ICIC Initiative for a Competitive Inner City

Prepared by ICIC in Partnership with The City of Louisville

West Louisville Competitive Assessment and Strategy Project

Creating Jobs, Income and Wealth in the Inner City

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Executive Summary

West Louisville Competitive Assessment and Strategy Project

The West Louisville Competitive Assessment and Strategy Project ("The Strategy Project") is a bold effort to tackle one of the region's most pressing challenges – improving the standard of living and access to economic opportunity for the least well-off in our community. This initiative puts forth **a new and innovative approach** to inner-city revitalization based on a strategy that addresses **market forces**, builds on **competitive advantages**, and emphasizes **economic growth**.

Since March 2000, private, public and nonprofit leaders have rallied behind this new vision for West Louisville, where poverty and unemployment have been significantly higher than the rest of the region. An action agenda has been created with **18 concrete steps** to make the inner city a more competitive location for business and thereby create jobs, income and wealth for inner-city residents. Already, an implementation plan is in place to turn the strategies into reality.

Led by Mayor David Armstrong, in partnership with West Louisville leaders, including Charlie Johnson, CEO of Active Transportation, and Owsley Brown Frazier, former Vice-Chairman of Brown-Forman Corporation, this effort brought together a diverse leadership group that has worked with The Initiative for a Competitive Inner City (ICIC) to identify and highlight the **underutilized assets** and **investment** opportunities in West Louisville.

Historically, the inner city has been viewed through a social lens and revitalization efforts have focused on alleviating poverty. But the problems of the inner city are also fundamentally economic and **require an economic strategy**. By viewing the inner city through an economic lens that emphasizes assets and economic potential, a different range of strategies for revitalization emerge that focus on job and wealth creation.

The strategy outlined in this initiative is based on a thorough analysis of the regional and inner city business base and existing and potential market opportunities. There is already a strong base to build upon in West Louisville - **1,500 companies, each with sales over $500,000, who together employ 34,000 people**. By developing a sophisticated picture of the level of economic activity in West Louisville and the wider economic tides that bear upon it, **sustainable market-based opportunities of scale** have been identified.

By investing in and implementing the wide range of market-based opportunities identified in this report, this initiative will accomplish the following:

- **Increase the competitiveness** of West Louisville as a business location;
- **Stimulate growth** of West Louisville companies;
- Increase **jobs, income, and wealth opportunities** for West Louisville residents; and
- Add to the growth and vitality of the **regional economy.**

The Competitive Advantages of West Louisville

Many might be surprised to learn that West Louisville is home to approximately 1,500 companies. Building on this business base represents one of the best opportunities for increasing the economic vitality of West Louisville and linking the area to the regional economy.

The 1,500 companies already located in West Louisville are there for a reason. These companies derive competitive advantages from their location that makes them successful. Extensive

interviews with West Louisville business owners identified two core competitive advantages:

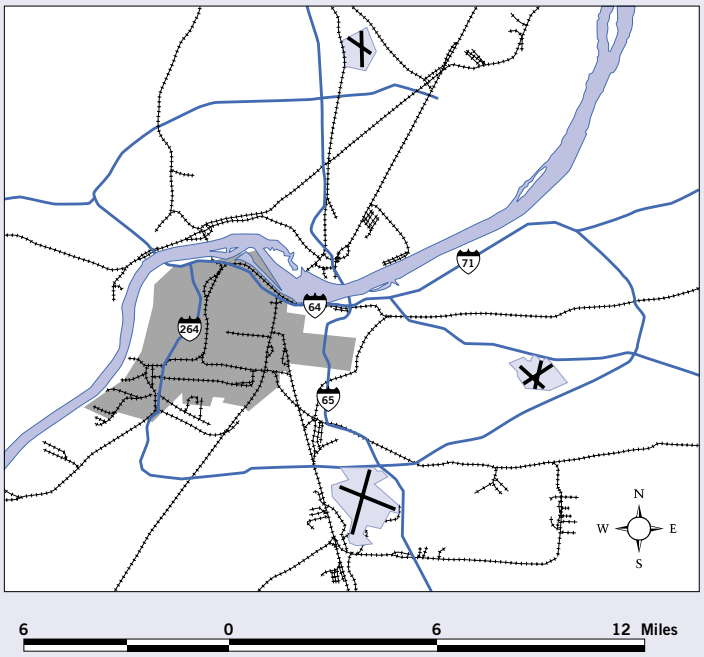
- The primary competitive advantage is **strategic location**, both in terms of access to transportation infrastructure (1) and in terms of access to customers (2). With substantial highway, air, and rail infrastructure, West Louisville provides an excellent location to companies involved in time-sensitive activities; and
- The other core competitive advantage is the **available workforce**, a workforce that would be difficult to find or recruit in other parts of the region.

West Louisville also confronts some competitive disadvantages that, as they are transformed, will make it a more attractive location for business. These include:

- Negative perceptions of the area related to crime and an unfriendly business environment;
- Lack of available land for building and expansion;
- Actual crime; and
- Under-skilled labor force.

In particular, the lack of usable land and buildings is a severe hindrance to investment in West Louisville. Several companies interviewed cited inadequate land or facilities for expansion as a potential reason for leaving. West Louisville risks losing its winners: its growing companies.

West Louisville's Strategic Location



- **Proximity to river ports**
- **Proximity to airport (11 minutes to airport)**
- **Proximity to interstate highways: I-264, I-64, I-65, I-71**
- **Proximity to rail system (convergence of 3 major railroads)**

Airports
Runways
Interstate Highways
Ohio River
Railroads
West Louisville

Executive Summary

The Strategy Project focuses on the industry clusters that offer the most promise for West Louisville and the business environment in which they operate. Figure 2 below provides an overview of the regional clusters and West Louisville's presence within them. Industry cluster rankings were created based on a number of key variables: regional employment share, growth history, growth potential, West Louisville employment share, ratio of growth rate to employment share, and subjective analysis of inner city skill sets, entrepreneurial opportunities, and existing inner city competitive advantages.

The Assessment Team and ICIC reviewed the top performing clusters in the region and the existing and potential links to the West Louisville business base. After close examination, the team focused on developing high level strategies for three industry clusters: 1) Automotive, 2) Transportation and Logistics, and 3) Medical Devices and Health Service within the Life Sciences area.

Strategies were also developed for three business environment issues: 1) Land Assembly, 2) Business Development Services, and 3) Image and Reputation of West Louisville. By linking industry cluster recommendations with associated business environment improvements, the Assessment Team is proposing a portfolio of action to **generate maximum returns** to West Louisville.

West Louisville Cluster Ranking

Cluster	Overall Ranking	Number of Employees	Number of Establish.	MSA Cluster CAGR 1992–1997	Location Quotient	West Louisville Presence
Local Commercial Services	2.2	36,718	1,902	3.17%	1.00	✔
Local Construction & Development	2.1	33,503	3,112	5.71%	1.21	✔
Medical Devices & Health Services	2.0	40,628	515	6.47%	1.00	
Financial Services	1.9	42,766	3,225	6.43%	1.06	
Construction Services	1.8	27,316	2,681	5.86%	1.06	✔
Automotive	1.7	32,063	624	3.95%	1.42	✔
Local Retail Clothing & Accessories	1.6	19,183	861	5.93%	0.95	
Hospitality and Tourism	1.5	30,780	884	10.86%	1.32	
Transportation & Logistics	1.5	22,599	276	14.98%	1.88	✔
Local Hospitality Establishments	1.4	37,588	1,746	5.26%	1.06	
Local Health Services	1.2	62,003	2,472	3.16%	1.02	✔
Local Food & Beverage Processing	1.0	20,123	865	3.13%	0.94	
Metal Manufacturing	1.0	20,147	435	-1.80%	1.00	✔
Local Personal Transportation	1.0	7,468	1,828	3.14%	1.07	✔
Local Entertainment & Media	0.8	19,199	1,509	2.55%	1.11	

Local efforts focus on construction services.

The Assessment Team chose to focus ICIC's work on the three clusters most closely related to the community regional economic development strategy.

