



CHICAGO

How competitive collaboration and political advocacy makes “the City of Broad Shoulders” a model for growing black business

By Marcia Wade Talbert

CHICAGO HAS A LONG WAY TO GO BEFORE IT CAN BE CONSIDERED a bastion of black success. Chicago’s annual black unemployment rate was more than 19% in 2011 (the third-highest rate in the nation), compared with 9.8% for the city as a whole. Small black businesses in Chicago are also haunted by a lack of access to capital and a disloyal black consumer base. According to a 2007 analysis of consumer market information, residents of black communities in Chicago spend an estimated 64% of their consumer dollars—more than \$5.3 billion a year—outside of their neighborhoods, reports The Chicago Reporter.

Furthermore, while 32.9% of the population is black and 22.9% of businesses are black-owned, only 8%, or \$96.9 million, of the City of Chicago’s contracts went to black-owned companies from January 2011 to August 2011. (This number does not include contracts that were awarded by entities such as the city’s transportation, schools, and parks authorities, among others.) Despite this, Chicago is home to 16 **BE 100s** companies, more than New York—where the population density is nearly

triple the size of Chicago—and equal to Atlanta, a city that has held a black mayor in office since 1973. Known throughout the country as Black Metropolis, Chicago is a place where politics and business go hand in hand and where black entrepreneurs bankroll black candidates at the highest levels—resulting in the city’s first black mayor in 1983. Additionally, three of the only six blacks to ever hold a seat in the Senate have connections to Chicago, one of whom was the first black female U.S. Senator ▶

PRIMO, HOBSON, DAVIS, AND WALKER REPRESENT SOME OF CHICAGO’S MOST ESTABLISHED BLACK COMPANIES.





and another who became the first African American president of the United States.

And while some of the business statistics may be lackluster, Chicago can still be considered a model for cities nationwide on how to build black businesses of scale, as virtually all other metropolitan areas with large black populations struggle to meet the degree of success that Chicagoans have enjoyed.

A Proud Legacy

Whether you're talking about the Great Migration or the First Migration (when a black man, Jean Baptiste Point Du Sable, Chicago's founding father, opened a trading post near Lake Michigan to sell canoes, food, and fur in 1779), Chicago has from its very onset been the kind of town where pioneering black people with an entrepreneurial spirit went to make history. The "Second City" has gone on to produce first-class talent and world-renown products that have become household names, such as John H. Johnson and *Ebony* and *Jet* magazines; Oprah Winfrey and Harpo Inc.; John Rogers and Ariel Investments L.L.C.; and Judge H. Parker and the Parker House Sausage Co.

In fact, in 1983, a group of Chicago business families led by SoftSheen haircare magnates Ed and BettiAnn Gardner, along with the elite Johnson business men—Ebony's John Johnson; Johnson Products Co. founder George Johnson; and the first black GM dealer, Al Johnson (no relation)—used their fortunes to fund a

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registration drive that signed up 250,000 new voters. It was enough to convince the late Mayor Harold Washington to run for office.

Washington, the city's first black mayor, in turn showed his gratitude. In 1985, he established a goal to award at least 25% of the annual dollar value of all city contracts to qualified minority business enterprises (MBEs). The City of Chicago's minority

business program got its footing from his administration, says Shelia Hill Morgan, president of the Chicago Supplier Development Council, which speaks out on behalf of small- and medium-sized minority businesses, and pushes to raise the bar for participation and access in contracting. When it came to doing business with the city, especially when it came to bond offerings, Washington was very explicit about the inclusion of minority firms, explains Mellody Hobson, president of Ariel Investments.

Ready and Able

That inclination for business leaders to collaborate with politicians became the foundation of organizations such as the Alliance of Business Leaders & Entrepreneurs (ABLE), says Quintin E. Primo III, chairman and CEO of Capri Capital Partners L.L.C.

It also explains why Chicago is home to a cottage industry of black-owned financial service giants such as The Williams Capital Group L.P. (No. 1 on the **BE INVESTMENT BANKS** list with \$10.87 billion in lead issues), Ariel Investments, Capri Capital ▶

Partners, and Holland Capital Management L.L.C. (No. 7, 9, and 11 on the **BE ASSET MANAGERS** list with \$4.38 billion, \$3.60 billion, and \$2.71 billion in assets under management, respectively).

President Barack Obama also sought the resources of black business owners in Chicago. "Barack was surrounded by ... black-owned businesses in the city. We embraced him and supported him, and our support was critical for him to move from U.S. state senator to the presidency of the United States," says Primo, who met Obama nearly 12 years ago, while exercising at the East Bank Club.

Hill Morgan states, "I think the political activism of black people in Chicago—the fact that they advocate on their own behalf for growth and opportunity—all of those things matter and are a part of our success."

Political affiliations alone can't sustain a business or help it grow. "At the end of the day, in order to compete with the larger firms you have to think and behave institutionally," says Monica Walker, CEO and chief investment officer of equity at Holland Capital in Chicago.

Procurement Challenges

While the Chicago Minority Supplier Development Council (MSDC) helped MBEs with \$300 million in procurement and financial transactions last year and worked with more than 100 businesses, contracting opportunities remain a challenge in the Second City. Since 1991, the city has awarded more than \$9.5 billion in city contracts to M/WBEs, or an average of 35% of the total contracts awarded. By 2011, 27% of both construction and non-construction contracts went to minority enterprises, according to Jamie Rhee, the City of Chicago's chief procurement officer.

