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**Issues and Ideas for Greater  
Philadelphia's Leaders**

# GREATER PHILADELPHIA REGIONAL REVIEW

Fall 2008



**Everyone's Business:  
Building Minority  
Businesses  
to Scale**

# INVESTORS IN THE ECONOMY LEAGUE OF GREATER PHILADELPHIA

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# UP-FRONT

For almost 100 years, the region's prosperity and how to increase it has been the Economy League's business. We look for trends and analyze weaknesses in order to boost our competitiveness in an ever-changing domestic and global arena. Like smart business owners who uncover value in a new market, it's our mission to recognize major economic growth opportunities.

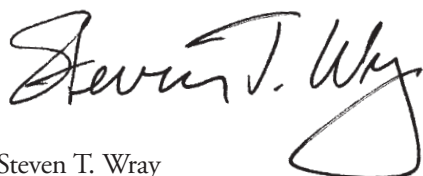
With minority entrepreneurship, we see that opportunity. After all, entrepreneurship is responsible for most newly created jobs in the U.S., not to mention creation of individual wealth and tax revenues. More importantly, the research is clear that in the case of minority entrepreneurship, these returns can directly benefit minority populations, many of whom live in disadvantaged areas disconnected from the mainstream economy. And with very sizeable increases projected in minority population share and buying power over the next decade, now is the time to seize "first to market advantage" in promoting minority businesses.

This issue is hardly new. The first attempts to address the issue came on the heels of the Civil Rights Movement in the 1960s. Today, minority businesses are forming at a faster rate than overall businesses, but they not as big or as profitable as their white counterparts. While the past 40 years have helped create more minority business owners, the next generation of policies and programs must focus on growing more minority-owned businesses to scale, helping move them toward the next level of size, profitability, and influence.

To spearhead this effort, the Economy League of Greater Philadelphia presents: *Everyone's Business: Building Minority Businesses to Scale*. This report is an outgrowth of the Greater Philadelphia Leadership Exchange, a recurring educational visit by regional civic and business leaders led by the Economy League. After spending time in Chicago in 2005, Leadership Exchange participants ranked boosting minority entrepreneurship among their top priorities for the Philadelphia region and tasked the Economy League with identifying the forces at work. Special thanks go to Pat Coulter, President and CEO of the Urban League of Philadelphia, and John Ball, President of Shoemaker Construction, for keeping this project moving. This report is the culmination of that effort.

In addition to the data, we spoke with a variety of minority business owners; their experiences are featured throughout this report. With a focused effort, we can help clear the way for them and others like them to grow their businesses into large enterprises, a win-win proposition that could make a tremendous difference in individual lives and buttress our regional economy.

We welcome your thoughts and support.



Steven T. Wray  
Executive Director, Economy League of Greater Philadelphia

**The economic imperative is clear; given the changing demographics and increasing importance of job creation, U.S. economic growth will be stymied by the failure to mobilize all of its business resources. To maximize the nation's growth, including consumption, Gross National Product, and tax base, U.S. policies must ensure that businesses owned by minority entrepreneurs are brought into the economic mainstream.**

Minority Business Development Agency, U.S. Department of Commerce  
"Accelerating Job Creation and Economic Productivity:  
Expanding Financing Opportunities for Minority Business" (2004)

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# Everyone's Business: Building Minority Businesses to Scale

## The Value of Building Minority Businesses to Scale

According to the most recent government data of the U.S. Department of Commerce's Minority Business Development Agency (MBDA), the number of minority-owned businesses increased by 35 percent between 1997 and 2002, outpacing non-minority firms and all U.S. firms (6 and 10 percent increases, respectively). Also, minority-owned firms posted faster-than-average increases in employment and businesses receipts during the same period. At last count, there were 4.1 million minority-owned firms in the U.S., representing almost 18 percent of firms that could be classified according to the race, ethnicity, or gender of ownership.

In Greater Philadelphia, minorities generate significant entrepreneurial activity. According to research released by The Enterprise Center in October 2003, nearly 12 percent of the region's minority population were directly involved in entrepreneurial activity, as compared to 8 percent of the non-minority population.

That more than 40 years of national, state, and local policies and programs have succeeded in aiding minority business endeavors is good news. But it's not a signal that we can take the issue off the regional to-do list.

Our research shows that after developing from seedling to mature operation, minority-owned businesses face unique obstacles to growth — some generated, in part, by the very policies and programs that help them as startups. **To make Greater Philadelphia a world-class region, it needs all sectors performing to their potential.** And to optimize minority business performance, we need to identify and understand the challenges and opportunities of bringing them to scale.

Given demographic trends, now is the time for a major move forward. Minority groups, as defined by the U.S. Census, are defined as African Americans,

American Indians and Alaska Natives, Asians, Hispanics/Latinos, and Native Hawaiians and Other Pacific Islanders. Current census projections indicate that by 2050, 50 percent of U.S. population will be comprised of minority groups. While the Census does not provide 2050 projections at the regional level, we know that Greater Philadelphia has a slightly higher minority population than the nation as a whole and, thus, has the potential to reach minority majority status even sooner than 2050. The city of Philadelphia already is "majority minority."

The region can capitalize on this demographic reality. With increased population comes increased spending — consumption being the driver of the American economy — and economists project that by 2009, minorities will spend an estimated \$2.6 trillion on goods and services, a doubling from the previous decade. For those minority businesses that count minorities as primary customers and clients, this shift is a major opportunity.