Source: Cluster Mapping Project © 2000 Michael E. Porter; ICIC Analysis

Linking West Louisville – Strengthening the Louisville Region

The Louisville region's leadership has recognized the need to establish strategic priorities for its continued growth[1] and has developed a cluster-based strategy that capitalizes on the region's strength in **logistics and distribution**, cultivates its position as a leader in **biomedical research** and **health-care services**, and maintains its attractiveness as a **manufacturing center**.

The Louisville region's[2] dynamic economy has outperformed the United States' average job and income growth in the last decade. The strong diversified regional economy fueled job growth of almost 16 percent between 1990 and 1998, resulting in 114,500 net new jobs.[3]

Unfortunately, West Louisville has not participated fully in this strong economy, with unemployment and poverty rates three times higher than the regional average. To be on par with the regional unemployment rate, **at least 2,000 jobs** need to be created in West Louisville.

1998 Louisville Business Base Profile

	Region	West Louisville
Establishments	**28,116**	**1,485**
West Louisville Share		**5.3%**
Employment (K)	**534,815**	**33,693**
West Louisville Share		**6.3%**
Revenue (B)	**$95.4**	**$5.5**
West Louisville Share		**5.7%**

Source: Indiana Dept. of Workforce Development and Kentucky Dept. of Employment Services, 1998 ES202 data; 1999 ABI Data; ICIC analysis.

West Louisville has a significant business base on which to build in order to reverse these trends. The city of Louisville dominates the regional economy, generating over 80 percent of the region's employment. West Louisville represents a small but important percentage of this economy. For example, in West Louisville:

- One thousand four hundred and eighty-five **(1,485) business establishments with revenues greater than $500,000** are currently operating in West Louisville;
- West Louisville companies employed **34,000 workers and generated $5.5 billion** in revenue during 1999;
- Wages are **higher than average** in West Louisville companies because of the higher percentage of manufacturing jobs; and
- Of the 15 West Louisville clusters generating the most jobs, seven are also top employers for the region, which suggests **strong potential linkages** between West Louisville and the region.

[1] Greater Louisville Inc. 1997 Visioning Report

[2] The Louisville metropolitan statistical area (region) consists of seven counties across Kentucky (Bullitt, Jefferson, and Oldham) and Indiana (Clark, Floyd, Harrison and Scott).

[3] The Louisville Labor Force Issues and Trends, March 9, 2000, for the Workforce Investment Board (WBI). WBI defines the Louisville Economic Area as the 23 counties that surround Louisville and represent the labor market.

"West Louisville has resources that are underutilized with respect to the automotive industry."

–Louisville Automotive executive

"The land in eastern Louisville was unaffordable so we moved here, two blocks away from the highway."

-West Louisville businessowner

Industry Cluster Findings and Recommendations

The Strategy Project identifies ways to incorporate West Louisville into the regional vision for these clusters. To identify opportunity areas for the three focus clusters, a four pronged approach was used: 1) Market attractiveness, 2) West Louisville Competitive Advantages, 3) Feasibility, and 4) Community Impact. The following sections outline the findings for each cluster using this approach.

Automotive Cluster – Auto Opportunities

The Automotive cluster is currently the seventh largest employer in the Louisville region, employing 30,800 or 8.9 percent of the regional workforce. West Louisville's Automotive cluster, with 89 related establishments,[4] employs 2,800 or 9.8 percent of the West Louisville workforce.

West Louisville has a number of competitive advantages to build upon in the automotive cluster including:

- A **strong base** of companies. Metal manufacturing in West Louisville has the strongest presence among auto-related establishments in West Louisville, accounting for 55 percent of the companies;[5]
- Strategic location. West Louisville is centrally located with **immediate access to freight transportation infrastructure**; and
- Available workforce. Many of the jobs created by auto-related manufacturing companies offer attractive career paths with the potential for medium- to high-wage jobs. Through targeted training, there is an opportunity to make use of West Louisville's **high concentration of available workers**.

To realize the full potential of the Automotive cluster, West Louisville companies need to **increase participation in the automotive supply chain**. Given their size, West Louisville companies may be best positioned to compete at the Tier 3 and Tier 4 level. Opportunities also exist to grow and attract minority automotive suppliers because of the commitment by the major auto companies to minority business development. West Louisville companies can also increase their competitiveness by introducing **lean production** practices throughout the cluster since automakers are demanding lean manufacturing from their suppliers. Few West Louisville companies have introduced lean manufacturing into their operations.

Automotive Opportunity #1
Actively develop and market West Louisville as an automotive supplier location.

Opportunity #2
Strengthen potential West Louisville automotive suppliers, preparing them to tap into the local supply chain.

Transportation and Logistics Cluster – Proximity Zone

The Louisville region is centrally located between the eastern and western United States making it an ideal location for national distribution and logistics operations. Trucking, Warehousing, and Logistics are actually the three fastest growing sectors in the Louisville region. West Louisville can grow and attract companies in these areas based on a number of advantages.

- The **strategic location of West Louisville** within the greater Louisville region provides a great proximity to customers and to the available workforce. West Louisville has **direct access to two of the four major highways in the region**, Interstates 64 and 264, with the other two interstates just minutes away. There are also **intermodal opportunities** with the rail and port nearby;
- The addition of the UPS hub gives West Louisville companies **a strategic time advantage** in supply chain management, e-commerce fulfillment, and customer service. The small space requirements for support operations, such as computer repair and component assembly, make West Louisville an attractive and viable location for such **niche operations**;

[4,5] ABI 1999, ICIC analysis

- The national average of 90 percent workforce turnover in the trucking industry[6] highlights one of West Louisville's greatest advantages, its **available labor force**. One area of opportunity for West Louisville workers is truck driving as one expert estimates there are currently **300 to 500 immediate openings** in trucking[7]; and

- In addition to job opportunities, the trucking industry provides **entrepreneurial opportunities** for owner-operated trucking enterprises. There are several examples of truckers in West Louisville who lease or own their own trucks and work for larger companies on a contract basis. These types of trucking enterprises can offer greater earnings and wealth creation opportunities.

The competitive advantages in Transportation and Logistics create significant potential however, existing barriers to investment need to be addressed including the capital investments needed for entrepreneurial trucking ventures, lack of larger assembled tracts of land, and tax disadvantages.

Transportation and Logistics

Opportunity #1
Actively pursue business development and entrepreneurship opportunities in niche distribution and logistics to leverage West Louisville's location.

Opportunity #2
Pursue local entrepreneurship opportunities in trucking.

Opportunity #3
Link West Louisville workforce to strong demand for truck drivers.

Life Sciences Cluster (Health Services and Medical Devices) – Early Evolution

The Louisville region is becoming a recognized leader in biomedicine and health care services (also referred to as Life Sciences). The Strategy Project focused on articulating a role for West Louisville in the long-term regional strategy. Cluster opportunities have been targeted in industries that are part of, or related to, the Life Sciences cluster, namely Health Services and Medical Devices. Opportunities for West Louisville in these areas include the following:

- Louisville health care administrators express a real concern over a shortage of healthcare workers. West Louisville has a **concentrated underutilized workforce** that, with the appropriate training, can fill many employment needs within Medical Devices and Health Services companies;

- While in many cases outsourcing has led to large-scale consolidation of purchasing from national suppliers, interviews with local health care administrators suggest a number of areas that could be considered for local outsourcing such as patient transportation, hospital material logistics, staffing services, laboratory services, and administrative services. **Outsourcing opportunities can benefit from West Louisville's labor, location, and transportation advantages**; and

- There are **available sites** in West Louisville that could accommodate small and medium-sized medical device manufacturing companies. These companies have space requirements of 50,000 square feet or less. Additional opportunities will become available as several barriers to investment are addressed such as assembling appropriate land parcels and improving the reputation of West Louisville with respect to crime and disinvestment.

Life Sciences

Opportunity #1
Link West Louisville entrepreneurs to administrative and logistics-outsourcing opportunities with major health services providers.

Opportunity #2
Create a collaborative recruiting and training program for health care employees.

Opportunity #3
Develop and market West Louisville as a location for medical device manufacturing.

"The Louisville region is still very early in its evolution to becoming a center for medical device manufacturing but seems to have a lot of promise."

