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 smaller business partners owned by minorities and women.

Finally, despite lower average incomes, many inner cities' high population density 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.

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[9] The Chapman Company "Domestic Emerging Market" (DEM) 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," June 1998. This report contends that in many inner cities, more than 25 percent of retail demand is unmet locally.

[12] Ibid.

Cultivating a world-class supplier base

Long-term strategic alliances between large and small companies can be a marketplace advantage. As Richard Stouffer, a Vice President at Texas Instruments has said, "Often the value to or the impetus for the mentor's participation is to attain a cadre of competent, first-class suppliers." For most companies, developing a reliable supplier base is central to quality control, cost containment, and on-time deliveries. Small businesses can provide larger companies faster response to rapidly changing shifts in supply and demand, and more targeted service to specialty markets.

Thriving in industries that call for inter-firm collaboration

Some industries' structures inherently require expertise in managing firm-to-firm collaboration. For example, in the construction industry, general contractors rely on and work closely with their subcontractors. The general contractor supervises the project and performs some of the work, while subcontracting with more specialized firms for certain tasks.

In 1996, the Port of Portland, Oregon developed a "mentor-protégé" model that seeks to strengthen emerging minority-owned subcontractors in the building and building-related trades. This mentoring program cultivates a select group of smaller minority suppliers that show the promise to become Port suppliers. After a one- to three-year mentorship with a volunteer senior executive from a private firm and outside technical assistance, the Port graduates the companies that are financially stable and can perform Port contracts. The program broadens the Port's supplier base at competitive prices and performance.

Creating stronger communities and a stronger business environment

Business-to-business linkages can be a key ingredient in creating a local growth environment with broad benefits. Expansion of neighborhood business activity can result in increased tax revenues, improved property values as well as more job opportunities for disadvantaged individuals. Equally important, such business expansion can increase the civic capacity and the quality of life for residents of distressed communities.

As an example, Cleveland's business community has provided leadership for many organizations, from the large corporate members of Cleveland Tomorrow, to neighborhood business councils such as WIRE-NET. These business organizations help firms organize around regional business concerns, such as attracting investment capital, workforce development, and improving manufacturing technology. The organizations also recruited business participation for 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.

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[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, which may be as large as manufacturers with 500 employees.

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

Enhancing management development

Business-to-business relationships provide a means for small business owners to develop relationships with business executives who can become both teachers and role models. Often, these executives can share similar personal experiences in leading a small firm and can provide some perspective on the day-to-day pressures an owner faces. Interaction with larger companies may inspire an owner to believe that he or she can attain greater success than previously thought possible. By developing a vision of what their companies can become, small business owners may begin to see increased opportunities for their own companies.

For example, Lynier Richardson, founder of LakeShore Development Company, which builds and sells housing in low- and moderate-income Chicago neighborhoods, received regular informal advice and found an early role model in Inland Real Estate Company President Dan Goodwin. Richardson then joined the Runners' Club, an entrepreneurship program developed by Shorebank, which helped him assemble a formal advisory board. The advisory board includes a former real estate lender, the president of a large construction firm, a management consultant and a marketing expert. Richardson draws on these advisors to help him evaluate strategic decisions and formulate a clear vision for LakeShore's expansion. At the time he first met Goodwin in 1994, LakeShore Development was a $600,000 operation and has since grown to $4 million in annual sales.

The U.S. Small Business Administration recently initiated a pilot program of "Business Coaches," which pairs new small business owners with experienced small business owners in a mentor/protégé relationship. Such pairings provide the new owner with the benefit of the experiences of an owner who has personally faced and successfully dealt with issues common to small businesses, regardless of industry, location or market niche.

Leveraging core strengths

In addition to technical advice, small businesses also benefit from access to new sales channels and a better understanding of their own core strengths. Mentors are able to assist small businesses by giving advice on trade shows and advertising, by providing assistance in selecting sales representatives, by making introductions to buyers at larger companies, and by sharing knowledge of market trends.

Robert L. Johnson, Founder and Chairman of Black Entertainment Television (B.E.T. Holdings), points to his early relationship with John Malone of TCI cable as formative in building confidence in his business's distinctive niche and setting the tone for future partnerships with other companies.[16] "By partnering up and building the relationship of respect and cooperation,

[16] From an interview with Robert L. Johnson, Chairman, B.E.T. Holdings, on "The Charlie Rose Show," August 5, 1998, Transcript #2219.

[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, want the opportunity to bid on contracts but report that they must often prove themselves more thoroughly than larger companies or companies in the suburbs. As discussed in Chapter IV, a 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 four 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 newly expanding customer segments.

Financial institutions with small business borrowers

Financial institutions use BusinessLINC strategies 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 accrued from all aspects of the full customer relationship, including deposits and other cross-sold products. Regarding their suppliers, financial institutions 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 also offer particularly valuable skills to microlending intermediaries, including technical assistance, systems help, recordkeeping, or the offering of retail financial services.

The combination of credit and technical advice is a powerful fuel for accelerating company progress. Financial institutions possess deep reservoirs of financial skills and experience useful in guiding the progress of borrowers. Although additional capital sources have opened to small businesses in recent years, improved capital availability has not been matched by additional technical assistance to borrowers, which is often the difference between small business success and failure. Often, the most helpful information includes sales and marketing expertise, which may require referrals to outside experts. Management of the credit relationship and advisory relationship should be aware of each others' actions, but generally work independently to maximize the efficiency of both functions.

Innovative financial institutions found when lending in economically distressed areas that the loans themselves were profitable. Chase Manhattan Bank, for example, reports losses on the loan portfolio from its Business Resource Centers are comparable to losses its conventional portfolio. However, it is the extra costs of outreach, technical assistance and post-loan counseling that may require some subsidy.

