships -- which include learning, information-sharing, networking among firms and intermediaries, and collaboration on specific projects-- can be essential to business success and a vital resource to help economically distressed

¹ U.S. Census Bureau, U.S. Firms, Establishments, Employment, Annual Payroll, and Estimated Receipts by Industrial Division and Enterprise Employment for 1995.

² Office of Advocacy, U.S. Small Business Administration, from data provided by the U.S. Department of Commerce, Bureau of the Census, March 1997 Current Population Surveys.

resulting in more than \$38 million in loans to more than 500 small businesses; and

- The Women's Network for Entrepreneurial Training program, operating from the Boise, Idaho SBA District Office since 1995, has served over 1,000 women business owners with assistance through mentoring roundtables.

The benefits to both large and small companies from BusinessLINC practices can be significant, as discussed in Chapter I. Smaller firms can use BusinessLINC strategies to enhance their capability and their capacity through:

- obtaining technical advice;
- enhancing management development;
- leveraging core strengths;
- accessing sources of financing;
- increasing marketplace credibility; and
- entering subcontracts and joint ventures.

Larger companies may see benefits such as:

- reaching new markets;
- partnering with agile companies;
- cultivating a world-class supplier base;
- thriving in industries that call for inter-firm collaboration; and
- creating stronger communities and a stronger business environment.

Based on our extensive interviews, we found that the major participants in business-to-business relationships often are: (1) corporations that rely on smaller companies as suppliers and sales channels; (2) financial institutions; (3) business-led membership organizations; (4) specialized nonprofits; and (5) individual business professionals. We discuss this more fully in Chapter II, along with the range of partner firms. Although this report primarily focuses on BusinessLINC strategies used by corporations, these activities are often led by entrepreneurial individuals within firms. Individual business professionals may be interested in applying the ideas in this report within their company or through the intermediary organizations mentioned above.

In Chapter III, we classify this range of business-to-business relationships into five basic strategies: (1) one-on-one technical assistance and consulting; (2) classroom and group training; (3) peer groups and boards of advisors; (4) supplier development and strategic alliances; and (5) sales channel development.

No matter which BusinessLINC strategy was used, firms and practitioners who were interviewed repeated many of the same keys to successful BusinessLINC strategies, discussed in Chapter IV:

- The business-to-business relationship must be mutually beneficial -- a "win-win" for both firms. These BusinessLINC have the hallmarks of a serious business relationship – a

financing to small businesses, having loaned or invested \$50 million in 1,000 ventures and provided training and technical assistance to roughly 4,000 women-owned businesses. Coastal Enterprises facilitates peer networks and advisory boards for owners, in conjunction with training or individual consultation.

- Baltimore Advisors is a privately funded nonprofit whose mission is to increase employment in Baltimore by strengthening companies with annual sales from \$1 million to \$20 million. A network of corporate partners, comprised of business professionals and owners and mid- to large-size businesses provides one-on-one direct work, group strategy sessions and advisory boards.

Distressed urban and rural areas face a number of challenges. Businesses often must deal with outsiders' lack of market information about the local business community and its resources; outsiders' preconceived stereotypes of businesses, workers or consumers located in poorer areas; and the limitations business owners in these areas may face due to their isolation from mainstream business networks.

Despite these barriers, certain advantages may enhance business opportunities for firms interested in investing in, or linking with, smaller firms in these communities.

Michael Porter suggests that inner cities have four basic competitive advantages: strategic location near business, transportation or communication networks; unmet local customer demand in high density areas; committed and available workforce; and integration with regional industries and clusters.⁴ Likewise, in rural areas, latent competitive advantage may be found in proximity to natural and extractive resources, availability of developable sites, and human resources.

"GE Capital views the GE Capital Small Business College as a sound investment in the communities it serves. It yields stronger small businesses, enhanced employment, improved economic conditions, and the potential for future business partnerships with our company." — Gary Wendt, CEO, GE Capital

At the Regional Meetings and follow-up interviews, most successful examples of BusinessLINC activity in economically distressed communities involved the use of intermediaries brokering business-to-business connections. In Chapter VI, this report identifies special considerations and recommendations for BusinessLINC initiatives in economically distressed areas:

- Partner with a skilled intermediary organization to fill market information gaps, supplement skill training and build trust;
- Profile the business community and its existing support organizations;
- Access to new customers and new markets is critical;
- Create a long-term growth plan to provide useful encouragement; and

⁴

"The Competitive Advantage of the Inner City," *Harvard Business Review*, May/June 1995.

Chicago: Chicago Association of Neighborhood Development
Organizations, Chicagoland Chamber of Commerce.
Washington, DC: The Greater Washington Board of Trade.

SBA Administrator Alvarez stated that "SBA has made a strategic commitment to increasing access to its programs by these new, emerging small business communities. SBA is committed to increasing economic opportunity for all Americans." SBA helps small businesses succeed by acting as an intermediary for capital, counseling, contracting, and networking for small businesses. Administrator Alvarez explained the SBA announcements:

- The launch of the HUB Zone program to provide Federal contracting opportunities for qualified small businesses in distressed communities. The SBA expects that HUBZone contracting will equal roughly \$2 billion in FY 1999 and increase to almost \$6 billion in 2003.
- The approval of the first formal mentor-protégé relationship before the first of the year under SBA's new 8(a) Mentor-Protege Program to enhance the capacity of these firms and improve their ability to receive federal contracts.
- The development of a new on-line "Small Business Classroom" for training and informing entrepreneurs on how to raise capital, how to write a business plan, and how to reach counselors and mentors.
- The expansion of ACENet (Angel Capital Electronic Network) that will help minority- and women-owned businesses to access investment capital.

Companies also announced several new BusinessLINC activities including:

- Bell Atlantic will target \$1.8 billion in direct purchases and subcontracts to small businesses by the year 2000, pursuant to a Memorandum with the SBA. Bell Atlantic will also formally mentor at least three companies each year.
- Science Applications International Corporation (SAIC), with \$4 billion in sales, will sign joint marketing agreements with small businesses to pursue commercial contracts, applying its lessons learned from federal mentor-protege programs. In addition, SAIC will establish a high-level committee to examine how to develop relationships with small businesses in HUB Zones, Empowerment Zones and Enterprise Communities.
- Chase Manhattan Bank will open a Business Resource Center in the Bronx, its third BRC, to provide technical assistance to an estimated 500 small businesses per year. Chase will also offer in-depth, structured BusinessLINC assistance to selected Chase suppliers and other minority- and women-owned businesses from Chase's senior executives and the National Association of Black Management Consultants. Additionally, Chase will become a corporate sponsor of the new coalition promoting BusinessLINC activities.

Summary of Action Agenda

A. Starting Individual BusinessLINC

1. Consider objectives and desired outcomes.
2. Profile the potential BusinessLINC partners.
3. Learn about existing organizations and resources, public and private, that could complement the effort.
4. Formulate a BusinessLINC strategy for your company or organization, such as:
 - one-on-one technical advice and consulting,
 - classroom and group training,
 - peer groups and boards of advisors,
 - supplier development and strategic alliances, or
 - sales channel development.
5. Consider special factors in establishing BusinessLINC in economically distressed areas.

B. Catalyzing More BusinessLINC at the National Level:

1. Recruit a coalition of organizations to advocate BusinessLINC strategies through their networks, and corporations to build into their core business strategies.
2. Disseminate BusinessLINC best practices and case studies, and create forums for businesses to exchange information and practices.
3. Develop a national award for leading BusinessLINC practices, and compose case studies of winning companies.
4. Create a seed fund that a national BusinessLINC coalition could award to local BusinessLINC initiatives focused on economically distressed areas.
5. Promote and support an Internet website to encourage BusinessLINC activity.

C. Catalyzing more BusinessLINC at the Local Level:

1. Recruit local firms to employ BusinessLINC strategies.
2. Galvanize support to bolster local intermediary organizations, such as specialized nonprofits and business membership organizations, that foster BusinessLINC.
3. Target resources to enlist existing organizations that can encourage more BusinessLINC activity in economically distressed communities.

I. Introduction: The Benefits of BusinessLINCs

In today's global economy, high-performance businesses of all sizes and industries — from micro-enterprises to large franchises, from small retailers to large manufacturers, from the self-employed to large corporations — must constantly learn, evolve, and pursue new markets. While access to capital and technical assistance remain crucial for small businesses' success, this report suggests that business-to-business relationships that provide opportunities for learning, information, networking and collaboration can also determine the difference between success and failure.⁵ BusinessLINCs can create mutual benefits for larger companies as well as smaller companies, or between firms in the economic mainstream and firms located in an economically distressed area.

Benefits to Larger Companies

Companies continually seek competitive advantages both in finding new markets and in delivering product as efficiently as possible. Often, without formally noting the significance of these business-to-business relationships, business owners derive technical skills, organizational and managerial capacity, and market opportunities through these interactions. For larger businesses in the economic mainstream, these linkages and relationships occur frequently in the course of doing business. Many businesses are now approaching their network of business relationships as a resource — including relationships with smaller companies, with minority business enterprises (MBEs), and with firms in distressed urban and rural areas — and are thinking strategically about how to fortify their competitive position. Some of the potential benefits to mentor companies are listed below.

Reaching new markets

Firms seeking to reach untapped markets are aware of three important trends: first, the demographic projections showing the increase in minority populations throughout the U.S.; second, the rapid growth of firms owned by women and minorities; and third, the unserved buying power of many inner city markets.

Demographic trends show that new customer segments are becoming more important to the U.S. economy. Increasingly, ethnic minority populations are acquiring wealth and significant buying power. Demographic studies show that by 2050 nearly half the U.S. population will be non-

⁵ "Business mentoring" and "mentor-protégé" are terms that some programs use to describe their BusinessLINC strategy. The nomenclature can create a false impression of paternalism or dependency. Instead, most firms find mutual benefits. Although an oversimplification, this report uses the terms "small business" and "large business", except when discussing programs that themselves use "mentoring" vocabulary.

Asian-Americans, Latinos/Hispanics or women have substantial control and ownership shows that these businesses' capitalization has grown faster than many major foreign and domestic investment benchmark indices.⁹ Another indication of the growth of minority-owned businesses is that from 1986 to 1996, corporate purchasing from minority-owned businesses increased from \$9.4 billion to \$33.4 billion, over a 350 percent increase.¹⁰ These data suggest that larger companies may increasingly be able to find qualified and able smaller business partners owned by minorities and women.

Finally, despite low average incomes, high population density in many inner cities may translate into a local market with large buying power per square mile.¹¹ America's inner cities represent approximately \$85 billion in annual retail purchasing power, or approximately 7 percent of total retail spending in the United States. This market alone is larger than the entire retail market of Mexico. Some argue that major retailers are under-represented in our inner cities and that urban markets represent an available and untapped consumer marketplace.¹²

Partnering with agile companies

Small businesses can also be useful to larger firms in finding and exploiting new strategic market niches. Smaller businesses may possess a more cost-efficient structure to handle smaller orders, unusual customer requests, or emerging technologies. These agile partners are more than efficient subcontractors; many companies said that smaller suppliers had ultimately brought additional business to them, occasionally subcontracting back to the larger firm.

For example, in 1995, Lucent Technologies partnered with TeleCommunication Systems, Inc. (TCS), an African American-owned \$25 million company located in a Maryland Enterprise Zone in Annapolis, MD. Under their co-venture, TCS uses Lucent's proprietary software to write software for digital wireless communication, and the companies will share revenue earned by the new product. Lucent chose to partner with TCS in order to get a new product to market more quickly.

⁹ The Chapman Company "Domestic Emerging Market" Index comprises a sample of publicly traded companies in which a woman or minority occupies one of the top three positions and owns at least 10 percent of outstanding shares. Index companies reflect the industry mix and market capitalization of the DEM universe of companies that meet these criteria. The index companies are adjusted as the universe changes or as companies cease to meet the index criteria.

¹⁰ Figures supplied by The National Minority Supplier Development Council.

¹¹ Boston Consulting Group / Initiative for a Competitive Inner City, "The Business Case for Pursuing Retail Opportunities in the Inner City," 1998. This report contends that in many inner cities, more than 25 percent of retail demand is unmet locally

¹² Ibid.

public-private partnerships that helped to create civic institutions such as the Rock-and-Roll Hall of Fame and Jacobs Field.¹³

Benefits to Smaller Companies

Many small businesses,¹⁴ as well as large and small firms in economically distressed areas, cannot access the networks of information and resources that larger businesses operating outside distressed areas utilize. Smaller companies cite many benefits from business-to-business networks, a few of which are reviewed below.

Obtaining technical advice

Many small business owners, at one time or another, seek basic technical advice on the operational aspects of managing a small business. Business-to-business linkages offer a way for small business owners to acquire the specific technical advice they need in order to strengthen their businesses. Technical advice can include most aspects of running a small business, such as marketing, merchandising, pricing, production, inventory control, accounting, long range financial planning, or basic legal advice.

For example, Larry Barraza, owner of Symvionics engineering company, received extensive technical assistance on human resources, business documentation, legal issues, and subcontracting management from Northrup-Grumman beginning in 1994.¹⁵ At that time, Symvionics' sales were around \$1 million with under 40 employees. Northrup-Grumman assigned four people to assist Symvionics. By 1996, sales were approaching \$8 million, and Symvionics' improved technical staff collaborated with Northrup-Grumman in submitting technical bidding proposals that won new contracts for both companies. In 1998, Symvionics revenues will top \$20 million while the number of contracts with Northrup-Grumman has decreased, demonstrating the diversification of Symvionics' customer base.

¹³ The role of Cleveland's business community is presented the Harvard Business School case study, "The Cleveland Turnaround", 9-796-151, published in 1996.

¹⁴ The Small Business Administration defines "small business" for different sectors, ranging from one-person home-based business to as large as 500-employee manufacturers.

¹⁵ This relationship was initially facilitated by a DoD "mentor-protége" agreement between Northrup-Grumman and Symvionics. With this agreement in place, Northrup's bids receive favorable points in evaluating its subcontracting plan; in its most recent bids, Northrup received reimbursement for its direct mentoring costs. Federal agencies' mentor-protégé programs are discussed more fully in Chapter III under Supplier Development Strategies.

[Malone] set the pattern for future relationships,” said Johnson. “I’m marrying my marketing clout, my brand, and my management team with people like Microsoft or Disney in our Disney-B.E.T. Soundstage Club down in Orlando, or with Bell Atlantic in our telecommunications business.” Since Johnson founded B.E.T., Malone has been an informal advisor, and he now sits on the B.E.T. Board of Directors.

Accessing sources of financing

Increasing financial access does not always mean providing direct funding or taking an equity position in the protégé company, but it can mean assisting the protégé company to gain access to existing sources of financial capital. Often, a large company’s support or endorsement of a smaller company may help persuade lenders to provide financing. In some cases, mentors may even co-sign loans. Managing short term cash flow and bonding can present obstacles in business expansion especially for smaller businesses, and larger companies can help overcome these barriers.

Increasing marketplace credibility

Another benefit of business-to-business linkages is the value to small business of the endorsement from a large, established business. This added credibility may help the small business gain new customers who are uncertain of the smaller company’s ability to deliver product or services. In the BusinessLINC Atlanta meeting in September, Halina Jankowski, President of Allied Machining Company in Newington, CT, said that since forming a mentor relationship with Lockheed Martin Energy Systems, many larger companies will now allow her to bid on contracts and consider Allied as a supplier.

Entering subcontracts and joint ventures

Not surprisingly, most small businesses look to large companies as a potential source of business. Small businesses, especially in distressed communities, look to earn the opportunity to bid on contracts and must often prove themselves more thoroughly than larger companies or companies in the suburbs. As discussed more fully in Chapter IV, the commercial relationship can be a powerful motivator to assure that both large and small businesses are focused on strengthening their companies’ capacity to grow.

II. Choosing Potential BusinessLINC Partners

Based on the meetings, interviews and research of the BusinessLINC initiative, this chapter describes five types of organizations that can take steps to form or broker these business-to-business relationships: private corporations; financial institutions; specialized nonprofits; and business-led membership organizations. Of course, many relationships not described here can also serve as the basis of solid BusinessLINC relationships.

Secondly, the chapter describes the different industry sectors of smaller firms and how BusinessLINC strategies can be customized to their context.

Potential Large Business and Intermediary Organization Participants in BusinessLINC Strategies

Private corporations with suppliers and sales channels

Firms reported that BusinessLINC relationships can increase businesses' competitiveness, beginning with existing suppliers and sales channels, and even more importantly, extending to new ones. To maximize the benefit to the firm, BusinessLINC strategies call for careful analysis of a firm's supplier base and its market opportunities. On the supply side, firms look for the strategic value that a smaller company can provide, for example, freight savings from location advantages, smaller production runs, faster time from R&D to market, and greater ability to integrate staff into product design. In terms of market opportunities, firms may look for smaller firms' to provide a value-added role through their ability to service small markets with lower overhead, make introductions to new customers, provide more detailed customer knowledge about niche customer segments, and reach expanding demographic customer segments.

Financial institutions with small business borrowers

Financial institutions use BusinessLINC strategies with small businesses to strengthen their small business loan portfolios, to create a new segment of sound borrowers and to sell products to customers that value the financial institutions' services to these business customers. Financial institutions noted that they found benefits across the full customer relationship, including deposits and other cross-sold products. Regarding their suppliers, financial institutions also have an important potential BusinessLINC role, similar to other private corporations, as customers to smaller suppliers. Where applicable, financial institutions may be able to combine skills and lessons learned from both the lending operations and procurement operations.¹⁷

¹⁷ Financial institutions may offer particularly valuable skills to microlending intermediaries, including technical assistance, systems help, recordkeeping, or the offering of retail financial services.

Business-led membership organizations

Membership organizations reported that they can frame BusinessLINC strategies around membership's shared concerns, for example developing construction suppliers, developing minority suppliers or strengthening a regional economy. Membership organizations can help overcome "collective action" obstacles by organizing BusinessLINC strategies that benefit the membership when no single firm could take on the organizational effort individually. These organizations carry enormous potential to provide BusinessLINC services to their members if well-managed and focused. Membership organizations are most successful when they articulate the members' common interest and then solidify support for addressing it through the organization.

In considering BusinessLINC activities, the organization would consider whether it is positioned to provide these types of services to members, such as the ones described immediately above for BusinessLINC specialized nonprofits. Like specialized nonprofits, effective BusinessLINC membership organizations recruit business leaders to champion BusinessLINC strategies and determine the organization's role. The most effective BusinessLINC membership organizations find ways to make BusinessLINC activities beneficial to the membership and easy to access.

Potential Small Business Partner Firms

In the Regional Meetings and interviews, businesses and BusinessLINC organizations emphasized the important differences among industries and the ways that BusinessLINC strategies can benefit them. The New York City Regional Meeting in particular included lively discussion about the need not to oversimplify or stereotype the range of industries, firms' stage of growth and their distinct needs.¹⁸

Practitioners generally group companies into four growth stages, regardless of their size, recognizing that they may face different challenges at these different stages: (1) concept stage; (2) early growth; (3) expansion; and (4) stabilization and maturity. Sam Carradine of the National Association of Minority Contractors pointed out in the July Los Angeles BusinessLINC meeting that too often small businesses get "stuck" between \$2 - \$10 million in sales. To re-start the growth process, he notes that firms need help building their "capacity in addition to their capabilities," and identifying and pursuing growth opportunities.

- At the concept stage, an entrepreneur may have only a preliminary business plan. The entrepreneur needs some basic "feel" for the market to determine whether there is a demand for the product or service, at what price it can be sold, and if it can be delivered at a profit.

¹⁸ (see, e.g., Inc. Business Resources "Growth Strategy Analysis", Goldhirsch Group, Inc., 1998)

equipment purchases and plant expansions. Finally, some companies may also need management assistance, appropriate to their business stage of development, in areas such as human resource practices and performing competitive analysis.

Distributorship / Dealership / Multi-site Retail

Larger distributorships reported that BusinessLINC strategies focused on finding new sales and product offerings. These businesses also found assistance in improving control systems for tracking inventory and sales, efficient delivery and hauling, inventory management, determining optimum product mix, and in make-versus-buy decisions.

Single-site Retail or Service Business

Single-site retail or service firms saw benefits from BusinessLINC strategies that could help them assess product mix and pricing, and distinguish their product or service from competitors. These firms are evaluating different advertising options, calculating controllable variable costs and breakeven sales, evaluating location decisions, and formalizing key contracts and leases. To continue growing, these owners perceived human resource management as an important issue.

Self-Employment / Microenterprise

Microenterprises are small firms, often operating as a home-based business. BusinessLINC strategies such as group training, peer groups and boards of advisors have helped link the microentrepreneur both to other small businesses and to larger firms. According to the Aspen Institute's Self-Employment Learning Project, microentrepreneurs' ultimate growth depends on the owners' access to markets, production and distribution capacity, and personal goals.¹⁹ The Aspen Institute notes that a significant portion of microentrepreneurs start businesses as an alternative to limited opportunities in the low-wage job market. The Institute reports that successful microentrepreneurs have patched together income from various sources during start-up and accessed technical assistance from intermediary organizations.

For some entrepreneurs, the purpose of the business is to provide self-employment and possibly jobs for family members. This type of business owner will often look to stabilize the business at a sales level that can be comfortably managed without loss of control, and which can provide a relatively small but stable cash flow. Other self-employed business owners may be looking to continue to expand their businesses, and the link to larger scale mainstream businesses is critical. Marketing assistance is perhaps the most frequently requested by these owners seeking to build a viable and stable source of income.

¹⁹ Edgcomb, Elaine and Joyce Klein and Peggy Clark, The Practice of Microenterprise in the U.S.: Strategies, Costs and Effectiveness, The Self-Employment Learning Project, The Aspen Institute, July 1996.

III. BusinessLINC Strategies

From the Regional Meetings and interviews with businesses and organizations participating in relationships that promote learning, information, networking and collaboration, five BusinessLINC strategies emerged. Some of these strategies have different twists that are also described under the basic strategic heading:

- One-on-one technical assistance and consulting;
- Classroom and group training;
- Peer groups and boards of advisors;
- Subcontracting and supplier development programs; and,
- Sales channel development programs.

In most successful programs, these strategies are combined or sequenced to provide the right mix of timely, relevant services, geared to the business needs and opportunities of particular businesses in their unique stage of growth, sector and location. This section describes the key elements and limitations of each strategy.

One-on-One Technical Advice and Consulting

One-on-one technical assistance is the most common way business professionals can assist small businesses. When done well, one-on-one technical advice is customized and immediately useful to the business owner. Accountability between the advisor and the small company is a key factor in the success of a technical assistance or consulting program. Many practitioners suggest that clients pay at least a nominal amount for advisory services to assure commitment by both parties. To assure the relationship is productive, both consultant and business owner should agree to specific steps to be taken between meetings.

Chase Manhattan Bank's Business Resource Centers

The Chase Manhattan Bank's two Business Resource Centers in Manhattan and Brooklyn provide free financial technical assistance to existing and aspiring small business owners. Combined, the centers have counseled over 5,000 business owners and Chase has made \$38 million in loans to 580 entrepreneurs who received this technical assistance. Chase's loss rate on loans originated in the centers is on par with their conventional portfolio.

Approximately 72 percent of the customers served by the centers are either from low- and moderate- income areas, or women- or minority-owned businesses. The centers provide one-on-one counseling sessions with a Chase business consultant, who is an experienced small business lending officer. Counseling sessions are free of charge, and are available to any small business owner whether or not they are a Chase customer.²⁰

²⁰ Refer to Appendix 2 for a thorough discussion of this BusinessLINC strategy.

Turner Construction's James Walker Construction Management Training Program

In 1968, Turner Construction began offering a construction management training program for minority contractors to diversify its contracting base and be a responsible corporate citizen. The program, now called the James H. Walker Construction Management Training Program, is offered in all of the company's 38 regional offices. To date, Turner has provided training to more than 7,000 contractors nationwide.

The Cleveland program consists of 20 classes ranging from marketing, procurement, contracts, and safety to financial management, Total Quality Management,

small business banking, and taxes. The program meets twice a week in the evenings, with about 30 participants per class. Turner draws instructors from partner organizations such as local institutions, banks and the City of Cleveland. Turner does not charge for this program. The relationships the company develops with high quality, well-trained subcontractors benefits Turner with lower prices and higher levels of quality and service. Turner also finds that the program helps win contracts, especially where the customer cares about supplier diversity.²¹

Given the time constraints on business owners, they must weigh the opportunity cost of such training. For example, some business owners might be unable to attend a one-week intensive course and instead favor a class that meets once a week for several weeks. Classroom education or group training alone may not be sufficient to increase the business capacity of small businesses, especially those in economically disadvantaged areas. Often classroom programs are coupled with other locally-based resources, commercial relationships or networks for small businesses.

For example, in 1994, BankBoston's First Community Bank (FCB), which targets underserved urban communities, created its Community Development (CD) Unit to support the Bank's outreach and education efforts. FCB partnered to run several 20-week classroom education programs with organizations that also provide direct one-on-one assistance or referrals to outside experts.²² Collectively, these programs have served 169 business owners, with 147 completing the program. This strategy of blending available resources is also the motivation for FCB's Community Development 2000 Project which helps small businesses manage and evaluate the services offered by various technical assistance providers. First, an FCB officer helps the business owner assess his or her needs and develop an appropriate action plan. Second, the FCB officer stays in touch with the client, monitoring the progress of the outside experts and the owner. Based on the first six months' pilot, the CD Unit projects that 300-500 businesses per year will be assisted through CD 2000.

²¹ Refer to Appendix 2 for a thorough discussion of this BusinessLINC strategy.

²² FCB's partners in Boston are the Boston Empowerment Center and the University of Massachusetts Small Business Assistance Center; in New Haven the partners are Gateway Community Technical College, the New Haven Office of Business Development and four local groups.

Peer Groups and Boards of Advisors

Both peer groups and boards of advisors can help owners develop the skills to solve business problems by drawing on networks of people outside the business. In this way, peer groups and boards of advisors may provide the most important business improvement skill – the power of finding solutions by reaching out for advice and resources.

The most effective settings are participatory and forge connections between companies at various levels, from executive level to senior staff to shop floor managers. Peer groups and boards of advisors may be less effective for learning technical skills. Peer groups may be formed across industries, within the same industry, or in complementary industries (e.g., manufacturers of chairs paired with makers of tables, or metal fabricators grouped with software control systems and instrumentation specialists). Effective peer groups typically consist of members at roughly the same level of business competence.

The Runners' Club

The Runners Club is an advanced entrepreneurial training program targeting African American business people who are starting or expanding a business with fast-growth potential. Founded in 1996 by Shorebank Corporation and an advisory group of business experts, the Club selects 12 members for a nine-month program that combines both business peer groups and a Boards of Advisors.

The members (the "Runners") are selected based on applications and interviews, including detailed business proposals. The inaugural class's Runners each paid \$1,000 tuition. At monthly sessions hosted on-site by successful African American entrepreneurs, the Runners hear first-hand accounts of how to complete business acquisitions, sell to major corporations, build quality staffs, manage and oversee business operations, and raise capital in private equity markets. According to Program Manager Greg White, "These meetings are highly

motivational and the entrepreneurs work like runners training for a marathon. Although the group wants to see everyone succeed, no one wants to be slowest."

The Program Manager also funnels Runners' technical requests through a "Brain Trust" of volunteer corporate executives who agree to meet with individuals as needed. Each Runner is encouraged to form an advisory board that includes at least three skill sets: entrepreneurial experience; industry experience; and financial expertise. At the nine-month conclusion of the program, the top three Runners make an investment presentation to 50 bankers, venture capitalists, and private investors. Out of the first class of members, three new start-up firms were launched, six new business plans were completed, \$4.5 million in capital was raised by Runners, and three Runners resigned their jobs to pursue entrepreneurial ventures.

Advisory boards are structured to benefit one company and often involve executives from companies at different stages of experience and growth volunteering their time. Advisory boards are different from boards of directors in that they have no legal authority and therefore no legal liability for the corporation's activities. Advisory boards are generally informal, though the best ones are quite disciplined in their discussions. Advisory board members themselves learn

- When there are few existing suppliers for a given product;
- When the supplier's product or service is critical to the larger firm's success; and
- When the smaller company already has a baseline of experience in the industry or similar production processes.

In these situations, by developing the new supplier, the larger company is creating new productive capacity in the marketplace on which both the smaller and larger company can capitalize. "New capacity" could take many forms: greater technical skill, more varied production runs, or, where freight costs are significant, closer geographic location.

Leading corporations employ variations on four basic strategies for developing suppliers:

Expanding access to contracting opportunities. Occasionally, companies' procurement practices may simply be overlooking available qualified contractors or failing to reach out to make opportunities available.

Public Service Electric and Gas Company (PSE&G)

In 1996, PSE&G, a \$6 billion utility in Newark, NJ, formed a Supplier Diversity Council composed of local business owners, minority business advocates and PSE&G senior executives to advise the company on diversifying its supplier base. This initiative began with the recognition that the deregulating utility environment required PSE&G to compete for long-term customer loyalty. The council identified that the company was underutilizing available, qualified construction contractors, and PSE&G executives earmarked \$20 million of its 1997 capital construction budget to address these issues.

PSE&G solicited potential contractors from local advocacy groups. The company hired a consultant to conduct sensitivity training for procurement staff charged with implementing the strategy. PSE&G selected 30 contractors with experience in related industries to receive counseling and mentoring from PSE&G project managers on utility construction techniques and PSE&G administrative procedures. To date, over \$25 million in construction projects have been awarded to the contractors, and eight are fully qualified for PSE&G bid list.