-Louisville Life Sciences expert

[6] ICIC analysis; Statistical Abstract of the United States, 1999

[7] ICIC expert interviews

Business Environment Findings and Recommendations

A Strong Business Environment Supports Growth and Productivity

The quality of a company's business environment can greatly influence its efficiency and competitive position. Inner cities typically suffer from several disadvantages as business locations. These inner-city disadvantages must be seen as an economic barrier to investment and addressed as part of an economic strategy.

Data gathered in interviews identified a number of key business environment issues facing business owners and inhibiting investment. They include:

- Difficulty with land assembly preventing expansion on current sites or the ability to acquire usable parcels of land. Seventy-seven percent of the companies interviewed cited inadequate land or facilities for expansion as a competitive disadvantage. The paradox is that while a number of companies wish to grow in West Louisville, they cannot access vacant land and buildings;

- Uncertainty as to where to turn for assistance on small and medium-size business concerns, given the multiple number of providers and services; and

- Business owners reported concern that the reputation of West Louisville hindered their abilities to do business in a number of ways including attracting employees and winning bids on contracts.

Business Environment Recommendations:

Land Opportunity
Implement and institutionalize a process to redevelop unusable and outdated buildings into marketable sites that supports strategies for inventorying parcels, marketing and financing, and centralizing administrative procedures.

Business Development Services Opportunity
Streamline and coordinate business development services to help small and medium-sized West Louisville companies become more competitive.

Reputation Opportunity #1
Create buy-in for the initiative by promoting West Louisville's assets to local and regional communities.

Opportunity #2
Market West Louisville assets to attract investment.

Opportunity #3
Improve actual and perceived security in West Louisville.

Implementation

A Broad Coalition that has Wide Support and Participation

West Louisville is rich in opportunity and business potential. West Louisville's business base is diverse, multi-faceted, and marginally linked to the regional economy. The three industry clusters that have been targeted for investment and growth – Automotive, Transportation and Logistics, and Life Sciences – are poised to capitalize on the area's competitive advantages as a strategic location, with an underutilized workforce, and opportunities to strengthen the links to the regional economy. Building on these advantages, and addressing the disadvantages such as land assembly and building constraints and reputation will better position West Louisville to compete for jobs and investment.

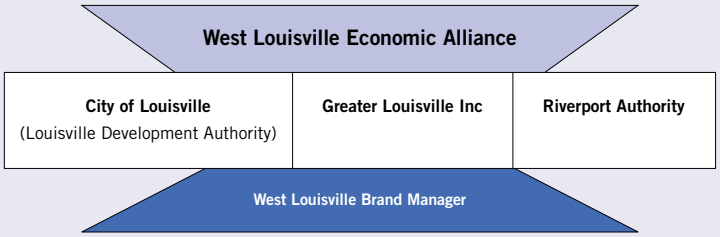
This initiative has engaged an unprecedented number of industry leaders, public sector officials, and community leaders to create a new chapter in the history of West Louisville. Already, over 50 Louisville leaders have been actively engaged in developing this strategy and implementation plan. Their leadership will hopefully inspire others to join in this important effort and support the momentum already underway.

Action Teams consisting of key industry leaders and economic development professionals helped shape the recommendations and action steps. Now an implementation structure has been carefully crafted to take advantage of existing infrastructure and to avoid creating new entities.

The driving force behind the implementation of the strategic recommendations will be the West Louisville Economic Alliance (The Alliance), made up of West Louisville stakeholders and cluster representatives. The Alliance will champion The Strategy Project and institutionalize the implementation plan within the regional economic development framework.

The Alliance will act as an umbrella confederation, working with key entities to raise West Louisville's presence as an economic location and to implement the action plans. Existing organizations will incorporate the West Louisville strategies into their regional economic development agendas. The City will work intensively on land assembly and business services issues, with the Louisville Development Authority taking a lead role. Greater Louisville Inc. (GLI) will oversee cluster-specific strategies, and the Riverport Authority will use its power for acquisition and disposition of land to support the City on land assembly issues. All of these entities will be involved in assisting The Alliance in address-ing the issues of image and reputation.

Implementation Organization Structure



West Louisville will also now have a new dedicated resource, **the West Louisville Brand Manager**. This individual will work closely with the Alliance, and develop and manage relationships with West Louisville businesses and executives as well as the businesses and executives in the rest of the region. The Brand Manager will be uniquely positioned to accomplish this by being intimately familiar with the opportunities that exist in West Louisville and working within Greater Louisville Inc. This will provide the opportunity to be closely linked into the regional economic development infrastructure and help to build relationships at the regional level. Other key participants in implementation who will work with this person include representation from the Louisville business schools, Riverport Authority and the private sector, which has already provided significant support for this effort.

This initiative has been a true collaboration between all stakeholders in the Louisville community. Its success will depend on the continued commitment and vision of those currently involved, and the additional involvement of those not yet engaged but who support the vision of an economically vibrant West Louisville.

"The West End has a lot going for it, from a business perspective . . . But nobody knows that."

-Regional business executive

Introduction

West Louisville Competitive Assessment and Strategy Project Overview

The West Louisville Competitive Assessment and Strategy Project ("The Strategy Project") is a bold effort to tackle one of the region's most pressing challenges – extending economic opportunities to citizens and communities that have been left behind. This initiative puts forth **a new and innovative approach** to inner-city revitalization based on a strategy that addresses **market forces**, builds on **competitive advantages**, and emphasizes **economic growth**.

Since March 2000, private, public, and nonprofit leaders have come together to create and rally behind a market-based agenda for revitalizing West Louisville, part of the city that has three times the poverty and unemployment rates of the rest of the region. Despite this severe economic disparity, West Louisville is home to 1,500 businesses and 34,000 jobs that on average have higher wages than the rest of the region due to the high concentration of manufacturing jobs.

This existing business base and the underutilized assets of West Louisville highlight the competitive advantages that must be built upon to create greater economic opportunities for investment and job and wealth creation. At the same time, competitive disadvantages in West Louisville must be directly addressed. For example, constraints in land assembly and building availability in West Louisville are inhibiting investment by existing West Louisville companies who want to expand. By building on the competitive advantages and addressing the disadvantages, this initiative will not only bring greater economic opportunity to West Louisville residents, but it will also make the region as a whole more productive.

Mayor David Armstrong, in partnership with West Louisville business leaders, including Charlie Johnson, CEO of Active Transportation, and Owsley Brown Frazier, former Vice-Chairman of Brown-Forman Corporation, has led this project. The Initiative for a Competitive Inner City (ICIC) has worked in Louisville with the guidance of an Assessment Team comprised of local leaders, co-chaired by Mayor Armstrong and Charlie Johnson.

After completing the research, ICIC and the Assessment Team brought together groups of local experts – Action Teams – to help shape actionable strategies for each of the focus clusters and business environment issues. The Action Teams met several times over a two-month period to shape the strategic recommendations presented here.

In addition to the Assessment Team and Action Teams, the Louisville Development Authority (LDA), other city departments, and Greater Louisville Inc. (GLI) made valuable contributions throughout The Strategy Project. Executives from leading Louisville-region companies supplied their thoughts and perspectives in interviews and meetings, and formal interviews with over 40 West Louisville business owners and managers revealed the thinking, aspirations, and concerns of the local business community. Conversations with nonprofit organizations, local colleges and universities, Louisville Division of Police, as well as community and national industry experts, also informed this work.

ICIC and the Assessment Team have identified a wide range of market-based opportunities for inner city job and business growth. Tapping into these opportunities will:

- **Increase the competitiveness** of West Louisville as a business location;
- **Stimulate growth** of West Louisville companies;
- Increase **jobs, income, and wealth opportunities** for West Louisville residents; and
- Add to the growth and vitality of the **regional economy**.

ICIC developed a dynamic picture of the Louisville region, the city as a whole, and West Louisville individually, examining the links between West Louisville and the regional economy in terms of business and industry. By developing a sophisticated picture of the level of economic activity in West Louisville and the wider economic tides that bear upon it, sustainable market-based opportunities of scale have been identified.

This work focuses on the industry clusters that offer the most promise for West Louisville and the business environment in which they operate. Cluster analysis, as explained later in this document, provides an important diagnostic tool for exploring the existing and potential relationships between inner-city industries and the larger regional business base. The business environment greatly influences a company's competitive position and ability to grow.