Just as entrepreneurship can be a path to individual prosperity, the sum of successful entrepreneurial ventures can pay dividends to the regional economy. And if those businesses create jobs and wealth in under-invested neighborhoods and communities, the beneficial effects may be more than economic. The civic actions of minority business leaders can help stabilize disenfranchised communities and provide a powerful model for inner-city youth.

And the need for action is greater than ever. Building more minority-owned businesses to scale will help address Greater Philadelphia's alarming disparities, disparities that are starkly aligned along socioeconomic and racial groups. The numbers are very clear — be it household income, employment, or educational attainment, minorities face more barriers to success than the white population. What greater motivation do we need?

... nearly 12 percent of the region's minority population were directly involved in entrepreneurial activity, as compared to 8 percent of the non-minority population.

## *Daryl Williams's "Pork Chop Theory," and Other Insights*

Daryl Williams is Director, Research and Policy, Minority Entrepreneurship at the Ewing Marion Kauffman Foundation in Kansas City. Williams also serves as National Director of the Urban Entrepreneur Partnership and the Urban Entrepreneur Partnership Gulf Coast, a partnership founded by the National Economic Council at the White House, the National Urban League, the Business Roundtable, and the Kauffman Foundation, that is designed to help grow minority entrepreneurs around the country.

**Q:** *Why is the issue of bringing more minority-owned businesses to scale an important one?*

**A:** If you're concerned about the overall economic health in America, you logically should be concerned about minority entrepreneurship. Given the changes in demographics, the U.S. needs minority success in order to succeed globally. It's not just a minority question; it's a U.S. question.

**Q:** *With the changing demographics, why aren't we seeing more minority-owned businesses grow?*

**A:** When I ask minority businesspeople about their problems, I often hear: "no access to capital, no contracts." But, in fact, many minority businesspeople need help in understanding business systems and making good contract decisions. Too many get lured into big, untenable contracts that leave them chasing their tails to keep cash flowing. Some people make money in spite of themselves. They don't know everything about how their business really works. If they try to expand, that's when the cracks start to show.

**Q:** *Why haven't past policies addressing minority entrepreneurship — such as set-aside programs, corporate supplier diversity programs, and certification programs — been effective?*

**A:** I call it my "pork chop" theory. If I've got two pork chops on my plate, then I'm happy to help you find another one. But if you want one of mine, then we have a problem. In other words, the more competitive the situation, the more likely that established businesspeople will stick with their networks and relationships they already have. When scarcity happens, those relationships kick in. What successful entrepreneurs do is avoid pork chop scraps (at the risk of mixing metaphors!) and look for the proverbial expanding pie. They find new market opportunities in growing segments of the regional economy or outside the regional economy and even globally.

**Q:** *What can we do to help minority businesspeople grow their businesses to scale?*

**A:** Increasing minority firms' capacity to compete is a critical issue. After all, untrained entrepreneurs, regardless of opportunity, will fail. Many programs focus on building individuals' technical skills - like apprenticeship programs and certification programs. But the real crux of the problem is capacity, which gets at things like managing a firm's books or developing a growth strategy.

I oversee a program called the Urban Entrepreneur Partnership (UEP). We launched it in 2004 in five cities with the goal of creating economic empowerment centers for minority entrepreneurs with one-stop shopping for mentoring, coaching, financing, and other business resources.

Through UEP, I have met many ambitious, skilled minority entrepreneurs who need to improve their business abilities: managing, planning, strategizing, negotiating. Ninety percent of the people who come through UEP's door are in love with a technical skill, but what does that have to do with making money? UEP provides general support, training, and specific assistance and services. We're not trying to lower the bar; we're trying to raise it.

**Q:** *What advice do you have for growing existing minority businesses in Greater Philadelphia?*

**A:** Many models are used nationwide, but I would be cautious about replication. Too much depends on individual talent and regional economic conditions to expect a successful program to work equally well in a new place. But it is possible to import and adjust outside practices as long as your goals are clear.

Before spending much time studying other models, you need to decide what success will be in Greater Philadelphia, which first means understanding what's already happening. Ask yourselves: What are minority business people already doing? Where are the strong points and the weak points among regional minority groups? Where are the "sweet spots" — industries and clusters in and outside the region where the opportunities are waiting and there won't be fighting over pork chops. It would be disingenuous to say that some industries — like construction, which is notoriously competitive — are not tougher than others.

Lastly, give yourselves a reasonable timeframe — not too short to accomplish something significant, but long enough to nurture viable companies. Thinking in business terms, consider a five-year plan with renewable options. Ultimately, you want slow, steady, measurable progress, not a spark here or there.

# Impediments to Scaling Up

According to the MBDA, average gross receipts of minority firms in 2002 were \$162,000, about a third of the gross of non-minority firms. Further, minority firms' average gross receipts *declined* by 16 percent from five years previous, while those of non-minority firms remained level. A survey of high-growth entrepreneurial firms in the Philadelphia region conducted for The Enterprise Center found that minority-owned firms had lower net profits per employee than non-minority firms. While not all small businesses mature into large, established enterprises, the fact that minority-owned businesses on average have lower profitability hampers their ability to grow to scale.

