GREATER UNIVERSITY CIRCLE

SMALL BUSINESS STUDY

mass economics
Cleveland’s University Circle is one of the great urban success stories of the last decade. Home to Case Western Reserve University, Cleveland Clinic, Cleveland Museum of Art, and dozens of other educational, medical, and cultural institutions, the area had long been one of Cleveland’s major employment centers when public, private, and philanthropic entities began to collaborate around much-needed neighborhood revitalization efforts in the 2000s. By all accounts, these efforts have been successful. University Circle’s population grew 11% between the 2000 and 2010 censuses and 5,000 jobs were added between 2005 and 2011. Over the last fifteen or so years, the neighborhood has attracted hundreds of millions of dollars in residential, retail, and commercial investments and currently has multiple large projects, including a 280-unit residential tower that will be largely privately funded, in the pipeline.\(^1\) The success of University Circle has not gone unnoticed; the New York Times recently declared that University Circle “is experiencing a cultural renaissance,” while national organizations look to identify lessons from the neighborhood’s success that can be applied in other U.S. cities.\(^2\)

Despite the success of University Circle, the adjacent neighborhoods are among the most economically distressed in the city and recently have largely stagnated or declined. To address these challenges, University Circle’s major education, health, and cultural institutions, the City of Cleveland, the regional transit authority, and local foundations, banks, and community groups have come together in the Greater University Circle Initiative (GUCI), which aims to improve the quality of life for low- and moderate-income (LMI) residents in the neighborhoods around University Circle. Efforts have included providing greater access to job opportunities at the major anchor institutions, creating initiatives to increase local purchasing, and providing health care and education services in the neighborhoods.\(^3\)

The City of Cleveland and its GUCI partners have identified the number and quality of local small businesses’ consumer retail and services offerings as an issue that diminishes quality of life and economic opportunity in the Greater University Circle neighborhoods. To improve retail and services amenities in these neighborhoods, the City of Cleveland is offering small businesses storefront renovation grants for interior and exterior improvements and for the purchase of equipment, furniture and fixtures. These funds come from the Community Development Block Grant (CDBG) program and low-interest loans and grants from the Neighborhood Retail Assistance Program. In addition, city staff work with local partners to educate business owners about available loans, grants, and technical assistance resources offered by local public, private, and philanthropic organizations.

To supplement these efforts, in 2013 and 2014 the City of Cleveland embarked upon an ambitious small business data collection and analysis effort to better understand the consumer retail and services sectors in GUC neighborhoods. Working with local community development corporations (CDCs) and local microlender the Economic Community Development Institute (ECDI), the Economic Development Department of the City of Cleveland interviewed 100 retail and services businesses in the GUC neighborhoods in a twelve-month period to understand growth aspirations and opportunities, technology utilization, capital and technical assistance needs, and obstacles to increasing revenue and employment at local businesses. The three-member interview team included a “familiar face” in the form of a local CDC representative, a staff member from the city’s economic development department to offer business assistance, and an ECDI representative who could immediately understand and discuss capital needs. As part of the interview, project staff thoroughly assessed the interior and exterior conditions of the businesses.

Data gathering for the project proceeded in two phases. In the first phase, site assessments and interviews were performed with about 45 mostly retail and services firms; in the second phase, the remaining ~55 firms were surveyed, many of which
were industrial or business-to-business (B2B) providers, were surveyed. Questions about capital use, technology, and other factors summarized above were identical across the two sets of firms. However, the site assessment methodology was improved between the first sample of firms, for which the survey team performed a general evaluation of sites based on observation, and the second sample, for which the survey team compiled specific information on an enumerated set of site characteristics. The approach for the second sample was based on findings from the first sample regarding factors that defined the look and feel of a site and differentiated sites that “showed well” versus those that didn’t.

The data and findings from the interviews and assessments will be used to craft programs to assist individual small businesses in the neighborhoods, as well as to begin formulating strategies and policy initiatives to create vibrant retail and services districts within the city’s neighborhoods. Because the challenge of creating a vibrant retail and services sector in low-income neighborhoods exists not only in Cleveland but in cities across Ohio and the United States, the hope is that data-driven efforts such as this one can inform local, state, and federal efforts to strengthen low-income urban neighborhoods across the country.
This report presents preliminary findings from the site assessments and interviews with 100 independent retail businesses in the neighborhoods adjacent to University Circle. As was shown in Figure 1, the largest clusters of surveyed businesses are in the Buckeye-Shaker Square neighborhood to the south of University Circle and in Glenville, to the north. All but one of the businesses are located in census tracts with poverty levels of at least 20%, a common definition of economic distress. Still, there is significant variation in neighborhood conditions, with poverty rates ranging from 17% to 71% and median household income from $10,100 to $46,800 (see Figure 2). Forty-six percent (46%) of the surveyed firms are in tracts with median household incomes of $20,000 or less; 37% are in tracts with median household incomes between $20,000 and $30,000; and 17% are in tracts with median household incomes of $30,000 or more.