The Assessment Team and ICIC focused on developing high level strategies for three industry clusters: 1) Automotive, 2) Transportation and Logistics, and 3) Medical Devices and Health Service within the Life Sciences area, and three business environment issues: 1) Land Assembly, 2) Business Development Services, and 3) Reputation. By linking industry cluster recommendations with associated business environment improvements, the Assessment Team is proposing a portfolio of action to generate maximum returns to West Louisville.

The Strategy Project seeks to accomplish the following:

- **Engage** the business community and policymakers in **a collaborative approach** to economic development in West Louisville;
- **Profile the existing economy** of West Louisville within the larger regional economy;
- **Strengthen** West Louisville's economic **links to the regional economy;**
- Develop a **common agenda and approach to business development** based on West Louisville's competitive advantages; and
- Create **opportunities for West Louisville to compete** for jobs, income, and wealth in the region.

A Market-Based Approach to Inner-City Revitalization

The Strategy Project utilizes ICIC's market-based approach to inner-city revitalization focusing on opportunities for private, for-profit business and job growth based on market forces and inner city competitive advantages. ICIC seeks to stimulate growth in economically distressed inner-city neighborhoods[8] by building on those communities' local assets and economic potential. Inner cities, such as West Louisville, are areas with higher than average unemployment and poverty rates and have historically been viewed as places with social deficits as opposed to economic assets.

[8] ICIC identifies inner-city neighborhoods as urban areas with unemployment and poverty rates 1.5 times the average rate of the Louisville region or a Median Household Income (MHI) rate half the average rate of the region. ICIC identified Louisville's inner-city neighborhoods by updating 1990 census data within ZIP Codes.

Introduction

Although the Louisville region proved to be a vibrant and growing region during the 1990s, West Louisville job and business growth lagged significantly behind the region. This uneven growth mirrors that of many other metropolitan areas.

The key finding of this effort is that significant **West Louisville assets remain underutilized** and could **more effectively contribute to the vitality of the local and regional economies**. Economic development on either a regional or neighborhood level is a complex process. Many factors, including housing, healthcare, education, and childcare, contribute to improving economic conditions in low-income areas. These factors alone, however, will not create a sustainable economic base in inner-city areas like West Louisville.

Sustainable economic development in West Louisville will occur only as it has elsewhere, by **employing a strategy that emphasizes private, for-profit business growth, attraction, and job development**. As stated earlier, Louisville is home to approximately 1,500 companies that employ a total of 34,000 workers. Expanding this economic base and linking it to the region is the greatest opportunity for advancing low-income residents and communities.

The Strategy Project is intended to supplement and extend existing local revitalization efforts. There are a number of significant and effective economic development initiatives currently underway in West Louisville and their continuation is encouraged. However, no previous studies have **examined the existing inner city from a competitive perspective**. The Strategy Project offers a new and complementary perspective that presents new opportunities and can enhance existing efforts.

The Core Competitive Advantages of the Inner City

Inner city economic development requires a strategy that makes the inner city a more competitive location for doing business. A strategy for sustainable inner city economic development **must build on existing competitive advantages while minimizing the disadvantages**. Furthermore, the strategy must identify actionable and market-based solutions that develop business clusters and foster a competitive business environment.

The findings of The Strategy Project indicate that West Louisville's existing business base benefits from competitive advantages similar to the four actual or latent competitive advantages found in inner cities across the country. Through more than six years of research, ICIC has identified the following inner city competitive advantages:

- A strategic location in the center of major urban areas and transportation and telecommunication nodes with potent logistical advantages;
- Untapped local consumer and commercial markets with substantial purchasing power that can support more retail and service companies;
- Business growth opportunities that arise through integration with regional business clusters; and
- A large, diverse, and available pool of human capital that is underutilized.

The Strategy Project explores ways to optimize the competitive advantages found in West Louisville.

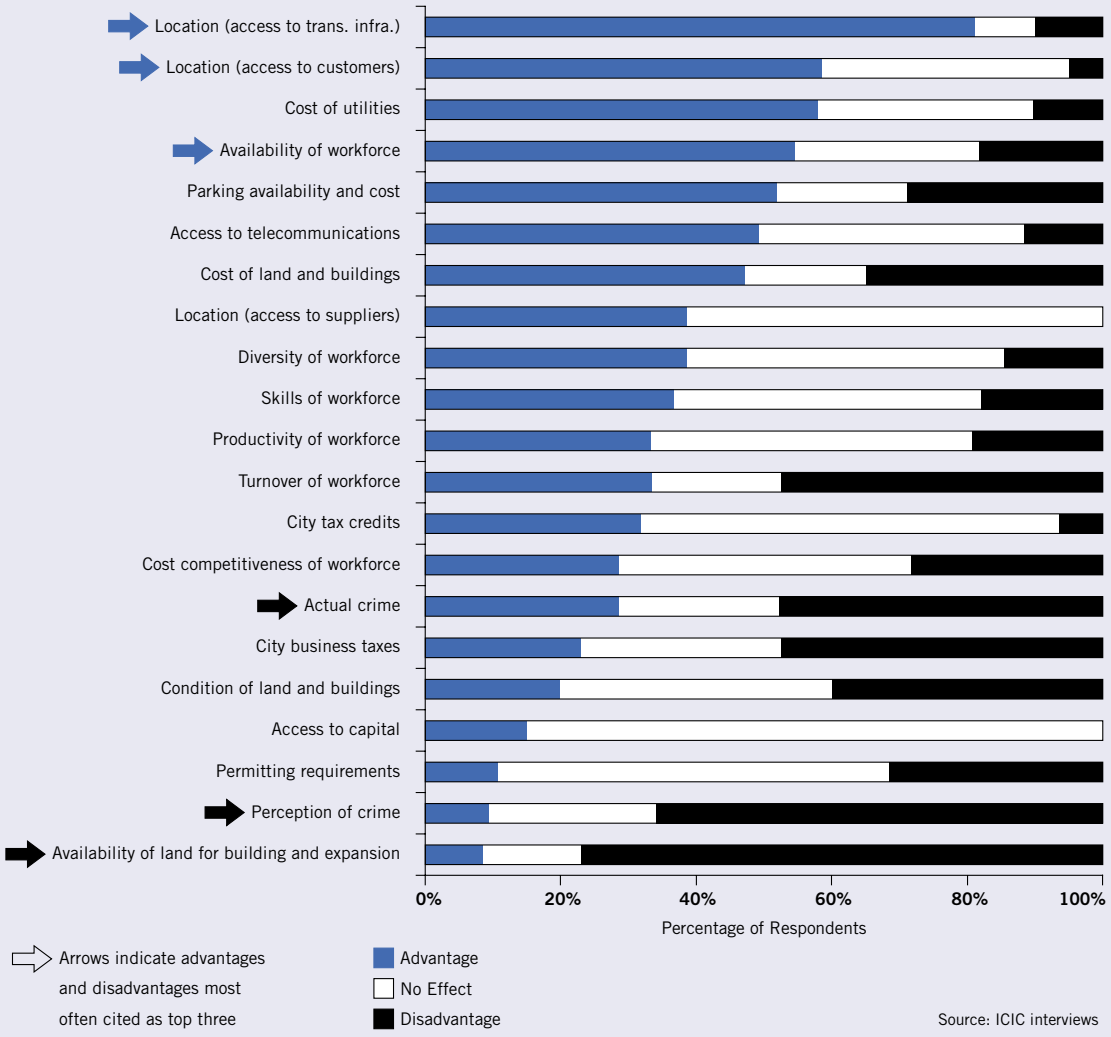
West Louisville Competitive Advantages and Disadvantages

Forty West Louisville CEOs and top executives were interviewed about their experiences with West Louisville as a business location. The pool of companies interviewed ranged in size from two employees to over 250. The companies came from a number of industries, although the majority was companies operating in the three focus clusters.

West Louisville executives were given a number of characteristics to rate either as a West Louisville business advantage, a disadvantage, or having no effect on business.

The following graph summarizes the responses from business interviews.

West Louisville Competitive Advantages and Disadvantages as Cited by West Louisville Executives



Source: ICIC interviews

"We have not been able to operate at full employment since we relocated out of the West End. We never had a problem finding employees in West Louisville."