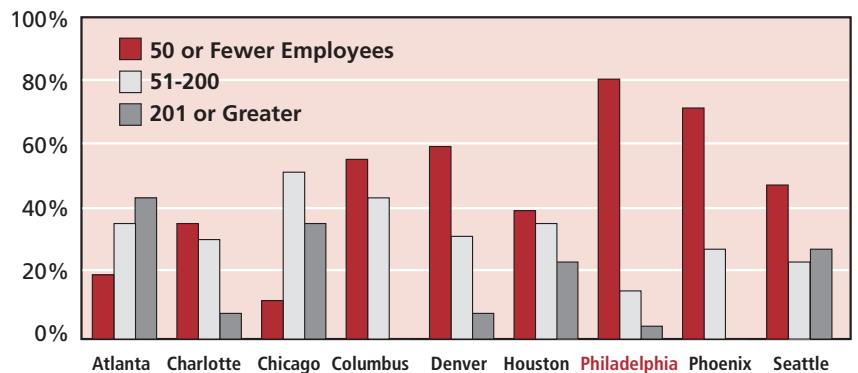
In addition, according to data collected from the *Philadelphia Business Journal Book of Lists*, Philadelphia's minority-owned firms are considerably smaller than minority-owned firms in other regions across the U.S. In a comparison of eight other regions, Philadelphia's minority-owned firms have the smallest average employment size (36 total employees). Only five Philadelphia minority-owned firms have more than 50 employees, and just one has more than 200 employees. Large minority-owned firms are notably more present in competitor regions such as Chicago, Atlanta, and Houston.

Why aren't we seeing more minority-owned companies break into the ranks of large, established businesses? The research and anecdotal evidence point to several factors, some external to minority-owned business, but some internal as well. (Note: in this discussion, we do not cover all issues related to small business development but rather those issues that are specific to minority entrepreneurship.)

**Network failures.** For any small business to grow in size, it must be able to compete on equal footing for contracts and capital. But in reality, much of everyday business is conducted on the basis of pre-formed relationships — with vendors, banks, accountants, lawyers. For minority entrepreneurs from disenfranchised communities, accessing these networks can be a major challenge. Many minority communities have difficulty attracting the lending institutions and professional services firms essential to maintaining and growing a business.

On the client/customer network side, government set-asides, supplier diversity programs, and certification programs have helped new minority businesses, as reflected in their faster-than-average growth rate. But, ironically, these policies and programs can inhibit the growth of established companies. Rather than grow the economic pie so that everyone can have a bigger piece, these programs give minority-owned businesses a por-

## The Scale of Philadelphia's Minority-Owned Businesses Compared to Other Cities'



Source: Each city's Business Journal Book of Lists for 2006

tion of the pie that used to go to another company, a scenario that creates resistance and resentment and has been struck down by the courts in some instances. (For another take on this problem, read our interview with The Kauffman Foundation's Daryl Williams and his "pork chop" theory.)

In fact, these programs can be a double-edged sword for minority entrepreneurs looking to penetrate and form productive networks. Minority business owners we interviewed said that while minority ownership status helped them get a foot in the door, it limited them to set-aside work regardless of capacity or expertise. Rather than making the necessary relationships with CEOs or CFOs, minority certified companies were directed to meet with supplier diversity officers who do not award significant contracts. Some owners went so far as to state that certification is undesirable.

When we interviewed supplier diversity and procurement officials of seven major corporations in the region, they pointed out that their best relationships are with companies ready to work with major corporations: they have certifications such as Quality Assurance Certification (an FDA certification required for suppliers of hospitals and pharmaceutical companies), they have the production capacity to turn orders around quickly, and they are fully functional online. Faced with shortcomings in these areas, large corporations view conducting business with minority-owned firms as an obligation to be fulfilled rather than as a core business activity. This corporate view is reflected in the relatively small staff size and budgets of most companies' supplier diversity programs (typically less than one FTE, with no budget line item), especially when compared to their overall procurement spending.

### Less advantageous market sectors.

But network failures don't explain everything. A growing body of research has revealed common tendencies of minority business owners that appear to be inhibit-

Minority business owners we interviewed said that while minority ownership status helped them get a foot in the door, it limited them to set-aside work regardless of capacity or expertise.



ing their growth. First and foremost is the nature of the industries that minorities choose.

Market segments that draw new money into the regional economy are known as “traded” industries. Examples include business services, precision manufacturing, and pharmaceuticals. “Local-serving” industries are those that, as the name suggests, rely on local demand for their goods and services and result in a re-circulation of existing money rather than in real gains in regional economic growth. Examples include personal services and local retail.

According to research released by The Enterprise Center, approximately 60 percent of Greater Philadelphia’s minority-owned firms operate in local-serving industries and 40 percent in traded industries. In contrast, 60 percent of the region’s non-minority firms operate in traded industries. Further, minority-owned firms are under-represented in all nine of Greater Philadelphia “dominant traded industry clusters”—the major traded industries that are largely responsible for the region’s economic growth and tend to have higher productivity levels and average wages.

**Risk aversion.** Minority business owners generally have been found to have more conservative manage-

ment philosophies. Locally, The Enterprise Center’s research explains:

*“Access to risk capital is an indisputable issue for minority firms. However...there are also complex mindset and management philosophy factors that impact receptivity to capital. While [our survey of regional entrepreneurs] found few notable differences between the way minority and non-minority entrepreneurs run their businesses, the survey did identify a more conservative management philosophy among minority business leaders. Minority entrepreneurs were less likely to pursue high-risk growth strategies [such as equity financing, IPOs, and M&A, as opposed to debt financing]. This approach is consistent with the conservative capital structure of minority firms and helps to explain their smaller average size and lower profitability.”*

We do not know why minority entrepreneurs do not pursue high-risk capital more frequently. Unfamiliarity, reluctance to relinquish control, distrust of non-minority investors, and other issues could be factors. Regardless of cause, the research is clear — if we want to help build more minority-owned businesses to scale, we must help fuel their growth by working with them to embrace and secure forms of high-risk capital.