Specialized nonprofits

Businesses increasingly reach out to the specialized nonprofits that have expertise in entrepreneurial development, small business growth, and a commitment to broader community benefits. These organizations focus on reaching distressed communities by expanding commercial activity. These specialized nonprofits seek to overcome information gaps that otherwise isolate economically distressed communities from the flow of market opportunities and information.

These specialized nonprofits can complement the business-to-business relationship by identifying and evaluating small firms, providing direct consulting services and helping with the "matchmaking" to larger firms. The intermediaries may also target a specific sector, such as manufacturing or information technology firms. These specialized nonprofits find viable smaller firms and connect them with the resources in the mainstream to help them prosper. The emerging best practices among BusinessLINC nonprofits suggest that finding market opportunities for businesses to expand may be the role in greatest demand, such as through procurement offices, brokers, buyers, sales representatives, and trade shows.

Businesses and intermediaries said that successful BusinessLINC nonprofits recruit a core of business leaders to champion the BusinessLINC activity, and then hire staff with the business skills relevant to the chosen mission. At the same time, they also take advantage of business-to-business relationships and outside experts, rather than trying to provide all services in-house. They provide a framework or structure for the business relationship, so that the firms and individual professionals can understand the economic benefits and how each player's role can maximize the value created.

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 organization 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 BusinessLINC 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.

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.[18] Sam Carradine of the National Association of Minority Contractors pointed out in the 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" by identifying and pursuing growth opportunities.

- At the <u>concept stage</u>, 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, <u>Inc.</u> Business Resources "Growth Strategy Analysis", Goldhirsch Group, Inc., 1998.

- In the <u>early growth stage</u>, companies are often flexible, agile and creative, but lack strong infrastructure or longer-term business planning.

- A company in the <u>expansion stage</u>, like a company in early growth, may experience strong growth in revenues, but the sales growth is typically actively planned.

- A company in the <u>stabilization and maturation phase</u> continues to fine-tune operations and production techniques, but may also be seeking opportunities to re-start growth.

Small Manufacturing Firms

In the BusinessLINC Regional Meetings, some small manufacturing firms described their strengths in good production skills, a stable revenue stream, and adequate fixed asset financing. These firms said BusinessLINC strategies could benefit them by expanding their customer base and helping them evaluate new product offerings. They could also benefit from assistance in optimizing production methods and plant layouts, and conducting payback calculations on new

P.N.I. Distributors and FINA, Inc.

Pettis Norman founded P.N.I. Distributors in Dallas as a wholesale fuel supplier almost ten years ago. Today, PNI revenues are $16 million with over 75 employees. PNI's relationship with FINA, Inc., a $4 billion petroleum company, demonstrates how firms of different sizes in the same industry can benefit from sharing business expertise. Ron Haddock, President and CEO of FINA, Inc. says, "The relationship is based on a strong mentor commitment: through our relationship, FINA assisted and guided PNI almost as though it was a division of the FINA company."

FINA management asked PNI to develop 3- and 5-year business plans and expected a level of financial accountability. Haddock had to be convinced that mentoring a firm is ultimately in FINA shareholders' interest for two reasons: first, because the relationship draws on company resources; and second, because the shareholders' interest is also "critical to long-term, broad-based employee commitment to the relationship." "Without our employees seeing the logic of this relationship," says Haddock, "their commitment would decline over time." The PNI relationship meets this standard, both through increased product sales and by helping FINA earn the respect of all members of the community.

FINA assisted PNI in accessing new markets and diversifying into the retail convenience market business. PNI supplies FINA fuel to retail outlets and, with the support of FINA, bought 25 retail outlets (some of which had been owned by FINA). FINA offered PNI assistance with marketing, preparing financing requests, administrative support, technology and business strategy guidance. After an extensive evaluation and assessment of PNI's capabilities and limitations, FINA and PNI signed an agreement focusing on three areas to help PNI double its revenues: increasing the number of PNI-owned gasoline stores; linking PNI with new customers in the fuel hauling business; and suggesting how PNI could diversify into other business areas.

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.

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[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.

For example, the Women's Venture Fund, Inc. (an SBA-funded women's business center) targets low-income women in New York City, makes microloans to women, and supports their success through ongoing mentoring and training. By addressing both their credit and training needs, the fund enhances the ability of women to grow their businesses.

WSEP Food Industry Group and Monsanto and Hyde Park Co-op

The Women's Self Employment Project (WSEP) offers small loans and technical assistance to microenterprises in Chicago. WSEP established the Food Industry Group (FIG) to target mature, stable food industry microenterprises that are now encountering obstacles to growth and expansion. The group consists of 17 food business owners who meet twice monthly, once to discuss technical business matters and once to discuss group activities. WSEP contacted Monsanto and the Hyde Park Coop supermarket for expertise. WSEP was also seeking an industry advisor to help WSEP serve these microentrepreneurs. Monsanto has helped FIG in several ways: first, with recipe conversion, so that microentrepreneurs' small-batch recipes could be scaled up to much larger quantities; second, with engineering evaluations of possible commercial kitchen "incubator" sites, and in business advice in assembling the incubator business plan; finally, Monsanto has helped with sophisticated product consumer testing to determine marketability of different products. Once products are finalized, the Hyde Park Co-op has offered to sell the microentrepreneurs' products. Hyde Park has encouraged WSEP to consider the viability of establishing a larger food brokerage service for other microentrepreneurs.

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]

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[20] Refer to Appendix B for a thorough discussion of this BusinessLINC strategy.