-Louisville business owner

Competitive Advantages

The research findings confirmed that West Louisville has similar competitive advantages to other inner cities. In addition to having a concentrated, underutilized workforce, West Louisville enjoys strategic locational advantages along with numerous opportunities for strengthening linkages to regional clusters. Three of the competitive advantages the executives cited most often were:

- Location (access to transportation infrastructure);
- Location (access to customers); and
- Availability of workforce.

These advantages were weighed significantly in identifying three focus clusters with the greatest market potential for growth. For example, the Automotive and the Transportation and Logistics clusters have increasingly become reliant on time-sensitive production and delivery of products. In both of these clusters, the proximity to customers and suppliers and the access to transportation infrastructure are critical advantages.

West Louisville also has other significant assets that enhance the area. Portions of West Louisville overlap the Enterprise Community, an area designated by the Federal government in 1994 to target broad revitalization efforts. The Enterprise Community has created its own development resources, which have a range of training and business incubator capacities, including Louisville Development Bancorp, Inc., Louisville Enterprise Group (business consultants), and the Nia Center. Finally, West Louisville is home to a group of strong and thriving non-profit institutions anchored by the Louisville Urban League and the Louisville Central Development Corporation.

Competitive Disadvantages

Several competitive disadvantages of inner-city locations are key issues influencing the business environment.[9] Like all inner cities, West Louisville has a number of competitive disadvantages. Interviews revealed the following issues:

- Negative perceptions;
  - Perception of crime
  - Unfriendly business environment;
- Lack of available land for building and expansion;
  - High costs of developing available industrial sites
  - Challenge of acquiring needed sites from multiple owners;
- Actual crime; and
- Under-skilled labor force
  - Skills mismatch with evolving economy and employment opportunities.

These findings directly informed the decision by the Assessment Team to focus strategy development on Land Assembly, Reputation, and Business Development Services. The Reputation issue focuses on developing strategies to improve negative perceptions as they relate to West Louisville's as a poor business location as well as actual and perceived crime. The Team decided to focus on Business Development Services to insure that available resources are maximized toward local businesses and cluster development. A specific workforce component is not included in this initiative because the Assessment Team believes the services of the existing Workforce Development Board can be utilized to further the workforce opportunities identified in this initiative.

[9] Competitive disadvantages identified in past ICIC research include: racism, cumbersome regulation, poor infrastructure, crime, land assembly difficulties, greater cost of workforce qualification and recruitment, and limited access to capital.

The Creation of the Louisville Business School Network for Urban Development

In addition to The Strategy Project, ICIC's National Business School Network (NBSN)[10] has also been working in Louisville. LCDB Enterprise Group, in collaboration with the University of Louisville, commissioned NBSN to conduct a workshop in August 2000 at the University of Louisville Graduate School of Business and Public Administration. The goal of the workshop was to increase Louisville-area business schools' involvement in inner city business development. The knowledge of business school students and faculty members can help emerging and existing entrepreneurs capitalize on the competitive advantages of West Louisville.

Seventy-five faculty members from local colleges and universities participated, in addition to representatives from the local government, non-profit organizations, and the local community development bank. Based on ICIC's initial research and a review of ongoing efforts by local Louisville business schools, NBSN developed a framework for business schools to actively participate and collaborate in the economic revitalization of West Louisville.

NBSN worked with Louisville area business schools and LCDB Enterprise Group to create the framework for the Louisville Business School Network for Urban Development, whereby field study teams will work with client companies from West Louisville. A particular focus was given to those companies related to the three focus clusters of The Strategy Project to create further synergies across institutions. By consulting to West Louisville companies, the business schools will contribute to the health of the local economy, providing entrepreneurs with access to student and faculty expertise that will, in turn, enrich the academic experience.

The consortium of schools includes University of Louisville, Bellarmine University, Indiana University Southeast, Jefferson Community College, Spalding University, and Sullivan University. Business student teams, consisting of four to five students, began field study assignments with five small companies located in West Louisville in the fall of 2001. Kentuckiana Metroversity, Inc., a consortium of higher education institutions in the Louisville metropolitan area, and the University of Louisville Office of Community Relations serve as coordinators of the small business clients, and along with Greater Louisville Inc., select companies (with minimum revenues of $500,000) to participate.

West Louisville within the Regional Economy

The Louisville region's[11] dynamic economy has outperformed the United States' average job and income growth in the last decade. This diversified regional economy fueled job growth of almost 16 percent between 1990 and 1998, resulting in 114,500 net new jobs.[12] The region has over 500,000 workers in its labor force, with the city of Louisville accounting for one quarter of the labor force (131,385).

Business and elected leaders have developed an economic vision to capitalize on emerging opportunities in fast-growth business niches, such as logistics and health/biomedicines, where the community enjoys a competitive advantage, as well as in traditional strengths, such as financial services and manufacturing, particularly automotive. Some of the assets of the region include the following:

- The Louisville region is in the heart of an automotive area with four major assembly plants within an 80-mile radius. Two of the plants are located in the city of Louisville and rank among the nation's highest in productivity. Additionally, the region hosts numerous automotive suppliers;

[11] The Louisville metropolitan statistical area (region) consists of seven counties across Kentucky (Bullitt, Jefferson, and Oldham) and Indiana (Clark, Floyd, Harrison and Scott).

[12] The Louisville Labor Force Issues and Trends, March 9, 2000, for the Workforce Investment Board (WBI). WBI defines the Louisville Economic Area as the 23 counties that surround Louisville and represent the labor market.

10 The National Business School Network (NBSN), a program of ICIC, is designed to engage America's urban graduate business schools in fostering inner city business development and serving inner-city-based companies in their communities.

- The UPS hub, a $1 billion plus international air hub, gives companies located in the region a strategic advantage in just-in-time delivery systems, supply chain management, and customer service; and

- The Louisville Medical Center, a downtown complex that encompasses 20 city blocks and seven hospitals, as well as research & development facilities, a bio-medical incubator, and healthcare-related business park, provides world-renowned leadership in such areas as hand surgery, organ transplants, severe burn treatment, and more.

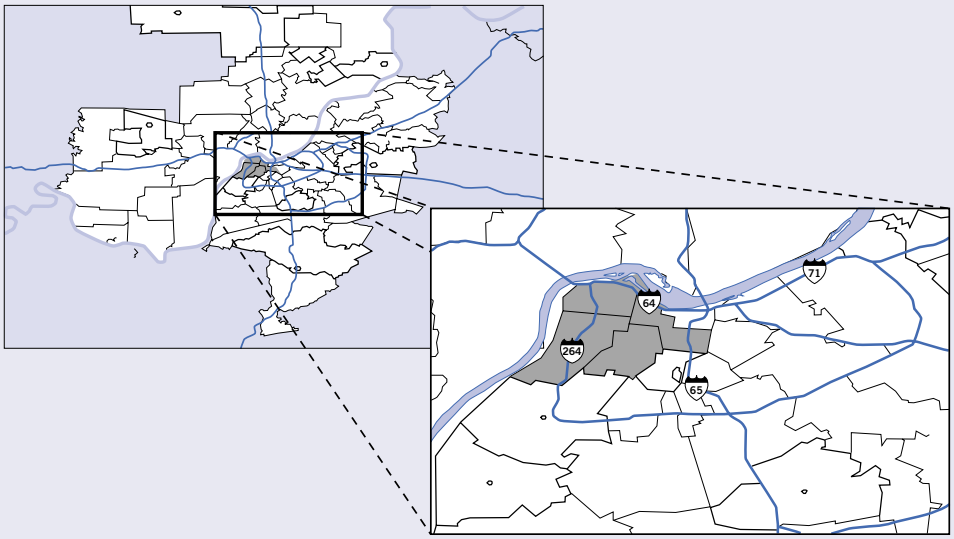
The West Louisville Focus Area

West Louisville was selected as the study area because of its higher than average low-income and poverty levels. The focus area of this assessment consists of four ZIP Codes[13] adjacent to and immediately west of downtown Louisville, the central business district. This area is a significant part of, but not all of, West Louisville. For purposes of The Strategy Project, the area encompassed within these four ZIP Codes will be referred to as West Louisville. Other city ZIP Codes met some, but not all, of the criteria for inclusion. Overall, West Louisville lags behind the rest of the Louisville region, representing significant under-utilized resources that could contribute to the region's economic vitality.