Of the 100 businesses surveyed, over 90% can be classified as personal services (40%), retail, including food services (30%), business-to-business, i.e., B2B (12%), or industrial (12%). In terms of individual business types, there are a significant number of convenience stores (12), barbershops (10), beauty/hair salons (8), and manufacturers (8), as well as distributors, daycares, art galleries, and clothing and

**FIGURE 2: Median Household Income by Census Tract**

Source: "U.S. Census Bureau, American Community Survey 2009-2013"
accessories stores. In short, the sample of firms captures a broad range of economic activities. Of course, even within sets of activities, there can be great variation in terms of product segments, opportunities, and growth trajectories. For example, one older, traditional dry cleaning establishment is challenged by declining neighborhood incomes as well as a broad national shift away from dry cleaning services, while a recently-established green dry cleaner is finding opportunities serving the emerging film industry in Northeast Ohio. 4

In general, the surveyed businesses are relatively small. In 13% of the businesses, the owner is the only worker. All but one of these firms in is personal services or retail; overall, one in six retailers and one in five personal services firms has no employees. Among firms that do hire, only two have over 100 employees; among the other, smaller firms, there is an average of about 8 employees. Retail and services businesses tend to be much smaller, with an average of 4.5 employees compared to 32 at all firms in B2B, industrial, and other sectors, and 13 in those firms with fewer than 100 employees.

However, employment counts do not fully capture the investment or aspirations of the retail and services businesses in the neighborhoods adjacent to University Circle. Almost half (46%) of these businesses own the land and building on which they operate and over 90% of business owners aspire to grow. Several of the businesses have recently invested in large-scale internal and external renovations. From the outside, these businesses might look like modest, perhaps even struggling, businesses; however, many represent important sources of income and potential wealth creation for both owners and workers. Among B2B and industrial firms, building ownership is also common; over half of firms indicated that they own the land and building (see Table 1).

Among the first sample, only one in six businesses assessed was judged to be in “excellent” condition, with the remainder split between “good,” “fair,” and “poor.” Over 40% of the businesses were deemed to have physical conditions that were no better than “fair,” assessments that were made based on issues with interior conditions, such as lighting, inventory, and cleanliness, and exterior conditions, including signage, building damage, and parking lot conditions. The preliminary assessments and analysis showed a very strong relationship between building condition and socioeconomic conditions; businesses assessed as being in “excellent” condition were in census tracts with average poverty rates of 27%, versus average poverty rates of 41% for buildings in “poor” condition. However, for a number of reasons, this relationship was reversed in the second sample of firms for which higher poverty in the tract coincides with higher average building quality.

There are two reasons for this. The first is the mix of businesses in the second sample, which unlike the first sample, includes industrial and B2B firms. All of the industrial firms and 83% of the B2B firms in the sample scored “good” or “excellent” compared to about half of personal services and retail businesses (see Table 2b). Industrial and B2B firms are also more likely to locate in high-poverty census tracts, creating a positive correlation between higher poverty well-maintained buildings and land. However, this is only part of the story. When we look only at personal services and retail businesses from the second sample, we find, in fact, a slightly
positive relationship between poverty and quality of physical conditions. So, although personal services and retail firms have unacceptably low average site conditions, there is no evidence that firms are less likely to keep up properties in low-income areas, as was the case with the first sample of firms.

The second set of site assessments looked closely at conditions of blight and found that conditions of parking lots and signage were major contributors to poor site quality. In addition, one-sixth of the businesses have broken or cracked sidewalks, which along with lack of parking lot lighting (29%) and poor building lighting (13%) present potential public safety issues. The relatively low percentage of businesses with trash or debris in front of the store and on the sidewalk (5% and 7%, respectively) is encouraging, although about one-quarter of businesses have trash or weeds in their parking lots (see Table 3).