"Adopt-a-supplier" to further enhance an existing company's capabilities. Companies often provide customized technical assistance, financial support and even operational guidance to smaller companies with which they would like to cultivate a relationship. Many of these strategies were discussed in the earlier sections. In addition, larger companies may put one of their executives "on loan" in a smaller corporation. Such a relationship can improve the awareness of the company's performance standards, lead to more frequent communication, and enhance the smaller company's credibility in attracting new customers and additional personnel.

General Motors Corporation and the other automakers have well-developed programs to cultivate their existing supplier bases. At a time when the automakers are trying to reduce their number of

The joint venture works, according to the participants, because:

- GM's business goal of creating new seat technology in the market while also diversifying its supplier base to include minority suppliers is fulfilled;
- JCI shares in a larger piece of the GM seating business than it would otherwise receive; and
- Bridgewater develops increased technical skills and sales to new customers while remaining a minority company in a key niche area of manufacturing.

Executive grooming to support the start-up of a new supplier. Under this strategy, a larger company cultivates an executive who aspires to be a small business owner by assisting him or her in setting up a new company. In choosing an executive for this role, companies may select an in-house executive or draw an individual from outside the company.

Ron Damper is owner of Damron Teas, a \$3 million packager of hot and iced teas, located in the heart of Chicago's West Side Empowerment Zone. In 1984, McDonald's was seeking a new supplier of tea. McDonald's conducted an executive search to find capable entrepreneurs, and Damper's prior corporate experience with a major bank made him an ideal candidate. Damper served an "internship" at McDonald's coffee supplier, learning the McDonald's system, its performance requirements, and the operational aspects of running the business. After 8 months, he found a suitable location, selected equipment and arranged financing. As his company was ramping up its capability, Damper subcontracted some of the business back to the coffee company that had hosted him. As an anchor business in a distressed area, Damron hires local residents and provides educational assistance.

Federal agencies' mentor-protégé programs. In addition to the three strategies noted above, several Federal agencies operate mentor-protégé programs to encourage prime contractors to work with small and minority businesses to diversify their procurement.²⁸ The goal of these programs is to enhance small- and medium-sized firms' business and technical capabilities and to increase their participation as subcontractors and suppliers. The first agency to introduce such a program was the Department of Defense in 1990, and it is the only Federal program with reimbursement to the mentor company for its direct mentoring expenses. Similar programs now exist at NASA, Department of Energy, the Federal Aviation Administration, and the Small Business Administration.

With each "protégé" company, the prime contractor submits a mentor-protégé agreement to the Federal agency spelling out the terms of the companies' relationship, including each party's role and the specific business objectives of the arrangement. Once these mentor-protégé agreements are in place, the prime contractor receives special consideration in future bids submitted with that

three years. The Memorandum also calls for targeted supplier outreach to 8(a) certified companies.

²⁸ The DoD program was established by Section 831 of Public Law 101-510, November 5, 1990. Other federal agencies' programs were established by regulation, rather than by statute.

“adopt-a-supplier,” joint venturing, and executive grooming – also work for developing new sales channels.

Franchisors have an interest in seeing their franchisees succeed. The more a franchisee sells, the greater the royalty and advertising payments to the franchisor. Franchisors’ training of potential franchisees is key in preparing them for eventual store ownership. Franchisors devote substantial resources to assuring their franchisee’s quality and systems compliance. Franchisees must adhere closely to the franchisor system, including product offerings, pricing, use of approved suppliers, and restrictions on carrying other products.

Alliance Relocation Services and Allied Van Lines Inc.

In 1995, Allied Van Lines introduced its Minority Agent Development Program to increase minority ownership of moving agents in the moving and storage industry. The van line/agent relationship is similar to the franchiser/franchisee relationship. As with other business start-ups, the initial capital requirements to buy an agency may deter many otherwise qualified minority entrepreneurs.

Allied decided that increasing the number of minority agents made good business sense for several reasons. In the mature moving and storage industry, Allied needed to find new customers and create new markets to increase revenues. Allied believes that increasing the number of minority agents will attract new customers and create brand loyalty in the growing minority communities. Allied also found that many Fortune 500 companies now ask their prime contractors to increase minority vendor participation. Finally, Allied also recognized that by supporting strong entrepreneurs who approached problem situations from new perspectives, it could also learn new operating ideas.

To ensure the success of the new minority agents, Allied partnered with entrepreneurs who already had some knowledge of the moving business. Allied identified Herb Stokes, a 23-year employee with the company, who had worked his way up to become the highest ranking minority at the company and a member of the executive staff responsible for overall system quality. Stokes established Alliance Relocation Services with a close mentor-protégé relationship with Allied. Alliance received financing assistance, legal assistance, accounting services, access to insurance, assistance in writing contracts and interpreting request for proposals, and one-on-one technical training. On sales calls, an Allied executive would often accompany an Alliance representative.

Initially, Alliance was located in suburban Chicago near Allied. It has since moved its operational and support staff to an Empowerment Zone on Chicago’s West Side. By locating in an economically underserved and predominately minority community, Alliance has been able to hire local minority staff.

McDonald’s Corporation has a mutually dependent relationship with its franchisees and its suppliers. About 85 percent of the more than 12,000 MacDonald’s restaurants in the U.S. are owned and operated by independent franchisees. McDonald’s training course typically requires 12-24 months of part- or full-time, hands-on training in a McDonald’s restaurant, culminating with the Advanced Operations Course at Hamburger University. Franchisee applicants must master both the crew and management skills. Hamburger University is accredited by the

IV. Key Factors in Successful BusinessLINC Strategies

Across the five basic strategies, companies and practitioners consistently cited similar key factors for successful BusinessLINC relationships.

The business-to-business relationship must be mutually beneficial – a “win-win” for both firms.

A hard-headed business attitude is important to a BusinessLINC relationship. Usually, the more economic gain for both parties, the more successful the relationship. Sometimes (but not always) such discipline is rooted in a contractual and financial relationship that motivates both companies to focus on creating economic value. Subcontracting or lending/investing relationships align the incentives of both companies. The hallmarks of a serious business relationship – a focus on business outcomes, commitment, efficient and effective interactions, and accountability – can be approximated without direct economic incentive. The same discipline can come from a clear workplan and measurements of progress. To maximize mutual gains, some firms plan with their BusinessLINC partner how best to invest company resources in the relationship.

Practitioners disagree on whether a firm should subcontract to the smaller firm as part of the BusinessLINC strategy. The ultimate goal of BusinessLINC strategies is to strengthen both firms, and many industry representatives reported that market access was one of the major obstacles to smaller firms' growth. On the one hand, if the smaller firm enters the relationship expecting to be handed a subcontract, there is little likelihood of long-term strengthening of the firms' operations. On the other hand, denying a smaller firm the opportunity to earn a contract, albeit from a firm that is otherwise helpful, also removes the possibility of the greatest long-term gain for both companies.

The greatest benefits of BusinessLINC relationships come over a long term and often in unanticipated ways.

Firms must have a long-term perspective on the relationship. BusinessLINC relationships rarely generate large profits in the short-term. At the beginning of the relationship, firms' are learning each others' strengths and weaknesses and how to adapt and compensate for them. Some BusinessLINC classroom strategies, such as Turner Construction's, allows Turner to work with many firms to determine whether there may be a longer-term “fit” in skills and corporate culture. Over time, firms better define their strategic needs, and the corresponding businesses that can meet that need. This allows the firm to fine-tune the mix of strategies to produce the best business outcomes.

Because successful BusinessLINC strategies unfold over time, unforeseen opportunities often result. Firms should enter BusinessLINC relationships with clear business goals, and yet circumstances will create opportunities and benefits that cannot be planned for at the outset.

A business needs assessment at the outset of the relationship improves the match of skills and resources between the companies.

An initial comprehensive needs assessment also provides a baseline by which to measure improvement, and assists the mentor and protégé in designing an action plan to target those weaknesses. Often the needs assessment occurs in stages or annually. The interview process should include key members from both firms, such as CEO, president, senior management, or program manager.

For example, Fluor Daniel Corporation, a regular participation in business-to-business relationships, starts each relationship by conducting a comprehensive needs assessment of potential protégé companies. After selecting a small business to mentor, Fluor Daniel then conducts a more comprehensive audit, examination of the protégé's business plan, and review of its financial statements. Fluor Daniel incorporates its findings into the mentor-protégé agreement, to articulate clearly both Fluor's and the protégé's expectations for the partnership. The needs assessment process starts the open, honest dialogue and trust that help make such partnerships work.

Effective business advisory strategies adapt to the company's size, industry and stage of growth.

To facilitate meaningful business-to-business linkages, a smaller business's size, industry, and stage of development must be factored into the strategic planning. Businesses face different growth obstacles and possess different capacities depending on their stage of growth and industry.

For example, Dr. Jalaiah Unnan, President and CEO of AS&M, a high-technology firm mentored by Lockheed Martin and SAIC, as well as itself a mentor of smaller companies, has found that the size of the companies can greatly effect the success of the mentor relationship. For instance, large corporations may not grasp the difficulty of writing the first business plan. Start-up businesses are not likely to understand the vast capacity needs of large businesses.

The industry of the businesses can also affect the design of the program. For example, Robert Luster, Chairman and CEO of Luster National, Inc, says that, "A protégé must be able to identify with the mentor; sharing an industry focus can and often does provide an identification or connection between the mentor and protégé. Industries allow the two firms to speak the same language."

Financial Institutions:

- **Classroom Training and Small Business Colleges** - Financial institutions may be especially effective as organizers of these colleges due to their relationships with experts in finance, accounting, advertising, appraisals, and small business and environmental consulting.
- **Intensive financial counseling** - Most financial institutions provide informal advice while underwriting a small business loan; however, a few have organized specific staff to consult with small businesses for this purpose.
- **Post-loan technical assistance** - Some financial institutions offer technical assistance through outside organizations through subsidized or cost sharing arrangements.

Intermediaries and/or Individual Executives:

- **Structured firm-to-firm matchmaking** - Some groups sponsor year-long mentorships in which large firms or volunteer executives are matched with designated small firms.
- **Volunteer executives** - Business associations or organizations such as SCORE enlist volunteer executives to provide one-on-one technical assistance to small businesses.
- **Peer Groups** - Intermediary organizations often organize peer-to-peer groups among business owners to share information, compare progress, and inspire continuous improvement.
- **Advisory Boards** - Some intermediaries organize advisory boards comprised of volunteer executives.
- **Intensive Executive Business Training** - Some programs blend these approaches by competitively selecting a small class of business

owners/entrepreneurs for a business training program.

- **Large company-to-microenterprise intermediary** - Intermediaries may help numerous microentrepreneurs in the same industry benefit efficiently from the expertise of a large firm.

Is BusinessLINC a Federally Funded Program?

The President's FY 2000 budget includes \$3 million to establish a seed fund for coalitions that build effective BusinessLINC's.

Where Can I Obtain More Information on BusinessLINC?

The BusinessLINC website: The National Coalition helps guide the BusinessLINC website, maintained by the Small Business Administration, which provides information on successful programs and a database of interested large businesses, small businesses and intermediaries committed to building these business-to-business partnerships. The web address is www.businesslinc.sba.gov.

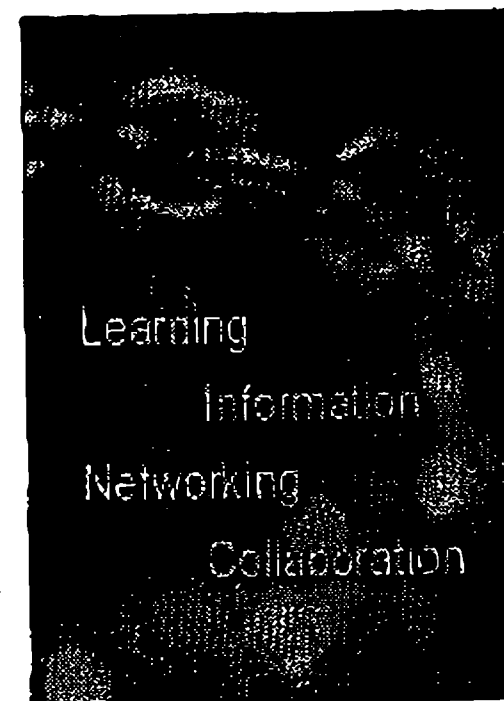
An Information Source: The National Coalition acts as a clearinghouse for BusinessLINC best practices and case studies.

Is There Recognition for Outstanding Business Partnerships?

The Ron Brown Award administered by the Conference Board recognizes outstanding BusinessLINC partnerships.

BusinessLINC

Business-to-Business Relationships that Improve the Competitiveness of Firms



U.S. Small Business Administration

Department of Treasury

The Business RoundTable

What Is BusinessLINC?

BusinessLINC stands for learning, investment, networking and collaboration that together can improve the competitiveness of firms.

What Is the Purpose of BusinessLINC?

BusinessLINC helps stimulate business growth in economically distressed urban and rural areas by fostering business-to-business partnerships and strategic alliances.

The primary goal of BusinessLINC is to encourage large firms to provide technical assistance, business advice, networking, investment and business opportunities for locally owned smaller firms.

What Are Some Examples of BusinessLINC's?

BusinessLINC efforts are sometimes referred to as business mentoring, but are often much more. BusinessLINC's include familiar examples -- firms working to enhance their suppliers' performance, or consumer goods companies strengthening retailers in new markets -- as well as innovative programs run by intermediary organizations, such as business membership organizations and non-profits, that target specific communities or business owners.

How Does BusinessLINC Operate?

BusinessLINC operates on both the national and local level. The BusinessLINC National Coalition, based in Washington DC, serves as a resource and advisory committee for local BusinessLINC coalitions.

The National Coalition is the primary advocate of BusinessLINC strategies, and has a strong

network of corporations, small businesses and intermediaries committed to utilizing their resources to help build and develop businesses through partnerships in distressed areas.

The local coalitions recruit local firms and intermediary organizations, such as specialized non-profits and business membership organizations, to join together to foster BusinessLINC partnerships, especially in distressed communities. Local efforts are underway in New York City, Dallas, Chicago, Boston, the Mississippi Delta, and Washington, DC.

Who Leads the BusinessLINC National Coalition?

The Business Roundtable leads the BusinessLINC National Coalition, which includes companies, associations and community groups. Peter Bjor, the CEO of Texaco, chairs the National Coalition. Current corporate members include Chase Manhattan Bank, GE Capital and McDonald's Corporation. Other members include: National Association of Women Business Owners; Women's Business Enterprise National Council; National Minority Supplier Development Council; The Conference Board; U.S. Hispanic Chamber of Commerce; National Association of Minority Contractors; National Congress for Community Economic Development; and the National Black Chamber of Commerce.

How Does Your Company Become a Participating Member in BusinessLINC?

- Register as a mentor or protégé on the BusinessLINC website! Learn about local BusinessLINC programs through business associations and specialized non-profits. Look

for possible relationships with current suppliers, customers and distribution outlets.

- Expand or launch local BusinessLINC programs. Consult the BusinessLINC webpage for more information (www.businesslinc.sba.gov).
- To become a participating member in BusinessLINC, a large firm would use any of the proven successful BusinessLINC strategies. To measure impact, BusinessLINC companies will commit to a measurable effort by the larger firm and measurable outcomes for the smaller firm. The ultimate goal is to improve the performance and capacity of small firms in distressed areas, and the metrics will track how well BusinessLINC is succeeding.

What Are Some of the Proven BusinessLINC Strategies?

In researching business-to-business partnerships, BusinessLINC found a number of successful BusinessLINC strategies:

Companies:

- Classroom Training and Small Business Colleges -- Some firms offer an extended business curriculum to potential suppliers or to firms in their industry.
- Adopt-a-supplier -- Larger firms offer intensive technical assistance to selected smaller companies on a formal or informal basis. Joint marketing agreements -- Some firms pursue customers jointly with smaller firms.
- Executive grooming -- Firms have chosen promising individuals to cultivate as new suppliers or sales channels (distributors, franchisees, etc.).
- Joint ventures -- Larger and smaller firms have jointly invested in creating a third company.



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Draft Business LINC brochure

NEW MARKETS TOUR: REAL PEOPLE ANECDOTES

APPALACHIA:

- I started out the morning in the town of Tyner, a little village, with a wonderful woman who took me to see her 69-year-old father that just lost his wife after 51 years of marriage. And I saw four generations of that family. And I walked in the neighborhoods and I listened to the people tell me they needed better housing and better transportation.
- And then I went on to Mid-South Electronics, a place that had 40 employees 10 years ago, and has 850 today and about to expand some more, to make the point that any work that can be done by anybody in America can be done here in Appalachia -- and throughout the other places in this country where they're not fulfilling their promise.
- The Appalachian Regional Commission, with my friend, Jesse White, here, will help Appalachian entrepreneurs create new small businesses.
- Sykes Enterprises is making a major commitment -- listen to this -- to construct two information technology centers in Eastern Kentucky that will bring hundreds of new jobs to Pike and Perry Counties. Thank you, Mr. Sykes.
- [The first place I went in Appalachia, 57 percent of the people who live there never finished high school. It's very remote. But there's a man there that expanded a firm that does business with all the high-tech companies in the country from 40 to 850 employees by having all of his present employees do a continuous job training on every new person they try to take out of the hills and hollows of Appalachia.]

CLARKSDALE

- Let me say, I'm delighted that you've done so well over these years since you began in Arkansas. I remember when you planted roots in Pine Bluff. I just think it's worth pointing out that the South Shore Bank of Chicago, which financed you, was really the first great community development bank in the United States. And they were inspired, among others, by a man named Mohamad Yunus from Bangladesh, who has now made millions of loans to poor, poor village people in Bangladesh through the bank you set up. Hillary and I had some contact with him; that's what led to the establishment of the bank in Arkadelphia and to my belief that we in the national government ought to do more to support people like Bill. I think -- again, you've just heard now three stories, and two of them involve people who have had to get credit. (Yunus was also mentioned in the South Phoenix remarks.
- Now, you know, this lady is the assistant plant manager here. According to my notes, she also is the mother of five children. When this place was in bankruptcy, they took it out and they've turned it around. They're doing good business, they're expanding their work

force. And I think what we need, frankly, are more people that have this particular expertise, particularly in the Delta, because there's more than one place like this.

- And I want to thank my friend, Bob Cabe from Blue Cross. You need to know that in our former lives, we were both lawyers. And he's a very special economic development expert for me, because in 1981, I was the youngest ex-governor in the history of America with very limited future prospects, and he and his firm offered me a job. So I am living proof that economic development works, thanks to Bob Cabe -- and I thank you very much.
- [But I just want to emphasize to you, we were in the Mississippi Delta yesterday -- it was also 100 degrees there -- and we were in a little factory that makes picture frames, that had been gone into bankruptcy. And we met a young man that thought he could turn it around and he had opened the place back up -- a place with terribly high unemployment.]
- [But one of the people I met there was a woman who had worked for a small business that was doing okay, but the person running it in this little town, for family reasons, couldn't go on. And she was the only person qualified to take over this business, otherwise it was just going to disappear. But she made very low wages for a person who owns a business, and she had no money in the bank. And because she was able to get some equity capital from someone as farsighted as you, her little business in a year went from five employees to 11 employees -- instead of five people losing their jobs -- and a woman that never made more than a few dollars an hour in her life is now a successful small business owner.]

EAST ST. LOUIS

- Thank you, Mel Farr, for bringing jobs and opportunities and cars, even in two months' installments, to every community in this country. (Farr was also mentioned in the Los Angeles remarks).
- [We were in East St. Louis yesterday, visited a Walgreen's Store in one of the most distressed inner city areas -- I mean, Walgreen's store, this beautiful Walgreen's store -- 30 employees. The manager of the Walgreen's store was a 24-year-old African American girl that grew up in that community and got out of college and was just good at what she did. And that company believed in her enough to give her a chance at the age of 24 to run a store with 30 employees]

PINE RIDGE

- Our whole team visited those new homes that are being built not far from here. We talked to the families that are moving into those homes. I had a little boy take me through every room in the home, tell me exactly where every closet was, tell me what his

sister's room had that he didn't have, and why it was all right, because she was older and she needed such things.

- I thank especially Geraldine Blue Bird, who Secretary Cuomo mentioned -- she let me sit on her porch and she told me how she tries to make ends meet for the 28 people that share her small home and the house trailer adjoining.
- Comments made by Geraldine Blue Bird at roundtable: Mr. President, with regards to that -- my house, the square footage of this is really short for the amount of people that I have here. So with all my kids and my grandkids, when it comes to the living room area here, they're just stepping on them and bumping into them. And my -- Philip is in a wheelchair and he wants to have room. And then I have a stool sitting in the center -- short footage area.

And places like this are small...And I have five bedrooms. So this is what I'm talking about. What you said, with that many people in a small area, that does cause problems. Like here, my own personal opinion is I'd like to see us get jobs, because really to have -- to get one of the homes that are coming up you need to have an income. But right now, we're living on -- well, here on this street I can safely say about 85 percent of us here on this street alone are living on Social Security, SSI, and welfare. That's one income once a month and that's what we use.

My boys, as you have seen, have applied for jobs. They have applications all over. I've even got one boy that went to the service. We've been using his veteran's benefits -- it's hard to get a job here because there isn't one. When you get a job here, you hang on to it because you get an income. Money every two weeks is better than money once a month.

SOUTH PHOENIX

- But I just want to emphasize to you, we were in the Mississippi Delta yesterday -- it was also 100 degrees there -- and we were in a little factory that makes picture frames, that had been gone into bankruptcy. And we met a young man that thought he could turn it around and he had opened the place back up -- a place with terribly high unemployment
- But one of the people I met there was a woman who had worked for a small business that was doing okay, but the person running it in this little town, for family reasons, couldn't go on. And she was the only person qualified to take over this business, otherwise it was just going to disappear. But she made very low wages for a person who owns a business, and she had no money in the bank. And because she was able to get some equity capital from someone as farsighted as you, her little business in a year went from five employees to 11 employees -- instead of five people losing their jobs -- and a woman that never made more than a few dollars an hour in her life is now a successful small business owner

- I got interested in this 15 years ago, when I met a man who was trained in the United States and went home to Bangladesh and founded -- one of the poorest countries in the world -- founded a community bank making microenterprise loans to poor village women, average about -- then -- probably \$20. Today, they average about \$50. But that's a lot of money, in American terms, given the size of their economy. And they had a 96 percent repayment rate. Now he's made millions of these loans, in a country with 100 million people. (Mohamad Yunus was also mentioned in the Clarksdale remarks)

LOS ANGELES

- One of the young people I saw today is about to join the United States Army, once in a gang, was working a computer program in which he was able to match someone in Russia who wanted to buy tires with someone in Colombia who wanted to sell them, and he could get a commission off of it in between
- I saw two young people who were designing automobiles that would be less wind-resistant and, therefore, would operate at higher rates of efficiency.
- Another young man who was mixing sound, so that if I -- he told me if I sang a song flat into his microphone he could tune it up so I'd sound just fine.
- The first place I went in Appalachia, 57 percent of the people who live there never finished high school. It's very remote. But there's a man there that expanded a firm that does business with all the high-tech companies in the country from 40 to 850 employees by having all of his present employees do a continuous job training on every new person they try to take out of the hills and hollows of Appalachia.
- Let me just say, Mel Farr, who is a former all-pro football player from Detroit, is becoming the largest automobile dealer in America, and it's just worked out. One of the announcements we made earlier on our tour is that he has a lot of big financial institutions who've agreed to buy his car loans in bulk, which will enable him to expand all across America and put minority-owned dealerships in every community in this country.

And for people who have modest incomes, you know, he has adapted this sort of car leasing proposal -- you remember, this started a few years ago when people stopped buying cars and started leasing them and leased them three years. Mel will lease people cars, give you leases for as short a period as two months. But if you don't pay, you can't make off with the car, he's got a device that will turn the car off. So he soon will be responsible for the widest distribution of car ownership in America with the largest number of cars that won't run.

This is actually a brilliant thing, because he's giving people a chance to have cars they never could afford otherwise. He's recognizing that people who don't have a lot of cash

income have to live from month to month. And he's doing it in a way that is giving people a chance to run dealerships who never could have run them before; and they will all train people and hire the kind of people that Toyota Center is training.

So, thank you, Mel, for a brilliant thing you're doing. (Farr was also mentioned in the East St. Louis remarks)

- I talked to one of the young men earlier who developed composite parts for cars that would be as strong as steel and weigh a thousand pounds less and get 80 miles a gallon, or 90.
- We were in East St. Louis yesterday, visited a Walgreen's Store in one of the most distressed inner city areas -- I mean, Walgreen's store, this beautiful Walgreen's store -- 30 employees. The manager of the Walgreen's store was a 24-year-old African American girl that grew up in that community and got out of college and was just good at what she did. And that company believed in her enough to give her a chance at the age of 24 to run a store with 30 employees

**Talking Points for the Vice President
White House Business and Entrepreneurial Roundtable on Community Empowerment
Friday, June 5, 1998**

Welcome to the White House for our very first Business Roundtable on Community Empowerment. I'm delighted to kick-off of this series of meetings about the crucial role of business and private investment in lighting up our cities and distressed communities.

But first, I want to share some important news. **Today, we received the latest evidence of America's economic renaissance. Last month, our economy added nearly 300,000 new jobs. Since President Clinton and I have taken office, more than sixteen million new jobs have been created. Unemployment remains at a 28 year low, real wages continue to rise at their fastest pace in a quarter-century, and inflation remains low and stable. America's economic strategy is working --and that is why America's job machine is truly humming.**

This week is significant for another reason: tomorrow is the 30th anniversary of the passing of one of the greatest Americans ever to serve in public life --Robert F. Kennedy. In his short but brilliant lifetime, Robert Kennedy was a prophet of everything possible --of economic opportunity and social justice; of a nation that uses its strength to tackle even tougher challenges, and uses its prosperity to lift up all who had been left out. He was a great inspiration to me, and to my entire generation. And I am grateful that his torch is now carried by his wife Ethel, and by the remarkable foundation that bears his name. And all Americans are grateful that his children have upheld the commitment to public leadership, public service, and community action that Robert Kennedy instilled in us all.

Robert Kennedy once said that “to ignore the potential contribution of private enterprise is to fight the war on poverty with a single platoon, while great armies are set aside.” President Clinton and I agree --and we have made that idea the heart of our empowerment approach: attracting

more jobs and investment to distressed areas. We still have much work to do, but those efforts are paying real dividends. Government cannot be the engine of economic growth --that is the job of the private sector --but we can be a critical catalyst.

Today, I am proud to announce a new federal effort to increase business development in America's distressed communities. Today, I am signing a memorandum that will create a new initiative called "Business: LINC" --which will encourage large businesses to link up with small, locally-owned businesses in distressed areas, to mentor them and help them gain the contacts and know-how they need. By creating this new linkage, we will help small businesses create new jobs and growth, and we will help large businesses tap into new markets across the country. I have charged Secretary Rubin and Administrator Alvarez to coordinate this effort, working with other Federal agencies and the private sector. And I have asked them to report back on Business:

LINC at our second White House meeting in this series, four months from now.

Two leading businessmen will be serving as the honorary co-chairs of this series of roundtables. First, Earvin “Magic” Johnson, who could not be with us today. As CEO of Magic Johnson Enterprises and Johnson Development Corporation, Magic is opening up theaters, coffee houses, and other retail stores in inner-cities across the country.

Our other honorary co-chair is Chad Gifford of BankBoston, the CEO and Chairman of BankBoston. Chad has played a key role in community reinvestment efforts and promoting entrepreneurial growth --particularly through the creation of its new BankBoston Development Company. Now I'd like to begin the discussion by asking Chad to say a few words...



Discussion

- Two leading businessmen will be serving as the honorary co-chairs of this effort. The first, who could not join us today due to the start of his new television show Monday --the “Magic Hour” --is Earvin “Magic” Johnson. As CEO of Magic Johnson Enterprises and Johnson Development Corporation, Magic is opening up theaters, coffee houses, and other retail stores in inner-cities across the country.
- Our other honorary co-chair is Chad Gifford of BankBoston, the CEO and Chairman of BankBoston. Chad has played a key role in community reinvestment efforts and promoting entrepreneurial growth --particularly through the creation of its new BankBoston Development Company. Chad, would you like to say a few words .

..

Now I would like to open the discussion to the business leaders in the room.

- Chad (BankBoston), please start off with a description your announcement today.
- Henry McKinnell (Pfizer), what is included in your new expansion plan in Brooklyn? (Why haven't you left Brooklyn?)
- James Donald (Pathmark), how do you see the inner-city market for supermarkets?
- (Might note that Pathmark is exploring a store at Pfizer's expanded Brooklyn plant.)
-
- Martin Grass (Rite Aid), what will your new commitment mean for communities?

- Emma Chappell (United Bank), why is investing in distressed areas so important to you?
- Jonathan Johnson (Community Pride), the name of your supermarket says it all. Can you tell us more about your business and future plans?
- Arthur Ryan (Prudential), you also have an announcement today .
..
- Pam Aguirre (Mexican Industries --Detroit EZ), you have good news to report as well. (could also ask her about how she has been linking with other businesses and how the Detroit EZ has helped.)
- Anthony Conza (Blimpie) --what is your new entrepreneurial franchise program?

Concluding remarks

- I want to congratulate all the businesses here and ask Secretary Rubin, Administrator Alvarez, and Chad Gifford to make any quick final comments.
- Our Administration will redouble our efforts to provide opportunity to our distressed areas. We will continue to work with the private sector. We will continue to work through the President's initiative on Race to open doors of opportunity, and we urge Congress to provide the funding we need for our community empowerment agenda. Secretary Cuomo will highlight many of these programs in our third White House meeting in early 1999.

- This series is only the kick off of a sustained national effort to work with the private sector to renew our commitments. I look forward to continuing to work with all of you.