While the region's population grew 4.2 percent from 1990 to 1999, West Louisville's population decreased by 3.7 percent from 85,904 to 82,760 over the same period.[14] Even though the population decreased, West Louisville still has a higher ratio of labor force per square mile than the remainder of the city because of the density of population.

Unfortunately, a higher than average percentage of West Louisville's residents are unemployed or underemployed. The area's estimated unemployment rate for 1999 is 9.5 percent[15] compared to the regional rate of 3.5 percent. Reducing West Louisville's unemployment rate to the regional average would mean creating 2,018 jobs based on the current unemployment gap.

Map of the Louisville MSA and West Louisville Study Area



[13] 40203, 40210, 40211, 40212

[14] 1999 CACI Sourcebook America. Louisville regional population grew 4.2 percent, from 865,860 in 1990 to 901,570 in 1999. West Louisville decreased 3.7 percent from 85,904 to 82,760.

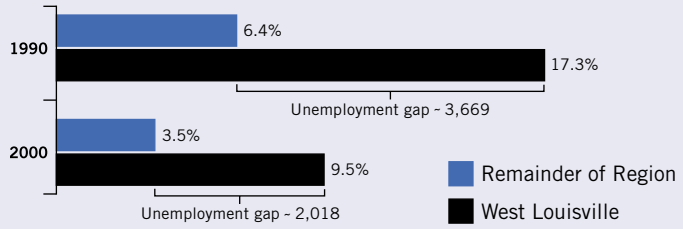
[15] 1990 US Census, 2000 State of Kentucky labor force estimates, ICIC Analysis

West Louisville's median household income is only 46.5 percent of the regional average, while its poverty rate is 42 percent compared to the regional average of 14.3 percent. These statistics highlight the severe economic disparity that exists within the region; a disparity that needs to be reduced in order to ensure economic prosperity is extended to all Louisville residents and in order for the regional economy to realize its full potential.

West Louisville Means Business

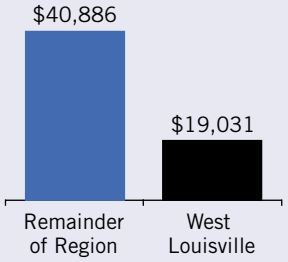
The city of Louisville dominates the regional economy, generating over 80 percent of the region's employment. West Louisville represents a small but important percentage of the city and regional economies. The companies located in West Louisville employed 34,000 workers and generated $5.5 billion in revenue during 1999, 6.3 percent and 5.7 percent of the regional totals, respectively. West Louisville is home to 1,485 business establishments or 5.3 percent of the regional total in 1999.

Unemployment 1990 and 2000



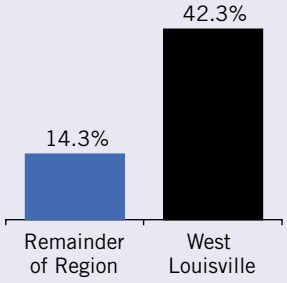
Source: 1999 CACI Sourcebook America; 1990 U.S. Census; ICIC Analysis

Median Household Income 1999



Source: 1999 CACI Sourcebook America; 1990 U.S. Census; ICIC Analysis

1999 Poverty Rates



Source: 1999 CACI Sourcebook America; 1990 U.S. Census; ICIC Analysis

1998 Louisville Business Base Profile

	Region	West Louisville
Establishments	**28,116**	**1,485**
West Louisville Share		**5.3%**
Employment (K)	**534,815**	**33,693**
West Louisville Share		**6.3%**
Revenue (B)	**$95.4**	**$5.5**
West Louisville Share		**5.7%**

Source: Indiana Dept. of Workforce Development and Kentucky Dept. of Employment Services, 1998 ES202 data, 1999 ABI Data; ICIC analysis.

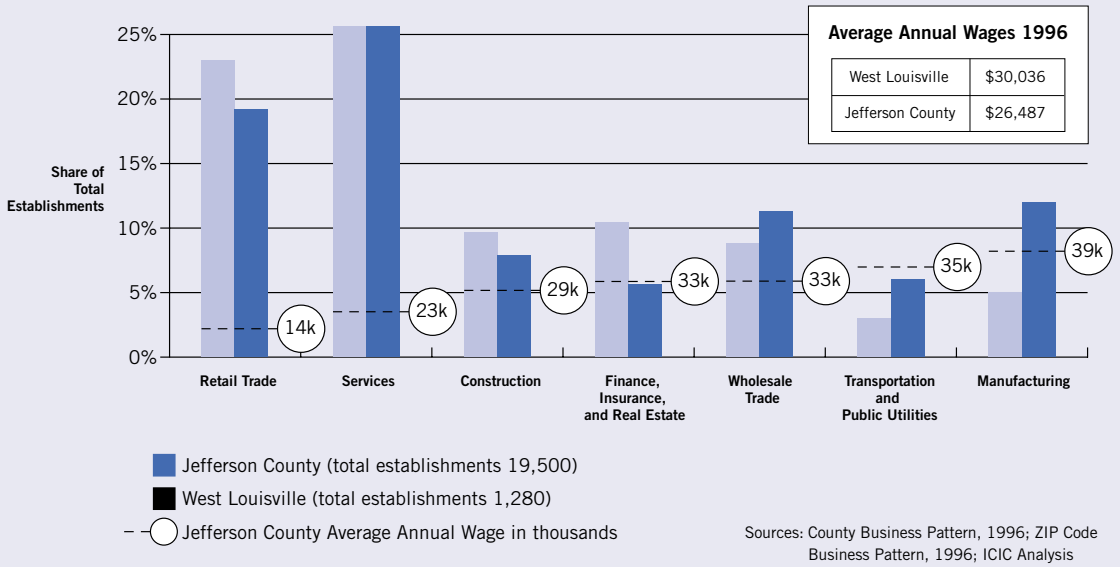
Interestingly, average wages paid by companies located in West Louisville exceed those in the remainder of the region, despite the relatively small number of establishments and total employment. This reflects a higher concentration of manufacturing jobs and, to a lesser extent, jobs in transportation and public utilities in West Louisville compared to a higher concentration of service jobs in the remainder of the region. Given the low median household income of West Louisville residents, $19,031 versus the regional median household income of $40,866,[16] it can be concluded that many of the people employed in the higher wage jobs do not live in West Louisville. Increasing the number of higher wage jobs and linking West Louisville residents to these jobs would be an opportunity for increased income and wealth creation.

West Louisville – A Diversified Economy

ICIC created the first detailed picture of the West Louisville economy to understand the growth potential of its existing and potential business base within the region. This picture divides West Louisville companies into industry clusters. Clusters are geographic concentrations of inter-connected companies and institutions that both cooperate and compete in a particular field. Clusters encompass industry competitors, as well as suppliers, buyers, firms in related fields, specialized educational institutions, and support services that are concentrated in particular locations. Clusters provide a useful diagnostic tool for understanding the economy because they attempt to capitalize on all of the important relationships among and between companies and institutions, thus, enhancing competitiveness and growth.