Interestingly, individual indicators of blight are not strongly related. Of the eleven businesses lacking a sign, none of them had trash or weeds in their parking lots, debris or trash in front of the store, or debris/dirt/trash on the sidewalks/curb. Of the five businesses with “fair” or “poor” exterior building conditions, only one had obvious code violations on the exterior, debris or trash in front the store, broken or cracked sidewalks, debris/dirt/trash on the sidewalks/curb, or people loitering. For a number of other variables, none of the five businesses had the other negative attributes listed in Table 3. Businesses assessed as having negative blight conditions are in census tracts with higher average poverty rates for only five of the twelve blight variables of relevance — and the sample size for one of the measures is only one. In other words, for seven of the twelve variables, having negative blight conditions is not associated with a business being located in a higher poverty census tract.

In terms of the interior conditions within the business, approximately half of all surveyed businesses had inadequate inventories and did not display their merchandise well. Of greater concern is the one-quarter of businesses with building
code violations and visible signs of wear and tear. These conditions tended to cluster within individual businesses; of the nine businesses that did not have their merchandise well displayed, two-thirds of them also did not have adequate inventory; of the eight businesses with code violations, half had inadequate inventories, half were unclean, and 3/8ths were cluttered (see Table 4). Interestingly, businesses assessed as having negative interior conditions are in census tracts with relatively lower average poverty rates. (It is important to remember, however, that almost all firms in the survey are in areas of absolute economic distress.)

### Technology Use

The businesses in the survey reflect the wide range of technology adoption that is common in urban business environments. Some businesses, even those that would likely conduct cash transactions on a regular basis, lack a cash register, while other businesses have adopted Square or other technologies that add some of the functionality of financial software to credit card processing.

Overall, the retail and personal services businesses in the survey appear to utilize technology less often and perhaps differently and less effectively than many U.S. businesses. Eight out of ten retail/personal services businesses report having a computer but only about half (48%) of these businesses also use financial software like QuickBooks. Because financial software can increase the efficiency of accounting and bookkeeping processes and aid in cash-flow management and strategic decision-making, the relatively low penetration rate of financial software could serve as an obstacle to retail and services growth in these neighborhoods. In open-ended conversations, some retail and services businesses mentioned the need to invest in Point-of-Sale (POS) systems in order to grow their sales. These systems, which tend to be industry-specific and often complement financial software, can help streamline the sales process and provide detailed customer, sales, and inventory data. A more complete assessment of the potential usefulness of these systems for businesses in the GUC neighborhoods could be an important component of neighborhood retail strategy development.

Businesses in B2B and industrial sectors are more advanced in their use of technology. Among these firms, 97% report having a computer, and all of the firms with computers also use financial software. The stark differences between retail and services and B2B and industrial remain when we factor in firms that did not respond to questions about use of financial software. If we assume that non-responses are the equivalent of “No,” we find that 61% of B2B/industrial firms with computers also use financial software, compared to just 35% of retail/services firms.

The differences across sectors cannot be explained by firm size. In B2B and industrial, firms with fewer than ten full-time employees are just as likely to use financial software as larger firms and more than twice as likely as similarly sized firms in retail and services. Larger firms in retail and services are more likely to use financial software than smaller ones but there are too few firms of these firms in the sample (3) to draw any conclusions.

We see similar patterns in use of websites. Among all surveyed businesses, 62% currently have a website, but this number drops to 48% for retail and personal services firms. Among B2B and industrial firms, however, only one of 22 that
answered the relevant question does not have a website. These findings are consistent with a recent study of small business in New York City, which identified a significant technology gap for neighborhood-based retail and services firms that was particularly severe for businesses with LMI owners. The businesses studied lacked the tools that would provide them with access to new markets, such as websites, social media presence, and online sales capabilities, as well as tools that would streamline their finances and operations, such as accounting software, payroll automation, and POS systems. The compounding barriers to adapting these new technologies were a lack of owner understanding coupled with insufficient training and technical assistance, high implementation costs, and a lack of trusted vendors and experts. For many small businesses, the perceived risk and complexity of new technologies outweighed their supposed benefit.

The question of technology adoption and utilization is complicated for retail and personal services businesses in low-income urban areas. In the case of surveyed businesses in the GUC neighborhoods, a combination of two factors likely diminishes the value of a website. The first is that many of these businesses are neighborhood-serving establishments that likely draw the bulk of their customers from a small geographic area, a factor that even the best marketing campaign would be unlikely to change. The second factor is that most of the surveyed businesses are located in census tracts with some of the lowest residential adoption of high-speed internet access. As of December 2013, 50% of the census tracts in the surveyed area have fewer than 400 fixed high-speed connections per 1,000 households. In comparison, only 15% of census tracts in Cuyahoga County and 5% in the state of Ohio have adoption rates that low. Based on these numbers, business owners might have logically concluded that an internet presence is not a cost-effective way to reach likely customers.

