



# Economic Inclusion In The Central Kentucky Region



**Urban League**  
OF LEXINGTON-FAYETTE COUNTY



# Economic Inclusion in the Central Kentucky Region

**This document will provide specific strategies based on expertise, examples and best practices which will encourage the development of minority business enterprises (MBEs). The goal is to create a fertile environment for minority businesses to grow capacity, create jobs and generate wealth so that Central Kentucky will realize the full benefits of the demographic trends.**

Minority business development is becoming more important as the demographic trends coupled with the implications of globalization continue to influence the Central Kentucky region's overall economy. The makeup of the Central Kentucky region's workforce as well as the companies that rely on the region's workforce are becoming visibly more diverse.

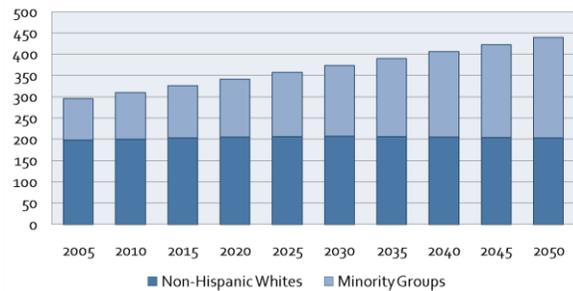
In times past, minority business initiatives were created as socially responsible programs but as the Central Kentucky region evolves, it is becoming more evident that Economic Inclusion is a long term business imperative. The role of minority communities will become increasingly more critical to the region's success.

There are many organizations working independently on different aspects of economic disparity but best practices demonstrate that the most effective way to achieve success is to create and implement a collaborative solution based approach for all stakeholders.

## Changing Demographics

According to the latest census bureau information, the populations of the four major ethnic minorities (Hispanic, African American, Asian American and American Indian) are growing approximately 2 ½ times faster than that of the Caucasian majority population. Therefore, the demographics in our country are changing rapidly.

CHART 1: U.S. Population Projection



Source: U.S. Census Bureau, Population Division (November 2008)

It is estimated by the census that the four minority groups will equal over 50% of the population by 2042<sup>1</sup>. If projections hold true, minority groups will collectively represent a larger number than Caucasians.

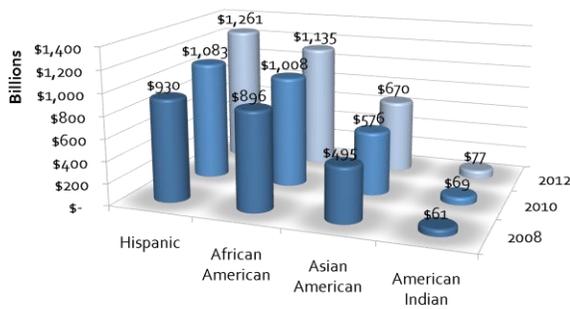
Another notable trend is the increasing buying power of the four major ethnic minority groups, which has grown 234% since 1990 and is projected to grow another 41% by 2012 bringing the total to \$3.2 trillion or approximately 24.2% of the nation's total buying power<sup>2</sup>.

Collectively, these trends provide a compelling picture of the country's future as well as the future of Central Kentucky. The future will not look like the past; therefore, the same business practices that have been accepted for generations should not continue.

<sup>1</sup> National Population Projections, U.S. Census Bureau, 2008 (Based on Census 2000)

<sup>2</sup> *The Multicultural Economy*, Selig Center for Economic Growth, 2007

CHART 2: Projected Buying Power of Top 4 U.S. Ethnic Minority Groups

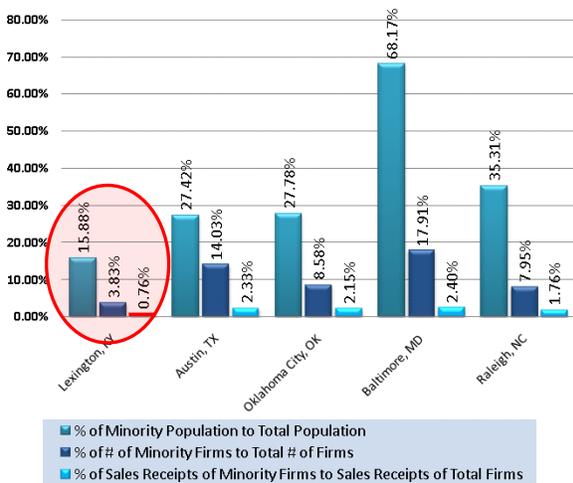


Source: Multicultural Economy Study, Selig Center for Growth, 2007

### The Problem

Entrepreneurial parity is defined by the Minority Business Development Agency as reaching proportionality between the minority population percentage and the percentage share of business development measures such as numbers of firms, gross receipts and employment<sup>3</sup>. Chart 3 displays the disparity that exists in Lexington and other cities of comparable size in the percentage of minority firms and the percentage of sales receipts of minority employer firms compared to the minority population percentage for each respective city. The comparison cities shown are model communities

CHART 3: Current Entrepreneurial Disparity



<sup>3</sup> U.S. Department of Commerce Minority Business Development Agency

visited by Commerce Lexington during recent Leadership Lexington Visits<sup>4</sup>.