* I am also pleased to announce the many new commitments coming from CEOs at this table to distressed areas. For instance:

-- Pfizer announcing a major expansion of its Brooklyn plant, creating hundreds of new jobs.

--Rite Aid pledging to open more than 30 stores in central cities across the country over the next two years.

--Pathmark opening at least four new supermarkets in distressed areas in the next

--BankBoston announcing its first direct equity investment in a minority-owned

two
urba



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What is BusinessLINC?

On June 5, 1998 Vice President Gore announced the BusinessLINC initiative to encourage more private sector business-to-business linkages that enhance the economic vitality and competitive capacity of small businesses, particularly those located in economically distressed urban and rural areas. The name conveys the full range of business-to-business assistance programs. The LINC acronym stands for "Learning, Information, Networking, Collaboration." The Vice President asked Treasury Secretary Robert S. Rubin and SBA Administrator Aida Alvarez to lead the BusinessLINC initiative.

Why was BusinessLINC formed?

BusinessLINC is one component of the Vice President's continuing effort to highlight the importance of business investment in cities and distressed areas. It was formed to encourage the linkage of large businesses to small businesses. BusinessLINC identifies the best practices of business-to-business relationship strategies. The initiative will promote those strategies in an effort to reach small businesses with information about business-to-business relationship opportunities and to encourage large companies to participate in such business-to-business relationships.

[About the Program](#) | [Mentor Network](#) | [Protege Program](#) | [Intermediaries](#) | [Contact Information](#)

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Mentors Network

About The Mentor Network

The Mentor Network is composed of large businesses that have created specialized programs that advance strategic relationships with small businesses. These programs range from classroom teaching, to one-on-one technical assistance, to peer groups and advisory boards, to supplier development programs. Often these programs lead to the development of business relationships that may lead to subcontracting opportunities or other business opportunities.

Benefits of Becoming a Mentor

The benefits of becoming a mentor can be summarized as "good business sense." Large businesses understand that a high-performance supplier base is critical to every aspect of their own success, affecting costs, quality, timeliness of delivery and service. Other firms get involved because they recognize the burgeoning buying power in previously neglected urban and minority consumer markets; they are seeking to establish new locations and minority distributorships and franchises. Finally, companies see that stimulating more local small business development not only improves the local business climate, but also increases the quality of life within these communities.

How to Become a Mentor

You can become a mentor by looking at your own company and community for mentoring opportunities. Could your company start a program with your own suppliers? in cooperation with your local university? as part of a local group affiliation such as the local chamber of commerce? as part of a government procurement activity? Your business must be committed to the relationship at both the management and staff level; be selective in assuring that the BusinessLINC partner is "ready, willing, and able" to make the relationship work; and be prepared to implement commercial discipline with a "win-win" attitude.

Mentors are matched by a dual process of search by mentors for small business partners and by small businesses seeking a mentor. A small business may scan the mentor data base and locate potential mentors that provide programs with the characteristics that meet the needs of the small business. **BusinessLINC does not match mentors and protégés.** A protege may initiate contact with a mentor on the data base, but it is at the sole discretion of the mentor to communicate with the potential protege and to admit the small business into the mentor's program. **BusinessLINC does not guarantee a match and is held harmless regarding match outcomes.** It is the recommendation of BusinessLINC that if a small business is not successful in linking with a mentor firm they should explore the services of intermediaries that can assist in making a protege "mentor ready" and in coordinating a match.

Registering to Become a Mentor

You can **register on this website** with all pertinent information regarding your program or programs to become a member of the Mentor Network. You will be given an ID and Password so that only your company can change the reference information submitted to the BusinessLINC system. You may update at any time and can communicate with us regarding successful matches that have occurred!!!

[Search for Proteges](#)

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Helping the Small Business - A Protégé Network

About the Program

In previous business-to-business relationship programs, the relationship between the large company and small business was referred to as mentor-protégé programs. The BusinessLINC Protégé Network is a comprehensive on-line data base that provides immediate registration for both protégé opportunities and small business procurement/contracting opportunities through **SBA's PRO-Net** system. Protégé registration is hyperlinked to PRO-Net so that your information can efficiently be included in small business profiles scanned by large businesses for **both** mentor-protégé relationships and small business contracting opportunities. One registration is all that is needed to make your business available to both opportunities!

The Benefits

The benefits of becoming a protégé are dependent on the type of program, the commitment of both mentor and protégé and the particular "fit" or synergy between mentor and protégé. Some of the potential benefits include:

- technical advice: nuts-and-bolts assistance with internal operations, financial systems, sales guidance;
- market access: advice on trade shows, advertising and sales reps; introduction to buyers at larger companies; introduction to the government market place;
- endorsement/credibility: mentor endorsement may help in acquiring new customers by providing assurances about a protégé's ability to deliver products and/or services;
- financial access: mentor endorsement may also help persuade lenders to provide purchase order financing and lines of credit;
- potential partnering on procurements: some programs help companies team on bids or contracting opportunities;
- personal advice to chief executives: mentoring often provides counseling for executives on business decisions that are not easily shared among senior staff; and,
- ambition to grow: interaction with larger companies can motivate smaller companies to see new expansion possibilities.

Protégés are chosen by mentors. All business-to-business relationships are made by private agreements between mentor and protégé companies. **BusinessLINC does not match mentors with protégés and does not guarantee that a successful match will occur.** Protégés may contact mentors listed in the database or mentors may choose to contact potential protégés, but all responsibility for the match process, as well as any contractual agreements or teaming between the companies, are at the sole discretion of the companies.

You can become a protégé by registering on-line with BusinessLINC via the **SBA PRO-Net** system; by contacting local intermediaries such as chambers of commerce to assist you in finding an appropriate mentor or mentoring program for your business; by investigating government sponsored mentor-protégé programs such as those sponsored by the Department of Defense, Department of Energy, NASA, FAA, SBA, and the new Treasury program; and by locating private sector programs through trade and industry organizations. All venues should be explored as you search for the appropriate match but your on-line BusinessLINC registration assures you of being included in a national data base that is dynamically accessed daily by many companies throughout the United States.

How to Register

You can register to become a protégé by completing your **SBA PRO-Net** business profile and responding "yes" to questions regarding your interest in becoming a protégé. Remember, when you register on PRO-Net you are providing your business profile for potential contracting



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The Intermediaries

Intermediaries are organizations that play a fundamental role in encouraging, promoting, and facilitating business-to-business relationships and mentor-protégé partnerships. In addition to their many other functions, many organizations serve as intermediaries between the community and business, for businesses within an industry, for businesses within a geographic area, and for businesses with state and/or local governments. In their various capacities, many of these organizations accumulate information about programs that are offered by their members, in their community, or in their industry. As a result, these organizations are in a unique position to serve as a go-between for potential business-to-business relationships or mentor-protégé partnerships.

Intermediary organizations can include local or ethnic chambers of commerce, trade associations, local civic and business organizations, for-profit organizations, community-based organizations and community development corporations, state and local governments, and academic institutions.

For more information about the role that intermediary organizations can play in business-to-business relationships and mentor-protégé programs, see (Coming Soon) Section V, **The Role of Intermediaries** in The Vice Presidential BusinessLINC: Learning, Information, Networking and Collaboration Report.

Benefits

The benefits of becoming an intermediary can vary depending on the other services provided by the organization, the size of the organization, and the function of the organization. For many organizations adding the function of an intermediary for business-to-business relationships would complement the functions that they already provide to the community or to their constituency.

Some of the benefits include:

Although the benefits of becoming an intermediary may vary depending on the scale and type of services offered, most intermediaries can benefit in a number of ways including:

- increasing their opportunity to work more closely with area small and large businesses;
- increasing their visibility within the local business community;
- providing an opportunity to build networks with other businesses;
- providing the intermediaries with an opportunity to stay current on best business practices and exchange information with small and large businesses;
- increasing potential membership base;
- giving an opportunity to build or expand positive relationships with the community; and,
- increasing the opportunity to effect positive community change by increasing local economic development.

Register

You can **register to become an intermediary** by adding your organization's name and other information to the on-line database on this site. This process takes only minutes. All you need to do is fill in your organization's name and address, contact information, services provided, and other information in the on-line registration form.

By registering on-line and becoming part of a searchable database, you are increasing the potential number of mentors and protégés that will learn about the services provided by your organization and how to contact your organization. Potential mentors and protégés can learn more about your organization and the services provided by logging on to the Internet from home, work, local libraries, academic institutions, and any other place where the Internet is available.

Search for Proteges



BusinessLINC

Learning, Information, Networking and Collaboration

**Business-to-Business Relationships
that Increase the Economic
Competitiveness of Firms**

A Report to Vice President Al Gore

December 1998

Presented at the
Second White House Business and
Entrepreneurial Roundtable:
New Opportunity, A Stronger Economy





December 16, 1998



Dear Mr. Vice President:

At the first White House Business and Entrepreneurial Roundtable on Community Empowerment in June 1998, you called together business executives from across the country to highlight the untapped economic potential of our distressed urban and rural communities. You also announced the Clinton Administration's BusinessLINC initiative -- Learning, Information, Networking and Collaboration -- to encourage large businesses to link with and advise small businesses, particularly in distressed areas. You asked us to carry out this initiative and to report back to you at the next Roundtable on the ways in which the Federal government can "collaborate with the private sector to support such business linkage programs and promote best practices in this area."

Small businesses are critical to job growth and the economic competitiveness of the United States, however, too many of these firms, particularly those in economically distressed areas, lack sufficient expertise in critical areas and cannot access the networks of information and resources that larger businesses operating outside these areas utilize.

We are pleased to present you with this report. In preparing the report, we brought together a group of chief executives of large and small corporations and held a series of six regional meetings around the country to learn about best practices. We uncovered a wealth of examples that show how private-sector efforts can help our nation's small businesses grow. The report documents how these business-to-business relationships can benefit not only small firms, but also the larger firms providing advice. Larger firms report, for example, that smaller firms can help them to reach new markets, develop greater agility, build a strong supplier or subcontracting base, and improve the communities in which their businesses are located.

We identify effective strategies businesses seeking these relationships can pursue. By employing these strategies, and using local intermediary organizations to bolster their efforts, corporations can reach an array of firms, including those in economically distressed communities to their mutual benefit. We encourage businesses to learn from the examples discussed in the report, and to explore ways in which the lessons learned could be applied to their own business practices.

Although the report focuses on how the private sector can expand BusinessLINC's, we also believe that government can play an important role in catalyzing these efforts. The Small Business Administration has several programs in place that would allow small firms the opportunity to benefit from the expertise of larger ones. With the release of this report, SBA and the Treasury Department have both committed to expand our support for private sector BusinessLINC efforts, as discussed in the Executive Summary. We look forward to continuing to work under your leadership on this initiative. We strongly believe that such business-to-business relationships will be of enormous benefits to large and small firms, and to our national economy, in the years and decades ahead.

Robert E. Rubin
Secretary of the Treasury

Aida Alvarez
Administrator, Small Business Administration

Acknowledgments

The following individuals, whose companies are leaders in BusinessLINC practices, served as members of a Working Group at the invitation of U.S. Treasury Secretary Robert E. Rubin. The Working Group reviewed the report and provided many valuable insights. In addition, many of these companies participated in a White House roundtable discussion of the report with Vice President Gore, Secretary Rubin and the U.S. Small Business Administration's Administrator Aida Alvarez.

- ❖ Walter V. Shipley, The Chase Manhattan Corporation
- ❖ Gary C. Wendt, GE Capital Corporation
- ❖ John E. Smith, Jr., General Motors Corporation
- ❖ Jack M. Greenberg, McDonald's Corporation
- ❖ J. Robert Beyster, Science Applications International Corporation
- ❖ Diva Garza, StaffMark Inc.
- ❖ Carlton L. Guthrie, Trumark, Inc.

We are indebted to the many individuals who provided us with essential documentation for the report. For their thoughtful review of the report, special thanks are due to the following individuals: Tom Lazo, Sr., L.P.I., Inc.; Paul Grogan, Local Initiative Support Corporation; Roy Priest, National Congress of Community Economic Development; Harriet Michel, National Minority Supplier Development Council; Hugh Price, National Urban League; Tom Donahue, U.S. Chamber of Commerce; Marva Smith Battle-Bey, Vermont Slauson Development Corporation.

In addition, the Initiative for a Competitive Inner City, headed by Professor Michael Porter of the Harvard Business School, provided case studies of a number of BusinessLINC relationships included in Appendix B and offered valuable input to a number of sections of the report.

In addition to meetings organized by SBA and Treasury, we also recognize the Department of Defense Office of Small and Disadvantaged Business Utilization for organizing the Los Angeles BusinessLINC Regional Meeting, the Department of Commerce Minority Business Development Agency for organizing the Atlanta BusinessLINC Regional Meeting, and the Office of Mayor Ron Kirk for organizing the Dallas BusinessLINC Regional Meeting.

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Finally, a special thanks goes to Clifton G. Kellogg, Senior Policy Advisor, U.S. Department of the Treasury, whose tireless effort as principal author of the report and architect of the BusinessLINC initiative made this publication possible.

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Executive Summary

Vice President Al Gore launched an initiative in June 1998 called "BusinessLINC"-- Learning, Information, Networking, and Collaboration -- to galvanize business-to-business relationships that build the competitive strengths of small businesses, especially those located in economically distressed urban and rural areas. The Vice President asked Treasury Secretary Robert E. Rubin and U.S. Small Business Administration's Administrator Aida Alvarez to co-chair the effort to research business-to-business advisory services in all contexts and to suggest how best practices could be applied in urban and rural economically distressed communities.

Small businesses are critical to job growth and the economic vitality of the United States. Of the approximately 6.6 million employers in the U.S., over 5.5 million are businesses that employ fewer than 100 employees.¹ Small businesses with fewer than 100 employees employ over 37 percent of all full-time employees.² As America grows more diverse, the face of small business is also changing: in the most recent survey of business ownership prepared by the Bureau of Census, over the five-year period from 1987 to 1992, the number of minority-owned small businesses grew at a 62 percent rate while the total number of firms grew 26 percent. Yet relatively little attention has been paid to the ways that business relationships with larger firms can help smaller firms thrive and compete effectively.

The Department of the Treasury and the Small Business Administration, in partnership with other Federal agencies, held a series of BusinessLINC Regional Meetings across the country with over 500 business people, civic leaders and practitioners in the summer and fall of 1998. In addition, Treasury staff have conducted additional research, including in-depth interviews with experts from corporate and civic organizations, to learn from a wide array of experience. Because there has been little academic research on this topic, Treasury also contracted with Harvard Business School Professor Michael Porter's research and consulting firm, the Initiative for a Competitive Inner City, which has expertise in business strategy and economic development, to conduct additional research and develop detailed case studies of several business-to-business relationships. Finally, members of a CEO working group put together by Secretary Rubin, and outside expert reviewers, provided additional material and extensive input for the report. The report is based on our findings from these meetings, interviews and additional research.

Our work suggests that business-to-business relationships -- which include learning, information-sharing, networking among firms and intermediaries, and collaboration on specific projects -- can be essential to business success and a vital resource to help economically distressed

¹ U.S. Census Bureau, U.S. Firms, Establishments, Employment, Annual Payroll, and Estimated Receipts by Industrial Division and Enterprise Employment for 1995.

² Office of Advocacy, U.S. Small Business Administration, from data provided by the U.S. Department of Commerce, Bureaus of the Census, March 1997 Current Population Surveys.

communities. Both companies and individual business professionals can bring their expertise and resources to bear through BusinessLINC activities. As Michael Porter has stated, "business-to-business connections, whether they be in training, purchasing, mentoring, or supplier relationships, are the most precious resource companies can contribute. A network of business relationships and sources of advice is critical to any company's success."³

Based on the meetings, interviews and research conducted as part of the BusinessLINC initiative, this report for the first time catalogs these corporate relationships ("BusinessLINC strategies"), sets forth the lessons to be learned from them, and presents an action agenda for businesses to create more BusinessLINC relationships -- at the individual business level, in local initiatives and at the national level.

"Chase has long recognized that the growth and strength of small businesses is a key element to the overall health and vitality of our communities and of our own business success in those communities."

-- Walter V. Shipley, Chairman, The Chase Manhattan Corporation

The Regional Meetings also illustrated how BusinessLINC strategies can have an important impact on distressed areas. An objective of this report is to encourage businesses outside economically distressed communities to enter into partnerships with businesses in these areas. The action agenda is designed to provide a blueprint for allowing the benefits of BusinessLINC strategies to reach more small and large businesses, particularly those in economically distressed areas.

Companies enter these business-to-business collaborations to further their business objectives. The report presents how companies are creating profitable opportunities with smaller firms as part of their business strategy. For example,

- Turner Construction operates a nationwide training program that has trained over 7,000 construction subcontractors, providing Turner with high-quality low-cost suppliers;
- The North Texas Commission and the Dallas/Fort Worth Minority Business Development Council annually match 35-40 entrepreneurs with corporate mentors to advance the growth of small minority and woman-owned companies and also to benefit the mentors;
- Chase Manhattan Bank's Business Resource Centers have counseled over 5,000 small business owners directly or through referrals to outside professionals, resulting in more than \$38 million in loans to more than 500 small businesses; and

³ Porter, Professor Michael E., "The Next Agenda for America's Cities: Competing in a Global Economy," First Annual James W. Rouse Lecture, June 24, 1997.

- The Women's Network for Entrepreneurial Training program, operating from the Boise, Idaho SBA District Office since 1995, has served over 1,000 women business owners with assistance through mentoring roundtables.

The benefits to both large and small companies from BusinessLINC practices can be significant, as discussed in Chapter I. Smaller firms can use BusinessLINC strategies to enhance their capability and their capacity through:

- obtaining technical advice;
- enhancing management development;
- leveraging core strengths;
- accessing sources of financing;
- increasing marketplace credibility; and
- entering subcontracts and joint ventures.

Larger companies may see benefits such as:

- reaching new markets;
- partnering with agile companies;
- cultivating a world-class supplier base;
- thriving in industries that call for inter-firm collaboration; and
- creating stronger communities and a stronger business environment.

Based on our extensive interviews, we found that the major participants in business-to-business relationships often are: (1) corporations that rely on smaller companies as suppliers and sales channels; (2) financial institutions; (3) business-led membership organizations; and (4) specialized nonprofits. We discuss this more fully in Chapter II, along with the range of partner firms. Although this report primarily focuses on BusinessLINC strategies used by corporations, these activities are often led by entrepreneurial individuals within firms. Individual business professionals may be interested in applying the ideas in this report within their company or through the intermediary organizations mentioned above.

In Chapter III, we classify this range of business-to-business relationships into five basic strategies: (1) one-on-one technical assistance and consulting; (2) classroom and group training; (3) peer groups and boards of advisors; (4) supplier development and strategic alliances; and (5) sales channel development.

No matter which BusinessLINC strategy was used, firms and practitioners who were interviewed repeated many of the same keys to successful BusinessLINC strategies, discussed in Chapter IV:

- The business-to-business relationship must be mutually beneficial -- a "win-win" for both firms. Successful BusinessLINC have the hallmarks of a serious business relationship --

a focus on business outcomes, commitment, efficient and effective interactions, and accountability.

- The greatest benefits of BusinessLINC relationships come over a long term and often in unanticipated ways. BusinessLINC relationships rarely generate large profits in the short-term, but often provide real benefits over time.
- The business must be committed to the relationship at both the top management and staff levels, with appropriate incentives for performance.
- Successful business-to-business relationships often rely on successful personal relationships. People often tend to do business with people they like and trust. BusinessLINC strategies are a method for finding and developing common business goals and capacities, and developing trust and personal ties.

Chapter V focuses on the role of intermediary organizations – specialized nonprofits and business-led membership organizations – in forging and supporting BusinessLINC. These organizations can provide the necessary local market knowledge and business skills to maximize a company's investment in BusinessLINC strategies.

"General Motors believes a positive working relationship between small and large businesses is critical to the development of healthy, vibrant communities. By working together, small and large companies can learn from each other, benefit from each other, and provide the economic growth needed for communities to flourish."
-- John E. Smith, Jr., CEO, General Motors

In particular, these strategies can have force in economically distressed communities, as is discussed more fully in Chapter VI. Successfully partnering with businesses in distressed communities requires the same type of local market knowledge -- about the companies, about the marketplace, and about the competitors -- as it does to penetrate any new market. Although there are important challenges to BusinessLINC with firms in these communities, there are also real business opportunities. Secretary Rubin has said, "these BusinessLINC relationships can play an important role in helping firms in economically distressed communities to grow and succeed."

A number of companies and organizations target their efforts to foster business-to-business relations in economically distressed areas. For example,

- GE Capital's Small Business College is an 11-week structured networking and educational seminar for small business owners that partners with organizations that reach local firms in distressed areas, such as the Port Authority of New York and New Jersey, and Public Service Electric & Gas of New Jersey.

- Coastal Enterprises in rural Wiscasset, Maine provides technical assistance and financing to small businesses, having loaned or invested \$50 million in 1,000 ventures and provided training and technical assistance to roughly 4,000 women-owned businesses. Coastal Enterprises also facilitates peer networks and advisory boards for owners, in conjunction with training or individual consultation.
- Baltimore Advisors is a privately funded nonprofit whose mission is to increase employment in Baltimore by strengthening companies with annual sales from \$1 million to \$20 million. A network of corporate partners, comprised of business professionals and owners from mid- to large-size businesses provides one-on-one direct work, group strategy sessions and advisory boards.

Distressed urban and rural areas face a number of challenges. Businesses often must deal with outsiders' lack of market information about the local business community and its resources; outsiders' preconceived stereotypes of businesses, workers or consumers located in poorer areas; and the limitations business owners in these areas may face due to their isolation from mainstream business networks.

Despite these barriers, certain advantages may enhance business opportunities for firms interested in investing in, or linking with, smaller firms in these communities. Michael Porter suggests that inner cities have four basic competitive advantages: strategic location near

business, transportation or communication networks; unmet local customer demand in high density areas; a committed and available workforce; and integration with regional industries and clusters.⁴ Likewise, in rural areas, latent competitive advantage may be found in proximity to natural and extractive resources, availability of developable sites, and human resources.

"GE Capital views the GE Capital Small Business College as a sound investment in the communities it serves. It yields stronger small businesses, enhanced employment, improved economic conditions, and the potential for future business partnerships with our company"
 -- Gary Wendt, CEO, GE Capital

At the Regional Meetings and follow-up interviews, most successful examples of BusinessLINC activity in economically distressed communities involved the use of intermediaries brokering business-to-business connections. In Chapter VI, this report identifies special recommendations for BusinessLINC initiatives in economically distressed areas:

- Partner with a skilled intermediary organization to fill market information gaps, supplement skill training and build trust;
- Profile the business community and its existing support organizations;
- Create access to new customers and new markets;

⁴ "The Competitive Advantage of the Inner City," *Harvard Business Review*, May/June 1995.

- Create a long-term growth plan to provide useful encouragement; and
- Consider the full range of skills distressed-area businesses will need to grow.

BusinessLINC concepts were also part of the first Roundtable in June, including the announcement by Pam Aguirre, CEO of Mexican Industries, that her firm had undertaken two joint ventures with larger firms in the automotive industry that would strengthen all the firms involved. Mexican Industries' ventures continue to move forward today, and this report reviews a range of BusinessLINC strategies such as joint venturing.

Treasury Secretary Rubin and SBA Administrator Alvarez transmitted this BusinessLINC report at the second in a series of White House Business and Entrepreneurial Roundtables on Community Empowerment. At this Roundtable, the Vice President announced a series of initiatives to implement BusinessLINC:

Secretary Rubin explained the following efforts:

- A new BusinessLINC website, developed by Treasury and maintained by SBA, will be launched that will allow businesses to identify local BusinessLINC resources, success stories, and interested small and large companies;
- Treasury will launch a BusinessLINC program to encourage these business relationships the Department's own procurement practices;
- To carry on BusinessLINC efforts in the private sector, Secretary Rubin acknowledged the creation of a new coalition that will take up the Action Agenda. Participating organizations include the Business Roundtable, the National Minority Supplier Development Council, the Conference Board, the National Black Chamber of Commerce, the U.S. Hispanic Chamber of Commerce, National Association of Women Business Owners, the Women's Business Enterprise National Council, the National Association of Minority Contractors, the National Congress for Community Economic Development, and American Women's Economic Development Corporation;
- At the local level, a number of local organizations in the cities where we held regional meetings have also agreed to foster BusinessLINC in their communities:

New York City: American Women's Economic Development Corporation, Asian Women in Business, Chase Manhattan Bank, New York City Partnerships & Chamber of Commerce.

Cleveland: Cleveland Regional Minority Purchasing Council - Greater Cleveland Growth Association.

Dallas: Dallas-Ft. Worth Minority Business Development Council, GTE, North Texas Commission, North Texas Women's Business Council.

Los Angeles: Asian, Inc., UCLA School of Public Policy and Social Research, Vermont Slauson Economic Development Corporation.

Chicago: Chicago Association of Neighborhood Development Organizations,
Chicagoland Chamber of Commerce.
Washington, DC: The Greater Washington Board of Trade.

SBA Administrator Alvarez stated that "SBA has made a strategic commitment to increasing access to its programs by these new, emerging small business communities. SBA is committed to increasing economic opportunity for all Americans." SBA helps small businesses succeed by acting as an intermediary for capital, counseling, contracting, and networking for small businesses. Administrator Alvarez explained several SBA announcements:

- The launch of the HUB Zone program to provide Federal contracting opportunities for qualified small businesses in distressed communities. The SBA expects that HUBZone contracting will equal roughly \$2 billion in FY 1999 and increase to almost \$6 billion in 2003.
- The approval of the first formal mentor-protégé relationship before the first of the year under SBA's new 8(a) Mentor-Protege Program to enhance the capacity of these firms and improve their ability to compete for federal contracts.
- The development of a new on-line "Small Business Classroom" for training and informing entrepreneurs on how to raise capital, how to write a business plan, and how to reach counselors and mentors.
- The expansion of ACENet (Angel Capital Electronic Network) that will help minority- and women-owned businesses to access investment capital.

Companies also announced several new BusinessLINC activities including:

- Bell Atlantic will target \$1.8 billion in direct purchases and subcontracts to small businesses by the year 2000, pursuant to a Memorandum with the SBA. Bell Atlantic will also formally mentor at least three companies each year.
- Science Applications International Corporation (SAIC), with \$4 billion in sales, will sign joint marketing agreements with small businesses to pursue commercial contracts, applying its lessons learned from federal mentor-protégé programs. In addition, SAIC will establish a high-level committee to examine how to develop relationships with small businesses in HUB Zones, Empowerment Zones and Enterprise Communities.
- Chase Manhattan Bank will open a Business Resource Center in the Bronx, its third such center, to provide technical assistance to an estimated 500 small businesses per year. Chase will also offer in-depth, structured BusinessLINC assistance to selected Chase suppliers and other minority- and women-owned businesses by Chase's senior executives and the National Association of Black Management Consultants. Additionally, Chase will become a corporate sponsor of the new coalition promoting BusinessLINC activities.

- GE Capital's Small Business College will extend its outreach to attract small business owners in distressed areas to its four existing Small Business College sites (New York City, Newark, NJ, Philadelphia and Stamford, CT) with over 200 graduates. In the Spring of 1999, GE Capital will also open a fifth College site, in St. Louis. GE Financial Assurance will pilot a new seminar series for women business owners in Washington DC, reaching an estimated 2,500 people in the first year.
- Trumark broke ground in the last month for a joint venture with Mackie Automotive Systems that will create over 300 jobs in Detroit's Empowerment Zone, an example of an increasingly common BusinessLINC strategy in the automotive industry. In addition, Trumark has enlisted the National Association of Black Automotive Suppliers to act as a BusinessLINC intermediary in the Detroit area to foster new BusinessLINCs.
- McDonald's Corporation, as part of its efforts to support small business entrepreneurship in central cities, facilitated the sale of 19 restaurants in Youngstown, Ohio, to an African American franchisee. McDonald's also announced that of the 125 applicants in training to be new McDonald's franchisees, 65 percent are minority and women, including 43 African Americans, 13 Hispanic Americans and 12 Asian Americans. Moreover, McDonald's reported that its purchases from minority suppliers have more than quadrupled since 1997, putting such purchases at almost \$3 billion in 1998.

This report is intended to spark further efforts by the private sector, local organizations, and government, working together. To foster these initiatives, the report suggests a BusinessLINC Action Agenda, summarized on the next page and detailed in the final chapter.

Summary of Action Agenda

A. Starting More Individual BusinessLINC

1. Consider objectives and desired outcomes.
2. Profile the potential BusinessLINC partners.
3. Learn about existing organizations and resources, public and private, that could complement the effort.
4. Formulate a BusinessLINC strategy for your company or organization, such as:
 - one-on-one technical advice and consulting,
 - classroom and group training,
 - peer groups and boards of advisors,
 - supplier development and strategic alliances, or
 - sales channel development.
5. Consider special factors in establishing BusinessLINC in economically distressed areas.

B. Catalyzing More BusinessLINC at the National Level:

1. Recruit a coalition of organizations to advocate BusinessLINC strategies through their networks, and corporations to build into their core business strategies.
2. Disseminate BusinessLINC best practices and case studies, and create forums for businesses to exchange information and practices.
3. Develop a national award for leading BusinessLINC practices, and compose case studies of winning companies.
4. Create a seed fund that a national BusinessLINC coalition could award to local BusinessLINC initiatives focused on economically distressed areas.
5. Promote and support an Internet website to encourage BusinessLINC activity.

C. Catalyzing More BusinessLINC at the Local Level:

1. Recruit local firms to employ BusinessLINC strategies.
2. Galvanize support to bolster local intermediary organizations, such as specialized nonprofits and business membership organizations, that foster BusinessLINC.
3. Target resources to enlist existing organizations that can encourage more BusinessLINC activity in economically distressed communities.