The digital divide that continues to plague many low-income neighborhoods in the U.S. has significant implications for retail and services businesses that serve these neighborhoods as well as for city strategies to strengthen retail in these areas. While a number of the surveyed businesses mentioned the need to advertise to gain customers, the web-based and social media channels being adopted by retailers across the U.S. might not yet be appropriate given relatively low levels of residential access to high-speed internet access. At the same time, traditional bricks-and-mortar retailers in these neighborhoods are much less vulnerable to the rapid rise in e-commerce, at least for the time being. Strengthening consumer retail and services in these neighborhoods will require a strategy that takes into account customer characteristics and preferences, and strategies should explore the potential for coordinated advertising across retailers to create cost-effective platforms and foster neighborhood retail identities.

The existing technology gap at many retail and services businesses in the GUC neighborhoods can also be seen as an opportunity; adoption of cutting-edge technologies can provide retailers with immense functionality at a much lower cost than ever before. For example, cloud-based POS systems on mobile devices can be had for little or no upfront cost—compared to thousands of dollars for traditional POS systems—and significantly lower monthly fees and maintenance costs.

**Capital & Technical Assistance**

Across LMI urban neighborhoods in the U.S., lending rates, loan volumes, and other capital access metrics are often lower than would be expected given the amount of local economic activity. There are several feasible explanations for these gaps, e.g., lower personal wealth and compromised credit histories of LMI entrepreneurs, fewer bricks-and-mortar banks, and weak real estate markets, which lower asset value and available collateral. Urban retailers may face additional challenges accessing capital if they have variable cash flows, a key factor that banks evaluate when making lending decisions if businesses require loans for working capital or store improvements that, unlike equipment loans, cannot serve as collateral, or if businesses lease their location and cannot use the property as loan collateral.
These constraints are important given the key role that capital plays in business growth. Among the 92% of surveyed retail and services firms that expressed interest in increasing sales, 81% reported that they will require additional capital to achieve this growth. This percentage was much higher for retail and personal services firms—a full 88% of these firms reported that capital would be required for further growth compared to only 60% of B2B and industrial firms, which were more likely to identify macroeconomic factors like national and global competition.

Unfortunately, some of the challenges that urban businesses commonly face in accessing capital are also evident in the surveyed firms. Only 40% of firms report that they have ever applied for credit; of these, a majority (54%) report being denied. In all, only 13% of the firms in the survey report applying for and being approved for credit—well short of the 83% that will require capital to grow. B2B and industrial firms are considerably more likely to have applied for credit (46%) than retail and services firms (36%), but about half of both sets of firms were denied credit.

In terms of type of credit, 60% of businesses looking for credit would like to have access to a line of credit, 47% are interested in a secured loan, 12% are interested in an unsecured loan, and a handful of technology firms are interested in private equity or VC. Businesses in retail and services were somewhat more likely than those in industrial/B2B to identify lines of credit as a good source of capital (63% vs. 45%) but only slightly more likely to have interest in secured loans (50% vs. 45%).

In 2013, the average small business loan in the surveyed areas was about $65,700, just under 130% the size of the average small business loan in Cuyahoga County ($50,700), while the number of loans per thousand employees was much lower in the surveyed areas than in the rest of the city or in the county. In other words, relative to the amount of economic activity, businesses in the GUC area take out fewer loans than average but these loans tend to be significantly larger.9

The size of loans recently made in the GUC neighborhoods illustrates the unique capital needs often found in low-income urban areas and underscores the potential importance of public and philanthropic capital programs as well as microcredit institutions like ECDI. Just over half of surveyed firms (52%) are aware of financing options that are available from non-bank organizations in Cleveland.

### SUMMARY + RECOMMENDATIONS

Cleveland’s University Circle is one of the country’s great urban success stories, having achieved substantial investment as well as employment and population growth over the past decade. Stakeholders from the public, private, and philanthropic sectors are now working to transmit some of this growth into the adjacent neighborhoods, which still suffer from high levels of economic distress. As part of these efforts, the City of Cleveland has partnered with local CDCs, philanthropic organizations, and ECDI, a local micro-lender, to evaluate the needs of retail and services businesses in the Greater University Circle area.