The U.S. Small Business Administration administers several programs that offer one-on-one technical assistance to aspiring or existing small business owners. These include the SCORE program for senior retired executives, the Small Business Development Center Program, Business Information Centers and the Women's Business Center program. The Small Business Development Centers program is a cooperative effort among SBA, the private sector, the educational community, and state and local governments. There are nearly 1000 SBDCs with professional counselors (CPAs, attorneys, business owners, professors, etc.) who provide free, confidential, one-on-one counseling in all aspects of small business management.

ON-TARGET Supplies & Logistics and Texas Instruments and EDS

ON-TARGET Supplies & Logistics is a $15 million, 15-year old computer supplies distributor in the Dallas area that has benefitted from "success partnerships" with two local corporations, EDS and Texas Instruments. President Albert Black's informal mentorship with EDS Vice President for Corporate Relations and Human Resources John Castle began in 1994 when ON-TARGET began supplying EDS. Black and Castle's relationship evolved from a vendor relationship into a genuine friendship, and Castle began to share his advice on how to do business with corporate customers. Castle prompted Black to think, as specifically as possible, about the kind of company he wanted ON-TARGET to become. Eventually, Castle served as chairman of ON-TARGET's advisory board, and recruited other advisors to ON-TARGET.

A few years later, ON-TARGET began supplying Texas Instruments. Black developed a protégé relationship with TI procurement staff, including Richard Stouffer, Vice President. Stouffer focused on ON-TARGET's immediate operational needs to service TI's requirements. The relationship began with an assessment of ON-TARGET that demonstrated how important growth would be for ON-TARGET to remain price competitive. To help meet Black's expansion goals, Stouffer worked with Black to identify and meet new potential customers, including sales opportunities inside TI. ON-TARGET's relationship with TI included formal evaluations, assignments between monthly meetings, and joint brainstorming on the company's next business steps.

Classroom and Group Training

Classes can be a cost-efficient format for teaching groups of business owners. Some businesses open their in-house classroom training to outside businesses, or they may specifically offer training targeted to outside companies (e.g., a manufacturer offering quality management classes for all their suppliers, or franchisors offering training for all potential franchisee owners). Often the most difficult part of using the classroom training strategies is identifying the best classes for a given business's needs and finding time and resources so the owner can attend. Effective classes will often help owners "self-diagnose" their development needs and identify the best follow-up resources.

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 B 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.

Bringing several small business owners together creates networks and synergies that extend beyond the classroom. Classes can be a forum for interaction among owners, providing them with new contacts and information, as well as, in some cases, an increased ambition to grow. These programs can offer smaller businesses the same education and training that executives at larger corporations receive and can provide a common basis for communication and understanding between small and large companies.

SBA's Small Business Development Centers provide group training to current and prospective small business owners at little or no charge. The classes are tailored to the needs of the local community, but may include international trade assistance, technical assistance, procurement assistance, venture-capital formation and rural development.

Currently, SBA has a consortium of four schools participating in the Executive Education Program sponsored by the 8(a) Business Development Program, including Dartmouth College, Howard University, Loyola College in Maryland and Clark Atlanta University. At Dartmouth, SBA has provided scholarships for approximately 500 small firms over the past five years. The expanding portfolio and increasing demand for executive training has prompted SBA to establish four new executive 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 within the last two years.

Dartmouth College's Amos Tuck School of Business Administration runs the Minority Business Executive Program (MBEP)[23] and the Advanced Minority Business Executive Program (AMBEP). Each five-day program focuses on Tuck's "basic building blocks:" strategic planning; marketing; accounting and finance; human resource management; communications; and operations and production. The AMBEP primary purpose is to focus on growth strategies and add to the basics learned in the MBEP. Additional subjects include corporate partnerships, market-focused strategy, managing business relationships, improving company communication, lease versus buy decision-making, and financial issues in ownership succession.

Other institutions, including Historically Black Colleges and Universities and Minority Institutions (HBCU/MI), have mini-MBA programs similar to the Tuck School model. Many corporations sponsor scholarships to the Tuck programs, including General Electric, Johnson Controls, Exxon, and GTE. The classroom training supplements the interaction from the supplier development programs with academic training, peer contacts and success strategies, and opportunities to hear from other corporate leaders. These examples suggest that academic institutions can be valuable contributors to strengthening business performance.

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[23] Currently, the MBEP's 1,400 program alumni employ over 36,500 full-time employees and represent over $10.9 billion in annual revenue.

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 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 channels 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 volunteering their time from companies at different stages of experience and growth. 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 useful lessons by explaining their business practices to the small business owners and other board members.

Coastal Enterprises Inc., which is an SBA-funded women's business center, operates in economically distressed communities in rural Maine and sponsors the Women's Advisory Board Program to provide management assistance to women business owners.[24] Coastal Enterprises expects a strong commitment from its business owners, and it also asks that business owners commit to become advisors once they complete the program. The application process for a business owner includes a comprehensive needs assessment, a written description of the business, a submission of financial statements, a description of her goals and expectations of the program, and a statement of what she anticipates she will be able to provide as a future advisor. Business owners report that their participation in the program increased their economic performance, increased their knowledge of finance, and provided them with a realistic ambition to think more broadly about their businesses.

SBA's Office of Women's Business Ownership (OWBO), in conjunction with counselors from the Service Corps of Retired Executives (SCORE), SBA's 69 district offices, and almost 70 women's business centers across the country, have organized 120 roundtables consisting of current and aspiring women business owners.[25]

Supplier Development and Strategic Alliances

Supplier development and strategic alliance programs often combine some form of technical advice, classroom training and peer groups or boards of advisors, with the commercial discipline of supplying a quality product to the "mentor" company. The strongest programs seek to diversify a company's supplier base to increase the corporation's economic competitiveness.

