



Cincinnati Fountain Square

Is Minority Business Development *Really* an Economic Development Tool?

by Dr. Mel Gravely

Historically, the short answer is NO. Minority business development has not been an economic development tool. At least not to the extent it could be. It has been a good idea. It has been the right thing to do. It does matter socially to communities. But it has been underutilized as a tool for economic development. The evidence is now clear that it is likely one of the largest economic opportunities communities can actually influence.

The Facts Make It Clear

There are four key facts that create the compelling argument to re-evaluate minority business growth as an economic development tool.

Fact 1 - Minority businesses are growing at twice the rate of businesses in general. The fundamentals suggest this trend will continue. Minority entrepreneurs are more educated, more experienced, more bankable, more connected and more interested in entrepreneurship than ever before. Fact 2 - Corporations will continue to increase spending with minority suppliers. At last count corporate spending with minority owned firms was over \$90 billion dollars and growing at over 20% per year. The corporate led supplier diversity movement is providing opportunity for a larger number of successful middle market size minority firms. Fact 3 - Only 2% of all small businesses create the desired economic development

outcomes for communities and that two percent are the more sizable firms mentioned above. Fact 4 - 40% of *Inc. Magazine's* fastest growing inner city companies are owned by minorities. These firms are creating new investments in the areas that need it most.

Minority business development, done right is an economic development tool. A comprehensive approach to minority business development will deliver *direct* economic outcomes of jobs, an increased tax base, and additional capital investments. It will also create significant *indirect* outcomes including a community image to attract additional investments and an increase in diverse wealth. (Cont. on p. 3)

The *CEO Resource* is a periodic hot sheet of resource information for our colleagues, Chief Executives and Senior Management in business and leadership.

Our focus is to help senior management and company owners accelerate their pathways, first to "success" and then to "making a difference"- a significant difference for their families, their stakeholders and their communities. *The CEO Resource* is a time sensitive tool directly responsive to this critical focus.

KMKC Clients in the News

Congratulations to Sun Chemical Corporation and The Midland Company for receiving 2005 Cincinnati USA Partnership Growth Awards for their creation and retention of jobs and capital investment.

Sun Chemical, headquartered in Parsippany, NJ, will create 153 high-wage jobs while retaining 187 jobs at its Cincinnati location and make a \$5.6 million capital investment.

The Midland Company, headquartered in Amelia, OH, will create at least 150 high-wage jobs while retaining 839 and make a \$29 million capital investment to construct a new 224,000 sq. ft. office tower at its corporate headquarters campus.

KMKC represented both companies regarding their pursuit of economic development incentives.

Re-branding A Chamber: Repositioning the Board and the Community

Although the Baton Rouge Area Chamber (BRAC) has been a part of the community since 1923, its primary role as leader of the business community had diminished drastically over the past few decades. A key goal of the Chamber's new initiative in 2005 was re-establishing its preeminence within the Baton Rouge business community as well as the nine surrounding parishes.

BRAC partnered with Object 9, a nationally recognized marketing, public relations and creative firm, and developed a brand strategy to reposition BRAC as the regional leader for economic development. In addition to a completely updated identity, BRAC received a

messaging platform that enabled the staff to more effectively communicate with key investors and stakeholders within the Chamber and the community at large.

THE METHODOLOGY: DEVELOP A WORKABLE PLAN

The first step in the process was to establish a realistic and practical long-term strategic branding plan. Object 9 interviewed the region's key political, professional and civic leaders to gain a clear insight into the region's assets, challenges and objectives. From this process, leaders confirmed a clearly defined set of strategic and

tactical marketing initiatives positioning BRAC as the region's economic development leader and the brand promise of Baton Rouge as the "Creative Capital of the South" was born.

Establishing BRAC's leadership role in the Baton Rouge metro area was a critical first step in breaking down the parochial walls that had hampered previous economic development efforts. By promoting the concept of collaboration and regionalism, BRAC was able to gain tremendous investor support and the trust of communities throughout the nine parish area.

(Cont. on p. 4)



When You Finance Cap Ex Be Sure To Check Out Taxable Notes- The Savings Can Be Significant

Taxable Floating Rate Notes are becoming more common as a means for companies to finance or refinance capital expenditures. These notes are also sometimes referred to as variable rate demand notes (VRDNs) or “lower-floaters.”

Overview

Taxable Notes are most commonly sold on a weekly floating rate. Over the last ten years, the weekly floating rate has consistently been more than 2% below the Prime Rate. The weekly floating rate on these taxable notes has remained below 2% for the past two years.