I. Introduction: The Benefits of BusinessLINC^s

In today's global economy, high-performance businesses of all sizes and industries -- from micro-enterprises to large franchises, from small retailers to large manufacturers, from the self-employed to large corporations -- must constantly learn, evolve, and pursue new markets. While access to capital and technical assistance remain crucial for small businesses' success, this report suggests that business-to-business relationships that provide opportunities for learning, information, networking and collaboration can also determine the difference between success and failure.⁵ BusinessLINC^s can create mutual benefits for larger companies as well as smaller companies, or between firms in the economic mainstream and firms located in an economically distressed area.

Benefits to Larger Companies

Companies continually seek competitive advantages both in finding new markets and in delivering product as efficiently as possible. Often, without formally noting the significance of these business-to-business relationships, business owners derive technical skills, organizational and managerial capacity, and market opportunities through these interactions. For larger businesses in the economic mainstream, these linkages and relationships occur frequently in the course of doing business. Many businesses are now approaching their network of business relationships as a resource -- including relationships with smaller companies, with minority business enterprises (MBEs), and with firms in distressed urban and rural areas -- and are thinking strategically about how to fortify their competitive position. Some of the potential benefits to mentor companies are listed below.

Reaching new markets

Firms seeking to reach untapped markets are aware of three important considerations: first, the demographic projections showing the increase in minority populations throughout the U.S.; second, the rapid growth of firms owned by women and minorities; and third, the unserved buying power of many inner city markets.

Demographic trends show that new customer segments are becoming more important to the U.S. economy. Increasingly, ethnic minority populations are acquiring wealth and significant buying power. Demographic studies show that by 2050 nearly half the U.S. population will be non-

⁵ "Business mentoring" and "mentor-protégé" are terms that some programs use to describe their BusinessLINC strategy. The nomenclature can create a false impression of paternalism or dependency. Indeed, most firms find mutual benefits. Although an oversimplification, this report uses the terms "small business" and "large business," except when discussing programs that themselves use "mentoring" vocabulary.

VI. Focus: Targeting BusinessLINC to Economically Distressed Areas

This chapter discusses the special character of BusinessLINC strategies that focus on economically distressed areas. The companies and organizations working in economically distressed areas emphasized (1) how similar successful BusinessLINC strategies in distressed areas are to the examples already discussed, and yet (2) how working in distressed areas calls for a more accurate understanding of local conditions and more willingness to work with skilled organizations. There are significant business challenges in economically distressed areas that should not be understated or minimized.³⁴

At the same time, BusinessLINC strategies may be an important way in which firms can enter these new markets. A number of intermediary organizations focus specifically on bringing the benefits of BusinessLINC strategies to economically distressed areas and, from the perspective of firms in the economic mainstream, these areas should not be overlooked when considering a BusinessLINC strategy.

Firms considering BusinessLINC strategies in distressed areas may take note of work by Professor Michael Porter of Harvard Business School and the research and consulting organization he founded, the Initiative for a Competitive Inner City, that analyze the economic advantages of inner cities.³⁵ Understanding these advantages can help firms see potential opportunities in linking with smaller firms in these communities. Porter suggests that the competitive advantages of inner cities fall into four areas:

- Strategic location. Inner cities are often near high-rent business centers, entertainment complexes, and transportation and communications nodes. As a result, Porter believes that inner-city locations can offer a competitive edge to logistically sensitive businesses that benefit from proximity to downtown, transportation infrastructure, and concentrations of companies.

³⁴ Practitioners caution that low-income business owners may face special issues in working with mainstream businesses, ranging from different communication and learning styles, to difficulty in building trust and reliance on others, to greater instability in balancing work and family issues, to the need for extra support for some who are transitioning from welfare to microentrepreneurship.

³⁵ Porter, Michael, "The Competitive Advantage of the Inner City," *Harvard Business Review*, May/June 1995; Boston Consulting Group / Initiative for a Competitive Inner City, "Strategies for Boston's Inner-City Business Growth," December 1996; Boral Industries / Initiative for a Competitive Inner City, "The Competitive Advantage of Inner City Atlanta," 1996; Porter, Michael, "New Strategies for Inner-City Economic Development," *Economic Development Quarterly*, vol. 11, No.1, February 1997, pp 11-27; The Boston Consulting Group and the Initiative for a Competitive Inner City (Oakland Advisors), "Business Opportunities in Inner-City Oakland," April 1998; Boston Consulting Group / Initiative for a Competitive Inner City, "Strategies for Business Growth in Chicago's Low-Income Neighborhoods," June 1998; Boston Consulting Group / Initiative for a Competitive Inner City, "The Business Case for Pursuing Retail Opportunities in the Inner City," 1998.

- Unmet local demand. Inner cities represent a significant retail market with few large businesses serving it. Despite low average incomes, high population density in many inner cities translates into a local market with substantial buying power per square mile. Therefore, Porter points out that these markets may present opportunities both for chain and independent retailers.
- Human resources. Although inner-city populations may present workforce readiness challenges, Porter contends they can be an attractive labor pool for businesses that rely on a loyal, modestly skilled workforce.
- Integration with regional industries and clusters. Porter argues that many business opportunities for large and small businesses could be tapped into by linking with inner-city businesses across the spectrum of industries.

Key Considerations for BusinessLINC Strategies in Distressed Communities

At the Regional Meetings and follow-up interviews, most examples of BusinessLINC activity in economically distressed communities came from intermediaries brokering business-to-business connections. This section compiles those organizations' and other businesses' thoughts on the key considerations in forming BusinessLINC in distressed areas.

These practitioners working in distressed areas felt strongly that fostering more BusinessLINC could open important growth channels for firms in their communities. Jackie Varma from the John C. Ford Program in Dallas said that business isolation forms an "economic glass ceiling" restraining firms' growth. More opportunities for inner-city businesses to partner with mid-size businesses could address part of that obstacle. In addition, these practitioners repeated that limited access to capital continues to stunt small business growth in these areas.³⁶

Partner with a skilled intermediary organization to fill market information gaps, supplement skill training, and build trust.

Intermediary organizations can improve the quality of the business-to-business relationship and reduce the costs of doing business in distressed communities. Chapter V describes how intermediaries can bridge between an outside firm's skills and objectives and a local business community. Intermediaries can screen firms, provide direct technical assistance to small businesses, and build a structure for the relationship that leads to a trusting and mutually satisfactory relationship.

³⁶ SBA's One-Stop Capital Shops (OSCS) deliver entrepreneurial and financial assistance to small businesses in distressed communities. Currently, OSCSs are located in fifteen communities across the country. Since the first OSCS was opened in 1995, 40,000 clients have been counseled, over 5,500 jobs have been retained or created, and over \$83 million in loans have been approved.

Profile the business community and its existing support organizations.

Businesses should be careful to avoid oversimplifying and stereotyping these business communities. From community to community, the strengths of existing businesses and the site-specific obstacles facing businesses vary substantially. Support organizations may include the various intermediaries discussed in Chapter V.

Profiling the business community, by industry and by size of firm, over the recent past may suggest potential industry clusters and ascendant or declining sectors. In addition to the raw data, a geo-coded map displaying major firms, schools, and community institutions may illuminate business opportunities. Intermediaries can provide more nuanced information. Interested firms may begin by identifying a particular niche of businesses (e.g., by geography, by size, by industry) with which the corporation can work.

Business Outreach Center Network (BOC Network)

The BOC Network in New York is a multi-community program that links small businesses to the mainstream economy, crossing cultural and racial lines in many New York neighborhoods. The offices assess the specific needs of the clients, and provide access to a variety of public and private technical assistance services. BOC also understands the importance of business-to-business linkages, and has connected new business owners with more established businesses in complementary industries.

As one BOC example of linkage, a Caribbean-American entrepreneur based in Staten Island was

struggling to expand her bean-bread bakery from a retail to a wholesale manufacturing enterprise. She contacted the local BOC office, which helped her obtain a business plan and loan packaging assistance. The BOC staff person learned of a larger, Middle Eastern bread bakery business in Brooklyn at a monthly case-sharing meeting with other BOC offices. BOC made the connection between the two bakeries, enabling the smaller company to gain critical contacts and knowledge. In addition to mentoring, Damascus, the Brooklyn company, donated specialized baking machinery to the smaller company.

Accessing new customers and new markets is critical.

Even the skilled intermediaries sought greater knowledge about the channels through which larger companies buy goods and services and the possible vehicles for businesses to reach them, both of which often vary for different industries. According to practitioners, another aspect of the same issue is the struggle these businesses have in establishing credibility with buyers. These representatives repeatedly said that accessing markets is perhaps the greatest new benefit that BusinessLINC activities could bring to their communities.

GE Capital Small Business College

The GE Capital Small Business College is a structured networking and educational seminar for owners of existing, successful small businesses, with special outreach efforts to businesses operating in economically distressed areas and to minority-owned businesses. GE Capital frequently partners with other large organizations to assure outreach and enrollment to targeted businesses.

GE Capital partnered the Port Authority of New York and New Jersey and with PSE&G, an electric and gas utility in New Jersey. The goal of these partnerships is to help firms become qualified subcontractors, so they can bid for larger contracts. GE Capital brings the course structure

and instructors, while the partner organizations subsidize the cost and contribute some of the instructing and counseling staff.

The curriculum is coupled with one-on-one counseling and periodic small-group discussions. The college is presented in two formats: one morning per week for 11 weeks or intensively in three days. Sessions are limited to approximately 20 companies per class. Their annual sales must exceed \$500,000 and they must have been in business for more than three years or have more than three employees. Approximately 200 participants have graduated from the college.

Creating a long-term growth plan can provide useful encouragement

Practitioners said that sometimes distressed-area business owners have simply not had the opportunity to see other businesses grow. Helping to visualize a growth path and the steps down that path can empower an owner to begin taking those steps. For this reason, role modeling and peer groups can be especially useful.

American Woman's Economic Development Corporation

AWED is a non-profit organization providing women-owned businesses with networking, training and counseling services. AWED serves 2,000 people per year, with most participant businesses earning less than \$500,000 in revenues. 40 percent of participants are minority women who either have a small business or are interested in starting their own business. Different programs are tailored to the participants:

- A specialized program entitled "New Directions" helps 35 women a year move from public assistance to microbusiness ownership.
- "Starting Your Own Business" is a three-day or ten-week program that focuses the entrepreneur on developing a business plan, devising marketing and sales strategies, and addressing cash flow, accounting and

insurance issues. The program ends with a critique of the entrepreneurs business plan and financials.

- The "Access to Capital" program provides counseling and mentoring from the financial community. The class size is limited, participants are interviewed, and they must demonstrate they have been in business for at least three years and have annual sales of at least \$500,000. Each of these programs has a core curriculum, and each class is tailored to the needs of the incoming participants/students.
- Finally, AWED offers participants one-to-one counseling. Counselors include AWED staff and volunteer entrepreneurs and business executives.

Consider the full range of skills and resources distressed-area businesses will need to grow.

As Paula Graves from Tuck's executive training program said, "Businesses need three skills to grow, basic business skills, growth skills, and the opportunity to reach markets." A skilled intermediary with local experience can anticipate potential issues and identify local resources. Depending on the type of firms targeted, owners may need assistance with basic business skills, growth skills (including the essential "soft" skills of foreseeing how to grow and how to create networks), access to capital, and opportunities to access mainstream markets. A well-crafted BusinessLINC strategy targets a segment of firms with similar issues, meets the entrepreneur at his or her level, and provides appropriate business assistance.

John C. Ford Program

The John C. Ford Program of Dallas, Texas assists microenterprises and "pre-ventures" in low- to moderate-income areas and links them with major corporations. The Ford Program recently began a collaboration with DFW Metroplex Wal-Mart Stores, in which Wal-Mart managers will teach in several courses and will seek commercial relationships with graduates. The Ford Program draws on many resources including the Pastor's Alliance Network, a coalition of over 350 area experts in banking, business, law, and accounting.

The John C. Ford Program provides a ten-week "mini-MBA" program taught by business practitioners in financing, marketing, accounting, tax issues, business contracts, and business organization. This program is open to those in the start-up or planning stage and offers five years of

follow-up biannually. In addition, the program offers 12 weeks of on-site consulting from a team containing a volunteer attorney, an accountant, a marketing specialist, a management analyst, and business or law school interns. Lastly, the People's Business Max Academy Program is a sixteen-hour intensive program for those businesses with intermediate to advanced understanding of business fundamentals that focuses on cost-effective marketing, business plans, financial statements, alternative working capital and investment resources, and retirement packages. To date, the John C. Ford has served over 340 low- and moderate-income small business owners and pre-ventures in the People's Business College Education Program and the On-Site Consulting Programs.

Employee Ownership as an Empowerment Strategy

Employee-owned companies believe strongly that their ownership structure creates the incentives for success and that these concepts apply equally well in distressed communities. Owning a stake in the company may help draw well-qualified employees to join the company. A number of nonprofit organizations can provide low-cost or free consulting in this area, including the Foundation for Enterprise Development (created and supported by J. Robert Beyster, the CEO of SAIC) and the National Center for Employee Ownership.

VII. Conclusion: BusinessLINC Action Agenda

This report seeks to galvanize private sector action in two ways:

First, this report encourages direct implementation of BusinessLINC activity by private corporations, financial institutions, business-led membership organizations and specialized nonprofits, as well as individual business professionals. The implementation suggestions are based on lessons learned from the successful strategies already operating in the marketplace. These implementation suggestions are signposts -- they are not prescriptive or rigid, nor do they cover every possible approach. These recommendations are discussed in Part A below.

Second, the report proposes how to catalyze more BusinessLINC action through coalitions of existing organizations at the national and local level. These recommendations are described in Parts B and C below.

*A. Starting Individual BusinessLINC*s

Firms and organizations participating in BusinessLINC relationships suggested the following steps for developing a BusinessLINC strategy appropriate to a particular context:

Step 1: Consider objectives and desired outcomes

A crucial first step for both large companies and smaller companies is to list the goals of the business-to-business relationship. Whether short-run or longer-term, the linkages should be "win-win" in nature, as discussed in Chapter I. A business's motivations and objectives may be relatively quantitative, such as improving margins, accessing new markets or diversifying its supplier base. Other businesses may be looking for more qualitative gains, such as strengthening their communities, bolstering their corporate image, promoting urban entrepreneurship or assisting microenterprises. Some businesses want to generate commercial gain, while others may wish to contribute resources (in-kind or financial) through their BusinessLINC strategies. A clear articulation of objectives and outcomes will most likely lead to a proper linkage strategy.

Step 2: Profile the potential BusinessLINC partners

It is important to consider the firm traits that will make suitable BusinessLINC partners. This is true for both the larger and smaller firm in the relationship. Often it is helpful to start by imagining the desired outcome and then reasoning back to the type of firm or entrepreneur that could fit into such a scenario, as discussed in Chapter II.

Step 3: Learn about existing organizations and resources, public and private, that could complement the effort

As in any strategic analysis, consider possible external resources. Business-led membership organizations, specialized business-oriented nonprofits, chambers of commerce, trade associations, minority business councils, and other arrangements such as those profiled in the report, particularly in Chapter V, may provide valuable connections and may reach firms that you might not otherwise get to know.

Step 4: Formulate a BusinessLINC strategy for your company or organization

After evaluating the business context, the small firm, and other organizational resources, consider the five basic BusinessLINC strategies spelled out in Chapter III:

- one-on-one technical advice and consulting;
- classroom and group training;
- peer groups and boards of advisors;
- supplier development and strategic alliances; and
- sales channel development.

A strong BusinessLINC strategy often mixes these approaches to meet the particular requirements of both businesses involved, as explained in Chapter IV on key factors for success.

Step 5: Consider special factors in establishing BusinessLINC in distressed areas

The best practices among innovative organizations suggest some ways that BusinessLINC strategies can improve the competitiveness of firms in economically distressed communities. In Chapter VI, this report identifies special considerations for BusinessLINC initiatives in economically distressed areas:

- Partner with a skilled intermediary organization to fill market information gaps, supplement skill training and build trust.
- Profile the business community and its existing support organizations.
- Create access to new customers and new markets.
- Create a long-term growth plan to provide useful encouragement.
- Consider the range of skills and resources distressed-area business will need to grow.

B. Catalyzing More BusinessLINC's on the National Level

In addition to direct BusinessLINC activity, stimulating more BusinessLINC's requires working closely with existing organizations whose constituencies are stakeholders in small business success. Many existing organizations have an interest in promoting BusinessLINC's, but perhaps because the players are so diverse -- including large and small firms, financial institutions and community groups -- a critical mass has not yet coalesced to advocate more actively on this issue. Currently, no single organization focuses on the importance of BusinessLINC strategies, and a joint effort could bring more intensity, scope, and scale to foster BusinessLINC's.

To promote more BusinessLINC activity, key functions that would need to be undertaken include:

1. Recruit a coalition of national organizations to advocate BusinessLINC strategies through their network of local affiliates and corporations that can build these strategies into their core business philosophy.
2. Disseminate BusinessLINC best practices and case studies, and create forums for businesses to exchange information and practice suggestions.
3. Develop a national award for leading BusinessLINC practices, and compose case studies of winning companies. Case studies and course materials based on these winning companies could be used in seminars and other entrepreneurial courses to encourage broader adoption of these ideas. BusinessLINC practices call for business innovation in areas of strategic planning, marketing, production/operations, and finance.
4. Create a seed fund that a national BusinessLINC coalition would competitively award to local BusinessLINC demonstration sites, with a special emphasis on reaching economically distressed areas. Ideally, the demonstration sites would exemplify the range of BusinessLINC approaches, from private corporations, to financial institutions, to specialized nonprofits and business-led membership organizations. Prior to the competitive process, the coalition would conduct educational workshops in various cities to educate business leaders about BusinessLINC. Ideally, the process would catalyze local BusinessLINC initiatives even in communities that do not receive demonstration funding.
5. Promote and support an Internet website to allow users to search databases of (1) smaller firms, (2) larger companies, (3) local intermediary organizations with BusinessLINC programs, and (4) other BusinessLINC information helpful in matching companies with each other and promoting best practices.

C. Catalyzing More BusinessLINC's at the Local Level

The hard work of forging these connections and building local institutions to support them occurs at the local level. The key projects to be undertaken include:

1. Recruit local firms to employ BusinessLINC strategies.
2. Galvanize support to create or bolster local organizations that foster BusinessLINC's

At the local level, many existing groups have the organizing capacity to facilitate local BusinessLINC relationships that would benefit businesses and organizations. Often, BusinessLINC strategies can help strengthen the working relationships among different organizations (community-based organizations and business membership organizations) and corporations because they each bring critical skills to the undertaking. These organizations should be strengthened with more corporate and foundation support. Corporations could train the intermediary on how to form BusinessLINC's and assist in recruiting mentors. Existing programs could be modified or re-oriented to incorporate BusinessLINC strategies. These local organizations could become local outlets for the work of the national organizations described above.

3. Target resources and effort to enlisting or forming local BusinessLINC intermediaries in economically distressed communities.

Many existing community-based organizations, such as those that offer business technical assistance or financial services (for example, community development financial institutions), have developed the expertise and track record to become critical components of a BusinessLINC effort that reaches to low-income communities.

APPENDIX A: BusinessLINC Executive Memorandum



THE VICE PRESIDENT
ADMINISTRATION

MEMORANDUM

TO: The Secretary of the Treasury
The Administrator of the Small Business Administration

DATE: June 5, 1993

RE: First White House Business and Entrepreneurial Roundtable
on Community Empowerment

In my capacity as Chair of the Community Empowerment Board, I hereby request that Secretary of the Department of the Treasury and the Administrator of the Small Business Administration develop and promote Federal government efforts to enhance beneficial linkages between large businesses and small businesses. This initiative is to be called "BusinessLINC" — which stands for Learning, Information, Networking, and Collaboration.

BusinessLINC will help foster entrepreneurship and build on the Administration's community empowerment efforts. A special emphasis will be placed on efforts — ranging from subcontracting to business mentoring — that can assist locally-owned small businesses in distressed areas to become more economically competitive.

I am directing that the Secretary and the Administrator, working with the Community Empowerment Board, report to me at the next White House Business and Entrepreneurial Roundtable on ways in which the Federal government can collaborate with the private sector to support such business linkage programs and promote best practices in this area. After that, you will work with me to coordinate and carry out the necessary implementation of this initiative.

In discharging these responsibilities I am requesting that you consult with the Community Empowerment Board and heads of the appropriate Executive departments and agencies.

Al Gore

APPENDIX B: BusinessLINC Case Studies

Why case studies

The BusinessLINC initiative commissioned the Initiative for a Competitive Inner City to conduct several case studies³⁷ in order to:

- provide a more quantitative accounting of the costs and benefits of BusinessLINC relationships;
- document both the up-front planning that preceded these relationships and the unanticipated evolution and benefits they produced for both parties;
- demonstrate how a value-chain template can be used for tracking the impact of the BusinessLINC relationship.

Value chain framework for assessing BusinessLINC

The value chain model describes the combination of activities a firm performs to compete. A firm's ability to manage and execute the activities within its value chain (either directly itself or through its network of business relationships) affects the value of its products in the marketplace and their profitability. A value chain diagram follows each case study, with the firms' activities divided into primary activities -- the ongoing production, marketing, delivery and servicing of the product -- and support activities -- those which provide purchased inputs, technology, human resources, and overall infrastructure functions to support the primary activities.³⁸

The value chain summarizes the ways that the BusinessLINC relationship created value for each of the firms involved in the case studies. From these six case studies, a few trends emerged about how these firms are successfully leveraging their partners' strengths:

- The larger firms' sales and marketing capacity was often improved through these BusinessLINC strategies, through the smaller firms' local market knowledge, customer contacts, and ability to attract other customers. Some large firms see protégés as potential customers, and through the smaller firm come to understand these needs of similar firms. Smaller firms are typically quick and precise in responding to new market opportunities, and they bring this strength to the business relationship.

³⁷ ICIC conducted the primary research for the case studies on Chase Manhattan Bank, GM/Delphi Packard, Turner Construction Company, McDonald's Corporation, and NCR. Corporate staff assembled the primary materials for the GE Capital case. All case studies were edited by Treasury staff.

³⁸ Michael Porter introduced the value chain in his book, Competitive Advantage (1985).

- Smaller firms also strengthened their sales and marketing capacity, as well as their technical infrastructure and strategic planning. Larger firms typically possess good long-term strategic planners, and they bring this talent to the relationship. The BusinessLINC relationship gives small firms the opportunity and the tools to focus on long-term strategy and management skills rather than on immediate needs.

Particular features of each case study

- **Chase Manhattan Bank** provides pre- and post-loan technical assistance to small business borrowers through its Business Resource Centers. The BRC has enabled Chase to reach new clients and expand its networks in underserved markets of low- and moderate-income neighborhoods.
- **GM/Delphi Packard** subcontracts a portion of its commodity purchasing and management to a minority contractor through its supplier development program. This subcontract has expanded the smaller firm's operational capacities while simultaneously reducing Delphi's costs and simplifying its vendor management.
- **Turner Construction Company** created a management training program for minority subcontractors. The program strengthens the subcontracting firms while providing Turner with an efficient base of subcontractors and potential bidding partners.
- **McDonald's Corporation** provides extensive, formalized training to franchisees as part of its core business strategy. McDonald's trains its franchisees through a hands-on program designed to give them the best opportunity to compete in any market, whether it is urban inner city, suburban or rural.
- **NCR** utilizes a structured mentor-protege program to improve the quality and cost-effectiveness of its supplier base. Strong communication channels and compatible interests allow both NCR and its partners to take a long-term attitude toward the relationship and reap multiple benefits.
- **GE Capital's Small Business College** offers an educational and networking seminar for owners of existing small businesses. The College makes special outreach efforts to minority-owned businesses and those operating in economically distressed areas.

1. Chase Manhattan Bank's Business Resource Center

Chase Manhattan Bank's Business Resource Centers (BRC), a service offered by the bank's Small Business Financial Services division, provides one-on-one advice, referrals, and help with applying for business loans. These consulting sessions are free of charge and are available to any current or potential small business owner. Since BRC's inception in 1994, the Center has advised over 5,000 small business owners, of whom 42 percent have been start-ups and an additional 21 percent had been in business less than 2 years. Almost 72 percent of the businesses served are minority- or women-owned businesses, or are located in low- and moderate-income communities.

The Business Resource Center and its activities represent a fraction of Chase's \$18.1 billion five-year national commitment to community development. Like other insured depositories, Chase must comply with the Community Reinvestment Act,³⁹ which encourages depository institutions to help meet the credit needs of communities in which they operate, including low- and moderate-income neighborhoods. Chase's activities demonstrate how a bank can use a regulatory requirement as a motivation to develop innovative services to an underserved market. This technical assistance program has proved to be profitable as well. Through its outreach efforts, Chase has acquired new clients and expanded its networks in the underserved minority, ethnic and women-owned business markets in Chase's New York-New Jersey-Connecticut region. Chase reports that the BRC brings in many new business customers while maintaining an equivalent rate of loan loss compared to its conventional small business portfolio.

WHAT THE CENTER OFFERS

About half of the 5,000 clients served by BRC received in-depth one-on-one advice and business analysis from BRC. In general, BRC staffers work with the entrepreneur to:

- analyze potential business problems, including operations, sales projections, and financial management;
- provide guidance on how to plan for long- and short-term growth;
- identify appropriate solutions, for example, type of technical assistance appropriate and where to access such assistance;
- offer advice on where, when, and how to access financing from Chase and non-Chase sources;
- prepare a request for financing (which the BRC manager has authority to approve);
- refer to an outside technical assistance provider if the entrepreneur is not loan-ready.

³⁹ 12 U.S.C. 2901 et seq.

Chase's relationships with outside technical-assistance providers, such as SBA's small business development centers, professional accountants, or marketing consultants, can provide specialized advisory services to BRC clientele. BRC receives referrals from Chase branches, the Bank's middle market and private banking groups as well as its Community Development Group. Chase consultants work through BRC's two centers, one in Mid-town Manhattan and one in downtown Brooklyn. More than 80 percent of BRC's customers over the past five years are from the New York City area. BRC's staff members also call on business owners at their place of business or at a convenient local branch.

GET CONNECTED: Chase Continues to Experiment & Innovate

In the third quarter of 1998, Chase launched Get Connected, a pilot program offered to newer or less sophisticated Chase Community Development Group borrowers. Get Connected provides post-closing technical assistance (TA) for three years by outside expert non-profit business consultants.

The two TA providers are the Business Outreach Center Network, Inc. in NYC and the Rochester Minority Business Development Center in Rochester, NY. They earn \$1500 per enrollee per year, and meet at least once a month with each enrollee at their place of business. This is "point of sale" TA, so the business owner does not take time away from their business to meet with the TA provider -- who in turn is able continually to observe the goings-on of the business first-hand.

Several design elements of the program are distinctive. The program:

- uses outside service providers, who are able to spend more time and who have special expertise in working with business owners in economically isolated communities;
- engages the borrower in a three-year commitment, recognizing the long-term support needs of some start-up businesses;
- offers full-cost coverage by Chase in year one, splits that cost with the borrower in year two, and has the borrower pay the full amount in year three; and
- in the third year, Chase reduces the loan rate by one percentage point, recognizing the fact that default risk is lower if the businessperson has stayed with the program for the first two years.

In three months, the program has six enrollees, three in New York City and three in upstate NY. By late 1999 Chase expects the number of enrollees to increase to 25-30 businesses.

BENEFITS TO CHASE AND THE CLIENT

The BRC directly generates business for Chase both by making loans and by establishing depository accounts. The BRC is able to review and approve loan applications using the Bank's automated credit scoring system or traditional manual underwriting. Since BRC's inception, over 500 of its customers have been approved for Chase loans, for an aggregate dollar volume of \$38 million. From this total, about 25 percent by dollar volume were SBA-guaranteed.

Since 1997, management has also started tracking the deposit accounts opened by BRC-assisted businesses. In the last 21 months, BRC clients opened 322 business deposit accounts with \$12

million in balances (Table 1). The business activity generated by the BRC generates revenues greater than direct expenses for the bank.

Table 1. Summary of Business Activity Generated by the Business Resource Center

	Business Loans		Business Deposits		Revenue ²	Direct Expenses	Revenue-Expense (w/o Loan Loss Provision)
	No.	Amount	No.	Amount			
1994 (6 mo.)	16	\$1,000,000	n/a	n/a	n/a	n/a	n/a
1995	83	\$6,000,000	n/a	n/a	n/a	n/a	n/a
1996	92	\$6,000,000	n/a	n/a	n/a	n/a	n/a
1997	144	\$9,000,000	109	\$5,700,000	\$710,000	\$610,000	\$100,000
1998 (9 mo.)	249	\$16,000,000	203	\$6,300,000	\$940,000	\$480,000	\$460,000
TOTAL	584	\$38,000,000	312	\$12,000,000			

Source: Chase Manhattan, Business Resource Center (October 1998)

Notes:

1. Business Deposit Accounts include demand deposit, savings, and investment accounts. The balances on each account are measured by the average account balance on the third month after opening date.
2. Revenue is calculated by applying a present value factor to loan and deposit balances. Since most of the revenues generated by the loans and deposits will occur over several years, the present value of these activities is compared to the up-front cost of generating these revenues. The discount factor does not account for any loan losses.

The volume of lending and deposits generated by BRC remains small compared to the rest of Chase's Small Business Financial Services (SBFS) division, which provides financial services to businesses with annual revenues of \$3 million or less. In the first 9 months of 1998, for instance, the \$16 million in loans generated by BRC is just over 2 percent of the total generated by SBFS.⁴⁰ Despite this comparatively small dollar volume, Chase believes BRC confers important benefits to the bank. By providing feedback on new markets and borrower needs, the BRC offers valuable information about the highly competitive small-business loan market.