The chart below represents the largest West Louisville clusters by employment. Four of the bubbles represent local clusters – clusters that produce goods and services, which are needed by the local population. Conversely, the rest of West Louisville's clusters are traded clusters – clusters that produce goods and services

Industrial Sectors in Jefferson County and West Louisville with 1996 Average Annual Wages



Sources: County Business Pattern, 1996; ZIP Code Business Pattern, 1996; ICIC Analysis

[16] 1999 CACI

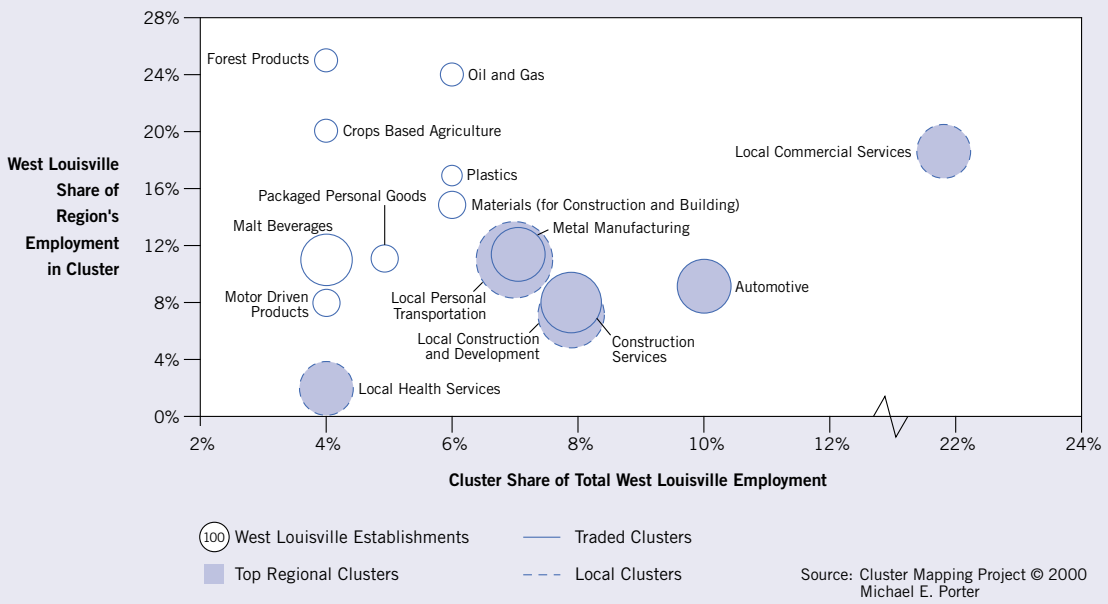
locally and distribute them across the nation or globe. Traded clusters drive regional prosperity, they can achieve higher productivity, their growth is not constrained by local market size, and their success stimulates demand for local clusters.

Looking at the chart, that the economy is quite diverse. The size of each cluster bubble represents the number of establishments in that cluster, with Metal Manufacturing and Construction Services being the largest. The placement of the bubbles on the vertical axis shows the percentage of jobs in the regional cluster located in West Louisville. For example, 11 percent of all Malt Beverage jobs in Louisville are located in West Louisville. The horizontal axis shows the percentage of jobs that each cluster contributes to the West Louisville economy. As seen by the chart, Local Commercial Services, which are business-to-business services, represent 20 percent of the local employment base. Businesses may be part of multiple clusters. For example, a business might be in both the Metal Manufacturing and Automotive clusters. Thus, the chart should not be interpreted as a representation of the exact number of businesses in West Louisville.

Of the 15 West Louisville clusters generating the most jobs, seven are also top employers for the region (pictured in blue). These seven clusters - Automotive, Construction Services, Metal Manufacturing, Commercial Services, Construction & Development, Health Services, and Personal Transportation - have grown at an average of over four percent regionally between 1992 and 1997 with the exception of Metal Manufacturing. Clearly, West Louisville has a small but significant business base from which to build.

The following sections summarize the findings and strategic recommendations for both the focus clusters and business environment issues.

Top 15 West Louisville Clusters by Employment 1998



Industry Cluster Findings and Recommendations

Linking West Louisville to the Regional Economic Strategy

As discussed earlier, linking companies to vibrant regional clusters is one of the best ways to stimulate sustainable economic development in inner cities like West Louisville. Cluster development strategies optimize opportunities to stimulate business formation and growth, help attract new companies to an area, and encourage retention among companies that benefit from the cluster's presence. Clusters can further benefit individual companies through such things as cluster-based employee training initiatives, joint purchasing and negotiation, shared learning, and best practices.

The Louisville region's economic and political leadership has developed a cluster-based strategy[17] that capitalizes on the region's strength in **logistics and distribution**, cultivates its position as a leader in **biomedical research** and **health-care services** and maintains its attractiveness as a **manufacturing center**.

In addition, the leadership has recognized the need to establish strategic priorities for the regions continued growth, including:

- Creation and attraction of high growth, niche technology companies;
- Increase in the proportion of professional, managerial, and technical jobs;
- Attraction of major corporate headquarters; and
- Encouragement of small- and medium-sized company growth.

In order to achieve these strategic objectives, the region can draw on significant existing strengths. Among the region's competitive advantages are:

- Location as a logistics hub;
- High quality secondary public education system;
- Attractiveness of the community and the quality of life afforded by its relatively low cost of living; and
- Strong research capabilities of the University of Louisville.

[17] Greater Louisville Inc. 1997 Visioning Report

[18] Location Quotients are measures of how the cluster employment concentration compares with the employment concentration nationwide. For instance, the Automotive cluster comprises 10 percent of West Louisville employment, whereas nationally the Automotive cluster comprises seven percent of total national employment. Hence, the location quotient for the Automotive cluster in West Louisville is 1.42 (10% divided by 7%).

West Louisville and Regional Clusters

While the region has a number of competitive advantages to build upon, so too does West Louisville. One of these is the significant business base, which is part of the regional cluster base. By identifying the significance of specific West Louisville industry clusters within the regional economy, a strategy can be shaped to maximize the development of entrepreneurial opportunities and jobs.

The chart below provides an overview of the regional clusters and West Louisville's presence within them. This chart provides a snapshot of the regional cluster employment, growth rates, and location quotients,[18] and has been linked with the analysis of West Louisville's clusters. Industry cluster rankings were created based on a number of key variables: regional employment share, growth history, growth potential, West Louisville employment share, ratio of growth rate to employment share, and subjective analysis of inner-city skill sets, entrepreneurial opportunities, and existing inner city competitive advantages.

West Louisville Cluster Ranking

Cluster	Overall Ranking	Number of Employees	Number of Establish.	MSA Cluster CAGR 1992–1997	Location Quotient	West Louisville Presence
Local Commercial Services	2.2	36,718	1,902	3.17%	1.00	✔
Local Construction & Development	2.1	33,503	3,112	5.71%	1.21	✔
Medical Devices & Health Services	2.0	40,628	515	6.47%	1.00	
Financial Services	1.9	42,766	3,225	6.43%	1.06	
Construction Services	1.8	27,316	2,681	5.86%	1.06	✔
Automotive	1.7	32,063	624	3.95%	1.42	✔
Local Retail Clothing & Accessories	1.6	19,183	861	5.93%	0.95	
Hospitality and Tourism	1.5	30,780	884	10.86%	1.32	
Transportation & Logistics	1.5	22,599	276	14.98%	1.88	✔
Local Hospitality Establishments	1.4	37,588	1,746	5.26%	1.06	
Local Health Services	1.2	62,003	2,472	3.16%	1.02	✔
Local Food & Beverage Processing	1.0	20,123	865	3.13%	0.94	
Metal Manufacturing	1.0	20,147	435	-1.80%	1.00	✔
Local Personal Transportation	1.0	7,468	1,828	3.14%	1.07	✔
Local Entertainment & Media	0.8	19,199	1,509	2.55%	1.11	

Local efforts focus on construction services.

The Assessment Team chose to focus ICIC's work on the three clusters most closely related to the community regional economic development strategy.

Source: Cluster Mapping Project © 2000 Michael E. Porter; ICIC Analysis

Based on these criteria and after extensive discussion, the Assessment Team chose to focus its initial research on three specific clusters: Automotive, Transportation and Logistics, and Medical Devices and Health Services ("Life Sciences"). These clusters both link to the larger regional strategy and provide job and wealth creation opportunities for inner-city residents. Two other clusters, Commercial Services and Construction, while having a significant West Louisville presence, were not chosen because they are not the primary focus of the regional strategy, and in the case of construction, local efforts to create job and entrepreneurial opportunities in this cluster are already underway.[19]

These three focus clusters should be considered "pilots" providing a road map for future work with other clusters. Ideally, all inner-city clusters would be examined and strategies undertaken for enhancing their performance. Efforts to focus on these clusters were prioritized based on goals and research of the region and the goals of The Strategy Project.

A four-pronged approach was used to identify opportunity areas for each cluster by evaluating:

- Market attractiveness;
- West Louisville competitive advantages;
- Feasibility; and
- Community impact.

In the following cluster analysis, each of these areas is examined and the opportunities outlined.