Reginald Williams from Procurement Resources, Inc. in Atlanta points out that companies are motivated to develop new suppliers whenever they can find ways to improve the cost and performance of the existing supplier base. This strategy may be particularly promising:

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[24] In this case, CEI requires that the business be 51 percent woman-owned, that the participant in the CEI program be the main decision maker in the firm, that the business be in operation for at least five years, and that the business owner/participant be willing to commit to the program for a minimum of two years. Unlike many other programs that also require a minimum level of annual sales or revenue, CEI specifies no such level.

[25] OWBO also produced and distributed an instructive manual on how to start a mentoring group to hundreds of activist organizations. The manual is available by calling OWBO at (202) 205-6673, or writing the Office of Women's Business Ownership, the U.S. Small Business Administration, 409 Third Street, S.W., Washington, DC 20416.

- 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. An organized, deliberate effort can address this situation.

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's 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 suppliers, Delphi Packard, a GM division, creatively subcontracted the management of 14,000 commodity parts to Flex-Tech, a minority-owned company. The arrangement expanded Flex-Tech's capacities while simultaneously reducing GM's supplier base.[26]

ITC Personnel Services and Exxon, EDS, and GTE

Diva Garza, founder of ITC Personnel Services in Houston, Texas, has benefitted from three different corporate mentoring relationships, each undertaken with a specific goal for her company and for the mentoring company. ITC is a temporary and direct hire staffing firm which was acquired by StaffMark, a larger public company in August 1998. ITC had 34 employees with revenues of approximately $18 million at the time of the sale.

In 1994, Garza partnered with Exxon through a formal mentoring program offered by the Houston Minority Business Council. Exxon helped Garza develop strategic business plans that resulted in three different core units (Information Technology, Administrative, Bilingual and Training) within ITC. Exxon provided scholarships and quality training for key management personnel.

After establishing Dallas operations in 1995 Garza participated in a mentoring program sponsored by the North Texas Commission and the Dallas/Fort Worth Minority Business Development Council. EDS helped ITC learn about providing information technology staff. ITC sold directly to EDS without prior experience in this specialized market.

GTE's business relationship with ITC began through a subcontract, and GTE and ITC formalized a mentoring relationship in 1997. Under GTE's mentorship program, four GTE employees assist the company: an "executive partner" provides one-on-one counseling and introductions to buyers from other GTE divisions; three "subject area experts" offer technical advice. At the start of the relationship, potential small business partners list the top three areas where they need assistance. GTE then surveys its personnel to find the in-house resources to address those needs. Garza notes that "GTE took a small minority firm and, through the efforts of an entire department devoted to minority business development, positioned ITC to prime contractor status."

Joint venture to create a new firm with specialized capabilities. Under this approach, the larger corporation forms a joint venture with an existing minority or other supplier to form a new company. The new entity often supplies a particular product that meets an emerging need for the larger company.

With General Motors encouragement, Ronald E. Hall and William Pickard, a majority shareholder in three companies, joined with Johnson Controls, Inc. (JCI) to form Bridgewater Interiors, a minority controlled joint venture. Bridgewater Interiors will use its special expertise in new seat manufacturing technology to build seats for the 2000 model year Cadillac DeVille through a five-year, $900 million contract. Production begins next July 1999 in the Detroit Empowerment Zone.[27]

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[26] Refer to Appendix B for a thorough discussion of this BusinessLINC strategy.

[27] In February1998, GM, Ford and Chrysler signed a Memorandum of Understanding with SBA that calls for a $3 billion increase in the automakers' subcontracting with minority-owned smallbusinesses over the next three years. The Memorandum also calls for targeted supplier outreach to 8(a) certified companies.

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 that can offer reimbursement to the mentor company for its direct mentoring expenses. Similar programs, without reimbursement, now exist at NASA, Department of Energy, the Federal Aviation Administration, and the Small Business Administration, and will soon be introduced at the Treasury Department (see Appendix D).

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

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[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

protégé. The agencies clearly explain that there is no guarantee of subcontracts from the prime. The agencies do track the number and value of subcontracts and other non-governmental contracts won as a measure of success.

For example, Science Applications International Corporation (SAIC) currently has 23 federal mentor-protégé agreements in place. On a more informal basis, SAIC uses teaming agreements with businesses that enhance or complement SAIC's business goals and objectives. Lloyd Lamont Design (LLD, Inc.), an African American-owned firm, has grown tremendously in part through its relationship with SAIC. In the last five years, LLD has grown from 15 to 160 employees, and increased annual revenues from $800,000 to $14 million. The relationship has been instrumental in LLD winning over $50 million in new contracts and in building information technology and environmental management capability with many federal government customers. In the early stages, SAIC acted as a guarantor for a line of credit for LLD, making it easier for LLD to perform contracts. Other developmental assistance included implementing an accounting system and various technical training programs. To assist the management of LLD, a senior executive of SAIC serves on the board of directors of LLD.

The NCR Corporation currently works with three companies under the Department of Defense's mentor-protégé program. These firms typically meet with NCR personnel and consultants between 25-60 times a year.[29]

SBA's 8(a) Mentor-Protégé Program is designed to enhance the capabilities of 8(a) firms and to improve their ability to compete for Federal government contracts. Mentors may provide protégés technical and management assistance, financial assistance in the form of equity investments or loans, subcontract support, and assistance in performing prime contracts through joint venture arrangements.

Sales Channel Development

Like supplier development, business-to-business relationships that create a sales channel align the incentives of both companies around economic outcomes. "Sales channels" refers to any intermediary company between the brand name maker of the product or service and the ultimate customer. Sales channels include, for example, dealerships, distributorships and franchisees. The goal of sales channel development strategies is to increase both companies' sales.