If concerns arise about being in a floating rate mode, a SWAP Agreement to fix the rate at any time, for all or a portion of the notes, can be arranged. Also a “hedge” or “collar” can be purchased (using note proceeds) which caps the floating rate at a pre-selected rate.

Uses of Taxable Notes

The proceeds of taxable notes can be used to finance a variety of business-related activities, including:

- to purchase new land, buildings and equipment
- to refinance existing debt
- to acquire existing property
- for working capital, or
- to purchase stock or other intangible assets

Generally, a taxable note issue provides significant economic benefits only if the principal amount of the note is at least five years. The significant interest rate saving diminishes if the principal amount is less than \$1,000,000 or the term of the note is less than five years.

Issuing a Taxable Note

Taxable notes are issued by the ultimate beneficiary of the financing (i.e., the business entity involved), therefore, there is no requirement to involve any state or local government as a conduit as was the case in traditional industrial revenue bond financing. Also, federal income tax limitations do not apply.

As mentioned above, the taxable notes are issued by the entity that will benefit from the proceeds of the notes. This entity will enter into a trust indenture with a commercial bank corporate trust

department, which indenture will secure the notes. The notes themselves are sold to institutional purchasers, usually one or two large funds. The services of an investment banking firm are required to handle the sale of the notes. These services are provided by independent, regional investment banking firms and by most major commercial banks.

Letter of Credit (LOC)

The most important consideration in any taxable note issue is the letter of credit (LOC) that must be in place to secure the notes.

Essentially, if the issuer of the notes is credit-worthy enough to secure a conventional loan from a commercial bank, it can secure the necessary letter of credit from the same bank. The LOC in this context is a direct-pay letter of credit, meaning that the LOC bank pays principal and interest on the notes (normally monthly interest and annual principal) and is reimbursed by the issuer. With this structure, payments of debt service on the notes are not subject to the preference laws in the event of bankruptcy of the issuer.

The LOC, in addition to providing security for debt service, serves as a liquidity vehicle. This liquidity is necessary because the holders of the notes have the ability to “put” the notes at any time in case they want their cash back out of the transaction. Since these notes are re-priced weekly by the investment banker who has sold them, there is a ready market for these notes so they can immediately be remarketed to new purchasers following the “put.” In the unlikely event that there would be a failed remarketing (because of unusual spikes in the interest rate that week), the notes can be remarketed the following week once the markets settle. Given this structure, there should never be any loan from the LOC bank to the issuer because advances will be immediately reimbursed.

It is important to note that the transaction involving the issuance of the LOC is identical to that which would be in place if the LOC bank were to make a conventional loan for the project in question. This means the collateral securing the LOC will be identical to that which would have secured a conventional loan, including mortgages, guaranties, security agreements, assignment of rents, leases and

the like. In addition, the amortization of the notes will be dictated by the LOC bank which should be identical to a conventional arrangement. While the LOC bank generally does not advance any funds to the issuer, there is still risk to the LOC bank for which it charges an annual fee, usually averaging about 1% of the principal amount of the notes outstanding from time to time.

The difference between the taxable note weekly rate and the prime rate does not include the LOC fee. As such, 1% per annum should be added to the taxable note floating rate. In addition, to reach a proper comparison of all costs, another one tenth of one percent should be added as the remarketing fee for the investment banking firm to remain in the transaction to provide remarketing services for bonds that are “put.” As a result, *with all of these costs included, the taxable notes still float about 1% below the prime rate over the term of the notes.*

Tax Exempt Bond Options

There are some opportunities for the use of tax-exempt financing (meaning the interest on the notes is exempt from federal income taxation), but these are limited to projects that involve manufacturing enterprises and then only if the proceeds of the notes are used for new capital expenditures, whether new construction or an acquisition of an unrelated business. In addition, tax-exempt bond financing is available for charitable non-profit corporations such as hospitals, schools and housing and assisted living facilities.

This financing solution can be a big, money-saving tool. Don't miss investigating this for your next project. For more information, contact Jim McGraw at (513) 579-6932 or jmcgraw@kmkconsulting.com. ■

Is Minority Business Development *Really* an Economic Development Tool? (cont.)



Dr. Mel Gravelly

The reality is that most communities are far from able to realize the potential economic impact of minority business growth. Most communities are not ready because there are historical pillars in place literally holding up progress.

What is Holding Us Up?