... it is  
important  
that we  
publicly  
acknowledge  
the weak social  
interactions  
between  
the different  
socioeconomic,  
racial, and  
ethnic groups  
in Greater  
Philadelphia.

## Conclusion and Recommendations

**W**hat can be done to help build more minority businesses to scale in the Philadelphia region? Like any successful business venture, we need to think both strategically and tactically in order to truly make a difference.

First, high-level public and private leaders must get behind this issue and make the case to their peers of its importance to the regional economy. We’ve seen the effectiveness of this strategy in other arenas — when former Philadelphia Mayor Rendell made a strong (and repeated) case for strengthening the region’s hospitality sector, the leadership community rallied and what followed was a tremendous influx of new hotel rooms, cultural venues, and marketing initiatives. Research alone cannot carry the ball.

As part of this strategy, it is important that we publicly acknowledge the weak social interactions between the different socioeconomic, racial, and ethnic groups in Greater Philadelphia. It might be human nature to stick to your own kind, but many an outsider has noted how pronounced groupings by race and class are in this region. A recent report completed for The Pew Charitable Trusts had this to say about Philadelphia’s leadership community:

*“The city has two groups of leaders marching in the same direction down the avenue, but on opposite sidewalks. Over here is Mayor John Street’s administration, in its final year, African-American led but diverse, feeling misunderstood and mistreated, unable to communicate effectively. Over there is the decentralized, often new, largely white business, civic and community leadership, positive and bustling with projects. There seems to be relatively little contact or communication between these two groups.”*

For an initiative to grow minority businesses to scale to succeed, everyone has to be on the same sidewalk or at least meeting in the street.

Second, we need to set a growth goal. By the end of a five-year period, we propose that minority-owned firms make up *at least* 10 percent of “The Philadelphia 100.” As the fastest growing privately held firms in the region, The Philadelphia 100 are on a path to become multi-million business operations and major regional employers, led by entrepreneurs who are trailblazers in their respective industries.

Tactically speaking, for our region to achieve this ambitious goal, we don’t necessarily need new organizations, but we’re going to need new collaborations,



new mindsets, and new ideas. James Lowry, the country's foremost expert on minority business development, lays out the challenge in his report *Realizing the New Agenda for Minority Business Development*.

*"By focusing on businesses of size, minority entrepreneurs can close the gap with their competitors in the broader business community and emerge as players in the global economy. To succeed, they must be innovative; they must radically change the way they think about their business, their customers, and their competitors; they must develop new capabilities; and they must move aggressively. Indeed, all the stakeholders must embrace this new agenda — one that is grounded in corporate leadership and that gains further strength from the initiatives of both government and minority entrepreneurs themselves."*

(See pages 11-12 for an excerpt from this report.)

## **Tactics and Examples from the Region and Nation**

### **1. Establish objective quality standards.**

Objective quality standards set by an intermediary would ease the burden on procurement officials of finding qualified minority firms and allow minority firms to present themselves against objective quality standards. Ideally, standards should be consistent (similar to the common application for college admission) and reciprocal (as is done with admission to the bar).

### **2. Simplify the procurement process and make it more transparent.**

On the procurement side, an intermediary could group large corporations' spending requirements to present greater business opportunities for minority firms. It would be sensible to cluster corporations by industry. Sponsored by the Pennsylvania Minority Business Development Center, the University Purchasing Initiative is a new Philadelphia effort that will do just that: pool procurement spending of regional universities and prescreen minority firms wanting to do business with them. Among other objectives, a state-of-the-art procurement system will be developed, thereby eliminating a common barrier for minority firms and easing the process of working with minority vendors for university procurement officials.

### **3. Steer minority businesses into high-growth, niche industries.**

With coaching by veteran business leaders, minority business owners could expand their comfort zone and move into such growth areas as niche markets, growing domestic markets, and global markets. The Kauffman Foundation's Urban Entrepreneurship Partnership is a model. The UEP operates in five cities where it inte-

grates business training, procurement opportunities, and access to financing. A major component of each program is one-on-one coaching/mentoring of minority business owners.

### **4. Help minority firms embrace and secure high-risk capital.**

Assisting minority-owned firms in understanding the costs and benefits of high-risk capital could balance their dependence on debt financing. For example, The Reinvestment Fund assembled a \$40 million investment pool to finance multiple qualified low-income businesses using New Market Tax Credit and corporate funding. An added plus is that TRF can make smaller investments than typical because administrative costs will be aggregated across the entire fund.

### **5. Invite minorities into traditionally white, non-Hispanic circles.**

Although it might appear to be a facile suggestion in the face of a complex problem, welcoming minority business leaders to existing social and professional networks can have a positive effect. Black & White Boston is a network that convenes around events throughout the year, including Black & White on Green, an annual golf tournament in its 14th year that provides a relaxed setting for networking and interaction.

### **6. Engage a cross-section of business leaders in the civic community.**

A cross-section of leaders can be convened to identify and work on issues of major regional importance, build camaraderie, and deepen relationships. As an example, a subset of those who participated in the Economy League's Greater Philadelphia Leadership Exchange formed a group concerned with regional minority business development, the results of which are this report.