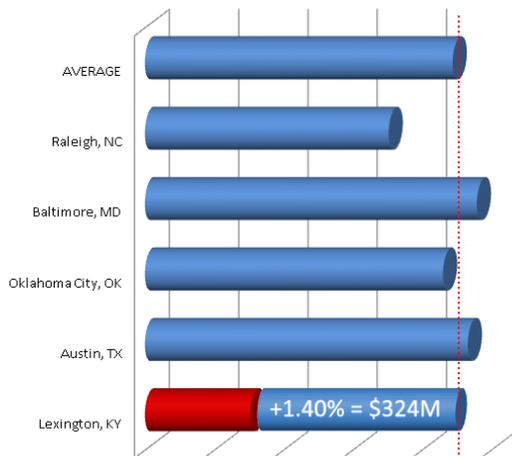
**Lexington lags behind the other cities in the average percentage of sales receipts of minority employer firms to sales receipts of total employer firms.**

### The Opportunity

A significant opportunity exists for Lexington to create parity with the model cities of the Commerce Lexington Leadership Visits. If Lexington is able to reach the average minority employer sales receipt percentage of 2.16% (the average gross sales receipts of minority firms in the four model cities) it will create a significant impact to the overall economy and especially the minority business community. **As shown on Chart 4, the 1.40% increase will lead to approximately \$324 million in new minority business sales receipts.** This significant increase will create wealth, produce jobs and improve the image and long term viability of the region.

<sup>4</sup> <http://www.commercelexington.com>. Now in its 70th year, Commerce Lexington's annual Leadership Visit has helped expose Central Kentucky's leaders to the best ideas of model communities throughout the United States, yielding valuable lessons that have been applied to the improvement of the Bluegrass Region. These 3-day trips have become a valuable opportunity to bring community leaders, decision makers and ideas together in order to make positive changes in our community. It's a very unique program that includes the foremost business, education, government and community representatives of Central Kentucky.

**CHART 4: Potential Averaged Increase in Sales Receipts of Minority Employer Firms in Lexington, Kentucky Compared to Sales Receipts of Total Minority Employer Firms in Four Leadership Lexington Model Cities**



Lexington, KY	Austin, TX	Oklahoma City, OK	Baltimore, MD	Raleigh, NC	AVERAGE
0.76%	2.33%	2.15%	2.40%	1.76%	2.16%

Comparison cities/Metro Areas shown are model communities visited by Commerce Lexington during recent Leadership Lexington Visits. Lexington was not included in calculating overall Average.

The Central Kentucky region must depend on diverse talent to deliver goods, services and human capital. The viability and desirability of the region long term is dependent on new innovative ways of approaching the region's needs. Public and private leaders must accept the responsibility of creating an inclusive environment.

In order to get a clear picture of the region it is appropriate to discuss two metropolitan areas that are closest in proximity to Central Kentucky: Cincinnati and Louisville. These cities are not included in the comparisons because they have not served as potential models for Central Kentucky and have not been part of the Leadership Lexington visits; however, they are relevant due to the cross regional business resources which are often shared. Both cities have made significant inclusion progress and aspects of their progress are important to reference.

Since the latest census data the Cincinnati region has developed a model which has improved the entrepreneurial proportionality of the region. The Minority Business Accelerator (MBA), a program administered by the Cincinnati USA Regional Chamber, reported the following highlights for 2008<sup>5</sup>:

- Minority-owned businesses assisted by the MBA grew annual revenue by 193% since 2005 (\$522M in 2008 versus \$178M in 2005).
- Average revenue per minority owned business grew from \$6.7M in 2004 to \$21.7M in 2008.
- MBA portfolio firms successfully obtained 16 new MBE contracts and completed five transformational deals that were related to an acquisition, a joint venture or a strategic partnership.
- The MBA achieved \$450 million in local corporate MBE spend in 2008, exceeding the 2008 goal by 12.5%.

In summary, the Minority Business Accelerator's Leadership Council states that "the MBA program has undoubtedly proven its value for minority businesses, while at the same time, contributing to the economic vitality of Cincinnati USA."

The Louisville region has achieved similar results and has accomplished over \$500 million in spend with minority owned businesses in the region with a public-private collaborative effort<sup>6</sup>.