Historically, companies devoted more energy to supplier development than sales channel development. Suppliers and sales channels are typically managed through different parts of a companies' organization: the purchasing department controls suppliers; and sales and marketing administers sales channels. However, the three strategies used for supplier development --

[29] Refer to Appendix B for a thorough discussion of this BusinessLINC strategy.

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

For example, 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 franchisees' 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 franchisor/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

American Council on Education, and franchisees can earn up to thirty-two hours of college credit. In addition to the initial training received by McDonald's franchisees, a business consultant helps each franchisee write an annual business plan and develop appropriate strategies to achieve those goals.[30]

DaimlerChrysler Automotive Dealerships

DaimlerChrysler created the Minority Dealership Development Program to cultivate dealership owners that better reflected their customer base and the composition of the U.S. population. DaimlerChrysler also recognized that the initial capital to buy a dealership may be beyond the reach of many potential entrepreneurs, particularly minorities.

Potential owner candidates participate in a training program that can last up to three years. This program includes hands-on experience in a dealership to understand the various business units, and mini-MBA-style workshops that apply business school concepts of finance, accounting, marketing, and inventory management to owning and operating a dealership. Once the owner is trained and ready to buy a dealership, DaimlerChrysler and the entrepreneur co-invest, with DaimlerChrysler initially owning 100 percent of the corporation's preferred stock. The owner then gradually buys out DaimlerChrysler's stock with the dealership's earnings.

Once an owner begins to run the dealership, he or she receives the full range of DaimlerChrysler dealership support, including assistance with allocation of the product, advertising, marketing, and personnel management. DaimlerChrysler will assist a dealer with cash-flow management and short-, mid- and long-term planning. Dealers may continue to attend any of the training seminars for free.

[30] Refer to Appendix B for a thorough discussion of this BusinessLINC strategy.

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 the company 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.

The best BusinessLINC relationships blend several approaches and sequence them to provide the company multiple opportunities to learn.

Often the needs of a small business do not fit neatly into one of the strategies. By combining different strategies to fit the needs of a particular company, business-to-business mentoring programs are able to build on the strengths of those models and often provide benefits greater than any one model by itself. For example, both the DaimlerChrysler Dealership Program and the McDonald's franchisee training program combine one-on-one technical assistance, classes and apprentice-style training.

From the beginning, both companies should have a clear definition of their goals and expectations, with honest and frequent communication.

After the initial needs assessment is completed, both parties should be able to articulate their goals and expectations for the partnership. Over time, this helps both parties to provide the agreed-upon "deliverables" and maintain a strong relationship. The foundation of a business-to-business partnership is trust. Often both the mentor and the protégé are required to share sensitive financial and technical documents; in some cases they may sign agreements of confidentiality. Lack of trust can weaken the potential business relationship by making both partners less willing to discuss their operating structure, financial information, or product development process.

The business must be committed to the relationship at both the top management and staff levels, with appropriate incentives.

A sustained relationship demands the commitment of top-level executives at both companies, as well as those in middle management who will implement the program at the larger company. As Alex Jimenez of Texas Utilities points out, "Strong CEO commitment leads the internal commitment in the personnel or human resource department to work to create a partnership with the community."

An example of company commitment is the program implemented by the CEO of Science Applications International Corporation (SAIC). The employee-owned company provides 40,000 stock options to those business units that exceed the minimum 5 percent government subcontracting goal for women- and minority-owned businesses. SAIC also sets aside a pool of $250,000 annually to assist in the development of new proposals with MBEs/WBEs. Each SAIC business group has a small business representative whose responsibilities include building relationships between his group and women- and minority-owned businesses.

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 companies 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 participant 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 affect 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. Sharing common industry allows the two firms to speak the same language."

Firms should be selective in assuring that their BusinessLINC partner is "ready, willing, and able" to make the relationship work.

Not every business is a good candidate for business-to-business partnerships. For this reason, many formal mentor-protégé programs require that potential protégé businesses have a minimum level of operating experience and annual sales. DaimlerChrysler found that the best applicants for its dealership development program had some prior industry experience and skills that required "fine-tuning," rather than a full MBA degree. Boeing Company prefers to have a good work history with a smaller company before considering it for a mentor-protégé relationship.

Programs that target microenterprises, however, typically do not require a minimum number of years of operation, since many are start-up businesses. According to industry experts, the start-up microentrepreneur typically receives training and technical assistance from an intermediary organization until ready for the next stage of business development. When ready to expand, BusinessLINC relationships with an established business in a similar industry becomes critical for the survival of microbusinesses.

Intermediary organizations can be helpful in matching and supporting companies in BusinessLINC relationships

As discussed more fully in Chapter V, intermediary organizations, such as local business or civic organizations or economic development organizations, can be helpful in (1) getting a small business to the "ready, willing and able" stage with technical assistance and training, (2) absorbing some of the "matchmaking" costs of finding a suitable company to partner with, and (3) reaching across cultural divides to recruit businesses in communities that the larger business may not be able to reach on its own. In poor areas and for the smallest businesses, intermediary organizations can play an especially important role in recruiting business participation.

Successful business-to-business relationships ultimately rely on successful personal relationships.

It is human nature for people to do business with people they like and trust. BusinessLINC strategies are a method for finding and developing common business goals and capacities. Once identified, successful BusinessLINC relationships lead to trust and person-to-person ties. The BusinessLINC strategies are a more concerted means of building these connections.