First, no matter how much people say they want economic development outcomes, they still behave like they want to fix social ills. There is nothing wrong with either objective until the two are confused. People instinctively want to help the down trodden and the left out. For the most part they are perceived to be those at the very bottom of the educational and socio-economic hierarchy. That model does not work in the brand of minority business development that lends itself to economic development outcomes. Enterprises that create community economic impact are run by individuals that are capable and experienced. No one feels good about helping a well educated, well positioned individual build the type of enterprise that can create economic transformations in communities. Bottom line: No one wants to “help” someone else become wealthy. It just does not sell well in philanthropic circles. Yet that is exactly what it takes to turn minority business development into an economic development tool.

Second, most communities have no clear definition of what they mean by economic development as it relates to minority business. Ask for a definition and you are likely to get answers that include job creation, capital investment, and an expanded tax base. Others expect business ownership, jobs and investments specifically in low income areas or other indicators of neighborhood revitalization. It is all good but the lack of clarity of desired outcomes makes it difficult to formulate any meaningful strategy.

Third, most communities do not have a fertile environment for minority business growth. Everything in a community is political. Anyone that has worked for change or served on community boards understands that politics make progress a challenge. Communities

experience a whole new level of politics when it comes to issues of race. The nuances of race related topics are almost overwhelming. There would be no doubt about minority business as an economic development tool if somehow it had nothing to do with race. People get rigid when race is introduced. It diminishes our candor, misdirects our efforts and ultimately retards our outcomes. Then communities continue to get what everyone expected...not much. The environment in most communities is simply not conducive for the economic development version of minority business development.

We Know How To Do It

Our nation knows how to develop entrepreneurial enterprises. The fundamentals of developing minority businesses are done the same way. Making it work within the politics of a community requires some finesse. When it comes to minority business development as an economic development tool there are at least three ideas that must be considered.

1. Make minority business development about business success and not social impact. Do it right and the community will get both. Even the best of initiatives often cross the line back to trying to fix social ills. For example, some communities measure the success of minority business development efforts by how many low income people are employed and how many minority businesses locate in low income areas. Whom a firm hires and where they locate has *no business* being a means to evaluate the success of any business. If the effort is about economic impact, measure it on those terms. There is substantial evidence that minority businesses will disproportionately locate in the urban core without the artificial incentive.

2. Focus on the businesses and entrepreneurs that can deliver the desired economic outcomes. Jobs, capital investments and the other primary economic drivers for a community come from businesses that can grow to scale. Every successful business in the community is important and has a chance to add its own unique value. Every entrepreneur also has the right to try to build a successful business. These efforts should be supported and in most communities they are. But every business is not designed to create substantial economic



The Institute for Entrepreneurial Thinking

returns for the community. There must be a focus of resources on growing the minority businesses that have the opportunity to create a significant number of jobs, invest in substantial capital improvements and yes, even to accumulate substantial wealth for owners and investors.

3. Make it important. If it is important it should look it. Bring the same approach used for other significant community commitments like convention center expansions, new sports venues and the redevelopment of historic neighborhoods. The blue print for success is the same. Do the same planning. Involve top talent. Engage consultants to enhance community expertise. *Invest* the same type of resources. This approach rarely happens because in most communities minority business growth is not important as an economic development tool. It is a defense against some social downside or a response to race related pressure. Poor planning, weak talent, and limited resources will yield weak results. This outcome is happening everyday in minority business development initiatives around the country.

Minority business development is one of the top economic development opportunities in most communities. Many communities are struggling to deal with the complex emotions and baggage that surround all issues related to race. This added level of political matrix threatens to rob communities of this growing opportunity. Making minority business development a *real* economic tool will take what every important community effort takes: strong leadership, effective planning, focus and resources. This is an economic opportunity a community can influence and the timing has never been better.

Dr. Mel Gravelly is the developer of COMSDA.com, an on-line benchmarking tool for supplier diversity programs. He is also the author of *When Black and White Make Green: The Next Evolution in Business & Race* and is the Managing Director of the *Institute for Entrepreneurial Thinking*. For more information, contact Dr. Gravelly at Mel@Entrethinking.com. ■



Re-branding A Chamber (cont.)

The positioning platform of promoting Baton Rouge as the “Creative Capital of the South” taps into the community’s overwhelming desire for growing and attracting a vibrant creative class and for transforming the region



into a knowledge-based economy. The creative platform extends well beyond the cultural aspects of creativity to include engineering, research, programming, animation and many other fields of human endeavor.

Object 9’s planning process built consensus amongst a diverse set of stakeholders and established critical short and long-term priorities for BRAC. It also led to the development of a brand strategy for both BRAC and the region it represented (and promoted). The insights gained from this strategic planning process also led to a number of significant strategic and tactical recommendations.