# Business Owner Profiles

## ■ BOE Securities

**Bufus Outlaw, Founder & Chief Executive Officer**  
*Research and equity trading services for institutional investors*

Bufus Outlaw's challenges aren't so different from a typical business owner looking to grow his business — finding the right people and putting them in the right positions; competing against larger, more established firms; and operating in an uncertain marketplace. Since he founded BOE Securities in 1997, Outlaw has grown the firm's employee base and revenues steadily by building a largely private sector clientele of mutual funds, pension funds, and other institutional investors looking for independent securities research. Today, BOE Securities is a 24-hour operation with international operations in India.

Being an African American-owned firm in a knowledge-oriented service industry has neither helped nor harmed BOE Securities. Says Outlaw: "When you're selling widgets, it's easier for corporations to be sensitive to doing business with minorities. Coca-Cola, for example, might have extensive programs on the corporate side (for example, office supplies and building services) for working with minority vendors, but when it comes to investment management for their employee pension fund, there's no diversity program." Even for RFPs that try to be inclusive of minority firms — such as the City of Philadelphia's pension programs — the advantage tends to go to much larger minority-owned financial services firms in New York and Chicago.

**Founded:** 1997

**Employees:** 25

**Current Revenues:** \$4,000,000

**5-year goal:** Not disclosed

**Growth Strategy:** Continue to look for new market opportunities outside the region; form key relationships in order to better position firm for new opportunities.

## ■ Pan Am Real Estate

**Julie Wong, President**  
*Commercial real estate services*

Like many other minority entrepreneurs, Julie Wong's success comes from harnessing the potential of a minority group's buying power, in this case Greater Philadelphia's Asian community, particularly in Philadelphia's Chinatown. She started off in the commercial real estate business in 1982, and it remains her main business today. Seeing the natural connections

between real estate and banking, a few years later she founded the First Commercial Bank of Philadelphia, the first Asian-American bank in the tri-state area. In 2000, she opened a second bank, Asian Bank, after the First Commercial was acquired by HSBC.

Despite her target market, Wong doesn't attribute her successes to minority ownership: "Banking is so regulated that no preferential treatment can be allowed for minority businesses. The fact that we could speak the language of our customers [Chinese] was the main factor for our growth."

Continuing in the entrepreneurial spirit, Wong sees opportunities for growth in Chinatown, particularly in manufacturing. She has moved beyond the traditional role of commercial real estate broker and is working to set up trade relationships between Philadelphia and Chinese cities. Says Wong: "I serve as a connection for non-Asian businesses to gain access to the Asian community. I also think there is great potential for a technology exchange with China."

**Founded:** 1982

**Employees:** 4 full-time, 15 part-time

**Revenues:** \$5,000,000

**5-year goal:** Grow firm to \$20,000,000 and 10 employees

**Growth Strategy:** Setting up trade relationships between Philadelphia and Chinese cities, especially in manufacturing; promoting Chinatown as a business and tourist destination.

## ■ The McConnell Group

**Dr. Irving W. McConnell, President**  
*Health science services and products*

Eleven years ago when Irving McConnell founded The McConnell Group, he envisioned a firm earning revenues in the millions and employing hundreds of scientists and technical workers. Today, The McConnell Group is that firm, and in the next few years he expects to double in size. Leveraging its expertise along with 8A certification issued to economically and socially disadvantaged businesses by the Small Business Administration and other federal certification programs, The McConnell Group supplies the biomedical and biodefense industry, including such agencies as the Department of Defense, the Environmental Protection Agency, and the Department of Homeland Security. Recognized by the SBA as the Minority Small Business Person of the Year in 2006, McConnell's story represents the best of what certification programs are intended to do.

But breaking into such a competitive industry wasn't easy, especially before he had a track record. Securing financing also was a problem. "Minority businesses, especially in the service industry, get treated differently by banks. Other minority-owned businesses would tell you the same story," McConnell states. But he did break through by forming key relationships with his previous employer Johnson & Johnson, positioning his company's team as subject matter experts, and tapping into personal savings to cover cash flow. And he addressed a staff shortage by establishing an office in Maryland where he can recruit more qualified workers. His growth strategy paid off, especially in recent years when the firm's revenues more than quadrupled.

**Founded:** 1996

**Employees:** 230

**Revenues:** \$13,000,000

**5-year goal:** Not disclosed

**Growth Strategy:** Continue to look for new market opportunities outside the region (90 percent of his current business); branch into the growing sectors of agro-terrorism, biodefense, and physical defense products.



### ■ PZ Architects, LLC

**Mario Zacharjasz, Principal**

Knowing that small businesses, especially minority-owned ones, have trouble getting loans, PZ Architects put its first fee into the bank, allowing it to open a line of credit and get through that first critical year. From there, principal Mario Zacharjasz figured out where minority status was needed and went after those contracts, most notably with the School District of Philadelphia. "I used that approach until we built up sufficient reputation and expertise to be considered a prime architect," says Zacharjasz. Today, PZ Architects is a nationally recognized, 25-person firm working primarily with school, residential, and commercial developers; its portfolio is half public, half private sector, and mostly in this region.

But over time, Zacharjasz has found that the minority certification means less and less. In fact, while being minority-owned got PZ in the door, it has had its disadvantages as well. "The jobs and contracts

that are set aside for minority firms are very small," Zacharjasz says. "Once you reach a certain level of success, the minority status takes on a different meaning." While he appreciates the opportunities that the certification has given him, Zacharjasz is concerned that it creates the impression that minority-owned businesses are capable of handling small projects only. "PZ Architects likes to think that we're an example of how successful a minority-owned business can be." Currently working on the 10 Rittenhouse Tower and the Ayer Building condo conversion on Washington Square, PZ Architects is designing some of the most anticipated projects in Philadelphia.