V. Focus: Intermediary Organizations as a Factor in Successful BusinessLINC Strategies

Many firms reported that intermediary organizations played a critical role in facilitating and structuring BusinessLINC relationships. Some also found that a skilled intermediary organization can leverage a larger company's investment of time and resources. This report discusses the role of intermediary organizations because such organizations may be less widely known and can be an important part of a BusienssLINC strategy, especially in economically distressed areas. This chapter discusses the advantages of an effective intermediary and two general categories active in this area, business-led membership organizations and specialized nonprofits.

Discussions with effective BusinessLINC organizations suggested that intermediaries reduce the costs that firms would otherwise bear in:

- reaching the local business community;
- learning local business dynamics;
- identifying organizational resources and local experts;
- cultivating personal relationships;
- screening and assessing potential partners;
- forming a match with a company; and
- supporting the companies after the relationship begins.

Advantages to Larger Firms in Using Intermediary Organizations

Businesses and intermediary organizations cited the following advantages to larger firms:

- An effective intermediary organization provides valuable local knowledge for reaching new markets, builds trust as companies work with established community institutions, and offers broader community credibility in reaching a new market.

- An effective intermediary can identify smaller companies that are viable and have the potential to grow. The intermediary can provide first-level assurance that the relationship has the potential to add value, whether direct or indirect, to the large firm.

- An intermediary can provide a structure for firms to interact, and the discipline of commercial interaction where there is not an economic relationship between the firms.

- Some intermediary organizations form industry clusters so that corporate resources can be delivered to a larger group of small firms.

- These organizations are often able to fill the assessment gaps that are necessary to ensure a correct match and to absorb some of the costs related to the assessments.

Advantages to Smaller Firms in Using Intermediary Organizations

- An intermediary can help the company build credibility and provide wider market knowledge to a firm moving outside its local market area. In some cases, an intermediary can provide more personal connections within companies than those made through more formal and institutionalized channels.

- Small firms may need closer assistance and guidance in developing the business relationship with a larger firm than the larger company is willing or able to provide.

Broadly, intermediary organizations fall into the categories of specialized nonprofits and business-led membership organizations.

Specialized nonprofits

A segment of nonprofit organizations specializes in small business assistance, and in recent years, these organizations have become increasingly sophisticated in their services. Some nonprofits serve particular business sectors (e.g., manufacturing, retail or microenterprise) and offer different staff skills (e.g., supplier development, financing, consulting, peer group facilitation). Some of these organizations focus specifically on microenterprise development, cumulatively reaching over 50,000 entrepreneurs annually.[31]

The U.S. Small Business Administration funds a network of skilled nonprofits under the Small Business Development Centers (SBDCs) program. Most SBDCs offer one-on-one consulting and classroom training, and some now offer small business peer groups.

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[31] The 1996 Directory of U.S. Microenterprise Programs, Self Employment Learning Project describes 328 microenterprise programs.

National Minority Supplier Development Council (NMSDC)

Recognizing that a large company's endorsement is often critical in breaking into other national contracts, the National Minority Supplier Development Council created the Corporate Plus program. In Corporate Plus, major companies like AT&T, Lucent, Ford, General Motors, DaimlerChrysler, Pepsi, and Toyota sponsor small firms by submitting detailed letters of reference on behalf of minority-owned companies that attest to their ability to handle a national or multi-regional contract. To assure that the references have the highest value (only 21 companies are endorsed as of January 1998), the MBE must pass reviews by NMSDC. Once recommended, each Corporate Plus minority-owned company suggests five other corporations with which they would like to do business, and the sponsoring company is responsible for serving as an intermediary between the small company and its targeted corporate customers.

As an example, Baltimore Advisors, Inc. (an affiliate of the Initiative for a Competitive Inner City) aims to increase wealth and employment in the City of Baltimore. The privately funded non-profit organization provides discounted fee-based services to Baltimore City-based companies with revenues generally between $1 million and $20 million annually. Its core services include strategy development, marketing and finance services, and operational assessments. A network of corporate partners, comprised of senior level business professionals and owners of mid-sized and large businesses in the region, and area business schools, perform mentoring, educational and consulting roles for the client companies.

Community-based organizations have historically played an important "market organizing" role in neighborhoods. These organizations include community development corporations, community development financial institutions (CDFIs) and local non-profits.[32] Community-based organizations often represent wider interests than purely business ones. Many community-based organizations work closely with local residents and business owners and can address issues of local small business development.

For example, ACENET (Appalachian Center for Economic Networks) in Athens, Ohio works with 50 businesses in specialty food production. The companies in the ACENET network are typcially less than one year old and have annual revenues under $500,000. ACENET describes its services as a conduit for local business to share information by organizing peer mentoring, entrepreneurial workshops and business assessments.

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[32] In Rebuilding the Inner City, Robert Halpern observes that community development corporations often "put themselves in the role of buffer and mediator between the marketplace and the local community... CDCs have proven to be reliable brokers among different interests inside and outside of inner-city communities." Halpern, Robert, Rebuilding the Inner City, Columbia University Press, 1995, p.144, 148.

CDFIs, such as Coastal Enterprises, Kentucky Highlands and Shorebank Corporation, often make pioneering investments in the revitalization of housing and retail services. CDFIs work exclusively in underserved markets, defined either by geography or targeted populations. With their intimate knowledge of the local market and of available programs of various kinds, CDFIs may have special expertise in brokering business assistance. Because of their community-building missions and broader residential constituency, most have focused on small and micro-businesses, and on first-time entrepreneurs with limited capital. The best community-based intermediaries connect small businesses with other local business networks and mentors, in addition to the direct services provided by them and established public sector programs.

The CDFI Fund, a subsidiary of the Treasury Department, supports CDFIs through direct grants, loans and investments, as well as through training and technical assistance. In addition, the Fund's Bank Enterprise Awards reward traditional banks for demonstrated increases in development lending and development services, including BusinessLINC activities with businesses in distressed areas.