The initiative for Central Kentucky should start more conservatively than the Cincinnati and Louisville regions. The Central Kentucky region is less populated and therefore has fewer corporate

<sup>5</sup> <http://www.cincinnatiusa.org> Growth Initiatives>Minority Business Accelerator

<sup>6</sup> 2002 Economic Census, Survey of Business Owners, Company Statistics Series, U.S. Census Bureau, August 2006

headquarters and MBE's which are both needed to support such an initiative.

The Central Kentucky region has historically been a difficult environment for economic inclusion because 1) the size of the communities that makeup the region, and 2) a lack of understanding and emphasis on the economic importance of minority business development. The landscape for minority business development has not been conducive to the existence of sizeable minority owned companies. There are a number of local companies – such as Toyota, Community Trust Bank, Thomas & King, Messer Construction Co. and others – who, through their demonstrated commitment to economic inclusion do provide a solid foundation on which to build.

In order for Central Kentucky to experience incremental economic growth as the demographic and buying power shifts, the region's leaders must develop a strategy to educate the populace and quantify the value of Minority Business Development.

### **Recommended Strategy**

Those areas with respectable levels of economic inclusion have created an emphasis on driving inclusion and the mechanisms to foster the development of larger more scalable minority enterprises. The successful initiatives have also been visibly driven by both the private and public sectors in areas which had strong proponents for the minority business community.

Creation of the Bluegrass Minority Business Development Initiative, an advisory council of public officials, corporate supporters, and MBEs, to champion the following strategic steps will ensure that minority businesses will grow in Central Kentucky and will contribute to the region's economic growth:

- Identify the minority companies that are best suited to meet expectations immediately and provide the platform for them to excel.
- Create a coalition of Champions that are positioned to change the current mindset.
- Identify out of market minority owned companies that are willing to establish a local presence and provide infrastructure and scalability for existing local minority owned companies via joint venture agreements, operating agreements or strategic alliances.
- Implement a proven tracking and reporting system to measure progress and provide checks and balances.
- Acknowledge and reward the public and private leaders who champion this initiative.

The goal of this strategy is to create an environment that is accepting of and conducive for minority business development. The progress must be tracked and measured against predetermined goals. The Initiative will be responsible for: establishing the strategic goals, plan implementation, progress measurement and corporate/public sector accountability from the Central Kentucky leadership community.

### **Barriers**

It is important to understand the barriers and climate that exists for MBEs in order to create a successful strategy to address these issues. According to a 2008 study done by Tuck at Dartmouth presented at The National Minority Enterprise Development Week conference, the dollars spent with minority owned companies is not necessarily the best measurement of

economic inclusion<sup>7</sup>. Where a minority fits in the value chain can be much more significant.

For example, many minority companies find themselves taking peripheral support roles that rarely lead to high wealth creation for the minority business owners or the minority communities. This knowledge creates the need to implement a strategy to ensure that there are MBEs involved at the value chain level.

Great examples of this exist in the automotive industry: there have been very large minority owned companies built as a result of their successful contributions to the automotive value chain (i.e. two of the top-5 minority-owned businesses in the U.S. are automotive parts suppliers). In most cases the highest profit potential for the MBE occurs when the enterprise is able to capitalize on an outsourcing opportunity that creates indispensable value that the corporation cannot perform efficiently or effectively.

### The Value of Strategic Alliances

One of the pillars of the strategy is the promotion of strategic alliances. Strategic alliance by definition is: an enduring relationship between two companies designed to achieve mutual gain. The Tuck report examines the meaning of the definition as follows:

- *An **alliance** is different from a transaction in that allied companies have made a commitment to do or seek business together beyond the immediate deal: that's what makes the relationship **enduring**.*
- *An alliance is **strategic** if it has a significant impact on competitive advantage: that is if it*

<sup>7</sup> *Increasing MBE Competitiveness Through Strategic Alliances*, Tuck at Dartmouth, Presentation at the National Minority Enterprise Development Week Conference, September 3-5, 2008

*allows an MBE to get business that might otherwise go to a competitor.*

- ***Mutual gain** is achieved when each company achieves results by working together that are better than each could achieve working alone.*

Strategic alliances can assist a company with creating a competitive advantage. For example, if a company has a large contract to award and is seeking a local minority owned business to fulfill their need, a strategic alliance can be formed to capitalize on the opportunity.

Strategic alliances can take many different contract forms. Table 1 shows examples from simple to more complex arrangements.