But in a city where more than 30% of the population is black and only 8% of black-owned businesses won city contracts, it's clear that Chicago has a long way to go to achieve parity. "Bonding, funding, [and] undercapitalization have been the death knell for black businesses," says Stephen Davis, president of The Will Group and the current chair of ABLE. "It is important that we get funding and get the resources to compete."

Of course there are numerous contracting opportunities in Chicago beyond those provided by the city. While William A. Burton, owner of Chicago-based Professional Systems Inc.—an information technology firm specializing in managed services, staffing, procurement, and network infrastructure—has done projects working with the Chicago Public Schools and the clerk of the Circuit Court of Cook County, his firm has also worked



THOMAS UPGRADED HER FLOWER SHOP WITH A LOAN SPONSORED BY THE CITY'S TREASURER'S OFFICE.

with IBM, BMO Harris Bank, Northstar Lottery Group, and Walmart. When Burton learned that the retail giant would be building several more stores in Chicago, he knew getting a part of that business could help him expand his company.

But with only \$2.4 million in revenues in 2011, PSI is still a small firm and Burton's understanding was that Walmart only

accepted vendors who could remodel as many as 25 stores at a time—a level of capacity PSI didn't have. This fact didn't deter the entrepreneur. Burton stayed in contact with key Walmart vendor recruitment staff, became an approved vendor, reduced PSI's overhead, and came up with pricing models that would still be in line with Walmart's volume purchasing model.

But he didn't bid on any projects right away. For about six to eight months, he studied the open bids and the requirements that companies were expected to meet to get an understanding of what capital requirements were needed to fill those contracts. His persistence and preliminary research paid off. Walmart awarded PSI with the project even though they would only be able to outfit two stores in Chicago as opposed to 25.

Capital Projects

In 2004, the city voted to privatize the Chicago Skyway, a toll bridge that connects Chicago to Indiana. Administrators later ►

voted to set aside \$5 million from that project for small business loans, \$3 million of which has been distributed by the City of Chicago Treasurer's office. One such loan was extended to Sondra Thomas, 55, who decided to purchase a flower shop in 2011 on the far south side of Chicago. "I'm not one of those people who likes to borrow money," says Thomas. But an SBA counselor suggested that she take advantage of the low interest rates and reasonable terms to upgrade the shop.

However, when Thomas sought a loan from the banks she already had accounts with, what she found was far from reasonable. "The rates and fees were pretty astronomical," she says. Even though she had three accounts with one local bank, and her credit score ranged from 830 to 850, the loan officer at her bank offered her a loan at 9%. "Most of the banks I tried said loaning money to buy a small business comes at a high price. I figured the ones I have accounts with would be more workable and they weren't. That, to me, was ridiculous."

She tried a new loan program offered by the City's treasurer's office and was approved for a three-year, \$15,000 loan at a rate of less than 4%. She was able to hire six more part-time employees, upgrade from an adding machine to a new point-of-sale system, purchase a new computer, and start a youth entrepreneurship program.

City Treasurer Stephanie Neely says that before she was elected, only one Skyway loan had been issued in several years, so she had the program revamped so small business loans could go as low as \$500 or as high as \$50,000. Neely also made sure the interest rate did not exceed prime plus 2%. Since 2009, close to 60% of the issued loans—which in 2011 averaged a little less than \$18,000—have gone to women and minorities, and to date almost all of the payments are current.

Growth Industries

No single industry truly dominates the Chicago landscape. So while Detroit is rebounding alongside the resurging auto industry, Chicago has floundered in the aftermath of the recession. That, however, does not preclude the city's capacity for growth in a number of areas. In the coming years, there will be growth opportunities in IT, healthcare, and social assistance, explains Ken Smikle, founder and president of *Target Market News*.

Smikle says the arrival of major chains such as Walmart and Save-A-Lot are also creating more shopping districts where independent entrepreneurs can establish retail outlets. "Those chains will be anchors around which other retailing opportunities can flourish," he says. "The opportunity is [happening in] other urban cities around the country, but the development is not happening as rapidly as it is in Chicago."

With companies such as Groupon—a social discovery website that raised \$13 billion through its initial public offering—planting their roots in Chicago, technology is another industry that Chicago entrepreneurs should consider tapping into. "There is no question we are seeing interesting dynamics with technology



in Chicago," says Hobson, who sits on the board of Groupon. "Because of Groupon being located here, that creates a centerpiece for technology entrepreneurs to draw upon."

In fact, some 18% of top job positions involve computer and mathematical skills, according to the Chicago Workforce Investment Council. Hill Morgan recommends that aspiring entrepreneurs start a business in growth industries such as green energy, high-speed rail technology, and sustainability, which are flourishing in Chicago despite the recession.

NEELY'S LOAN PROGRAM SAVES SMALL BUSINESSES THE COST OF HIGH INTEREST RATES.

Union Issues

Government solutions are only one piece to the puzzle. Unions also need to get on board with increasing minority participation. Historically, unions and black contractors have been at odds in Chicago.

Nevertheless, Davis says many unions recognize the problem and are making positive moves in the right direction by working with places such as Dawson Technical Institute and the West Side Technical Institute to train African Americans and help them become union certified. Davis hired eight Dawson students when his company, won a contract with the city to install white-glowing ceramic metal halide lights designed to make Chicago brighter and more environmentally sustainable.

While Chicago may be open for business, it's obvious that black firms in all industries need to step up their games to compete, or starve in this competitive environment. The question of how to grow a business to a sustainable level is a debate that has gone on for years. But the record shows that M/WBE programs are an essential component to the growth of black businesses—both in Chicago and the nation as a whole.

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