The Small Business Development Center (SDBC) program funds a national network of over 1,000 centers that deliver one-on-one counseling, training and technical assistance in all aspects of small business management.

North Texas Commission - Dallas/Ft. Worth Minority Business Development Council Mentor-Entrepreneur Program

In 1994, the North Texas Commission partnered with the Dallas/Ft. Worth Minority Business Development Council to advance the growth and development of small minority- and woman-owned companies in the North Texas region. By matching the small companies with larger, more experienced firms, the one-to-one relationships enable the small companies to access the experience and knowledge necessary to reach the next level of success.

Annually, 40 entrepreneur companies are matched with 35 mentors from the North Texas Commission and the Dallas/Fort Worth Minority Business Development Council. Entrepreneurs are identified through: local ethnic chambers of commerce including the Hispanic, Black and Asian Chambers; city minority development departments; the Southern Dallas Development Corporation; and the North Texas Women's Business Council. Matching is based on location, industry, and the needs and resources of each of the participants. Within each mentor company, a contact person is identified to facilitate assistance to the entrepreneur from the resources available within the mentor company. A minimum of two hours per month is the recommended goal. Although business is not prohibited between the mentor and entrepreneur -- over one-half of participants end up doing business with each other -- it is not the goal of the program.

Crowne Plaza Bristol Hotel & Resorts mentored Porche's Creole & Cajun Café in East Ft. Worth, owned by Tana Porche-Johnson and Rudy Johnson. The Porche-Johnsons point to Bristol's help with advice on marketing their catering business, and the kitchen operations. John Longstreet, Vice President of Employee Services said, "We became involved at first because we're a service business and we believe in community service. What we didn't expect was that our managers would come back and say 'I'm getting as much out of this relationship as Porche's is.'"

Special SBDC programs and economic development activities include rural development activities include rural development and procurement assistance. Some SBDCs offer small business peer groups.

Business-led membership organizations

Local chambers of commerce often serve as a primary organizing institutions for local businesses. While chambers have traditionally focused on basic networking activities and the regulatory and business climate of their geographic base, some chambers have moved into more active business linkage activities. Chambers of commerce can also help groups with differing business cultures or linguistic background bridge communication gaps to form effective business relationships. Chambers may be less suited to provide industry-specific guidance or depth in areas requiring more sustained and focused effort, such as strategy development for individual companies.

Trade associations may function as a clearinghouse for consulting, accounting and other services and industry-specific information. With first-hand knowledge of a given industry, trade associations can naturally broker groups of industry peers who may want to meet informally or formally. Many associations have begun developing broad marketing and technology initiatives for their membership, as competition between regional (and international) markets intensifies. Trade associations also have potential to exploit internet-based technologies to better screen and match supplier opportunities and member companies.

The Stempel Plan and Modifications

In 1993, Ron Stempel of the Port of Portland observed that small businesses were not succeeding in winning contracts from the Port, and he began a program to match larger construction-related businesses with smaller businesses so they could become more competitive. Variations of the "Stempel Plan" have been adopted by trade associations, public sector organizations and private companies.

The Port's program lasts one to three years, and both mentor and protégé sign a letter of commitment and meet monthly. The program provides $15,000 per company in technical assistance, with more than half of the budget spent on outside consultants who provide technical services to proteges. The Port itself provides two full-time staff to the program. Of the 18 protégé companies, all have completed the mentoring program, and 40 percent have formally graduated, indicating the Port's certification that they can "get work, do work, and handle money."

Beginning in late 1997, Wegmans Food Markets and the Rochester Minority Business Development Council established a "modified Stempel Plan" in which they serve as program sponsors. Both serve as the Advisory Council, however, the Minority Business Development Council has chief responsibility for recruiting proteges, and Wegmans has chief responsibility for finding and coordinating mentors from the industry. There is no public subsidy in the program. David Cariello, Operations Manager at Wegmans and a major advocate of the program, says that Wegmans is doing this because "six months into this program, I can tell you the costs that I've got invested in this program have been easily overshadowed and exceeded by the amount of money we've saved just by buying it for a better price, and we're still getting the services. So we're helping companies develop. We're getting it at a better price. What's wrong with this picture? Nothing."

The National Association of Government Guaranteed Lenders (NAGGL) is a trade group consisting of nearly 700 commercial banks, small business lending companies, loan originators, and other businesses active in various aspects of lending. On behalf of its membership, NAGGL signed a Memorandum of Agreement with SBA to provide 25 NAGGL-developed seminars across the country to educate loan originators, underwriters, and those entities that assist small businesses to obtain financing.

Other intermediary organizations

For-profit companies can also serve as intermediary organizations. For example, good consulting and accounting firms frequently provide business contacts and introductions for client companies in addition to the discrete services they deliver. Moreover, several for-profit intermediaries feature business-to-business links as an integral part of their product. One example of this type of business, springing up throughout the country, is the "business roundtable" concept. Small and mid-sized companies pay a fee to join the group, and they meet regularly with other owners and managers over a period of time to discuss specific business issues or be trained in areas of mutual interest. These groups also become valuable sources of leads and new business relationships.