**Founded:** 1993

**Employees:** 25

**Revenues:** \$3.5 million

**5-year goal:** 35 employees and \$5 million revenue

**Growth Strategy:** Look for more opportunities in such "recession-proof" markets as institutional housing and education; network through business groups, chambers, and boards.



### ■ University of Pennsylvania

**Ralph Maier, Executive Director of Purchasing**

As the largest private-sector employer in the city, the University of Pennsylvania sets the tone for minority business purchasing in Philadelphia's business community. Of Penn's \$4.6 billion operating budget, approximately \$750 million is spent on purchases of goods and services, including technology, research, construction and renovation, maintenance, and operations. About 8 percent of Penn's spending goes to minority-owned firms, of which most are local. Approximately 11 percent is awarded to local companies in West Philadelphia. Penn's transactions with minority-owned firms are notable when stacked next to the 3 percent average of all business receipts in the U.S. spent with companies of color.

While the University represents a major opportunity for minorities to grow, doing business with Penn requires a high level of sophistication that often surpasses most small businesses' capabilities. According to Ralph Maier, Executive Director of Purchasing, to be a Penn supplier, vendors need to be fully functional



online (its procurement system is a fully automated system) and must have certification from the city, state, and Small Business Administration. Says Maier: "Suppliers for Penn need appropriate financial and human resources in order to qualify. The startup time is lengthy and costly. Many suppliers aren't keeping up with the marketplace." Penn is working to identify more qualified minority vendors by partnering with other Philadelphia higher education institutions — notably Drexel, the Philadelphia College of Osteopathic Medicine, and St. Joseph's University — as well as with the Minority Business Development Council.

What's Penn's rationale for having a supplier diversity program? The University determined in 1986 with the launch of the Buy West Philadelphia Program, that what's good for the local community's economic health is good for Penn. To attract the world's top students and faculty, the surrounding community needs to flourish.



### ■ BrownPartners Multicultural Marketing

**David W. Brown, President**

Given that marketing to multicultural niche communities is his business, it's no surprise that David Brown attributes much of his company's success to its minority ownership status. He has used certifications with the City of Philadelphia, Commonwealth of Pennsylvania, and State of New Jersey to build a client base that's 60 percent public sector and 40 percent private sector. As a result, revenues have increased every year since the firm's founding in 2002, with a major jump between 2005 and 2006 when the employee count doubled.

But while public sector contracts have provided a steady stream of work for BrownPartners, Brown would be the first to tell you that they also have put limitations on their growth. "There is a ceiling to the business we can do in the public sector as there are restrictions on hourly wages that are often below what the market can bear." That's why his firm is trying to branch out from the public to the private sector in and to target major corporations. And with the growth of African Americans' and Hispanics' purchasing

power nationwide, he's setting his sights beyond the region to clients in Atlanta, Portland, OR, as well as Philadelphia companies with national markets.

**Founded:** 2002

**Employees:** 7

**Revenues:** \$1,750,000

**5-year goal:** Continue growing the firm in a manner that allows us to follow our credo, "Make a Profit to Make a Difference"

**Growth Strategy:** Draw a larger share of client base from private sector; increase business with major corporations to demonstrate capacity for handling larger accounts.

### ■ Union Packaging, LLC

**Michael K. Pearson**

*Manufacturer of paperboard packaging*

Michael Pearson started off thinking big — he envisioned his paperboard packaging business to be a \$50 million enterprise ten years out. Starting in 1999 using personal savings and family loans, he capitalized on industry contacts to build his business from two employees to 92. Along the way, he secured such corporate clients as McDonalds, Burger King, and Wendy's and orchestrated a joint venture deal that turbo-charged his growth to \$20 million in revenues.

Minority ownership status helped as well, but just in getting his foot in the door. Says Pearson, "Minority status afforded me access to customers that I might not have had access to otherwise, but it can also pigeon hole you into getting certain types of loan programs, like small business programs that don't really serve the needs of a large company like Union Packaging."

Today, he's still pursuing his \$50 million dream. Steering clear of government contracts ("I want to avoid the inherent bureaucratic challenges"), Pearson sees his growth opportunity by expanding into new markets, particularly the pharmaceutical industry. He's using contacts to introduce him to potential clients in the industry, and he's focusing his business outside the Philadelphia region in building on his successful model with the food industry.

**Founded:** 1999

**Employees:** 92

**Current Revenues:** \$20,000,000

**5-year goal:** Grow the firm to \$40,000,000 and 150 employees

**Growth Strategy:** Pursue growth opportunities in the pharmaceutical industry; plan for the right time to pursue capital for new investments.

# The New Agenda:

## Minority Entrepreneurs Must Serve Emerging Domestic and Global Markets

James H. Lowry, The Boston Consulting Group

**M**inority entrepreneurs must be willing to think big and act accordingly. That means being open to partnerships and mergers that can help them develop the requisite capabilities and scale and expand in growth sectors and global markets. Minority entrepreneurs must also recognize that funding is available for opportunities that are highly promising, backed by a sound business strategy, and supported by a capable management team.

### Exploiting Supplier Development Programs to Strategically Create Businesses

Supplier development programs don't just boost the bottom line at minority-owned firms; they produce companies that have well-thought-out strategies and superior operating models — which themselves ultimately boost the bottom line. Minority businesses can use the opportunities afforded by such programs to clearly define and articulate their business strategy, positioning themselves to grow and diversify.