First, the organization modified its name, going from the Chamber of Greater Baton Rouge to the Baton Rouge Area Chamber, aligning BRAC with the Baton Rouge *Area Foundation* and the Baton Rouge *Convention and Visitors Bureau* thus reinforcing the concept that key regional organizations were working collaboratively instead of at cross purposes.

Object 9’s creative team then designed a logo to represent the Chamber’s new regional mindset. Nine vividly blue arrows radiate from the center, indicative of the resources and focus the Chamber will spread out to the nine-parish area. Nine pure white arrows shooting back to the center suggest the return of investments into the region from outside sources as well as the collaboration that is taking place within the region.

BRAC then created an Economic Development Prospectus outlining accountability metrics and serving as an effective fundraising tool. To the amazement of BRAC’s board, the initial fundraising target of \$7M was easily exceeded. Current fundraising totals are in excess of \$14M. This money was raised to attract, hire and retain top level executives and to develop

and implement a national marketing campaign promoting the Baton Rouge area. “Object 9 has been successful in establishing brand marketing communication strategies and promoting brands through all channels,” stated Jim McGraw, President and Chief Executive Officer of KMK Consulting. “The brand messages and materials they developed for the Baton Rouge Area Chamber is some of the best work I’ve seen for an economic development campaign in my 22 years in this industry.”

THE IMPACT OF HURRICANE KATRINA

Hurricane Katrina has proved to be a mixed blessing for the Baton Rouge region. The influx of dislocated families and businesses from New Orleans and surrounding areas into Baton Rouge has strained already tight resources. However, the influx of up to 100,000 additional residents has forced the leadership of Baton Rouge to bring critical issues to the forefront. During this tumultuous



period, BRAC emerged as a vocal community leader, providing resources and expertise for critical issues and policy initiatives that will shape the Baton Rouge of tomorrow. As the Chamber moves forward into 2006, its organization is focused on implementing the key strategic initiatives outlined in its plan, overcoming the many challenges of a population boom and capitalizing on the opportunities presented by the growth of the community’s creative class.

THE RESULTS

Since launching its new strategic initiative, the Chamber’s event attendance has gone from 40 to 60 people to more than 200 persons that include the region’s business, community and political leaders. Because of this success, BRAC has enjoyed a never-before-seen energy surrounding its regular events. The Chamber has also added more than 90 new members and two new networking events since re-branding efforts began. More importantly however, the region’s perceptions about the Baton Rouge Area Chamber have been completely reversed, and the regional movement to get engaged with the Chamber and the community’s future

has been astounding.

“The chamber had been a dead organization for more than 10 years. Suddenly, they launch a new branding campaign, talk about a vision and how they are going to change the area we live in and suddenly things start happening,” said Julio Melara, president of the *Baton Rouge Business Report*. “Their bright colors and talk of a regionalized area sparked much needed enthusiasm in the business community.”

BRAC is now well-positioned for both short- and long-term growth and has firmly established itself as the leader for economic development in the *Creative Capital of the South* — Baton Rouge, Louisiana.

About Object 9

Object 9 aligns organizations around practical strategic plans that include a measurable set of goals and action items. These plans are built around a unique selling proposition for a region, state or country. Their strategic approach to marketing is inclusive, thorough, unique and, most importantly, totally tailored to fit a chamber’s or economic development organization’s needs. For more information, contact Branden Lisi with Object 9 at 888.265.8437 or 225.368.9899 or email at branden@object9.com. ■



Florida Gulfshore Capital Continues to Get Traction for Southwest Florida

Approximately one year ago, KMK Consulting helped create Florida Gulfshore Capital (FGC) as an equity fund to be used as a tool in conjunction with the work of the Regional Business Alliance of Southwest Florida, Inc. in attracting small and mid-sized companies to Naples and Southwest Florida. The goal of the Fund is to target up to 50% of its investments in Southwest Florida.

After a year of initial fundraising, as well as investigating deals, Florida Gulfshore Capital has actually closed on three deals outside of the Fund, all of them ready to be transferred into the Fund itself once an initial close of the Fund occurs, so as to not slow down opportunities for investors as well as opportunities for the RBA relative to attracting businesses to this market.

It's two most recent high growth company investments are EmergingMed, a patient focused provider of clinical trial information and matching services. The company's customer base includes Pfizer, the American Cancer

Society and numerous research cancer centers, and it plans to broaden its scope to include other prominent disease areas as well as further penetrating the oncology market.



The FGC group also recently closed an investment in Gather.com, a user driven media company. This is an online media site where users find and share user generated content. American Public Media Group, the largest NPR affiliate, is a strategic partner in the venture, which is targeted at the 35-60 year old demographic. The gather community is growing quickly with over 12,000 active contributors. The Managing Partners of Florida Gulfshore Capital believe that user generated

content represents an attractive growth opportunity in the media space.