TABLE 1: Options for MBE Business Relationships

Business Arrangement	Degree of Complexity
Simple contract	Simplest
Open-ended contract	
Joint contract	
Mentor-protégé contract	
Supplier development relationship	
Strategic partnership	
Joint venture	
Acquisition	Most Complex

Source: *Increasing MBE Competitiveness Through Strategic Alliances*, Tuck School of Business at Dartmouth, Professor Leonard Greenhalgh, 2008

There are three approaches to strategic alliances that are relevant for this region:

1. Local minority owned businesses and local larger majority owned firms
2. Local minority owned businesses and larger regional or national minority owned companies
3. Local minority owned businesses and larger regional or national majority owned companies

To implement this strategy will take planning and a rigorous qualification process to ensure that companies are compatible and the alliance is truly strategic. The qualification process has to delineate clearly and concisely the requirements for participation.

One example of a successful strategic alliance in the Central Kentucky region is the joint venture formation of NDS Construction created by National Diversity Solutions and Messer Construction. The company was formed to fill a void in the Central Kentucky construction sector and has provided **mutual gain** for both parent organizations. EHI Consultants, a civil engineering and land use planning firm, is another example of a company that has participated in multiple strategic alliances that have led to successful projects for LFUCG and Blue Grass Airport

### Goals of the Initiative

The goals will ultimately be determined by the members of the Initiative. However, for discussion purposes, a goal of spending \$324 million with MBEs could be established as a starting point. This goal allows the Central Kentucky Region to meet the minority employer firms average receipts percentage of the other comparable cities that have served as leadership models for the region (see Chart 5). This goal can be justified by garnering the support of our local

CHART 5: The Stakeholder Continuum



corporations, universities, health care facilities and government agencies which make up the region's business community.

The projects and ongoing business needs of the Central Kentucky region include:

- The Consent Decree
- The Newtown Pike Extension
- The World Equestrian Games
- Infill Redevelopment
- CentrePointe
- Lexington Distillery District
- Lexington Blue Grass Airport Expansion
- Blue Grass Community and Technical College New Campus Construction
- Eastern State Hospital Construction
- Other Stimulus Related Projects
- Various Vertical and Horizontal Construction Projects
- Ongoing Goods, Services, and Supplies to Support Lexington's Economic Base

## Key Performance Indicators

The metrics by which success is measured will be determined by four key performance indicators:

1. Are the number of minority businesses proportional to population percentage?
2. Is the gross revenue per business comparable to other regions with minority business development programs?
3. Are the total contract awards progressing toward the total goal?
4. Is there capacity growth for minority owned businesses?

## Impact

There are many benefits, direct and indirect, that accompany the development of minority business: decreased minority unemployment rates, growth of the overall economy, increased local tax base, more competitive environment, reduced crime rates, increased percentage of homeownership, and many more<sup>8</sup>.

- Minority owned companies tend to employ a larger percentage of minorities than majority owned companies. The development of minority owned business will reduce the unemployment rate in the minority community. According to the Bureau of Labor and Statistics, the unemployment rate for Lexington as of December 2008 was 5.4%<sup>9</sup>. Applying the national disparity ratios of 65% higher for African Americans and 28% higher for Hispanic or Latino would equate to 8.92% unemployment rate for African Americans

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<sup>8</sup> Jobs and Economic Development in the Minority Communities, Paul Ong and Anastasia Loukaitou-Sideris, 2006; *The Life Cycle of a Minority Owned Business: Implications for the American Economy*, Andrew B. Bernard and Mathew J. Slaughter, Tuck School of Business at Dartmouth and National Bureau of Economic Research, 2004

<sup>9</sup> <http://www.bls.gov/>

and 6.90% for Hispanics or Latinos respectively.

- When minority businesses excel, their communities benefit, creating additional needs for goods and services to support their progress. Additional needs for goods and services leads to growth in the overall economy and therefore creates more business for everyone.
- Local and state tax bases are built when jobs are created. Job creation also eases the government's burden for supplemental benefits for the unemployed.
- Fostering minority business development also drives new innovative approaches to creating solutions and drives diverse thought leadership which may promote a more competitive environment. In most cases the end user benefits when there are more qualified companies competing for business.
- One of the ancillary benefits of job creation via minority business development is the reduction in crime. Well paying jobs reduce crime.
- Another ancillary benefit is wealth creation. Well paying jobs create financial literacy which creates the desire for homeownership. Homeownership historically has been one of the first steps toward financial stability and wealth creation.

## **Conclusion**

The demographic and economic trends occurring in this country are unprecedented. As we face a more competitive global environment it is imperative that the Central Kentucky region understands the economic importance of the minority business community. The success of minority owned businesses will have a greater impact on the region's overall economy as the demographic trends continue to change. It is in the region's best interest to take a proactive approach to creating economic parity and entrepreneurial proportionality.

**The best way to accomplish these objectives is to create a champion group that is responsible for moving this initiative forward by creating opportunity, responding to the needs of changing demographics and creating an environment conducive for and accepting of minority business development and opportunity.**