### Focus on Growth Sectors and Delivering Added Value

Minority-owned businesses have historically been established in industries with low barriers to entry. Now they are beginning to expand into promising and emerging categories, especially those that provide goods and services to major corporations, and this trend must continue.

Twenty years ago, for example, the largest minority-owned suppliers to the automotive sector operated in wire-harness assembly, injection molding, and distribution of manufactured products. Today such businesses are moving up the value chain, participating in areas such as manufacturing and supply chain management.

Still, many minority companies operate in areas where the pressure to move offshore is reducing margins or threatening revenue growth. In response, minority-owned suppliers must be able to provide full-service offerings with design, engineering, supply chain management, after-sales service, and other value-added features. To succeed, the new generation of large minority businesses will need to become industry leaders — that is, achieve status as tier one suppliers, seek acquisitions

or mergers with high potential, and position themselves for corporate spinoffs and outsourcing opportunities.

Minority businesses that are lower-tier suppliers can achieve critical size and scale — and tier one capabilities — by pursuing growth strategies such as joint ventures, acquisitions, and mergers.

Mergers and acquisitions deliver immediate access to larger opportunities. For minority businesses, acquisitions are an attractive way to enter a new industry or move up the value chain. To fully exploit the opportunity afforded by acquisitions, large minority-owned businesses must work closely with their corporate customers to identify acquisition targets. . . . Historically, the burden of financing these deals has fallen on corporations, but today the capital for such deals is widely available.

Spinoffs and outsourcing opportunities can help build capacities. Spinoffs and outsourcing can represent a transfer of existing capabilities from within a corporation to an external, minority-owned supplier. Such restructurings are discussed internally before they take place, so large minority suppliers must be on the lookout for these opportunities, positioning themselves with corporate partners and demonstrating their interest.

### Deploying a Variety of Partnering Strategies in Order to Grow Quickly

Large minority businesses should be just as willing to partner with other minority companies as with major corporations, since joint ventures, mergers, and acquisitions of minority companies represent equally powerful ways to develop needed capabilities quickly. Furthermore, partnerships with support organizations such as trade associations, universities, and other advocacy groups can help minority companies gain access to the critical information and contacts that will afford them new opportunities.

Reluctance to cede control, among other issues, can prevent companies from entering into the ventures that can result in larger entities eligible for more lucrative contracts. Often the entrepreneurial spirit that built many minority companies has inhibited a willingness to partner. The new agenda, however, requires that entrepreneurs overcome these barriers and pursue the growth needed to obtain competitive advantage.

## Continuing to Serve the Minority Market

The emerging domestic market offers minority entrepreneurs two opportunities for success. First, they can serve as liaisons between corporate America and minority markets. Second, minority suppliers themselves — and, in some instances, minority consumers — promise increased profitability for minority-owned businesses. Minority entrepreneurs can market effectively to one another, and not only within the confines of specific populations. Asian American companies, for example, can use Hispanic suppliers and offer products that will interest more affluent African American consumers. Transcending minority differences is critical to the new agenda. The minority market will represent \$2.6 trillion in purchasing power by 2009. The lure of such a lucrative market has major corporations beginning to develop strategies for gaining and maintaining share. Large minority businesses must position themselves in the same manner. The domestic success of minority-owned businesses of size will depend to some degree on their success around the world. Minority entrepreneurs must begin thinking about how best to develop strong alliances for selected initiatives overseas. By leveraging corporate relationships and business opportunities, minority-owned businesses can pursue a low-risk strategy for establishing a global footprint. Using partnerships, minority-owned businesses can position themselves to provide goods and services to rapidly developing economies (RDEs) while also creating opportunities for foreign companies to provide goods and services in the United States. Of course, with many global markets emerging, marketplaces will be fiercely competitive. Still, minority-owned companies enjoy some inherent advantages in finding alliance partners. For example, Asian American entrepreneurs are well positioned to partner with smaller companies in the Pacific Rim and to establish robust trading relationships that could yield advantages for all the players involved.

## Fully Exploiting the Capital Markets for Growth and Expansion

Often cited as the major impediment to the growth of minority-owned companies, access to capital has significantly improved over the years. Yet the use of capital-market strategies has been confined to debt capital. To achieve their growth plans, minority entrepreneurs must become more familiar with strategies for financing businesses and deploying equity and debt capital.

The critical first step is learning more about financing. Frequently, educational programs are offered up as a poor substitute for valuable contracting opportunities. Nevertheless, if minority entrepreneurs are to expand their companies as the new agenda mandates, they will

require a much deeper understanding of capital and financing strategies.

Most minority entrepreneurs have depended largely on their own personal finances to build their companies. But this approach is inadequate to fund the investments required to build businesses of size. Large businesses are beginning to understand and use alternative capital strategies. Although venture capital represents just 3 percent of financing on average for the *Hispanic Business 500*, it accounts for 13 percent of financing for companies with more than \$300 million per year in sales.

Minority-owned businesses can accelerate their already rapid growth by adding private equity capital to the mix. However, equity partners come at a high price — often a high one. The key to success is ensuring that an equity partner offers more than just funding. The new breed of minority entrepreneur must focus on equity partners that also bring solid relationships, experience, and credibility, such as a company with an established brand and a successful track record.