The Managing Partners of Florida Gulfshore Capital are also excited about the quality of their overall portfolio and the progress that each of the companies is making. Importantly, their prospective deal flow is strong as they continue to identify and screen potential opportunities from many sources, ranging from individual referrals all the way through to large venture conferences like Southeast Bio and the Florida Venture Forum. For more information on Florida Gulfshore Capital or the Regional Business Alliance of Southwest Florida contact Jim McGraw at (513) 579-6932 or jmcgraw@kmkconsulting.com

KMKC Update

KMKC has formed a new alliance with the Institute for Entrepreneurial Thinking. The new relationship broadens KMKC's ability to address the particular issues directly related to minority populations. Embedded in the KMKC philosophy is a commitment to economic inclusion and minority business as a key component to addressing the challenges facing communities throughout the United States. KMKC is a nationally recognized for building cutting edge economic and community development programs through innovative public/private partnerships.

Institute the opportunity to share our industry leadership in the utilization of minority business development as a strategic factor in strengthening economic impact in neighborhoods and communities throughout the United States. This new alliance will expand upon the leadership already demonstrated by KMKC's successful and highly respected economic development consulting services."

Jim McGraw, President and CEO of KMKC said, "Aligning with the Institute for Entrepreneurial Thinking provides us an opportunity to collaborate with a national leader in the minority business enterprise space and further expands our demonstrated track record in the creation of Best of Class Economic Development Organization Strategies for communities nationwide. This is an ideal compliment to our services. Growing competitive markets inherently embraces accelerating minority owned businesses. We could not be more excited about what this alliance bring to our clients." Dr. Melvin Gravely, Managing Director of the Institute stated, "Working with KMK provides the

KMKC has just released an exciting new brochure detailing our economic development incentive services. Our skills and experience allow us to support our clients in a number of critical areas including:

- ◆ Negotiations with local, state and federal governmental entities
- ◆ Comparative analyses of available incentive programs
- ◆ Development of financing alternatives
- ◆ Ongoing regulatory compliance
- ◆ Site selection analysis
- ◆ Associated government affairs and public relations

To request a copy of the brochure, please contact Melissa Oder at (513) 579-6500 or moder@kmkconsulting.com.



Tampa Bay Partnership Competitive Analysis

As part of the Tampa Bay Partnership’s efforts to review and strengthen its strategic direction, as well as to calibrate the performance and value proposition for investors, the Partnership recently asked KMK Consulting Company to undertake a detailed comparative analysis of a selected group of economic development organizations in other regions.

We were very pleased and grateful to have best of class organizations Cincinnati USA Partnership, Charlotte Regional Partnership, Greater St. Louis Inc., Greater Phoenix Economic Council, Metro Orlando Economic Development Commission, Greater Raleigh Chamber of Commerce, Jacksonville Cornerstone Regional Development Partnership, and the Greater Dallas Chamber participate as our focus group.

Our review was focused as a comparative analysis of structure, size, programs and funding. The metrics reviewed included:

- Prioritization of Roles & Responsibilities
- Staffing
- Relationships to Other EDOs
- Total Funding
- Use of Funds Breakdown (Program Areas)
- Funding Process & Resources
- Per Capita Funding
- Investor Funding Levels
- Largest Private Sector Investor
- Largest Public Sector Investor

The charts to the right provide a snapshot of our findings. This information proved to be invaluable to the leadership team at the Tampa Bay Partnership as it reinforced their desire to chart a new course for the future of their organization. In order to remain competitive in the global economic development marketplace, Tampa Bay needed to better understand what other successful markets and organizations are doing and factor that into its own efforts. Beyond the issue of overall budget levels, the comparative analysis revealed, perhaps most importantly, that the levels of focus, deliverables, measurement, value and investment continue to improve in regions across the country.

As detailed in the Partnership’s *Regional Economic Scorecard-Winter 2005/2006*, the State of Florida and the Tampa Bay region have consistently been leaders in job creation in the nation. In the third quarter of 2005, 51,400 jobs were created in Tampa Bay, an increase of 2.9%. This is largely due to Tampa Bay’s explosive population growth rate, which has grown 8.7% in the last five years and is projected to grow another 8.5% by 2010. The very low unemployment rate of 3.7% in the third quarter of 2005 for Tampa Bay is an indication of the highly attractive business climate in Tampa Bay.

For additional information, please contact Jim Benedict at (513) 639-3963 or jbenedict@kmkconsulting.com. ■