Another major benefit is helping potential business customers to get in the door, especially those minority- or women-owned businesses without prior banking history. This is particularly important given the increased use of credit-scoring as a loan underwriting method. While credit scoring has increased the number of small business loans that banks can economically extend, its heavy reliance on personal credit history may leave some gaps. For instance, business owners with no personal history of borrowing may be declined due to lack of a credit track record.

⁴⁰ In the first 9 months of 1998, Chase's Small Business Financial Services Division extended 18,000 loans, totaling \$700 million.

The BRC works in cooperation with SBFS' Emerging Markets sales team, which markets to Korean, Chinese, African/Caribbean, Hispanic, and East Indian businesses. There is considerable in-house knowledge of the target markets cultures -- the team includes members who speak the foreign language of the business owner and are familiar with the marketplace.

CHASE AND 24-HOUR COURIER

In 1991, Mr. Ray Rafeek, a Caribbean immigrant, started the 24-Hour Courier messenger service with a partner. The business generated about \$200,000 in gross sales the first year, but the partners parted in 1992. In 1995, a Chase Banker referred Mr. Rafeek to the BRC.

Mr. Rafeek had experience in the industry and good sales skills but needed help in financial management. Over a three-month period Brian Evers, Manager of the BRC, helped him to develop a business plan and a strategy that fit his limited capital. The business planning process allowed Mr. Rafeek to seriously think about the three- to five-year growth prospects of his business. "I had a CPA who helped me on my financial reports, but longer-term projections are a different matter," he says.⁴¹ "The access to market information the BRC offered was very helpful." BRC's Evers, in a separate conversation, comments, "We are bankers, so we always push our clients to be on the conservative side of estimating sales and projecting business cycles."⁴²

Evers also insisted on a clear articulation of the company's needs in financial management. A common problem in the messenger service industry is a build up of accounts receivable, creating a squeeze on cash flow. Evers suggested that Mr. Rafeek regularly generate an aging of receivables. "This was really valuable and something I hadn't thought about," says Mr. Rafeek. As the business started to grow, Chase offered him an initial \$40,000 SBA guaranteed loan to purchase computers and radio equipment.

Mr. Rafeek's hard work, good management, marketing skills, and persistent concern for high quality service has paid-off. His business now generates close to \$3 million a year in revenues. He continues to develop and maintain major accounts with garment, securities, advertising, and law firms in town. This accomplishment is particularly striking given the highly competitive nature of the messenger business in New York City.

Chase also has helped in the search for additional expansion space. "I was really impressed when Brian offered to help," says Mr. Rafeek. "They helped me calculate my space needs and were even willing to provide a loan." He employs approximately 50 minority workers, serves as the director of the Caribbean-American Chamber of Commerce and the Treasurer of the New York

⁴¹ Quotes from Mr. Rafeek based on telephone interview conducted on Oct. 14, 1998.

⁴² Quotes from Brian Evers are based on telephone interviews conducted on Oct. 13 and 14, 1998.

State Messenger Association. More recently, Chase financed Mr. Rafeek's company for a second time, offering an SBA-guaranteed \$100,000 line of credit.

VALUE CHAIN ANALYSIS

Figure One shows the value chains for Chase and 24-Hour Courier, illustrating the specific ways that this BusinessLINC creates value for both companies. For Chase, the BRC's outreach activities bring in new customers. By ensuring that these customers are well-prepared for the loan application process, BRC simplifies loan processing and enhances underwriting. Post-loan technical assistance through the Get Connected program reduces loan loss and delinquency rates. For 24-Hour Courier, the relationship provides expertise in long-term and financial planning that supports all of the firm's activities.

LESSONS LEARNED

- Financial institutions are in a strong position to offer businesses, particularly small start-ups, with critical financial analysis of their business plan.
- Financial institutions can help small businesses grow in their banking relations. Both the bank and the business can base their relationship on a mutual economic interest.
- Financial institutions may benefit from better tracking of those companies to which they provide technical assistance. This would allow banks to assess more fully and accurately the impact on the bank's business activities. By tracking all various types of business generated by its borrowers, BRC is documenting the business case for reaching this untapped market.
- Small businesses appreciate their lenders' assistance in accessing information and getting business advice.

Sources:

Chase Manhattan Bank CRA Examination Report 1997

Ruth Salzman, Commercial Lending Unit, Community Development Group,
Chase Manhattan Bank

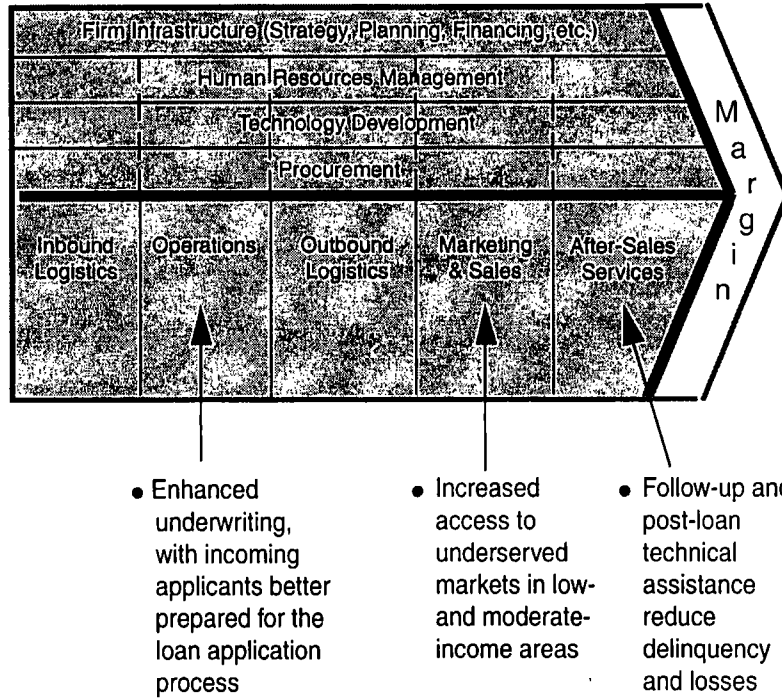
Brian Evers, Business Resource Center, Chase Manhattan Bank

Ray Rafeek, 24-Hour Courier, New York City

Figure 1

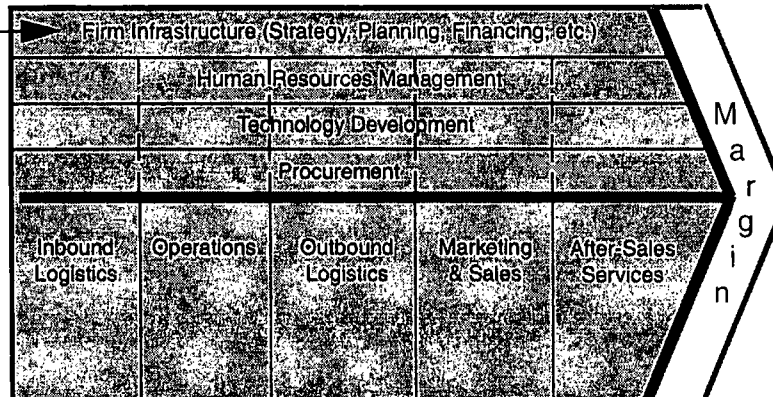
The impact of the advisory service on companies' value chain

Chase Manhattan



- Long-term planning
- Financial management tools
- Financing (a working capital loan and a larger line of credit)

24-Hour Courier



2. Turner Construction's James Walker Construction Management Training Program

Turner Construction, with annual revenues of \$3.6 billion, is one of the largest construction management companies in the country. With 42 regional offices, Turner employs 2,500 people and generally oversees 1,000 projects at a given moment. Turner's services include pre-construction consulting, project management, construction management, design-build, design-build/finance, general contracting and building maintenance.

Turner's Cleveland regional office established the Construction Management Training Program in 1968 in response to the unrest in urban areas during that period. The goal was to train local minority contractors in construction management. Based on the success of the Cleveland pilot, Turner created similar programs in 30 of its 42 regional offices. Since 1968, more than 7,000 contractors nationwide have benefitted from this program, about 1,000 in Cleveland alone.

THE TRAINING PROGRAM

In Cleveland, Turner partners with the city, local area institutions, and banks to cover a comprehensive set of subjects in the program. The 10-week training program, offered once a year, consists of 20 sessions (2 sessions per week) and covers topics including:

- marketing
- procurement
- contracts
- contract negotiations
- estimating and bidding
- occupational safety
- total quality management (TQM)
- financial management
- taxes and tax preparation, and
- small business financing

In addition to the classroom training, the program also offers on-the-job training, field training, and the possibility for joint bidding with Turner Construction. Currently, 35-45 individuals are trained per year in Cleveland. In addition, Turner advises 4 to 5 companies on a joint bidding or a consulting arrangement. Minority-owned or female-owned business enterprises (MBEs/FBEs) that can contribute to a partnership by securing or managing a contract have access to these joint bidding opportunities.

More than half of all sessions are conducted by Turner professionals, exposing the trainees to company staff. Participants register through the City of Cleveland, which charges a nominal fee of about \$200 to cover administrative costs. The City helps register applicants, find training locations, and identify potential instructors. Turner provides professional and technical

resources for the course. A local financial institution, Fifth Third Bank, also contributes to some of the expenses of the program and leads the financing sessions of the training program. The program is open to all and is offered on a first-come, first-serve basis. There are no qualification requirements based on professional experience or company size.

BENEFITS TO TURNER CONSTRUCTION AND THE SUBCONTRACTORS

Both Turner Construction and local subcontractors benefit from this training program. Through the program, Turner differentiates and expands its subcontractor base. The resulting increase in the availability of high quality, well-trained subcontractors allows Turner to provide its services with competitive prices and improved quality.

Turner estimates that 80-90 percent of the MBE/FBEs that work on Turner projects in Cleveland have participated in one of the Construction Management Training Courses since 1969. Some of the companies that have received training from Turner are now listed on the Black Enterprise Magazine's list of top 100 largest African American-owned companies, including Ozanne and Loncolman Corp.

This training program also helps Turner achieve its 10 percent corporate goals on procurement with minority- and women-owned firms. Because Turner works in hundreds of minority communities throughout the country, its minority procurement program is a core part of its business strategy. Turner benefits from the program both through its reputation as a good corporate citizen and its ability to manage a wide range of projects with overall community support.

The Training Program is also a valuable resource for area contractors. As contractors start their own businesses, many find themselves unprepared for the legal and financial aspects of their trade. The training program offers a condensed body of knowledge that any business owner needs to grow his or her company to new levels. Understanding the fundamentals of construction management also helps participating companies better position themselves to partner with other large companies. Companies that partner with Turner through this program gain substantially from Turner's technical expertise. Companies can also benefit from increased bonding capacity and access to new market opportunities.

TURNER CONSTRUCTION AND G. STEPHENS CONSTRUCTION COMPANIES

While in college, Glen Stephens decided to pursue the construction trade. After several years of working at a small company, Stephens decided to start his own company. In the spring of 1992, he took the first step by attending the Turner Construction's Management Training class. "It was a serious time commitment ... almost like a semester at college," says Stephens.

Seven years later, Stephens is running a construction management and general contracting company that employs 35 people. At the end of this year, the company expects gross sales of

\$1.8 million. Stephens' company has grown rapidly over the past several years. His company's third quarter sales alone are more than double last year's total sales. Ninety-five percent of the company's revenues come from public-sector contracts. G. Stephens Construction became an 8(a) certified contractor 2 years ago although less than 10 percent of its revenues are from Federal contracts.

Stephens benefitted from the Turner training beyond just technical knowledge. For instance, he attributes his appreciation of the importance of relationship-building to the Turner training. Stephens kept in contact with Nathan Davis, the manager of Turner's training program, and Hilton Smith, Vice President of Community Affairs at Turner. "We meet socially or talk on the phone almost every month ... and we always talk about work," says Stephens.

In 1994, Stephens approached Turner with the idea of partnering on a proposal for the construction management of the new headquarters for the Akron Municipal Housing Authority (AHMA), a \$10 million project. The expertise and credibility of working with Turner Construction had the potential to launch Stephens into an entirely new level of doing business. "I wanted to do business with Turner but I needed to identify an opportunity that would be good for both [companies]," says Stephens. Turner's bonding capacity to ensure project completion was also critical.

Partnering with Stephens attracted Turner for several reasons. Turner had been out of the Akron construction market for years. In a small market dominated by local players, outsiders can be at a strong disadvantage. Having completed multiple projects for public agencies in Akron, Stephens had a strong local presence and had developed strong relationships with public and housing authority officials. "I had total understanding of the agencies, how they worked, and how to get work done," explains Stephens.

After a week of deliberation, Turner decided to work with Stephens on a proposal. In 15 days, they put together a solid proposal that won the management contract. This allowed Stephens to work closely with Turner professionals. He and Jim Delaney from Turner were the project managers. Turner provided the technical review team and a superintendent. Stephens provided a project engineer, Marki Johnson, a minority student at the University of Akron's Construction Management Program, who later attended Turner's training program in Cleveland. The project was completed on time and within budget.

Stephens credits the exceptional commitment of high-ranking individuals at Turner Construction for the opportunities which have opened up to him since participating in the program. "Both Hilton Smith and Nathan Davis have gone above and beyond the call of Turner duty to get opportunities for small guys like me," says Stephens. He continues, "But the fact that Turner has people like Smith and Davis makes a clear statement about Turner's own commitment to minority-owned companies."

VALUE CHAIN ANALYSIS

Figure One shows the value chains for Turner Construction and G. Stephens Construction. The program enhances Turner's procurement activities by developing long-term partnerships with subcontractors that understand Turner's operations and provide competitive pricing. By collaborating with Turner on projects, Stephens Construction gained expertise that improved the company's operations. Stephens learned the importance of networking, a skill which affected many of the firm's activities. Both Turner and Stephens have extended their market reach through the program: each partner provides access or credibility in areas where the other lacked strength.

LESSONS LEARNED

- Turner has a strong business justification for conducting the program: it gets high-quality, long-term partners, access to new opportunities, and competitive pricing.
- Small companies can provide sales opportunities for large companies in niche markets.
- The guidance Stephens received in partnering with Turner demonstrated the critical role that networking plays in business.
- By strictly requiring contractors to approach Turner with partnering proposals that are mutually beneficial, Turner introduces a market discipline in minority contracting relationships that helps the small firms to become competitive.
- Local governments can play an important role in encouraging the private sector to organize these programs by taking on key administrative responsibilities.
- Partnering with other agencies, such as a local bank to teach the financing portion of the course, increases the effectiveness of the course.

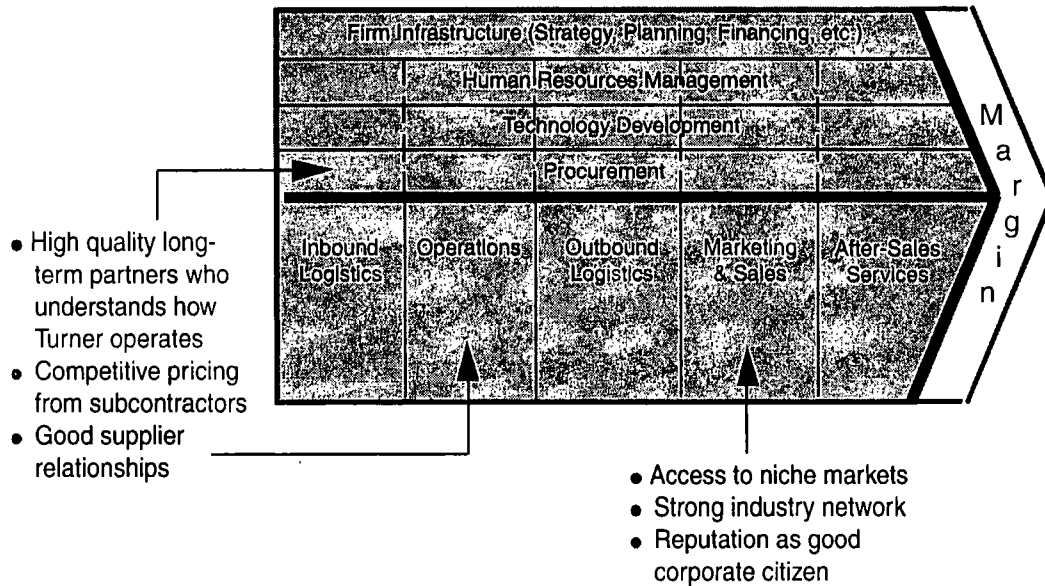
Source:

Nathan Davis, Senior Director, Community Affairs, Turner Construction Company
Glen Stephens, President & CEO, G. Stephens Inc.

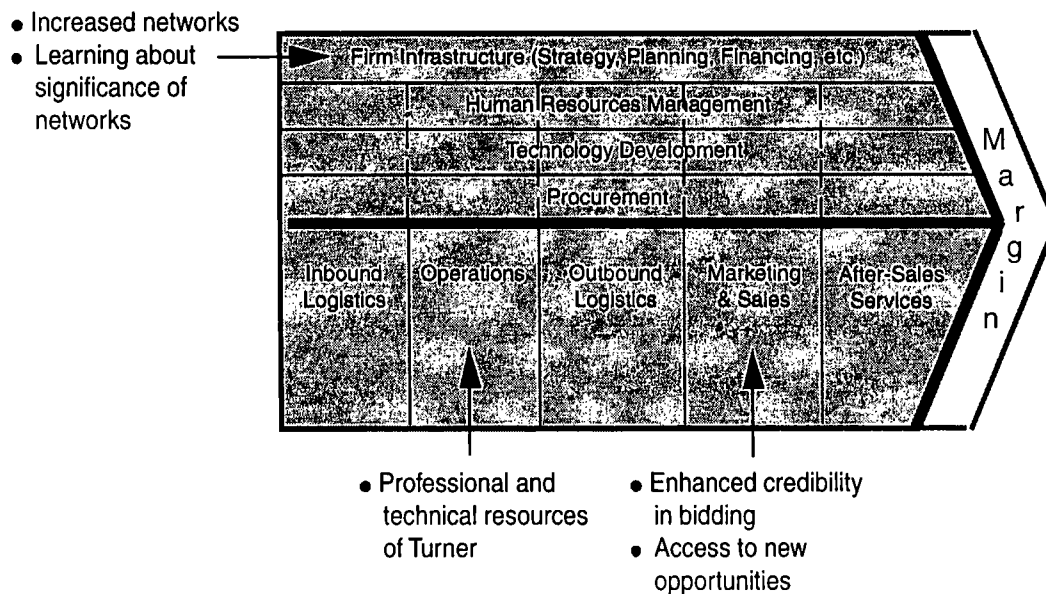
Figure 1

The impact of the minority supplier development and mentoring programs on companies' value chains

Turner



G. Stephens Construction



3. GM Minority Mentoring Program

Through its Minority Supplier Development Initiative, GM has purchased more than \$1 billion a year over the past ten years from minority suppliers. In addition, several years back, the Big 3 implemented a Tier I (direct supplier)/Tier II (direct to Tier I) Program to expand opportunities for their minority suppliers. The program's goals are to help minority suppliers acquire knowledge, transfer technology and expand their financial partners through joint ventures, mergers, acquisitions and strategic alliances.

GM has developed a number of support programs to meet its minority purchasing goals. For instance, in cooperation with the Michigan Minority Business Development Council (MMBDC) and the Automotive Industry Action Group (AIAG), the Big 3 and MMBDC initiated a pilot program that helped reduce QS9000 certification costs for minority suppliers from \$42,000 to \$2,700.

Finally, GM helps its minority suppliers access credit through several sources including Motor Enterprises, Inc., a subsidiary of GM and a Specialized Small Business Investment Company, and the National Minority Supplier Development Council's (NMSDC) Business Consortium Fund. More recently, GMAC has formed a joint venture with BBK, a GM minority supplier, to provide asset lending to GM suppliers.

MENTORING PROGRAM OVERVIEW

Many years of minority purchasing has brought to light the importance of concentrating on the longevity of minority supplier companies. The nature of the minority supplier relationship with GM, as well as changing market conditions, sometimes position these suppliers inadequately to deal with those conditions. In 1992, GM launched its minority mentoring program with the explicit goal of helping the select minority companies grow and develop to become more competitive. In its first year, GM selected 100 of its 600 minority suppliers to participate in the program. GM's various operational areas (e.g., Delphi Automotive, Cars, Truck, GM Powertrain, etc.) have been increasingly brought into this program.

1. Mentoring

GM regularly monitors the purchasing performance of its divisions to facilitate meeting its minority purchasing goals. Minority-owned suppliers undergo the same selection process as every GM supplier. If GM is convinced that a supplier is a viable company with a positive history, and most importantly, meets the criteria of quality, service, technology and price, then the company is eligible to bid on contracts.

As part of this selection process, minority suppliers must prepare a five-year business plan that GM evaluates. The GM buyer reviews the business plan, assessing its goals, sales projections, and cost estimates. Together, the buyer and the supplier finalize a business plan that both agree

is realistic in its expectations. The buyer tracks the performance of the company on the business plan goals. The buyer also acts as a communication vehicle between GM and its suppliers, providing information about potential contracts, feedback on failed bids and other issues. Buyers also utilize supplier development engineers to assist mentored suppliers to improve their manufacturing or business processes.

If a GM buyer believes that a certain company can be a significant asset to GM, but identifies area(s) of weakness, the buyer initiates the process of obtaining assistance through the GM supplier development resources program.

2. Formal Assessment

This assistance takes the form of a formal (1-4 day) comprehensive assessment of the supplier's operations, from management and financing to processing. The assessment team includes a buyer, a supplier development engineer, and a quality assurance representative. Based on this assessment, a team of dedicated GM supplier-development employees is matched with the supplier to provide appropriate guidance and assistance. So far, 50-60 percent of GM minority suppliers in the mentoring program have received such comprehensive assessment.

GM has clear quality expectations from its suppliers on their systems, performance and quality control processes. For instance, they must:

- Be QS9000/ISO9000 certified;
- Monitor product quality performance and demonstrate continuous improvement (30%-50% year to year); and
- Receive a Product Part Approval Process (PPAP) which includes failure modes and effect analysis, document process capability, etc.

BENEFITS TO GM AND ITS SUPPLIERS

For GM, many minority supplier development programs are based on a corporation's willingness to address historic or social concerns. This willingness in turn, stems from the direct benefits good corporate citizenship offers, specifically, a more positive corporate image. This positive image is becoming more important to large companies as minority populations become a larger segment of the US population.

GM's experience, over the years, with minority suppliers has also shown that the traditional perception of these companies as not being competitive or surviving only because of mandated set-asides, is increasingly unfounded. The minority companies are able to benefit the automaker by delivering superior products or services at competitive prices.

Mentored suppliers also stand to benefit from GM's Minority Supplier Development Program. GM employees identify and assist in solving operational, administrative, technical, managerial

and/or other problems that their mentored companies face. These businesses can also benefit from increased sales from additional business from GM as well as networking and building alliances with other OEMs (Original Equipment Manufacturers) and their Tier I suppliers.

DELPHI PACKARD ELECTRIC AND FLEX-TECH PROFESSIONAL SERVICES, INC.

Delphi Automotive Systems (Delphi), a division of GM, is a diversified supplier of automotive components and systems with sales of over \$30 billion in 1997. Delphi Packard Electric (Packard Electric) is a subsidiary of Delphi and contributes \$5.8 billion to Delphi's total annual sales. With 25.5 percent share of the market, Packard Electric is the world's leading supplier of automotive power and signal distribution systems. Nearly half of its 87,000 employees worldwide work in North America. Plans are underway to make Delphi a fully independent and publicly traded company during 1999. Packard Electric will remain part of Delphi Automotive Systems.

Delphi's minority-owned suppliers directly benefit the company by delivering superior products or services at competitive prices. Five of the high-volume minority suppliers to Delphi illustrate this point (Table 1). These suppliers show significant above-average performance for the past three years according to key industry measures.

Table 1. Parts per million (PPM) performance of 5 high volume MBE suppliers

	Plastics	Insert Molding	Component Assembly	Vacuum Hose	Insert Molding
Commodity Average	29	21	23	550	21
MBE PPM 1996	12	0	0	0	3
MBE PPM 1997	1	27	0	0	7
MBE PPM 1998 (9 mos.)	0	0	7	22	6

Source: GM/Delphi Automotive Systems (1998)

Flex-Tech Professional Services, Inc. is a recruiting and management company founded in 1986. Flex-Tech is an African American-owned company employing about 150 people in its five locations.⁴³ Flex-Tech won a commodity management contract from Packard Electric in late 1995, and the formal mentoring relationship was finalized in 1997.

Commodity management, which involves negotiating and purchasing a range of supplies, is only one of several services Flex-Tech offers. The company developed its commodity management capability in response to Packard's solicitation. Actively searching for a minority-owned commodity manager, Delphi contacted Flex-Tech at the referral of the GM Minority Supplier

⁴³ The company has expanded its operations to 5 cities across the country including Detroit, Michigan; Phoenix, Arizona; Tuscaloosa, Alabama; Columbus, Ohio; and Sandusky, Ohio.

Development Initiative. Prior to that, Flex-Tech primarily provided temporary clerical and administrative placements to companies in Sandusky, Ohio.

Last year Flex-Tech generated \$14 million in revenues, 60 percent of which came from Packard Electric. As a commodity manager, Flex-Tech works with a supplier base of 400 companies offering more than 14,000 electrical parts.

Cecil Weatherspoon, the President and CEO of Flex-Tech, has been a successful businessman in the Sandusky area for a number of years. He was recognized for his success through a number of awards, including the SBA's Minority Small Business Person of the Year in 1995 and Boeing Defense & Space Group Material's Award for Excellence. John Bullock, Senior Buyer at Packard Electric and the "driver" in this relationship, thought Weatherspoon offered the right combination of attributes a commodity manager needs: he was rigorous, aggressive, and a creative solution-finder. "He also had a lot of experience managing multiple contracts," says Bullock. "And from my 30 years of experience, if you have the basics down, you can get the job done."

In late 1995, an eight-person task force of buyers and materials management people at Packard unanimously selected Flex-Tech from a pool of 22 other candidates. This was a highly competitive bid that included Fortune 200 companies. Two factors determined a favorable outcome for Flex-Tech:

- a. Flex-Tech was the lowest bidder.
- b. Flex-Tech had the strongest proposal, both in content and structure.

Flex-Tech's supplier base management division is currently purchasing \$500,000 in electrical and electronic materials each month for eleven Packard Electric plants. Pleased with the quality of Flex-Tech's work, in 1997 Packard and Flex-Tech formalized a mentor-protégé relationship.

Both Packard and Flex-Tech have benefitted in a number of ways from their relationship. The most important benefit to Packard Electric lies in Flex-Tech's size and flexibility. Using a smaller company as a commodity manager has lowered Packard's transaction costs. Flex-Tech can focus on its primary operations, whereas larger companies spend more time on administrative and managerial tasks. Also, Weatherspoon's entrepreneurial vigor and innovative spirit allows Flex-Tech to create new solutions that reduce costs both for itself and Packard. For instance, Flex-Tech developed its own software that interfaces with GM's inventory database as well as commodity suppliers' purchasing order databases, creating a paperless system.⁴⁴

⁴⁴ Weatherspoon continues to think about ways in which it can add value by providing solutions to problems shared by its buyers and suppliers. For example, he is thinking about developing a special software package for cataloging. Many clients with multiple plant sites have duplicate inventories that cannot be shared because of the incompatibility of the material identification systems. Introducing such cataloging software would generate great savings for his customers. This software is in the paper design phase and Weatherspoon is currently seeking financing to develop and implement it fully.

In addition, Weatherspoon has transformed the "blanket" supply contracts from Packard into significant savings. Under these contracts, Weatherspoon negotiated discounts from suppliers, which, according to Bullock, have saved Packard \$250,000 in the past year. Flex-Tech has ordered 8,000 of the 14,000 parts it manages as part of a blanket purchase, resulting in overall better prices for Delphi.

Flex-Tech, in turn, has clearly benefitted from the opportunity to enter into an entirely new and potentially profitable market. In the long run, however, Packard Electric's formal and informal inputs may have the longest lasting benefits. The mentoring program required Flex-Tech to develop a five-year business plan laying out specific goals and objectives. Although five years is a long period for a company contending with capacity and sales pressures, the exercise helps management think about long-term strategic needs of the company.

According to Weatherspoon, Flex-Tech has helped Delphi realize that the five-year horizon requires frequent updating, especially for a small business. In a company like Flex-Tech, the customer base can change up to 70 percent in just two years. "This was an 'eye-opener' for Delphi," says Weatherspoon. He points out that in service industries with few long-term contracts, companies must be very flexible, making long-term business planning a difficult exercise. Packard's Bullock agrees: "Yes, that was something we hadn't thought about. Right now people at the Minority Supplier Development Program are looking at reengineering the program to better fit the needs of smaller companies."

Flex-Tech, however, has not felt the need for the administrative or operational training that Delphi has offered. Similar to many other small businesses, Weatherspoon feels his company's greatest needs are in the area of accessing capital and increasing sales. Packard and Bullock have helped Weatherspoon appreciate the importance of benchmarking. "I always push him to know and learn from his competitors ... and benchmark his performance in costs and prices against them," says Bullock. He adds, "This is something he needs to be doing himself. All I can do is maybe suggest one or two sources or companies which have the best practices in commodity management, like Texas Instruments, but it would be counterproductive if I did anything more than that." Bullock believes that a business must develop the capacity to gather market intelligence itself to survive in a competitive environment.