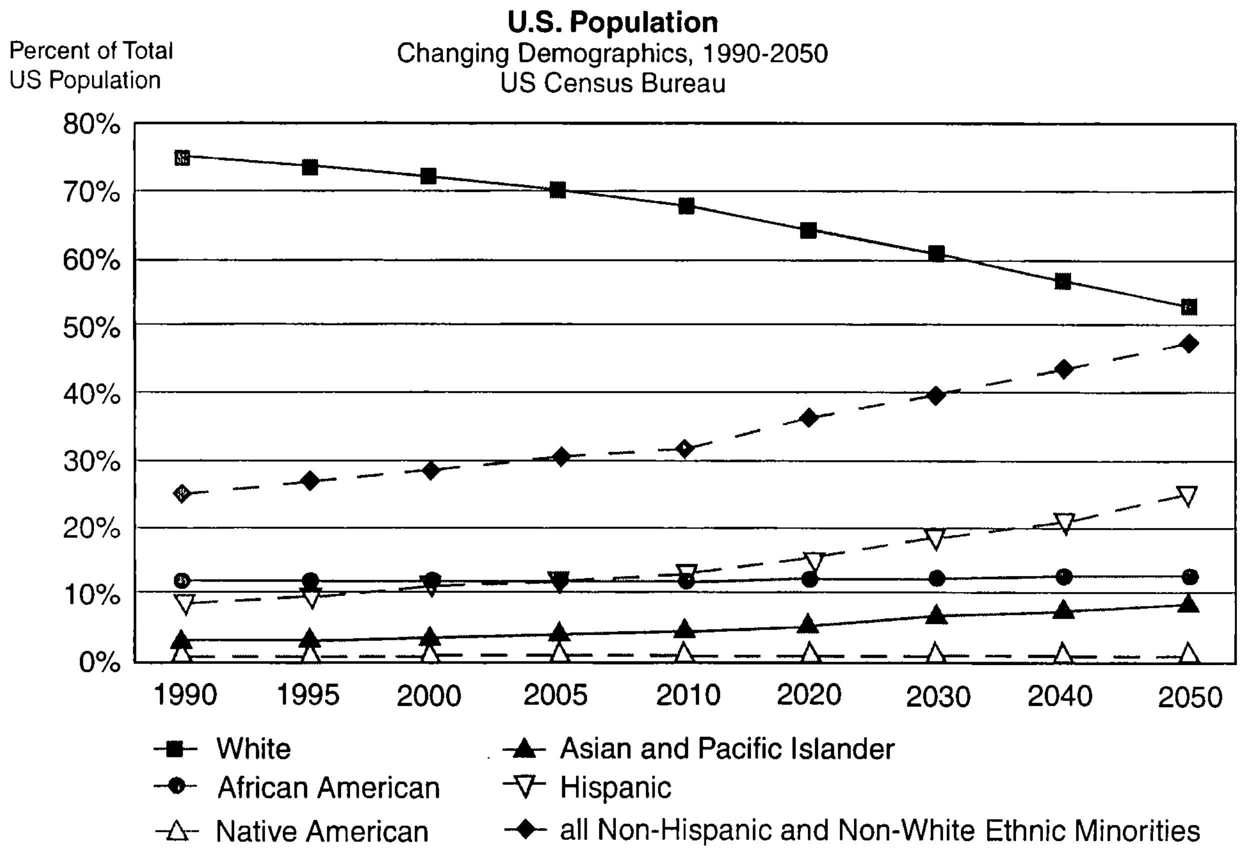
An example at the microenterprise level is a day care provider from the Women's Self Employment Project who started a second business assisting other women to become home day care providers. She hired two employees for her own day care center and draws about $40,000 annually from the business. Her second business helps other providers obtain contracts, stay in legal compliance, and budget cash flow. She says she started the second business "to help women in the new process of welfare-to-work because I knew it was going to be hard."

State and local governments' economic development responsibilities include targeted business development services such as technical assistance in raising capital and real estate services. Some governments also have the staff infrastructure to encourage BusinessLINCs in their communities. For example, the Louisiana Department of Economic Development's Small Business Assistance program coordinates a Development Assistance Program, a recognition program, and a Small Business Bonding Program and is currently developing a formal mentor-protégé program.[33]

The role of academic institutions is also potentially valuable to BusinessLINC strategies. Many academic institutions house SBA Small Business Development Centers. The example of the mid-career training offered by Tuck Business School and many HBCUs also merits special attention by other academic institutions that could adapt these efforts to their local communities

[33] The Mentor-Protégé Program was developed based on consultation with officials from the Department of Defense and the City of Atlanta. The Mentor-Protégé program is currently in the proposal stage, and Louisiana anticipates a launch date in early 1999. As proposed, this program will recruit potential mentors, assist in the certification of potential protégés following SBA guidelines where applicable, assist in brokering formalized agreement between the mentor and the protégé (which may require a commitment of up to two years), and provide bonuses to mentor-protégé partnerships that meet early completion or exceptional job standards.

white (see chart one).[6] This growing population of customers is increasingly attractive because of its spending power.[7] To compete for these customers, many companies will need to develop new sales channels and may also seek new suppliers that reflect this customer base. Floyd E. Lewis, Director of Corporate Affairs at Anheuser-Busch explains, "We expect minority communities to consume our products, so it's only logical for us to understand that minority communities expect us to do business with them."[8] In this view, firms create a competitive advantage in reaching these customers by using a base of suppliers and sales channels attuned to their consumer preferences.



This demographic trend in the consumer base occurs at the same time that many businesses owned by minorities and women, as well as those located in inner cities or central business districts, are prospering. One index comprised of businesses in which African Americans,

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6 U.S. Department of Commerce, Bureau of Statistic Administration, Bureau of the Census, Current Populations Reports, P25-1130.

7 A study by the University of Georgia's Selig Center for Economic Growth projects that the nation's black buying power will grow from $308 billion in 1990 to $533 billion in 1999, well ahead of the nation's overall growth.

8 Quoted in Miller, Jill, "They Lead by Example," NAPM Insights, January 1, 1995, pp.45-47.