The findings presented here point to the often unique challenges facing small businesses in low-income urban neighborhoods. Many business owners have little in the way of formal technical training and most have weak or nonexistent relationships with traditional sources of capital. These businesses also operate in neighborhoods that lag much of the country in terms of high-speed internet access at a time when retail strategies increasingly utilize e-commerce and other web-based tools.

Addressing the unique growth challenges of these businesses is critical not only for increasing employment and the wealth of business owners and their employees, but also for expanding access to retail and personal services for the neighborhoods’ residents and, over time, increasing the attractiveness of these areas to new potential residents. Retail has long been regarded as a critical factor in stabilizing and improving low-income neighborhoods; as the housing market begins to recover, retail strategies again need to be valued for their contributions to residential quality of life and investment.
The physical condition of some of the businesses in the GUC neighborhoods is a challenge. In the first sample, over 40% of the businesses were assessed as “fair” or “poor” in terms of interior and exterior conditions. In the second sample, one-third of businesses were assessed as “fair” or “poor” in terms of interior and exterior conditions. Just over 50% of the surveyed businesses lease their buildings, a factor that can discourage investments in physical improvements. Building owners themselves can face trade-offs when evaluating potential improvements that are specific to the needs of the current tenant but would not necessarily be valued by future tenants. Unfortunately, these types of incentives can deter property owners from investing in physical improvements that would not only help the existing business but also improve the look and feel of the neighborhoods in which they operate.

One potential option for overcoming this challenge is to develop a tenant improvement program that offers partially forgivable, low-interest loans to encourage existing commercial property owners to make improvements. Portions of these loans could be forgiven based on the property owner maintaining certain physical standards on the property. These loans could be complemented with pilot programs aimed at working with CDCs, local police, and the businesses themselves to promote “clean and safe” retail districts to improve consumer experience and increase foot traffic.

Addressing the capital needs and challenges of small business owners in these neighborhoods is also critical. Some business owners would benefit from classes and programs to address common individual challenges such as the lack of financial statements or a bad credit score. Groups such as SCORE or teams of local university business students could help prepare financial statements that are typically needed to apply for credit. For business owners with low credit scores, programs that offer very low or no interest loans over long time periods could help rebuild their credit. Eligibility for these programs could be tied to participation in “clean and safe” initiatives.

Addressing the structural gaps in capital availability for very small retail and services firms in low-income neighborhoods, however, could potentially change the quality of life for large numbers of residents, and in this way, be just as transformative as investing in high-growth businesses. It is also worth considering the role of technical assistance (TA) in strengthening these firms. Nationally, demand for generic TA does not appear to be high and only about one in seven surveyed firms has received technical assistance to date. However, it is worth exploring whether a targeted retail/services offering by a local micro-lenders like ECDI would be successful. Such an offering could be supported by City of Cleveland personnel with the expertise to identify and vet retail and services businesses that could contribute to neighborhood stability and quality of life. Economic development stakeholders can help by aiding the city in educating businesses about capital options; barely half of surveyed firms and only 42% of retail and services firms are aware of non-bank financing options.

There is also a role for developing strategies to address the technology challenges and opportunities faced by retail businesses and corridors in the GUC neighborhoods. The lack of utilization of information technologies affects not only residents but also retail businesses in the GUC neighborhoods; business and sector strategies that assume high levels of technology adoption by retailers and their customers simply are not very relevant in these areas. At the same time, it is important to better understand and potentially leverage new technologies that would improve the operation and management of retail businesses in the GUC neighborhoods. One promising strategy for increasing technology adoption is funding and training community-based organizations to assist small businesses in creating and implementing technology plans. These neighborhood business technology programs would first identify operations, sales, and marketing technologies that support owners’ overall business strategies and then provide owners with customized training and technical assistance.

These myriad factors point to the potential benefits of developing a comprehensive retail strategy for Cleveland’s low-income neighborhoods that is sensitive to the characteristics of local businesses, the neighborhoods they serve, and the great potential for a stronger consumer retail and services sector to stabilize and revitalize neighborhoods in Greater University Circle and across the city.
ENDNOTES


3 Clouse, Candl, Ziona Austrian, Kathryn W. Hexter, Serineh Baboomian, and Joe Andre, Greater University Circle Community Wealth Building Initiative: Year Two Programs and Projects Report. Levin College of Urban Affairs, Cleveland State University, May 2013


5 Center for an Urban Future, Smarter Small Businesses; New York, August 2012.


9 Loan data are from 2013, employment data are from 2011. These reflect the most recent available data at the required geography.

10 Center for an Urban Future, Smarter Small Businesses; New York, August 2012; Interview with Chicago LISC staff, November 2014
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