Increasing sales is the greatest challenge Flex-Tech faces over the next three years. In many respects Flex-Tech is suffering from the lack of established relationships and networks, which Weatherspoon points to as a greater obstacle for most minority suppliers than outright discrimination. "If it weren't for John Bullock's and Gary Quarels' relentless effort, I wouldn't get this contract," says Weatherspoon. "I don't think racism is an issue [in this business] any more. What buyers act on, though, is expedience and comfort. They have to manage under a

great deal of time pressure with very little room for errors and risks that come with taking on new suppliers." Automakers will have to ensure the commitment of their staffs to working with minority suppliers, argues Weatherspoon, if they want to successfully meet their five percent minority contracting goals.

The two companies are in the process of negotiating another three-year contract. The business plan developed under the formal mentoring program projects a minimum GM sales revenue of approximately \$8 million per year through 2002. Weatherspoon puts Flex-Tech's chances of receiving new contracts at 50/50. Bullock concludes, "All he can do now is benchmark. He needs to continually keep track of the market so he can be ready to bid competitively on the next round."

VALUE CHAIN ANALYSIS

Figure One illustrates the impact of a minority supplier mentoring relationship on the value chains of Delphi Packard and Flex-Tech. Flex-Tech lowered both transaction costs and purchase prices of inputs while providing better quality and flexibility to Delphi Packard. Delphi Packard, in turn, offered Flex-Tech a new and profitable market. The mentoring program helped Flex-Tech develop its management and become more competitive in its bidding, improving its ability to win new contracts.

LESSONS LEARNED

- Highly entrepreneurial small companies can provide a number of benefits to large companies in management and technology innovations that can translate into direct cost savings.
- Some people contend there is an unspoken belief that corporate set-asides for minority businesses lead to lower expectations and standards for assessing the performance of these contractors. The cases of Delphi's five suppliers and Flex-Tech as commodity manager demonstrate that minority suppliers are held to the same performance standards and that they can show strong performance.
- For supplier development and mentoring programs to be successful, a company's leadership must offer its full support. At the same time, day-to-day point people must be empowered to pursue the strategies identified in the supplier development assessment. Incentives are one method for effectively engaging real support from the mentoring company.
- In order to realize the potential benefits of a mentoring program, GM has found that serious commitment must come from the "mentee" as well as the mentor. Preparing a business plan that accurately depicts the objectives of the relationship is one strong indication of such commitment. The case shows, however, that large companies and

small companies face risks and opportunities on different timelines, resulting in different business planning horizons. Delphi and Flex-Tech taught each other the pros and cons of a five-year and two-year planning horizon.

- To make the relationship work, mentors should expect business and strategic discipline from their mentee. Pressing the mentee to collect market intelligence, for example, benchmarking its quotes, helps the mentee compete effectively in the short-term and keeps the company abreast of changing market conditions.

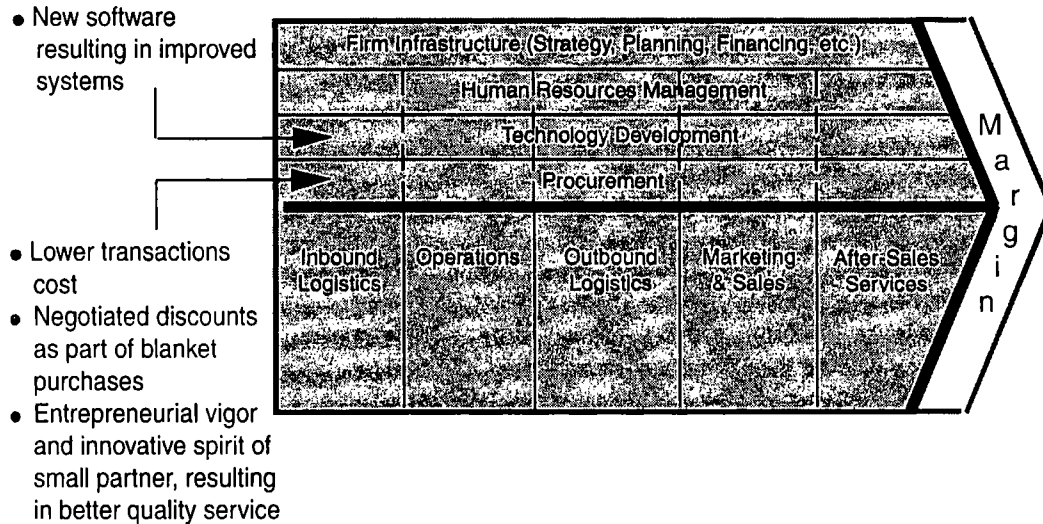
Sources:

Gary Quarels, Manager, GM Minority Supplier Development Program
John Eley, Manager, GM Minority Supplier Development Program
John Bullock, Senior Buyer, Delphi Automotive Systems
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John McGory, Information Technology Engineer, Flex-Tech

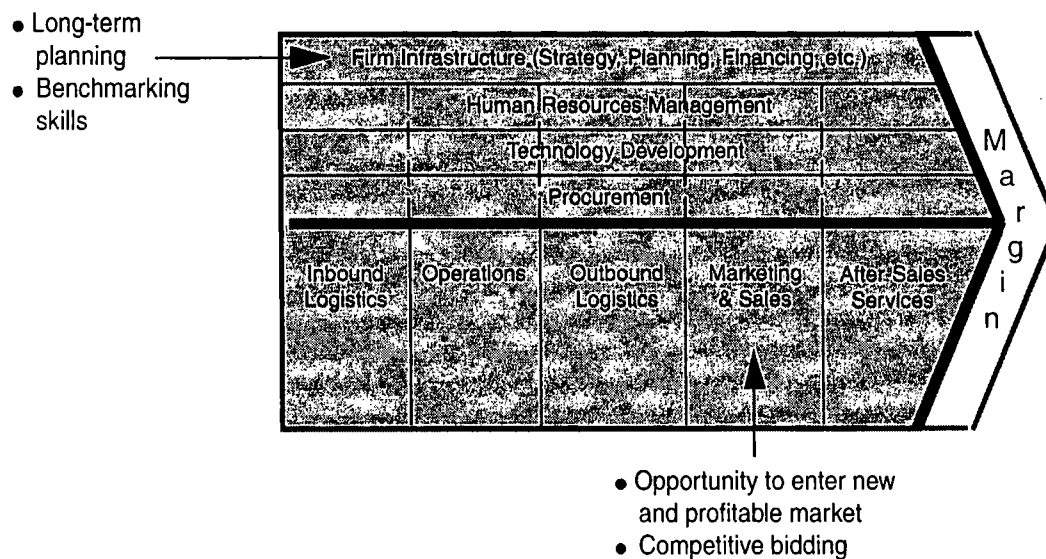
Figure 1

The impact of the minority supplier development and mentoring programs on companies' value chains

Delphi Packard



Flex-Tech



4. McDonald's Corporation's Franchisee Support Program

McDonald's relationship with its independent franchisees exemplifies a version of business advisory programs that is quite different in scope from many of the mentor-protege programs discussed in this report. Far from an auxiliary function, the support that McDonald's provides for its franchisees is one of its core functions.

Close to 85 percent of McDonald's 12,000 U.S. restaurants are owned and operated by individual entrepreneurs who have invested their own capital. These are independent small businessmen and women who run restaurants with average sales of \$1.5 million in their local communities. On average, the typical McDonald's franchisee owns 3.5 restaurants.

In the early days of its expansion into economically distressed markets, McDonald's made an extensive effort to offer special services to inner-city operators. For example, McDonald's offered special training in the late 1960's to African-American operators in isolated inner-city neighborhoods in Chicago. This outreach began with consulting services focused on the unique challenges associated with doing business in urban environments. An Urban Operations Department was formed, and has since been incorporated into McDonald's comprehensive business development strategy.

McDonald's corporate commitment to expand into economically distressed neighborhoods demonstrates the company's core belief that market principals can be applied in these areas. The company's standard procedures in the recruiting and training of franchisees, as well as its standard support structure for franchisees, have been sufficient to develop and maintain stores in the inner city.

FRANCHISEE DEVELOPMENT PROGRAM

Recruiting

McDonald's actively seeks racial, ethnic, and gender diversity among its franchises. In the United States, women and minorities represent about 35 percent of all McDonald's franchisees, while minorities make up 65 percent of the company's candidates in training to own future franchises. McDonald's also encourages residents of the inner city and other traditionally underserved areas to work toward franchise ownership.

McDonald's has an active and continuous outreach program to attract a diverse range of individuals with the potential to own and operate a McDonald's franchise. As McDonald's CEO Jack Greenberg says, "It's not just the right thing to do from a moral and ethical point of view, it's also the right thing to do from a business standpoint." Some of the qualifications McDonald's looks for in prospective franchisees include:

- Entrepreneurial spirit and a strong desire to succeed;

- A strong business background with special emphasis on interpersonal skills and financial management;
- Willingness to devote full-time and best effort as an "on-premise" owner/operator;
- Willingness to participate in a training program that may take 12-24 months to complete. The course time can be accelerated if a candidate masters the skills more quickly.

Training

Over the years, McDonald's has developed and refined an extensive training and support program for its franchisees. The training program is one of the most rigorous in the business, including part-time hands-on training in a McDonald's restaurant interspersed with classroom training, culminating in the Advanced Operations Course at Hamburger University (HU). This course focuses on management skills such as accounting, finance, human resource management, and marketing.

McDonald's Franchisee Development Program	
1. Restaurant Orientation Learning different operations, managing food production and directing employees.	5. Intermediate Operations Course A four-day course covering such areas as improved restaurant performance, managing costs and crew labor and training.
2. Basic Operations Course A five-day class covering communications, training, food safety, product quality, customer satisfaction and other areas of restaurant operations.	6. Restaurant Training Addressing advanced supervision, planning, quality, service and cleanliness, people skills and financial management.
3. Hands-on Restaurant Training Includes managing crew shifts.	7. Advanced Operations Course A six-day course at Hamburger University focusing on effective people practices, staffing and retention, management skills and building market share.
4. Basic Management Course The four-day class includes tests in handling customer issues, employee hiring, equipment knowledge, time planning and basic management practices.	

As part of the training program, applicants must master all of the crew and management functions at the restaurant. The training in restaurants is free-of-charge, and participants work without compensation. This training is the same for all applicants, and applies equally to urban, suburban, and rural restaurant settings.

McDonald's makes a number of other training courses available to its franchisees. Additionally, since HU is accredited by the American Council of Education, franchisees may earn up to 32 college credit hours. Franchisees who successfully complete the training are approved to acquire a McDonald's restaurant.

Ongoing Development and Support

Candidates who successfully complete the training program and become independent franchisees continue to benefit from support through the McDonald's network. McDonald's assigns a business consultant to each franchisee, who assists them in developing annual business plans and consults on the application of appropriate strategies to achieve their individual goals. Business consultants evaluate franchises on an ongoing basis, and assign their restaurants a letter grade based on their overall performance and progress during the entire year. Franchisees also have access to the expertise of a cadre of regional, divisional, and corporate staff members in marketing, operations, and finance.

Many franchisees receive personal business-to-business assistance by working with a fellow franchisee who has the needed experience and expertise. Because of the mutually dependent relationship between McDonald's and its franchisees, continuous two-way communications is a top priority. The company strongly supports the creation of franchisee advisory groups, whose individual leaders and members are elected by the franchisees. As a result, franchisees have established the National Black McDonald's Operators Association, the Women's Operators network, the Asian Operators Association, and the McDonald's Hispanic Operators Association. These independent, grass roots organizations voice the needs, concerns and ideas from the franchisee community directly to McDonald's company officials.

New franchisees can also draw support from other franchise owner-operators. McDonald's often facilitates this business-to-business assistance by pairing a franchisee in need of assistance with a fellow owner-operator who has achieved success in that geographic area.

While McDonald's makes an effort to attract restaurant owners who possess both the desire and the resources to succeed, an applicant for a conventional franchise should have a minimum of \$125,000 in non-borrowed personal assets. However, candidates with a minimum of \$75,000 in such assets may become eligible through the company's Business Facilities Lease (BFL) program. Through the company's Business Facilities Lease program, they enter an agreement with McDonald's whereby they lease the seating, interior restaurant decor, kitchen equipment, and outdoor signs that franchisees ordinarily buy outright. McDonald's typically grants them an option to buy these items at a later date.

MCDONALD'S AND WILLIAM EDWARDS, AN OWNER-OPERATOR

On November 17, 1992, William Edwards became an owner of a McDonald's in the Northeast section Washington, DC, which at the time was a highly distressed neighborhood. Throughout the 1980s, he owned and operated a national chain service station in Miami's Liberty City.

Edwards decided that becoming a McDonald's franchisee would give him the economic stability he was looking for. When he took the first step to contact the company's franchising manager in Boca Raton, Florida, he had already decided on McDonald's. Competition to become a franchisee was very intense, Edwards was warned. McDonald's is one of the most sought after franchise companies, with more than 10,000 inquiries every year.

Over three interviews, Edwards convinced McDonald's that he had the right attributes to become a franchisee. "They were looking for people who had some business knowledge. But the thing they were most interested in was to see if I was a people person. They could teach me the business part. But they wanted to make sure I could deal with people," recalls Edwards.

Most of the training took place on site in the stores. Edwards moved around quite a bit between independent operator stores and company stores as well as urban and suburban locations, exposing him to a wide variety of issues and challenges of running a McDonald's store. He says, "I had experience running a store in a distressed area, so the exposure to the suburban clientele helped me learn to deal with a completely different type of customer."

The training progressively built up Edwards' capacity to operate a store. By the time he was in the Advanced Operations Course he was running an entire store by himself. "The operator agreed to step aside for the period I was there, and I was responsible for running the whole thing. This level of trust also put a lot of pressure on me," says Edwards.

McDonald's provided Edwards with information about McDonald's restaurants for sale, and he settled on a company-owned store in Washington, DC. To buy the \$500,000 store, Edwards needed to make a down payment of \$125,000. "I was \$50,000 short on the down payment," recalls Edwards. McDonald's offered to give him a loan to close the deal until he could liquidate a personal asset. "I stalled a bit because I wanted to come up with all the cash," says Edwards. Unable to raise this amount in a short period, Edwards accepted McDonald's financing offer. He was, however, able to liquidate his asset to repay this note within 30 days.

"The first year of running the business was difficult, but there was a lot of support from the company," recounts Edwards. "Especially the first 90 days ... the company provided some financial assistance for instance." He continues, "There were a lot of business consultants coming in and out all the time."

While McDonald's is under no obligation to provide extra assistance to its franchisees, when McDonald's deems it appropriate, the company can offer additional financial benefits. In 1992, McDonald's helped Edwards with reinvestments in his restaurant building and facilities, as well as paying for security so that he could target his resources to help staff his restaurants. McDonald's regards this kind of assistance as an investment in good owner/operators, a targeted effort to help them build sales, make themselves more profitable, and ultimately make the company more profitable, too. This reflects a McDonald's business fundamental – the company and its franchisees enjoy a mutually beneficial relationship.

The second year, however, proved to be even more trying. "I almost went bankrupt," says Edwards. With high costs and sinking revenues, selling the store was not too distant an option. "But I had a sense of responsibility toward both my family and the people working at my store. If I sell this store, the next person coming in might decide the workers were part of the problem and get rid of them," explains Edwards. "I owed it to my family and to my workers to try to find a solution and turn the business around," he says. That's when he asked Mike Hicks, one of McDonald's field service managers, to come in and offer advice.

Mike Hicks offered to bring in a field service team for four days and assured Edwards that everything from operations to physical appearance would change fundamentally. "They came in like a storm," recalls Edwards, "and started cleaning the floors, the walls, changing equipment, ... They even changed the roof." Edwards' store was an older model. The repairs and all the changes cost more than \$100,000 dollars, all of which McDonald's covered.

The presence of the field service team also helped boost employee morale at the store. "Here you had pretty high-level white managers kneeling down and scrubbing the floor, cleaning bathrooms, making hamburgers ... and they were doing all of this while being extremely courteous and friendly to all the workers and the customers," says Edwards. "This just boosted McDonald's image in the neighborhood." For Edwards, it was also comforting to learn that the company had the support structure to help him through difficulties when necessary.

Aside from the field service team's help, Edwards attributes his store's turnaround to support from local and regional operators. McDonald's encourages local councils of operators and local marketing cooperatives, which provide a strong network of information and expertise for all the operators. "Despite the problems each of us may have," Edwards says, "we take care of each other." This mutual support sometimes takes the form of providing crews that have the expertise to address targeted, specific challenges, helping each other in diagnosing problems and proposing solutions, temporarily covering for an operator who is having a personal or family crisis, "and sometimes even helping out financially," says Edwards.

The change in operations and employee morale, combined with the support from field service and other owner-operators, has helped Edwards turn his business around. This past year he generated close to \$2.5 million in sales from his Northeast DC store alone. On April 20th, he opened a second store, this time a new one with brand new equipment and facilities, in the

Federal Plaza Building in DC's Southwest area. "I am hoping to own one or two more stores in the next year or so," concludes Edwards.

VALUE CHAIN ANALYSIS

Figure One illustrates the impact of the franchisee support program on the value chains of McDonald's and the Edwards franchise. McDonald's sees the program as an essential part of its marketing and after-sales service functions, since the success of its franchisees has a very direct impact on its ability to sell both its products and its franchises. For the franchisee, the program offers support for most of the major business functions, including planning, human resources, operations, and marketing.

LESSONS LEARNED

- Pairing new franchisees with other franchisees for support and advice is one of the most effective ways to help them manage the challenges of new ownership. Through a voluntary network, like-minded businesspeople can create an invaluable pool of experts and advisors.
- In the case of McDonald's, two factors contribute to the success of the voluntary networks of franchisees: McDonald's strong brand name and the similarity of issues shared by its operators have helped foster strong inter-store networking.
- The standardization of products and procedures enables McDonald's to have an "army" of experts out in the field who can move around and provide acute support to operators in need.
- Requiring candidates to commit to a rigorous training program -- which they do not pay for, nor are they compensated for -- allows the company to find the strong franchisees, and allows the candidate to make an informed business decision.
- Training of franchise candidates in multiple settings allows the trainees to become familiar with management and marketing issues and develop a wide network of relationships with fellow operators, managers, and the company support system.
- Developing a network of successful franchises requires substantial investment in training, financial support, and well-planned support systems.
- Franchising may not be for everybody, but linking the right person with the right company can be a "win-win" business proposition.

Sources:

William Edwards, McDonald's Franchisee, Washington DC

Herman Petty, McDonald's Franchisee, Chicago, IL

Robert Beavers, Senior Vice President, McDonald's Corporation

Walt Riker, Media Relations, McDonald's Corporation

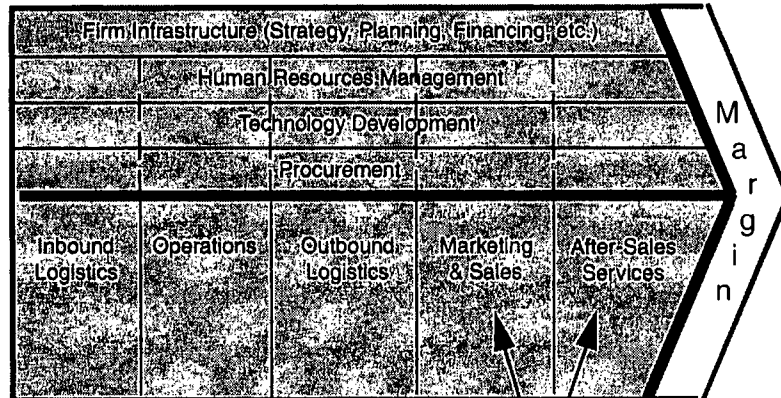
Lisa Howard, Media Relations, McDonald's Corporation



Figure 1

The impact of the franchisee support program on companies' value chain

McDonald's Corporation



- Strong network of profitable independents that sell and market McDonald's products
- Success of franchisees keeps demand for new franchises strong

Inner-City Franchisee

- Strong network of owner-operators who share information on best practices
- Extensive training program for owner-operators
- Assistance with financing



- Field service support to resolve major operating problems
- Marketing cooperatives to increase local advertising

5. NCR Corporation's Business Advisory Programs

NCR Corporation is a worldwide provider of information technology solutions with annual revenues of \$6.6 billion. Through its Government Systems Corp. subsidiary, NCR offers a Minority Business Agreement (MBA) and also participates in the Department of Defense's (DoD) Mentor-Protégé Program. NCR joined the DoD Mentor-Protégé Program as one its first mentors when the program became effective as a pilot in 1991. NCR currently works with three companies under the DoD mentoring program and three other firms at the same level of intensity.

As of September 1998, there were 106 mentors and 171 protégés in the DoD program. NCR views the mentoring relationship as a partnership, and NCR looks for protégés with skills that complement its own in market access and technology.

As the demographics of the United States change, NCR's target market will become much more diverse in its racial and ethnic make-up. The company anticipates that its minority-owned protégés will help them establish a stronger presence in these emerging markets. The ultimate goal of NCR's advisory programs is the development of suppliers and distribution channels that are in close touch with the new markets, and that are prepared to work with NCR in existing and emerging markets.

WHAT THE MENTOR PROTÉGÉ PROGRAM OFFERS

The DoD Mentor-Protégé Program is designed to expand DoD's base of quality and cost effective suppliers -- particularly of small and disadvantaged ones. Through partnering with a mentor, the protégé must demonstrate growth, profitability and success. NCR follows five basic steps in selecting and working with its protégés to ensure that it can successfully foster protégés while meeting its own business needs

1. Partner Development

Preliminary discussions between NCR and a potential protégé can range from 6-12 months before a formal mentor-protégé assessment process begins. During this period, the companies discuss possible common ground on markets and technologies and become familiar with each others' basic competencies. At this stage, the critical elements NCR looks for in a protégé are persistence, stability, access to new market opportunity, creativity, and high levels of competence.

2. Organizational Needs Assessment

Once a company becomes a serious protégé candidate, NCR begins an in-depth assessment of the firm's strengths, weaknesses, opportunities and threats. NCR considers the protégé's core competencies, existing and previous contracts, and their performance track record on these

contracts, organizational structure and procedures, business plans, etc. The assessment is conducted by a variety of specialists from NCR and its consultants.

This phase culminates in a one-and-a-half day session with top executives of each organization reviewing the potential protégé's strategic vision and product line, looking for points of synergy with NCR. At the end of this session, NCR and the protégé sign a formal written agreement, outlining a preliminary development plan, and submit it to Department of Defense for review. The assessment is updated every 12 months for the duration of the relationship. This is in part to provide an on-going evaluation of the relationship and protégés' needs.

3. Plan for Success

During this phase of the relationship, the companies begin to act on the development plan for the business and the partnership, including training needs, contracts to pursue, etc. The plan almost always includes a marketing component identifying team-building needs, opportunity analysis, and "capture" strategies. The resulting plan guides the relationship.

4. Execution

In this phase, the technical assistance varies according to the need of the protégé. Often it takes the form of a one-on-one meeting with experts in specialized areas of management. NCR offers specialized seminars, e.g., for ISO9000 certification training, that protégé firms can attend with their own personnel and with select customers. These instructors often come from within NCR, but may also come from consulting firms and from the Historically Black Colleges and Universities. A protégé receives 25 to 60 sessions per year of training, discussion, and one-on-one consulting.

In addition, NCR may introduce protégés to sources of financing and provide valuable networking opportunities with other protégés. NCR is in the process of formalizing a partnership with several banks and financing companies that will offer protégés expert advice on accessing capital.

5. Evaluation Feedback

As an on-going feature of NCR's mentoring, both the mentor and the protégé are constantly monitored and evaluated. As noted earlier, an all-out organizational assessment is conducted every 12 months during the life of the relationship.

BENEFITS TO NCR AND THE PROTÉGÉ COMPANY

NCR will consider only highly competent businesses as potential protégés, equal in level of performance to any of the other NCR suppliers. They expect these relationships to be long-term and mutually profitable. NCR has estimated the quantifiable administrative benefits accrued to

them as a result of mentoring in 1998 to be \$200,900. Along with this, NCR obtained over \$5 million in new contracts through these relationships over the last 14 months.

Table 2. Estimates of Benefits to NCR Resulting from the Mentor-Protégé Program*

Area	Rationale	Cost Savings	NCR Revenues**
Business Development/Sales	Savings on sales staff due to contracts provided by protégé; more revenues are expected shortly from the relationship with protégés.	\$120,000	\$5,000,000
Bid and Proposal Savings per bid (includes capture/pricing)	Aside from sales staff savings, protégés bring sales opportunities to the mentor and take the lead in qualifying the opportunity; this includes time they devote to developing proposals which NCR would otherwise need develop.	\$8,400	
Reduced Sales Cycle	When working with protégés in Federal procurement, the sales cycle can be reduced from 12 months to 3 months (75% reduction in the sales cycle). Assuming \$80,000 for full-time sales personnel, creates \$60,000 savings.	\$60,000	
Recruiting	NCR's mentoring program incorporates partnering with Historically Black Colleges and Universities (HBCUs) and provides internships to HBCU students. This allows NCR easier access to full-time employees.	\$12,500	
	TOTAL	\$200,900	\$5,000,000

Source: NCR (1998)

* Direct expenses are reimbursed by the Department of Defense, totaling \$500,000 in 1998.

** Revenues from contracts secured through protégé relationship

More importantly, though, NCR clearly benefits from the increased visibility resulting from their partnering efforts with their protégés, the established and expanding base of suppliers/customer channels, and the long-term strategic relationships it develops with its protégés.

Protégés, in turn, gain from the significant on-going management consulting provided by NCR at no charge to the protégé. Moreover, NCR marketing efforts connects the protégé to new and larger customer prospects. Finally, this relationship offers an increased degree of readiness to the protégé in bidding prospects.

NCR AND UTA

User Technology Associates, Inc. (UTA) is a \$100 million information technology company with 800 employees. It offers services and product solutions that prepare customers' systems for the Year 2000. UTA also has developed data warehousing technologies and, more recently, industry-specific point-of-sale software. UTA is an SBA 8(a) certified contractor and its clientele are primarily Federal agencies. Federal contracts generate more than 80 percent of the company's

revenues.⁴⁵ The company has grown from \$40 million in sales to its current size over the past five years.

Yong K. Kim founded UTA in 1985 after a career that included computer support to government agencies, major corporate customers and international operations. Mr. Kim has been recognized with entrepreneurship awards from Ernst & Young, Merrill Lynch, Inc. Magazine, and KMPG Peat Marwick and was honored as the 1995 Small Business Person of the Year by the SBA. He holds a BSEE and MS from the American University and more recently attended Harvard Business School's executive Owner/President Management (OPM) Program.

Early Interactions and the MBA Partnership

UTA's relationship with NCR began in 1992. After a year of discussions and meetings, NCR selected UTA through a competitive process to be one of its subcontractors on a proposal to the Air Force. Although NCR did secure the Air Force contract, the portion for UTA was not awarded. In fact, up to now these two companies have not partnered on any project. NCR was also interested in UTA's strong relationship with federal agencies.

Given UTA's strong financials and growth track record, Mr. Reyes suggested that UTA could benefit from participating in NCR's MBA program. Through this program, UTA would receive wider exposure throughout NCR. UTA could also benefit from specific joint marketing and product development assistance provided to MBA partners.

In late 1995, NCR took the initiative to offer strategic planning assistance to all of its MBA partners. This technique had proved useful in forging alliances with large non-minority companies. First, all of its MBA partners attended a week-long training program on NCR's operations, markets, and technologies, and some general sessions on the nature of technology markets. Next, NCR offered to work with its partners to carry out an in-depth needs assessment for all of its MBA partners. UTA was one of the first three partners to accept this assessment. Over several days, UTA attended several short preparatory sessions on a variety of issues, specifically around marketing:

- On what kinds of work would the company want to partner with NCR?
- What level of support do the company's divisions want to invest to work with NCR?
- What is the opportunity list for the company? That is, what short-term concrete opportunities are there for the company? What are the longer-term realistic opportunities of the company?

⁴⁵ The 8(a) certified status offers advantages to businesses owned by socially and economically disadvantaged individuals in obtaining federal contracts. The Federal agencies contracting with UTA include the DoD, SBA, FDIC, Department of Labor, and Army Corps of Engineers.

These "soul searching" sessions UTA undertook were followed by a day-and-a-half of working meetings between senior executives of UTA and NCR's Government Systems Division. This process proved to be extremely valuable for UTA. "The whole process was amazing," says Barbara Sullivan, Vice President of Business Development at UTA. She adds, "I didn't think you could teach old dogs [referring to UTA executives and senior managers] new tricks. But they came out with all sorts of new tricks." UTA had experienced very rapid growth over a five-year period, but, Sullivan continues, "most of this growth was not strategic ... it was opportunistic growth. This process gave us the tools to think more strategically about growth."

The concept that proved most helpful to UTA in thinking about strategic growth was what marketing experts call "offer management." Through "offer management," a company looks carefully for ways to market newly developed skills into new fee-based services. This idea is a simple extension of account management. To succeed, the marketing staff must regularly communicate with the technical field staff to create an information loop that can move activities from concept to revenue. "This was a very simple idea but somehow we had never thought about it," says Sullivan.

One solution that NCR suggested was for UTA to hold technical focus groups. So far such focus groups have been conducted on several topic areas, for example, internet solutions, Y2K solutions, data warehousing, and security. The discussions of the internet solutions focus group, for instance, has already resulted in creating a whole new subsidiary company.

DOD's Mentor-Protégé Program

In 1997, after a six-month process, UTA was officially brought in as one of NCR's DoD protégés. Like all the other protégés in the program, UTA annually updates its needs assessment, building on its previous year's effort. Marketing activities and educational seminars take place virtually every week on topics such as data warehousing and business development. Some of the workshops and seminars are organized in tandem with other mentors in the DoD program to leverage scarce resources of the program.