## How the New Agenda Unleashed Opportunities

The story behind the new agenda is complex but compelling. Working in a concerted way, the private sector — supported by government initiatives that include research and education — can generate substantial opportunities for a new cadre of minority entrepreneurs. These new entrepreneurs, themselves supported by enhanced access to capital and strong management talent, will be positioned to achieve success for their businesses and their communities. These gains in domestic and global markets alike will boost the economy of the inner cities and, ultimately, of the nation overall.

The promise of the new agenda is great, but so too is the effort it will require. Corporations, governments, and minority-owned businesses themselves will need to make tough —and possibly unpopular — decisions to forward the agenda and realize its full potential. But the action and approaches required are long overdue, well worth the effort, and much needed to revitalize the U.S. economy. Quite simply, the pace at which minority businesses are integrated into the mainstream business economy must accelerate so that the United States can tap into the critical resources in innovation, labor, and purchasing power that minorities bring to the increasingly global marketplace.

*Excerpted from "Realizing the New Agenda for Minority Business Development," by James H. Lowry, November 1, 2005.*

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# Acknowledgments and Notes

For this report, Greater Philadelphia is defined as Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties in Pennsylvania, and Burlington, Camden, Gloucester, and Salem Counties in New Jersey.

The following studies were used extensively or cited in this report:

- *The State of Minority Business Enterprises: An Overview of the 2002 Survey of Business Owners* (MBDA, 2006)
- *Accelerating Minority Entrepreneurship in Greater Philadelphia* (Advanced Research Technologies, Executive Summary released by The Enterprise Center, 2003)
- *Realizing the New Agenda for Minority Business Development* (The Boston Consulting Group, 2005)
- *Changes in Household Wealth in the 1980s and 1990s in the U.S.* (The Levy Economics Institute and New York University, 2004)
- *Philadelphia 2007: Prospects and Challenges* (by Basil J. Whiting with Tony Proscio, 2007)
- *Philadelphia Business Journal Book of Lists 2007* (Philadelphia Business Journal, 2007)

The Economy League would like to thank the fifteen minority business owners and seven procurement officials we interviewed for this project, with special thanks to those who agreed to be profiled. Interviews were conducted in late 2006. As a group, the firms ranged in size from \$500,000 to over \$10 million in revenues; the procurement officials represented major regional corporations ranging in size from \$250 million to well over \$5 billion.

## Minority Business Owners

Robert Bogle — *The Philadelphia Tribune*  
David Brown — BrownPartners  
Brian Edmonds — Concordis Key Advisors  
Lawrence James — Connexus Technology  
Jay McCalla — The Service Works Company  
Irving W. McConnell — The McConnell Group  
Mia Mendoza — The Mendoza Group  
Bufus Outlaw — BOE Securities  
Sam Patterson — Veridyne  
Michael K. Pearson — Union Packaging, LLC  
Angelo Perryman - Perryman Building and Construction Services  
Nick Shenoy — G & S Electric  
Bill Wilson — Synterra Limited, LLC  
Julie Wong — Pan Am Real Estate  
Mario Zacharjasz — P Z Architects, LLC

John Childress — African American Chamber of Commerce of PA, NJ & DE  
Della Clark — The Enterprise Center  
Patricia Coulter — The Urban League of Philadelphia  
Brian Edmonds — Concordis Key Advisors  
Kimberly Hall — Chester County Chamber of Business and Industry  
Beverly Harper — Portfolio Associates, Inc.  
Feather Houstoun — William Penn Foundation  
Ajamu Johnson — Greater Philadelphia Urban Affairs Coalition  
Eustace Kangaju — Temple University Small Business Development Center  
John MacDonald — Impact Services Corporation  
Claire Marrazzo — CEO Council for Growth  
Sharmain Matlock-Turner — Greater Philadelphia Urban Affairs Coalition  
Shawn McCaney — William Penn Foundation  
Thomas Morr — Select Greater Philadelphia  
David Thornburgh — The Alliance for Regional Stewardship  
Andrew Toy — Local Initiatives Support Corporation

## Corporate Supplier Diversity Representatives

Toni Profit Brown — Delaware River Port Authority  
Kelley Cornish — The Children's Hospital of Philadelphia  
George Ehr Gott — Communication Test Design, Inc.  
Charlie Gillean — AstraZeneca  
Deborah Grossman — Comcast Corporation  
Ralph Maier — University of Pennsylvania  
Anne Mullen — Johnson & Johnson  
Regina Stout — Lockheed Martin Information Systems and Global Services

## 2005 Franklin Caucus Participants

(N.B. some individuals have changed organizations since the time research was begun)

Elmore Alexander — Philadelphia University  
John Ball — Shoemaker Construction Company  
Trino Boix — Greater Philadelphia Urban Affairs Coalition

## Resources and Knowledge

Milton Benjamin — The Initiative for a New Economy  
Frank Cumberbatch — Milwaukee Urban Entrepreneur Partnership  
Varsovia Fernandez — Greater Philadelphia Hispanic Chamber of Commerce  
Donet Graves — The Business Roundtable  
Len Greenhalgh — Tuck School of Business at Dartmouth  
Daniel Heath — National Economic Council, in the Executive Office of the President  
Jacqueline Hill — Pennsylvania Minority Business Development Center  
Darlene Jenkins — National Minority Supplier Development Council  
James Lowry — The Boston Consulting Group  
Daryl Williams — The Ewing Marion Kauffman Foundation

"Everyone's Business" was researched by Rob Graff and Peter MacBride, compiled and written by Annette B. Mattei, edited by Allison Kelsey, and directed by Steven T. Wray, Economy League Executive Director.



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