NCR is already beginning to benefit from UTA's strategic approach to marketing. For instance, UTA's Year 2000 desktop-level software product, developed jointly with a British firm called Greenwich Mean Time, came out of the work the company was already doing on a service basis. This product complements NCR's products and fills a gap in NCR's available solutions.

NCR and UTA are finalizing a formal reseller's agreement. The NCR agreement would substantially expand UTA's market reach. NCR's marketing efforts have already produced a number of leads, one of which they expect will result in a signed contract just three months after the two firms began discussing the joint marketing of this product. Since the two companies have a strong existing relationship, forging this agreement took half the time it would have otherwise. "I don't think we would have a reseller's agreement with NCR without our mentor-protégé relationship," says Lee Harvey, Business Development Manager at GMT-UTA.

VALUE CHAIN ANALYSIS

Figure One shows the value chains for NCR and UTA and illustrates the specific impact of the partnership. For NCR, the close ties with its protege/supplier decrease the cost of starting a new project by reducing negotiation and implementation time. UTA also enhances NCR's market reach by filling gaps in NCR's product line and broadening its network in the field. UTA gained tools for strategic planning, new marketing techniques, and access to new customers.

LESSONS LEARNED

- Taking a long-term perspective on the benefits to be delivered from the partnership is important for both companies. These relationships might not generate immediate sales for the parties but can have long-term and intangible value for strategic planning, customer relations, and operations.
- The mentor-protégé relationship allows both companies to build mutual confidence and compatibility necessary to forge agreements quickly on future projects.
- It is necessary to create communication channels that allow partners to reap unanticipated benefits from their collaboration.
- Tracking the benefits of the relationship is a helpful reminder of the ultimate goal of the program, viz., economic gain for both parties.

Sources:

Greg Reyes, Government Systems

Clairisse Jackson, Government Systems, NCR

Barbara Sullivan, Vice President

Lee Henry, Business Development Manager, Greenwich Mean Time/UTA

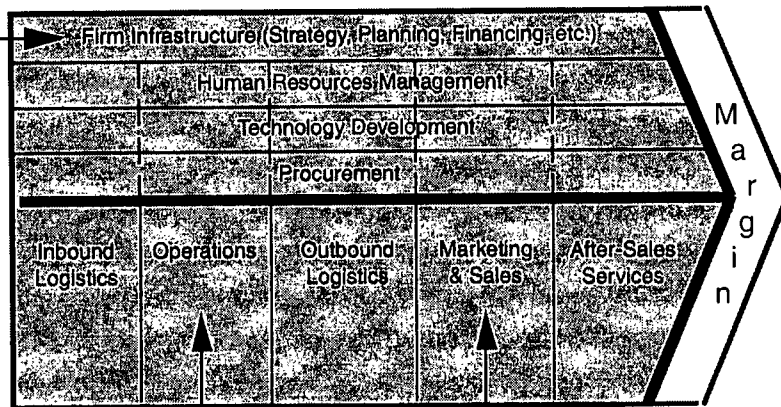
Virginia Koch, Director of Mentor Protégé Program, Department of Defense

Figure 1

The impact of the mentoring program on companies' value chain

NCR Government Systems

- Strong ties and good communication decrease time to negotiate new projects with UTA



- UTA's strong network eases project implementation

- UTA's strong network in field better positions NCR to learn about new opportunities
- New products fill gaps in product line
- Enhances company positioning for future bidding opportunities

UTA

- Tools to think more strategically about growth



- Access to new markets
- "Offer management" techniques enable the company to transform existing activities and services into revenue-generating opportunities

6. *GE Capital Small Business College*

GE Capital, with assets of more than \$250 billion is a global, diversified financial services company with 28 specialized businesses. Based in Stamford, CT, GE Capital is a wholly-owned subsidiary of the General Electric Company. GE Capital Small Business Finance (SBF), a part of one of the 28 businesses, is one of the largest small business lenders in the nation. SBF loan volume has increased dramatically, from \$60 million in 1995 to a projected \$400 million in 1998. SBF includes a unit called "Community Small Business Finance (CSBF)," that was created in 1993 to address the needs of minority-owned and inner-city businesses. From the start, CSBF offered access both to capital and technical assistance. The technical assistance program is named "The GE Capital Small Business College."

DESCRIPTION OF GE SMALL BUSINESS COLLEGE

The GE Capital Small Business College is a structured networking and educational seminar for owners of existing, successful small businesses. The College provides instruction in such key management issues, as:

- strategic planning
- finance and accounting
- accessing capital
- sales and marketing
- human resources management, and
- legal issues.

In addition, the College includes segments on Sourcing (how to become a supplier to major companies, and conversely, how to negotiate most favorably for your company) and Quality (why quality will save you money; process improvement and analytical tools) led by internal experts in these areas. GE Capital modifies the curriculum depending on the industries and sizes of the businesses in the class. Either GE/GE Capital internal experts or external professional educators with small-business credentials deliver the instruction. The College also taps into the resources of GE Capital's central training organization, the Center for Learning and Organizational Excellence, for administration and instructional design and delivery. The content is very practical, with examples drawn from the participants' businesses whenever possible.

The instruction is coupled with either one-to-one counseling or periodic small-group discussions to solidify the learning and help the business owner apply the concepts to their own businesses, such as implementing changes they may want to make. GE/GE Capital executives do the counseling as volunteers. In addition, companies may have their financial statements reviewed for advice on obtaining financing.

The College is presented in two different formats, one morning per week for eleven weeks or intensively for three full days. In a typical year, GE Capital schedules at least two 11-week

sessions and one three-day session, and responds to requests for special sessions. The College has run in Stamford, CT, New York City, Philadelphia, PA, and Newark, NJ. Approximately 25 GE/GE Capital employees are involved per session as instructors and advisors. Sessions are limited to approximately 20 business leaders to assure personal attention. Approximately 200 participants have graduated from the College to date.

Companies can be from virtually any industry. Past participants have included daycare providers, construction companies, manufacturers, retailers, and high technology firms. Most do not have a customer or supplier relationship with GE Capital prior to participating in the College. Their gross annual revenues must exceed \$500,000, and they must have been in business for three years or more, with three or more employees. Participants pay \$595, which is sometimes reimbursed by sponsors, to cover direct costs. GE Capital absorbs most indirect costs.

While the College is open to all qualified small business owners, GE Capital makes special outreach efforts to minority-owned businesses and businesses in economically distressed areas. This includes working through minority purchasing councils, advertising in minority-oriented business publications, and contacting minority-certified companies directly. GE Capital typically partners with another large organization to offer the College, such as the Port Authority of New York and New Jersey or Public Service Electric & Gas (PSE&G) of New Jersey. The Port Authority heard about the College in 1996, and observed classes and talked with graduates before agreeing to help publicize the program and create "Port Authority scholarships" for a select number of their female and minority suppliers.

In 1998, GE Capital partnered with PSE&G, also to serve their female and minority suppliers. In addition to offering scholarships, PSE&G hosts the 11 classes at its Newark headquarters and involves some employees as instructors and advisors. "PSE&G supports the needs of an increasingly diverse customer base by positioning supplier diversity as a customer-driven component of our corporate strategy," said Scott Williams, Director of procurement for PSE&G. "We see the partnership with GE Capital Small Business College as a way to strengthen our minority suppliers that also could lead to new business opportunities with us, GE, other co-sponsors or even other College participants."

In businesses' written evaluations of the College, over half of the graduates reported an increase in sales and number of employees since completing the College training. Over 90 percent said the College improved their business abilities and was a good or excellent value. Participants requested further discussion on financing options, sales and marketing, use of technology, human resource management and doing business with larger companies. They also asked for more networking opportunities and convenient locations, which led GE Capital to incorporate more group activities and expand to more sites.

BENEFITS TO GE CAPITAL

- GE Capital enhances its understanding of the small-business market because of the longer-term nature of the College. In some cases, GE Capital has expanded product lines based, in part, on graduates' input. For example, several construction companies participating in the College helped GE Capital become comfortable offering loans for the construction phase of commercial real estate. These types of loans accounted for approximately \$60 million or 15 percent of the unit's 1998 volume.
- The College provides opportunities for GE and GE Capital employees to see small-company "best practices" in responding quickly and communicating clearly. GE Chairman Jack Welch has said "what we are trying relentlessly to do is get that small-company soul -- and small-company speed -- inside our big-company body." It also provides them with instructing and coaching experience that they need to develop as leaders.
- The College pipeline helps augment the pool of minority suppliers to the company. For example, a Hispanic-owned office furnishings company subsequently became a supplier.
- The College does also produce some new customers. For example, an African American-owned restaurant was offered financing to open another facility, and a Hispanic-owned moving company was offered financing to purchase a warehouse.

BENEFITS TO THE SMALL BUSINESS COLLEGE PARTICIPANT

- The content helps participants grow their businesses by sharing best practices and identifying issues particularly relevant to emerging businesses.
- The networking is helpful to the participants, both to gain management tips and possibly to do business with each other, GE Capital, and other companies that partner on the College.
- Participants appreciate the opportunity to learn about accessing capital and sourcing without the pressure of being in front of a lender or buyer.
- Participants appreciate the structured time and resources to do business planning and analysis.

GE CAPITAL AND BUSINESS RELOCATION SERVICES, INC.

After several years in the industry, Jesus Linares started his own commercial moving company, Business Relocation Services, Inc. (BRS) in 1987. Located in Brooklyn, NY, where Linares grew up, BRS provides corporate and commercial moving and storage services, including record retention. BRS employs 87 people on a full- or part-time basis, and is a certified minority-owned business. BRS accounts include Bell Atlantic, the New York Board of Education and AT&T.

In 1996, BRS was poised for significant growth when Linares learned about the GE Capital Small Business College from a GE Capital Community Small Business Finance executive. Linares decided to attend the program, even though he already held an accounting degree from Saint Frances College in New York.

From the GE College, Linares incorporated information to improve his company's finances, marketing and operations. For example, he realized that BRS had not established enough operational systems for his employees to follow. He said, "What you need to do with your business is to analyze it, see what you do, how you do it, why you do it, when you do it, and all the variables that apply," he said. He learned that establishing procedures led to predictability and reliability, like McDonald's, the international fast-food provider. "How do we make these french fries in Brooklyn and make them in China so they come out the same? It really worked for me. I really got my company in gear," he said.

Linares cited several lessons from the curriculum, including:

- how to do strategic planning,
- how to do financial analysis,
- how the business owner can keep in touch with daily operations without bogging down,
- how to keep the company name visible in the marketplace.

Linares also appreciated the "practicality" of the program, both in the content and timing of the program. Linares said technical assistance programs should be more accommodating to the schedules of the small business owner. "I'm operating a business. I have issues that come up," he said. "I liked that after the class I could be back at the office before lunch, so I could stay connected to the business."

Since graduating from the College, BRS revenues have doubled, and Linares continues the relationship he formed with GE Capital associates he began two years ago. Linares worked with a GE Capital associate to secure an SBA-guaranteed loan for the purchase of a new warehouse that is three times the size of his previous one.

VALUE CHAIN ANALYSIS

Figure One shows the impact of the Small Business College on the value chains of GE Capital and Business Relocation Services. For GE, the college improves its understanding of new markets, in turn improving new product development and marketing functions. Business Relocation Services gained a variety of management tools, from long-term planning to operating procedures, which have increased its revenues and improved its profitability.

LESSONS LEARNED

- While a longer-term training program requires greater commitment on the part of the sponsoring company and participants, it is well worth it. Businesses benefit from looking at an array of management issues and seeing how they interrelate in a structured way. Secondly, the resulting relationships are deeper and longer-lasting.
- Having an advising or counseling component is important for several reasons. First, it assures that the learning is not “lost” when the business owner returns to the everyday stresses of running a business. Secondly, it provides an ongoing resource for the business owner. Third, for the sponsoring company, it provides personally and professionally satisfying growth experience for the employees.
- Keeping the program design flexible creates a better experience for the participants. Advising has been done several ways to meet the needs and capabilities of participants and advisors.
- Partnering with other organizations is an effective way to increase technical assistance for small businesses. Each company is able to do more because of the shared efforts, and the participants benefit from the variety of businesses represented and the contacts with the sponsoring companies.
- Systematic and structured evaluation demonstrates respect for participants and is key to continuous improvement of the program. By incorporating written feedback into each class of the College, we are better able to address any issues that may arise and modify the program, if needed, for future sessions.

Sources:

Martha Kramer, GE Capital Small Business College

Nancy Nyikes, GE Capital Small Business Finance

Jesus Linares, Business Relocation Services

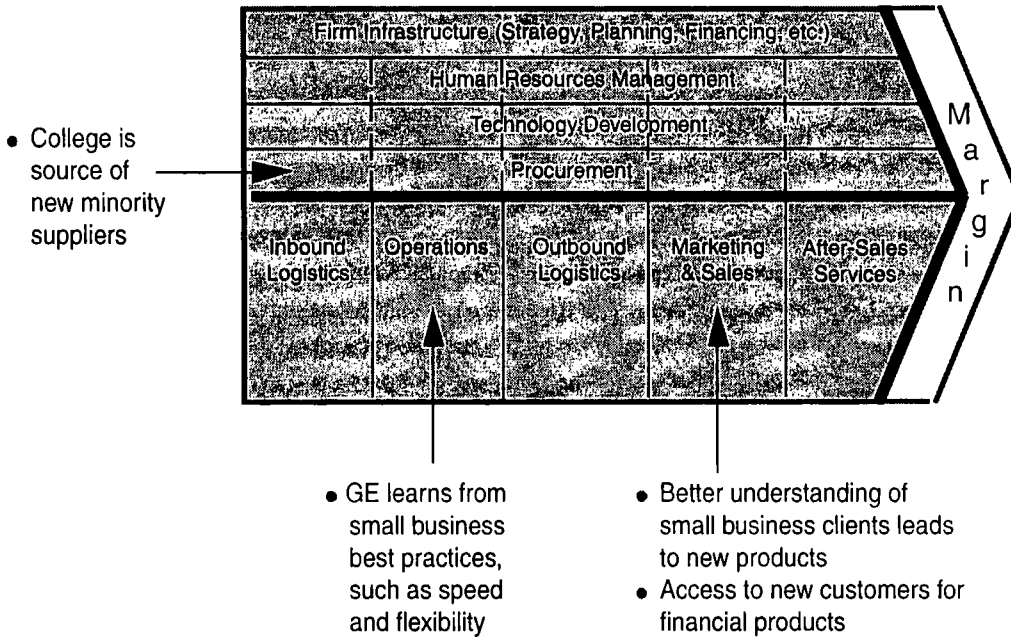
Scott Williams, PSE&G

Michael Massiah, The Port Authority of New York and New Jersey

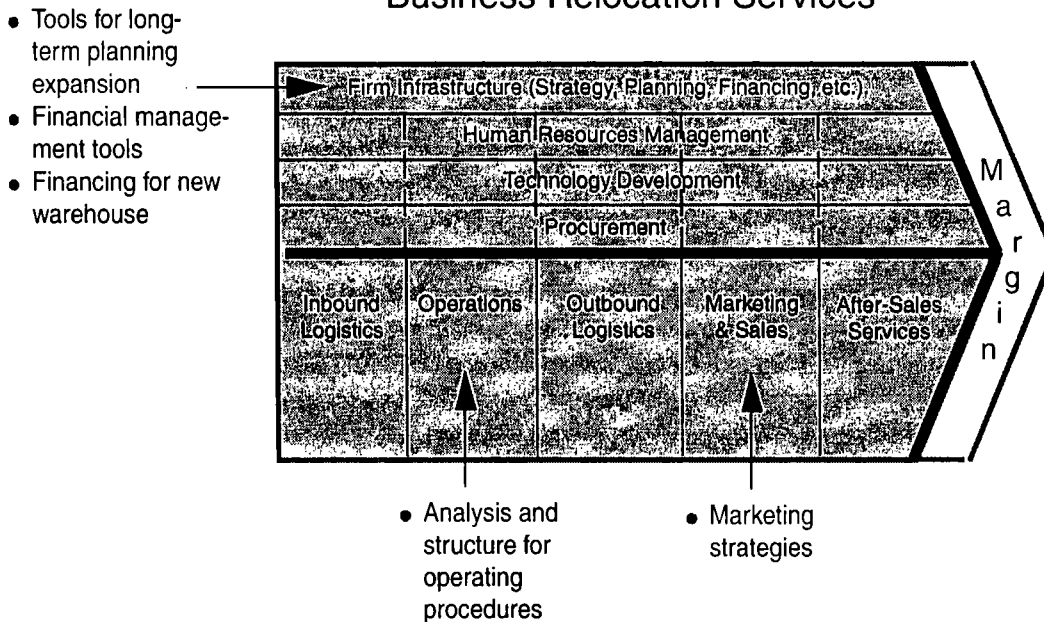
Figure 1

The impact of the GE Small Business College on companies' value chain

GE Capital



Business Relocation Services



APPENDIX C: BusinessLINC Regional Meetings and Attendees

BusinessLINC Regional Meetings Participating Organizations

Los Angeles Regional Meeting July 9, 1998

Ballistic Missile Defense Organization
BellSouth Telecommunications
Cherokee General Corporation
Choctaw Management Services
Choctaw Nation
Chrysler Corporation*
City of Los Angeles, Minority Business Office
Computer Sciences Corporation
Concurrent Technologies Corporation
Data Voice, Inc.
Earth Tech, Inc.
F.E. Ward Constructors
Fluor Daniel, Inc.*
Home-Aid Healthcare, Inc.
HQ Defense Logistics Agency
IT Corporation
KW Microwave Corp
Lockheed Martin*
Los Angeles Area Chamber of Commerce*
Manufacturing Technology, Inc.
Micah -Tech Industries, Inc.
MTA, Inc.
NASA
National Association of Minority Contractors*
Northrup Grumman
Nova Group, Inc.
PDQ Personnel
Port Authority of New York and New Jersey
Port of Portland, Oregon*
Raytheon Company
Science Applications International Corporation*
Southern California Regional Purchasing Councils
Symvionics, Inc.

The Human Factor
The Artec Group, Inc.
TN & Associates*
TRW

Chicago Regional Meeting July 29, 1998

18th Street Development Corporation
ACCION/First Chicago
Ameritech
Asian American Alliance
Bally Total Fitness Corporation
Bank of America
Brook Furniture
CANDO*
Center for Enterprise Development
Chicago Manufacturing Center
Chicagoland Chamber of Commerce*
Clark Refining & Marketing Inc.
Coach's Corner*
Compdisk
Cosmopolitan Chamber of Commerce*
Damron Corporation*
DePaul University
Dunkin' Donuts
First National Bank of Chicago
Golden West Foods
Hermann Miller, Inc.
Illinois Department of Commerce and Community Affairs
ITT Sheraton Chicago Hotel and Towers
Jewel OSCO
Joliet Jr. College SBDC
Kellogg Graduate School of Management
Lakeshore Development
Latin American Chamber of Commerce*
McHenry College SBDC
Merchandise Mart Properties
NASA
NORBIC
Polestar Capital Partners*
Puerto Rican Chamber of

Commerce
Quaker Oats*
Roughneck Concrete Drilling & Sawing
Runner's Club*
South Shore Bank
The ServiceMaster Co.
Transitional & Turnaround Management
U.S. Small Business Administration
University of Illinois at Chicago
ValueSource, Inc.
Waubonsee Community College
SBDC
Women's Self Employment Project
Women's Business Development Center

Dallas Regional Meeting August 5, 1998

Akin Gump Strauss Hauer & Feld
Alcatel Network Systems, Inc.
American Airlines, Inc.
AMR Corporation
Anderson Consulting
Arthur Andersen LLP
Associates First Capital Corporation
ATCI Computer Repair
Austin Industries Inc.
A.H. Belo Corp.
Bank of America
Bank One
Locke Purnell Rain Harrell
Lockheed Martin
Lucent Technologies
Minority Business News USA
Minority Business Development Agency
Mrs. Baird's Bakeries
Bill J. Priest Institute
Brilla International Inc.
Burlington Northern Santa Fe
Business Control Systems
Carter & Burgess Inc.
Chase Manhattan Bank
NationsBank*

Nortel (Northern Telecom)
 North Texas Commission*
 North Texas Women's Business
 Council*
 Northrup Grumann
 Occidental Chemical Corporation
 ON-TARGET Supplies & Logistics*
 Paz Corporation
 City of Dallas
 Comerica Bank
 Compass Bank
 Corgan Associates Inc.
 Dallas Asian-American Chamber of
 Commerce*
 Dallas Black Chamber of
 Commerce*
 Dallas Chamber of Commerce
 Dallas County Community College
 P.N.I. Distributors
 Regali Inc.
 Southern Dallas Development
 Corporation
 Frito-Lay Inc.
 Fujitsu Network Communications
 General Services Administration
 Greater Dallas Hispanic Chamber of
 Commerce*
 GTE
 Guaranty Federal Bank
 IBM Corporation
 Wendy Lopez and Associates Inc.
 White Hill Sims & Wiggins LLP
 ITC Personnel Services

Cleveland Regional Meeting
August 19, 1998

910 Tactical Fighter Group/Lgc
 Advanced Clinical Diagnostics
 AG Promotional & Gift Products
 Akron Small Business Development
 Center
 Alpha-Omega Chemical Company
 American Merchandising Services,
 Inc.
 Amos Tuck School*
 Andrell, Inc.
 Application Design Consult., Inc.
 Argus Computers
 Artisan Electrical Contractors, Inc.
 Babcock & Wilcox, Inc.,
 Nuclear Equipment Division
 Battelle Memorial Institute
 CDO Technologies, Inc.
 Celestial Electric Co., Inc.

Central Engineering, Inc.
 Chattree, Inc.
 Cimarron Express, Inc.
 City of Cleveland*
 Claire & Ron Enterprises
 Cleveland MCAP
 Personnel Consultants
 Cleveland Regional Minority
 Purchasing Council*
 Comprehensive Medical Care, Inc.
 Cook Paving & Construction
 COSE Small Business
 Development Center
 Cuyahoga County
 Cuyahoga Community College*
 Danoli Landscape Inc.
 Defense Construction Supply
 Center
 Delphi Packard Electric Systems*
 Dupont Tribon Composites, Inc.
 East-West Development, Inc.
 Ecological Services, Inc.
 EES Corporation
 English Concessions
 Environmental Affairs Mgmt., Inc.
 Fins & Feathers
 Flex-Tech Professional Services,
 Inc.*
 Seafood/Poultry Hoppe
 G. Stephens, Inc.
 HC Painting Co., Inc.
 Hispanic Business Association
 Image Keepers Promotional
 Marketing Corporation
 Industrial Machining & Design
 Services
 Innovative Rest. Mng
 d/b/a Fuddrucker's
 JF&W Enterprises
 Johmyell Contractors, Inc.
 Jones Technologies
 Kent/Tuscarawas Small Business
 Development Center
 Lake County Small Business
 Development Center
 Lake Industrial Supply
 Corporation
 LMT Production
 Lucas Aerospace
 MAP International Inc.
 Metro Minority Enterprises, Inc.
 Mid American Consulting*
 Mid American National
 Bank & Trust Co.

Mitchell Electrical Contracting
 National Consulting & Business
 Systems
 Nelson & Whiting LLP
 Northwest Small Business
 Development Center
 O.P. Resources Plus, Inc.
 Ohio Dept. of Development
 Optimum Technology, Inc.
 Parker Hannifin Corporation
 Precious Communication, Inc.
 R & R Waste Disposal, Inc.
 R & R International, Inc.*
 Ramsay Construction Corp., Inc.
 RAN Temps, Inc.
 RCI Insulation Company
 Resource Data Management
 Group, Inc.
 Ringold Office Products, Inc.
 Russell Hubbard & Assoc.
 Shawntech Communications, Inc.
 Small Business Environmental
 Assistance Center*
 Smith International Enterprises
 Ltd.
 Solar Universal Technologies, Inc.
 Stewart-Peterson Industries, Inc.
 Taner Bros. Contracting & Supply
 The Boeing Company*
 The Foster Corporation
 Toledo Area Chamber of
 Commerce
 Turner Construction Company*
 Unified Architecture &
 Engineering Inc.
 Village Building Services, Inc.
 West Virginia High Tech
 Consortium Foundation
 Western Reserve Business Center
 for Women SBDC
 Wilco Information Management,
 Inc.
 Women's Bureau - U.S. Department
 of Labor
 Wood County Small Business
 Development Center
 Youngstown/Warren SBDC

New York City Regional Meeting
September 14, 1998
 A. William Trucking & Backhoe
 Trenching, Inc.
 Andes Associates, Inc.
 Adil Business Systems, Inc.

Advanced Testing Technologies,
 Inc.
 AIL Systems, Inc.
 Alante Security, Inc.
 Altair Freightng
 American Woman's Economic
 Development Corporation*
 Armand Corporation
 Audubow Partnership for Economic
 Development
 BankBoston*
 Bankers Trust Company
 Brook Haven National Lab
 Brooklyn Public Library
 Business Plus Corporation
 Business Relocation Services*
 Business Outreach Center (BOC)
 Network, Inc.*
 Chapman & Francis
 Charles Mathis Associates
 Chase Community Development
 Corporation*
 Christidis Lauster Architects
 Coastal Enterprises, Inc.*
 Columbia University
 Corinne McCormick, Inc.*
 Crystal Mckenzie, Inc.
 Cunningham Group, Inc.
 DAH Consulting, Inc.
 Day-Out Employment, Inc.
 Eastern Construction & Elec., Inc.
 Ebony Products, Inc.
 EDO Marine and Aircraft Systems
 Financial Counseling Insurance
 Investment Planning
 Fournal Enterprises, Inc.
 G.E. Capital Small Business
 College*
 George G. Sharp, Inc.
 Great Harbor Design Center
 HBM Automation Solutions
 HG Security Systems
 Hi-Tec Systems, Inc.
 Hispanic Maintenance, Inc.
 IBM*
 Infosys International, Inc.
 International Transportation
 Consultant
 Interspec
 ITAC
 Izar Associates, Inc.
 Jamaica Business Resource Center
 Johnson & Johnson
 Johnson Security, Inc.

Kahn Boyd Leychin
 Kapadia Consulting, Inc.
 Kelly's Janitorial Service, Inc.
 Kenmar Construction, Inc.
 L.M.N. Printing Co.
 Lehrer McGovern Bovis
 Linpro New York Realty, Inc.
 Little Wonders of the World Inc.
 Long Island City Business Dev.
 Corp.
 M. T. Martin, Inc.
 Madisyn Consulting Services, Inc.
 Ministerio de Planificacion
 Cooperacion
 Modern Facilities Services
 Multi-Ethnic Talent
 National Minority Supplier
 Development Council*
 New Life Group, Inc.
 New York City Investment Fund
 NYC Comptroller's Office
 NYC Nursing Partnership
 NYPL - Science, Industry and
 Business Library
 Percon Computer Corporation
 Polyseal Packaging Corp.
 Queens County Overall E.D.C.
 Kew Gardens, NY
 R & W Facility Care Systems, Inc.
 Rainbow Design Group, Inc.
 REDAC
 Regional Alliance for Small
 Contractors*
 Renaissance EDC
 Republic National Bank Of New
 York
 Rosa Bennett Enterprise, Inc.
 S & E Services, Inc.
 Salsa Caterers & Special Events,
 Inc.
 Seilg Management
 Sharpe Graph
 SIBL
 Small Business Development
 Center
 Stanley Computer Systems, Inc.
 Staunton Chow A/E
 Strategies International
 Susan Chan, Inc.
 T & T Cleaning & Janitorial
 Services, Inc.
 T&M Architectural Metal & Glass
 TAK Construction, Inc.
 Techni-Clean Services, Inc.

Technology Consultants Service
 International., Inc.
 The Bank Of New York
 The Sable Group
 Tina, Inc.
 Twin Computer Training, Inc.
 Twin Computer Training, Inc.
 Vehicles, Inc.
 Watson Services, Inc.
 Wegmans Food Markets
 Construction Division*
 WECO Cleaning Specialist, Inc.
 Women's Business Enterprise
 National Council
 Women's Venture Fund
 WPA: Work in Progress Associates
 Zel Technologies, LLC

Atlanta Regional Meeting
September 18, 1998

Advanced Floor Covering
 Aker & Sivels Promotional
 Products
 Allied Machining Company*
 Allied Van Lines, Inc.*
 Alliance Relocation Services*
 Alphatech Systems, Inc.
 American Multi Modal Services,
 Inc.
 Aroma Therapy Works
 Array Computer Tech., Inc.
 Atlanta Franchise Development
 Company*
 Atlanta Life Insurance Company
 Atlanta International RMI, Inc.
 Atlanta Public Schools
 Atlanta Neighborhood
 Development Partnership, Inc.
 B&S Electric Supply Co., Inc.
 BellSouth Telecommunications
 Brown Office Systems
 Chemstation of Atlanta
 Churchs Chicken
 Coca-Cola*
 Contech Information-2000
 Cox Communications, Inc.
 CSRA Business League
 Curtains Etc.
 D. J. Miller & Associates, Inc
 DCMC Atlanta
 DCT System Group
 DESA
 Dove Mailing, Inc.

Elite Staffing Services of GA, LP
 EWA Beverage Group, Inc.
 First Choice Travel
 Fulton County Government
 Garrett Consulting, Inc.
 Gateway To Paradise
 Georgia-Pacific Corporation
 Gill Transportation Services, Inc.
 Global Medical Associates
 Goode Van Slyke Architecture
 Grady Health System
 He Hammond Enterprises, Inc.
 Henry Aaron, Inc.
 Hi-Tech
 Industry Mentor-Protege
 Association
 Information Technology
 Professionals, Inc.
 ISPA, Inc.
 ITTI, LLC
 Joint Venture Associates, LLC
 JoyComm, Inc.
 Kaco Supply Company
 Lanier Worldwide, Inc.
 Latin Freight Services
 Let's Talk
 Lockheed Martin Aeronautical
 Systems*
 Lockheed Martin Energy Systems
 MARTA
 Mayhand Industrial Sales
 MCSC Multimedia Communications
 NCR*
 NetCom Solutions International*
 Services Corporation
 P S Energy Group, Inc.
 Parallak, Inc
 Pindrum Staffing Services, Inc.
 Precision Aircraft Components
 Prestige Embroidery Studio
 Prestige Packaging, Inc.
 Remax Pace Setters Real Estate Co.
 Renewal Atlanta
 Samalex
 Science Applications International
 Corporation
 SDG Associates
 SMS Associates, Inc.
 Staffing Innovations*
 Stallworth Mechanical Contractors,
 Inc.
 StarrChild Productions, Inc.
 Tec-Masters, Inc.
 The Nation's Redevelopment

Corporation
 The Atlanta Livery Company
 The Coca Cola Company
 The R. L. Hawkins Group, Inc.
 The Boeing Company
 Thernize Travel
 Third World Construction
 TRI
 United Way of Metro Atlanta
 United Seal & Rubber Company
 United Parcel Mid American
 Consulting
 Vanguard Environmental and
 Materials, Inc.*
 Westinghouse Savannah River
 Company*

* = Panelist at the Regional
 Meeting

APPENDIX D: Federal Resources for Business Technical Assistance

Federal resources include two general categories of BusinessLINC activity:

- (1) business technical assistance offered directly or through funding to private entities; and
- (2) in certain federal agencies, procurement incentives for bidders on certain projects that have pre-approved mentor-protégé relationships in place at the time of the bid.⁴⁶

Federal Communications Commission (FCC)

The Office of Communications Business Opportunities (OCBO) at the FCC works to promote opportunities for ownership and employment in the communications industry for small businesses. The Office works with entrepreneurs, industry, public interest organizations, individuals to provide information about policies to promote ownership and employment opportunities in the communications industry, and to encourage participation in FCC proceedings.

Contact: Catherine Sandoval
Office of Communications Business Opportunities
202-418-0990
202-418-0235 (fax)
<http://www.fcc.gov/Bureaus/OCBO/ocbo.html>

The Telecommunications Development Fund (TDF) was established by the Telecommunications Act of 1996 and administered by the FCC through 1998. The TDF is now an independent fund that has \$25 million in loans and investment capital available to small communications businesses. TDF promotes access to capital for small businesses to enhance competition in the telecommunications industry, stimulate new technological growth and development, promote universal service, and enhance the delivery of telecommunications services to rural and underserved areas.

Contact: Ginger Lew
Operating Manager, Telecommunications Development Fund
202-293-8840
202-293-8850 (fax)
www.tdfund.com

⁴⁶ The programs vary across agencies, and not every agency has such a program in place. Please check with the particular agency's Office of Small and Disadvantaged Business Utilization.

Department of Agriculture (USDA)

USDA is developing the Bringing Rural America Venture Opportunities (BRAVO) program, which will establish partnerships of rural communities, Indian Nations, small disadvantaged companies, private corporations, educational institutions, and government organizations to address the lack of jobs in designated rural areas. Indian nations will establish small start-up technology companies, and employees will be recruited from Indian reservations and surrounding economically disadvantaged areas. Large technology companies currently doing business with USDA will provide mentoring and support to the start-up companies, including business development, technical training, and technical support. The BRAVO initiative will result in an increased use of American Indian-owned business by USDA and increased employment in rural areas and Indian lands.

USDA also operates Extension offices which provide technical assistance and training to local small businesses and entrepreneurs. USDA Rural Development provides Rural Business Enterprise Grants and Rural Business Opportunity Grants, which provide funds, along with technical assistance and training, to community organizations that work to improve economic development in rural areas.

Contact: Joseph A. Ware
USDA Office of Small and Disadvantaged Business Utilization
202-690-3837
202-720-3001(fax)
joe.ware@usda.gov
<http://www.usda.gov/da/smallbus.html>

USDA also administers the Empowerment Zone/Enterprise Community Initiative to promote economic opportunity. Empowerment Zones (EZs) and Enterprise Communities (ECs) develop new private sector partnerships; attract private sector investments; promote business start-ups and expansions; and provide jobs and job training. The initiative uses tax incentives, such as the EZ Wage Tax Credit, and Title XX Social Service Block Grant funds as flexible seed money to provide financial assistance to businesses. Through 33 rural EZs/ECs across the country, the initiative works with local communities in identifying business opportunities and forms of technical assistance to promote business activities in underutilized areas.

Contact: Richard Wetherill
Director, Empowerment Programs Division
202-619-7983
202-260-6225 (fax)
rick.rurder@usda.gov
www.ezec.gov

Department of Commerce

The Department of Commerce's Minority Business Development Agency (MBDA) conducts strategic initiatives designed to promote the growth and expansion of the minority business sector. MBDA specifically assists minority business enterprises to penetrate high-growth segments of the economy by offering programs in such areas as franchising, international trade, manufacturing, electronic commerce, and accessing growth capital. In addition, the Agency's Minority Business Development Centers, Native American Business Development Centers, and Business Resource Centers provide general business counseling in such areas as bonding, bidding, estimating, financing, procurement, acquisitions, and joint ventures to increase opportunities for minority businesses in both domestic and international markets. The Centers are operated by for-profit and nonprofit organizations, state and local government agencies, Native American Tribes, and educational institutions.

Commerce also operates the Economic Development Administration (EDA), which works to generate new jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically-distressed areas of the United States. EDA assistance is available to rural and urban areas of the Nation experiencing high unemployment, low income, or sudden and severe economic distress. EDA supports a nationwide network of 12 Trade Adjustment Centers that offer effective, cost-shared professional assistance to trade-injured firms. This assistance helps U.S. manufacturing firms injured by imports to develop strategies for competing in the global marketplace. EDA's investments in local technical assistance projects also fill the knowledge gaps that inhibit communities from being able to respond to development opportunities or to solve specific economic problems. EDA also funds proposals that increase knowledge about or demonstrate innovative economic development techniques as well as measure program performance. Assistance is intended to provide resources, often through intermediary organizations, that give technical assistance to local and state economic development organizations and practitioners.

The Manufacturing Extension Partnership (MEP) is a network of manufacturing extension centers located throughout the country that works with local organizations either to establish a new program or expand existing services for smaller manufacturers. The MEP provides small- and medium-sized manufacturers with access to resources through partnerships with federal agencies, national associations, and other organizations.

Contact: Paul R. Webber IV
Associate Director for Programs
Minority Business Development Agency
202-482-5196
202-482-5681 (fax)
www.mbda.gov
<http://www.osec.doc.gov/osdbu>
<http://www.doc.gov/eda/>

Department of Defense (DOD)

The DOD Pilot Mentor-Protégé Program encourages prime contractors to serve as mentors and provide assistance to small, disadvantaged businesses. The program works to increase the capabilities of the protégées so that they can be more effective suppliers for the Department of Defense. Through credit toward subcontracting goals or reimbursement of direct costs, the program provides incentives for these mentors to establish and implement a developmental assistance plan that enables the protégé to compete more successfully for DOD prime contracts and subcontract awards.

Contacts:

Department of Defense

Janet Koch

1-800-553-1858

www.acq.osd.mil/sadbu/mentor_protege/

Department of the Air Force

Patrick Miller

707-697-9249

www.safsb.hq.af.mil

www.brooks.af.mil/HSC/PKA/programs/mentor/

Department of the Army

Paul Gardner

703-697-2868

Department of the Navy

Nancy Tarrant

703-685-6485

Defense Information Systems Agency

Mike Fischetti

703-607-6882

Department of Energy (DOE)

The Department of Energy Mentor-Protégé Initiative is a voluntary partnership between DOE's prime contractors, which serve as mentors, and qualified small, disadvantaged businesses, women-owned businesses, and 8(a) firms, serving as protégées. Once a protégé firm has been selected for the program, the participants sign an agreement spelling out the developmental assistance between the firms. DOE closely monitors the relationship for compliance. The developmental assistance helps small businesses become qualified subcontractors and thereby expands the base of eligible small businesses capable of fulfilling DOE, federal government, and private-sector contracts. The arrangement also allows small businesses to take advantage of the wealth of knowledge accumulated by large corporations serving as DOE prime contractors.

Contact: Gene Bates
DOE Mentor-Protégé Program Manager
202-586-4556
202-586-5488(fax)
eugene.tates@hq.doe.gov
www.hr.doe.gov/ed/bumentor.htm
www.hr.doe.gov/ed/osdbu.htm

Department of Health and Human Services (HHS)

The HHS Office of Small and Disadvantaged Business Utilization (OSDBU) conducts a small business program that provides several types of support and assistance to small businesses. Through the small business program, HHS designed and implemented a pilot program to provide technical assistance to designated 8(a) firms to enhance their business development activities. HHS also conducts an awards program for the "HHS Minority Contractor of the Year," and works to include recommended percentage goals in subcontracting plans submitted by subcontractors, increasing the numbers of small, disadvantaged, and women-owned businesses as subcontractors. The HHS OSDBU also participates in a variety of outreach activities designed to increase opportunities for small and disadvantaged businesses, including providing counseling and marketing assistance, participating in conferences and workshops sponsored by Federal, state, and local governments, and providing monthly counseling sessions to organizations and individuals interested in understanding how to do business with HHS.

Contact: Verl Zanders
Director, Office of Small and Disadvantaged Business Utilization
202-690-7235
202-260-4872 (fax)
www.hhs.gov/progorg/osdbu

Department of Housing and Urban Development (HUD)

To support economic development projects, local governments can use HUD's Section 108 Loan Guarantee Program. Section 108 loan guarantees provide communities with a source of financing for economic development activities, brownfields redevelopment, public facilities, and large scale physical development. HUD's Economic Development Initiative (EDI) and Brownfields Economic Development Initiative (BEDI) provide local governments with grant funds to support and enhance the financial viability of projects assisted with Section 108 loan guarantee funds. Specifically, BEDI provides communities with funds to cleanup and redevelop brownfields for economic development activities.

Contact: Paul Webster
Director, Financial Management Division
202-708-1871
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One of the principles of the Empowerment Zone/Enterprise Community Initiative administered by HUD is economic opportunity. Empowerment Zones (EZs) and Enterprise Communities (ECs) develop new private sector partnerships; attract private sector investments; promote business start-ups and expansions; and provide jobs and job training. The initiative has promoted access to capital through vehicles such as various loan funds and the largest community development bank located in an EZ/EC. The initiative uses tax incentives, such as the EZ Wage Tax Credit, and Title XX Social Service Block Grant funds as flexible seed money to provide financial assistance to businesses. Through 72 urban EZs/ECs across the country, the initiative works with local communities in identifying business opportunities and forms of technical assistance to promote business activities in underutilized areas.

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HUD's Office of Small and Disadvantaged Business Utilization (OSDBU) works to ensure that small businesses, small disadvantaged businesses, and women-owned businesses participate fully in HUD direct contracting as well as in contracting opportunities generated by HUD funds. The office also sponsors periodic small business fairs and conferences in communities throughout the country, which focus on broadening business development and job creation opportunities through procurement and contracting partnerships, Empowerment Zone initiatives, and youth entrepreneurship.

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Department of Labor (DOL)

The Department of Labor operates a business-to-business mentoring program for small businesses in an effort to stimulate small businesses' involvement in DOL procurements. The DOL Office of Job Corps has entered into mentor-protégé contracts for the operation of Job

Corps centers. The prime contractors “train” a small business in the operation of a Job Corps Center for two years, after which the operations of the Center are turned over to the protégé. DOL’s Occupational Safety and Health Administration (OSHA) also utilizes mentoring and established the Voluntary Protection Program (VPP) in 1982 to recognize safety and health excellence by awarding exemplary firms with special status. Firms that achieve this status are able to serve as mentors to other firms. Since 1994, the program has been administered by a private association of companies that have earned VPP status and works to link mentors with protégés.

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Department of the Treasury

The Department of the Treasury includes two bank regulatory agencies that monitor financial institutions’ compliance with the Community Reinvestment Act: the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS). The Act requires banks and thrifts to meet the credit needs of their communities, and some financial institutions find that offering small business technical assistance, either directly or through intermediary organizations, is an effective way to reach a broader range of borrowers.

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Contact: Ellen Seidman
Office of Thrift Supervision
202-906-7133
www.ots.treas.gov

Treasury also supervises the Community Development Financial Institutions (CDFI) Fund which operates two programs that can support BusinessLINC activity. The Core Program makes loans, grants and investments to specialized financial institutions, called “CDFIs,” that work in market niches underserved by traditional financial institutions. Many CDFIs offer a range of BusinessLINC services. The Fund’s Bank Enterprise Awards provides financial incentives for

regulated banks and thrifts to invest in CDFIs and to increase their lending and development services (which may include BusinessLINC services) in distressed communities.

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www.treas.gov/cdfi

Treasury will also introduce a "Success Partnerships" Mentor-Protégé program next year.

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Department of Transportation (DOT)

The Department of Transportation has implemented a Mentor-Protégé program and several other initiatives to ensure that small businesses are able to compete in the procurement process and are also able to work closely with prime contractors that can assist in their growth.

DOT's Mentor-Protégé program is located in the Federal Aviation Administration. The program is designed to motivate and encourage firms to assist Small Socially and Economically Disadvantaged Businesses (SEDB)/8(a), Historically Black Colleges and Universities, Minority Institutions, and Women-Owned Small Businesses in enhancing their capabilities to perform FAA contracts and subcontracts. The forms of assistance a mentor firm can provide to a protégé firm include management guidance, technical assistance, rent-free use of facilities and/or equipment, and temporary assignment of personnel.

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www.faa.gov/sbo/men2.htm

Through the Office of Small and Disadvantaged Business Utilization (OSDBU), DOT offers working capital financing through the Short-Term Lending Program, and bonding assistance through the Bonding Assistance Program, for transportation-related contracts to minority, women-owned, and Disadvantaged Business Enterprises. OSDBU also operates the Liaison and Outreach Services Program to increase awareness of DOT contracting opportunities and financial assistance programs, and also administers the Entrepreneurial Training and Technical Assistance Program through partnership agreements with Minority Educational Institutions.

Contact: Luz Hopewell
Director, Office of Small and Disadvantaged Business Utilization
202-366-1930
www.osdbuweb.dot.gov

Department of State

The Department of State encourages 8(a) graduates that have developed specialized skills while working with the Department to team with newer 8(a) firms just entering the State Department marketplace.

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Office of Small and Disadvantaged Business Utilization
703-875-6824
703-875-6825 (fax)
www.statebuy.inter.net/osdbu1.htm

Department of Veterans Affairs (VA)

Through the "Veterans Mean Business" outreach conferences, VA informally encourages veteran-owned businesses to affiliate. In VA's general business counseling, the agency informs small businesses about SBA's new mentor-protégé program for 8(a) concerns.

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www.va.gov/osdbu/

General Services Administration (GSA)

GSA sponsors procurement networking sessions to bring together potential prime contractors and small businesses to explore ways to combine resources to bid on GSA's major acquisitions. GSA is also currently developing a mentor-protégé program expected to be completed in FY99.

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National Aeronautics and Space Administration (NASA)

The NASA Mentor-Protégé program is designed to enhance the capabilities of socially and economically disadvantaged businesses to perform NASA prime contracts and subcontracts. The

program works to include small, disadvantaged and women-owned businesses and minority educational institutions in NASA programs and helps them to grow and become successful. The program provides assistance in the areas of management; business development; engineering and other technical assistance; loans or rent-free use of facilities, property, and/or equipment; and temporary assignment of personnel for training purposes.

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202-358-2088
202-358-3261 (fax)
www.hq.nasa.gov/office/codek/osdbu.html#mentor

Small Business Administration (SBA)

SBA operates several programs that offer BusinessLINC opportunities to small businesses.

- Located in distressed areas, One Stop Capital Shops (OSCSs) deliver entrepreneurial and financial assistance to local citizens through a vast array of small business resource partners. The OSCSs concept is optimized when a range of resource partners are joined under one roof to offer specific programs and services. All federal agencies involved in business development and assistance have been encouraged to locate in OSCSs.
- The Women's Network for Entrepreneurial Training (WNET) links seasoned entrepreneurs with women whose businesses are ready to grow. Over the course of the year-long program, experienced women business owners provide technical assistance and training to women with lesser skills and experience.
- The Service Corps of Retired Executives (SCORE) is a non-profit organization that provides small business counseling and training under a grant from SBA. SCORE members are successful, retired business men and women who volunteer their time to assist entrepreneurs and small business owners.
- SBA administers the Small Business Development Center Program (SBDC) to provide management and technical assistance to current and prospective small business owners. SBDCs offer one-stop assistance to small businesses by providing a wide variety of information and guidance in easily accessible central branch locations. There are nearly 1000 SBDCs located in every state, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam. The SBDC program delivers up-to-date counseling, training and technical assistance in all areas of small business management, including marketing, production, organization, engineering, and finance. The SBDC program assists over half a million small businesses annually.

- The 8(a) Business Development Program provides management and technical assistance to selected small businesses. The program provides firms with accounting services, feasibility studies, marketing analyses, and advertising expertise. SBA has a consortium of five schools, including Dartmouth College, Howard University, Loyola College in Maryland and Clark Atlanta University. The increasing demand for executive training has prompted SBA to establish four new executive education training programs at the University of Puerto Rico at Rio Piedras, the University of Alaska at Anchorage, Lincoln University in Missouri and the University of Texas at El Paso.
- The Online Women's Business Center is a comprehensive training, counseling, and information resource on the Internet.

Contact: Your local SBA office through 1-800-8-ASK-SBA
202-205-7064 (fax)
www.sba.gov

Other federal procurement offices:

Department of Justice

Contact: Eleanor Greary
Director, Office of Small and Disadvantaged Business Utilization
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www.usdoj.gov/jmd/pss/home_osd.htm

APPENDIX E: SBA BusinessLINC Resources

Introduction

The Small Business Administration's (SBA's) statutory mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses. SBA pursues this mission through a combination of programs and services that increase small business access to capital and credit, that provide business counseling and training, and that increase federal procurement opportunities. SBA serves as the voice for small business, advocating policies that support small businesses and providing access to information that can help a small business person prosper.

SBA has pursued several major policy initiatives consistent with the theme of expanding economic opportunity for small business, with a particular focus on efforts to promote entrepreneurship in distressed areas. This appendix provides a brief description of those SBA programs and products, including the Agency's new initiatives.

Financial Assistance—Access to Capital and Credit

SBA guarantees private bank loans to small businesses, facilitates small business access to surety bonds, funnels equity investments into small businesses through our support for Small Business Investment Companies (SBICs), and supports direct loans to entrepreneurs through our microloan program.

Low Doc and SBAExpress Loan Programs. SBA announced a revamped version of its highly successful Low Doc program and an expansion of another pilot program – SBAExpress (previously known as FA\$TRAK). Both of these programs improve access to SBA's 7(a) business loan guarantee program for smaller borrowers by reducing paperwork requirements and making it easier for lenders to execute an SBA loan. Smaller loans are generally correlated with increased participation by minority-owned businesses.

Procurement Assistance—Expanding Procurement Opportunities

SBA has, as part of its mandate, responsibility for ensuring that small businesses have access to federal contracting opportunities. SBA administers a statutory goal of 23 percent for small business participation in federal procurement. SBA also administers a federal goal that sets five percent as the share of federal procurement reserved for small disadvantaged businesses. SBA's main program of support for small disadvantaged businesses is the Section 8(a) program that provides access to sole source contracts for qualified small disadvantaged businesses. Over the past year, SBA has concentrated on strengthening and improving the 8(a) program.

Strengthening the 8(a) program. SBA's 8(a) program relies on federal procurement opportunities as a business development strategy for small disadvantaged businesses. Historically, the 8(a) program has been an extremely important program for minority-owned businesses. To participate in 8(a), the owner of the small firm must demonstrate social and economic disadvantage. Under 8(a), members of minority groups have automatically qualified for social disadvantage.

During FY '98, SBA released final regulatory changes that will strengthen and improve the 8(a) program. The rule changes will allow successful firms to partner with new 8(a) firms through a mentor-protégé relationship. The rule changes will also increase small business access to federal contracting opportunities by making it easier for small firms to affiliate and compete for larger contracts. In addition, the rule changes provide for a more equitable distribution of 8(a) contracts.

Delegation of 8(a) Processing Authority. SBA continues to improve the delivery of the 8(a) program. This spring, SBA made a major step in improving the program by delegating increased processing authority to other federal agencies. On May 6, 1998 SBA held an event recognizing the new delegated authority. The event was attended by members of several Cabinet Agencies. The improved processing should make 8(a) more attractive as a contracting vehicle for these other agencies and help advance the Administration's initiatives to streamline the government's procurement process.

Memorandum of Understanding (MOU) with the Big Three Automakers. On February 19, 1998, the Vice President joined SBA Administrator Alvarez in announcing a new agreement with General Motors, Chrysler, and Ford. The MOU calls for a \$3 billion increase in the Automakers' subcontracting activities with minority-owned small businesses over the next three years.

Increasing Entrepreneurship in Distressed Communities

SBA is placing increased emphasis on its role in creating economic opportunities in low-income areas. SBA's Section 504 program provides loan guarantees for economic development lending. SBA participates in the Empowerment Zone program through its One-Stop Capital Shops. The One-Stops are located in distressed communities, allowing entrepreneurs access to the whole range of SBA's programs and services. Last December, Congress enacted a new program to direct federal government purchases to firms located in distressed areas. The HubZone program could ultimately provide up to 6 billion in federal contracts to these communities.

HUBZones. The purpose of the HUBZone program is to provide federal contracting opportunities for certain qualified small business concerns located in distressed communities to promote private sector investment and employment opportunities. Fostering the growth of Federal contractors in these areas and ensuring that these

contractors become viable businesses for the long term will help to empower these areas while enhancing recent efforts to streamline and improve the federal procurement process.

SBA will formally launch its new HUBZone program in early January following final action on a government-wide rule by the Federal Acquisition Regulation (FAR) Council. HUBZones are historically underutilized business zones. The new program will allow small firms located in the HUBZones to garner sole source federal contracts providing 35 percent of their employees live in a HUBZone area. The goal of the HUBZone statute is to target 3 percent of all federal contracts annually (approximately \$6 billion) to HUBZone firms by the year 2003.

One Stop Capital Shops (OSCSs). One Stop Capital Shops consolidate a range of SBA services in a single location for the benefit of entrepreneurs in distressed communities. SBA directly contributes a Business Information Center, which provides high-tech hardware, software, and telecommunications to assist start-up and expanding businesses. It provides two full-time staff to each OSCS. SBA has coordinated the implementation of this program with the Administration's Empowerment Zone/Enterprise Community initiative. SBA has committed to establishing One Stop Capital Shops in each of the 20 new Empowerment Zones that the Administration will announce later this year.

Welfare to Work. SBA has made a commitment to taking a leadership role in the Nation's welfare to work initiative. Small Businesses represent the "work" side of the welfare to work equation. Our Office of Advocacy has estimated that 80 percent of the 16 million jobs created in the U.S. economy over the last five years were created by small businesses. If we are going to find jobs for former welfare recipients, small businesses must participate. At the same time, small businesses are increasingly facing labor shortages and are welcoming strategies that provide them with access to a qualified work force. SBA is using its extensive contacts with small businesses to reach out to the small businesses and link them up with intermediaries who are helping welfare recipients become work ready.

Business Information Centers (BICs). The Business Information Centers provide a one-stop location where current and future small business owners can receive assistance and advice. BICs combine the latest computer technology, hardware and software, an extensive small business reference library of hard copy books and publications and current management video tapes to help entrepreneurs plan their business or expand an existing business or venture into new business areas. As of September 1998, more than 50 BICs were operating across the country.

SBA has funded 14 Tribal Business Information Centers (TBICs) for the coming fiscal year. Through the TBICs, SBA will provide development services to Native American entrepreneurs. The first week in December, the TBIC managers will come together for

training by the SBA in business development, federal procurement rules, the new HUBZone program, and other entrepreneurial development assistance.

Business Development and Outreach – Expanding Business Opportunities Through Mentoring

SBA provides business development assistance to small businesses through education programs, training, and counseling. SBA provides this assistance through a variety of delivery vehicles and with a variety of different partners.

Small Business Development Centers. The most prominent of the assistance programs is the Small Business Development Center (SBDC) program which provides management assistance to current and prospective small business owners. SBDCs offer one-stop assistance to small businesses providing a wide variety of information and guidance in central and easily accessible branch locations.

The program is a cooperative effort of the private sector, the educational community and federal, state, and local governments. There are now 57 small business development centers – one in every state (Texas has four), the district of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands - with a network of approximately 1,000 service locations.

SCORE. The Service Corp of Retired Executives – is a nonprofit organization that provides small business counseling and training under a grant from the SBA. There are approximately 13, 000 successful, retired business men and women who volunteer their time to assist aspiring entrepreneurs and small business owners. There are SCORE chapters in every state.

Women’s Network for Entrepreneurial Training Mentoring Program (WNET) WNET puts together experienced women business owners with women whose businesses are ready to grow. In a year long, one-on-one program, these “seasoned” women entrepreneurs act as mentors to their proteges sharing their knowledge, skills, and support.

Women’s Business Centers. There are almost 70 women’s business centers in 40 states; all the centers offer financial management, marketing and technical assistance to current and potential women business owners and each center tailors its style and offering to the particular needs of its community. Some sites target Native -American, African-American, Hispanic- or Asian-American populations. Other centers address particular issues specific to displaced corporate workers or rural home-based entrepreneurs.

SBA Business Coaches. SBA has developed a new pilot program to encourage existing small business owners to mentor or coach owners of new, emerging small businesses.

The new program, called Business Coaches, and which started in San Francisco, was recently rolled out in Providence, Rhode Island and St. Louis, Missouri. SBA anticipates roll out events in Phoenix, Los Angeles, Chicago, Rapid City, Denver, and Indianapolis over the next four months.

On-Line Classroom. In December, SBA will roll out its new On-Line Classroom initiative. Through On-Line Classroom, entrepreneurs will have access to core courses in business development, loan financing, and best business practices. SBA is incorporating features to make the On-Line Classroom part of its New Markets Initiative by developing a curriculum in Spanish.

New Initiatives at SBA

The SBA, through its New Market Initiative has placed particular focus on its efforts to support small businesses owned by women and minorities, businesses owned by veterans or disabled citizens, and businesses located in distressed urban and rural areas. Our New Markets Initiative encompasses all of our efforts to better serve these new, emerging small business customers.

This year, we have built the foundation for our New Markets Initiative and we have launched strategies that will help us to reach our goals. We are creating new partnerships, developing new products, designing new program delivery vehicles, and better integrating all our programs. The following list presents SBA New Markets events and announcements:

New Partnerships with National and Local Business and Civic Groups. SBA is signing partnership agreements with major business and civic groups that will help SBA's outreach to the targeted business communities. SBA has already signed agreements with the U.S. Hispanic Chamber of Commerce, the National Association for the Advancement of Colored People (NAACP), MBELDEF, the Urban League, and the National Black Chamber of Commerce. These partnerships are designed to market SBA's programs and services. In some cases our partners will deliver programs or serve as intermediaries. Local SBA offices are replicating the national agreements through partnerships with chapters of the business and civic groups. SBA offices have signed approximately 225 separate local agreements.

Lending Industry Partnership with NAGGL. SBA Administrator Alvarez signed an historic partnership agreement with the National Association of Government Guaranteed Lenders (NAGGL). NAGGL represents 680 lenders who initiate about 70 percent of SBA's loan guarantees. NAGGL has agreed to sponsor 25 industry-driven best practice conferences around the country over the next year and invest in targeted New Markets Lending Companies.

Lending Industry Partnership with NADCO. On Friday, November 6, the Administrator joined the Board of Directors of the National Association of Development

Companies (NADCO) in a New Markets Partnership. Implementation of the agreement will include a series of events around the country to link lenders with other SBA partners and to stage best practice training sessions for lenders.

Microlending to New Markets Businesses through AEO Partnership. SBA formalized a partnership agreement with the Association for Enterprise Opportunity (AEO) to sponsor joint projects in support of SBA's New Markets Initiative. AEO represents most of SBA's microlending intermediaries.

New Products, Programs, and Services

SBA is developing new approaches that should improve our ability to serve these markets. In the very near future, SBA will announce several new small loan products that will streamline the delivery of our programs. A new venture capital program and targeted lending institutions are also under development.

New Markets Lending Companies (NMLCs). SBA will use existing pilot authority to establish a new group of small business lending institutions to direct guaranteed lending to New Markets businesses. SBA will license and regulate the NMLCs. Investors will need to meet minimum capital standards, demonstrate proven management capacity, and agree to serve the public purposes of the pilot program. The National Association of Government Guaranteed Lenders has agreed to support and fund an NMLC in its recent partnership agreement with the SBA. SBA is developing the new regulatory structure for the program.

Native Americans/DOT's Disadvantaged Business Enterprises on Pro-Net. SBA will soon add major lists of New Markets firms to its on-line procurement system called Pro-NET. Pro-Net is an internet-based database of procurement information – for and about all small businesses. It is a search engine for contracting officers, a marketing tool for small firms and a “link” to procurement opportunities and important information. It is designed to be a “virtual” one-stop-procurement-shop. Today more than 177,000 small firms are registered on the system.