Upon completion of the research, Action Teams were brought together to shape strategic recommendations for each issue. The Action Teams, comprised of local players including CEOs, non-profit representatives, developers, and public-sector officials, worked together with ICIC to accomplish the following:

- Determine strategic recommendations;
- Create a list of action steps;
- Identify additional resources needed to assist in implementation; and
- Determine measurements of success.

Automotive Cluster – Auto Opportunities

The Automotive cluster is currently the seventh largest employer in the Louisville region, employing 30,800 or 8.9 percent of the regional workforce. West Louisville's Automotive cluster, with 89 related establishments,[20] employs 2,800, or 9.8 percent of the West Louisville workforce. Two of the cluster's industry sectors, automotive and metal manufacturing, are considered leading growth areas for the state of Kentucky over the next two decades.[21] Together, two Ford Motor plants, the Louisville Assembly Plant and the Kentucky Truck Plant, and three major automotive suppliers alone employ over 9,500 people. There are also two major Toyota plants within 80 miles of Louisville in Princeton, IN, and Georgetown, KY.[22]

West Louisville's Competitive Advantages – An Adaptable Manufacturing Presence

West Louisville has a number of competitive advantages on which to build in the Automotive cluster. In terms of a business base, metal manufacturing in West Louisville has the strongest presence among auto-related establishments, accounting for 55 percent of the companies.[23] This could be a significant opportunity area for growth because metal manufacturing is outpacing overall manufacturing in growth nationally.[24]

[19] A significant amount of local knowledge exists about the Construction cluster. Efforts are underway to mobilize resources in a similar fashion to The Strategy Project

[20] ABI 1999; ICIC analysis

[21] Bureau of Economic Analysis; ICIC analysis

[22] Cluster Mapping Project © 2000 Michael E. Porter; U.S. Industry & Trade Outlook 2000

[23] ABI 1999; ICIC analysis

[24] ICIC expert interviews

Because of its location, West Louisville is in a strategic position to participate and stimulate growth in the regional Automotive cluster. West Louisville is centrally located and **proximate to local plants and suppliers with immediate access to freight transportation infrastructure**. Opportunities exist to attract Tier 3 and Tier 4 suppliers and aftermarket suppliers, as these companies are usually the smaller establishments supplying a single component or service.

Additionally, many of the jobs created by auto-related manufacturing companies offer attractive career paths with the potential for medium- to high-wage jobs. The Strategy Project's initial research indicated that many of these jobs exist in West Louisville, but are not necessarily held by West Louisville residents. Through targeted training, there is an opportunity to make use of West Louisville's **high concentration of available workers** as the cluster evolves.

West Louisville Companies and the Automotive Supply Chain

Auto-related establishments are those companies that are currently participating in the automotive supply chain as well as those companies that could create a product or service to be used in the automotive supply chain. For instance, all of the West Louisville metal-stamping companies were identified as being auto-related establishments but not all of them are currently contributing to the automotive supply chain. In fact, only a handful of West Louisville companies were found to be directly participating in the automotive supply chain.

Many auto-related companies participate in the cluster in an indirect capacity, meaning they are not considered formal suppliers but they supply equipment and services to companies in the automotive industry. These companies contribute significantly to the Automotive cluster.

To realize the full potential of the Automotive cluster, West Louisville companies need to increase participation in the automotive supply chain. This means both enhancing the capacity of current companies to participate in the supply chain and encouraging entrepreneur ventures. These developments will also stimulate non-supply-chain business opportunities.

"West Louisville has resources that are underutilized with respect to the automotive industry."

–Louisville Automotive executive

"We always try to find companies that use lean manufacturing practices . . . It's a significant advantage."

-Regional Automotive executive

The Economy and Relationships Influence Profit and Procurement

Several potential obstacles must be considered and addressed in order to implement a West Louisville automotive strategy. The Automotive cluster is a historic pillar of the industrial economy that has volatile growth patterns linked to the national economy. In other words, the cluster can be very dependent on the state of the national economy. In times of economic slow down, opportunities for growth can be significantly stifled.

The nature of the Automotive cluster relies heavily on existing relationships and a proven track record. The supply chain has a markedly tiered hierarchy as illustrated below:

The Big Three's – Ford, General Motors, and Daimler/Chrysler – relationships to their Tier 1 suppliers are the foundation of the supply chain as directives from the top are carried out through all levels. Relationships are developed and company performances must be proven. A significant amount of networking is required to participate at any level of the supply chain. Many West Louisville companies do not currently have the size, the contacts, or the quality control measures to be direct suppliers. Yet this business base can be developed and grown with the right cluster strategy.

One of the most important areas for establishing a good track record is having high quality and on time production practices. The market is currently **demanding lean production** practices throughout the cluster, which many West Louisville companies have not yet introduced into their operations.

Lean manufacturing is an approach that reduces costs by eliminating waste in the overall production process, in operations within that process, and in the utilization of production labor. While lean manufacturing can achieve impressive results, implementing such practices can have a high initial cost. Toyota has been working with the LCDB Enterprise Group to offer quality control measures training to small manufacturing establishments in Louisville. West Louisville small manufacturers need to be included in such efforts.

Another trend in the cluster is for automotive manufacturers to **streamline the supply chain** by establishing single-supplier relationships. This trend limits immediate opportunities, particularly at the Tier 1 and Tier 2 levels. However, minority supplier development initiatives have not waned. Between 1991 and 1999, Ford increased its purchasing of

Automotive Tier Relationships

Original Equipment Manufacturers (OEMs)	Companies that produce vehicles that can be driven off the lot.
Tier 0 Suppliers	Companies that supply complete systems (e.g. chassis or interior systems) for input directly into the vehicle.
Tier 1 and 2 Suppliers	Companies that supply parts to Tier 0 suppliers. Tier 2 companies are smaller.
Tier 3 and 4 Suppliers	Companies that provide the materials needed by the Tier 1 and 2 suppliers to produce parts (e.g. processed steel or plastics).
After-Market Suppliers	Wide range of companies, such as vehicle dealerships, re-manufacturers, and retail parts suppliers.

Source: Greater Louisville Inc. and ICIC research

[25] Ford Motor Company

goods and services from minority-owned firms by 363 percent.[25] Other major automotive companies have been following suit. West Louisville could benefit from these business development opportunities by focusing on **growing and attracting minority establishments**.

ICIC collaborated with the Assessment Team and the Automotive Action Team to create the recommendations that follow. The Automotive Action Team included representation from Ford, auto-related suppliers/retailers, the Minority Supplier Development Council, and local developers.

Automotive Cluster Strategic Recommendations

Opportunity #1
Actively develop and market West Louisville as an automotive supplier location.

Understand the regional business base and opportunities for supplier development and/or relocation

- Cultivate relationships with automotive manufacturers (particularly Ford and Toyota) and Tier 1, 2, & 3 suppliers;
- Identify potential sites for automotive-related manufacturing, warehousing, and assembly expansion, as well as new business;
- Explore feasibility of after-market automotive business opportunities, such as locating a Ford Quality Care Center in West Louisville;
- Target youth population in West Louisville for workforce development; and
- Encourage and promote lean manufacturing and quality control measures training initiatives focused on West Louisville companies such as:
  - Toyota's involvement with LCDB Enterprise Group and the Small Business Development Center
  - Regional lean manufacturing training efforts such as those at the McConnell Technology Training Center.

Opportunity #2
Strengthen potential West Louisville automotive suppliers, preparing them to tap into the local supply chain.

Leverage available resources to prepare West Louisville entrepreneurs to participate in the regional automotive supply chain

- Identify West Louisville companies currently engaged in the automotive supply chain;
- Target West Louisville companies with the potential to participate, individually or as a consortium, in the automotive industry and/or in the commodity management supplier chain;
- Identify West Louisville small manufacturers that could participate in Toyota's lean manufacturing and quality control measures training;
- Explore Joint Venture/Strategic Alliance opportunities among existing West Louisville companies to gain necessary scale for entering supply chain; and
- Tap into and encourage West Louisville manufacturers to join the New Manufacturing Network (www.newworks.org).

Transportation and Logistics Cluster – Proximity Zone

The Louisville region is a critical connection point between the eastern and western United States, making it an ideal location for national distribution and logistics operations. In the past decade United Parcel Service (UPS) located one of its major hubs at Louisville International-Standiford Field Airport. The addition of the UPS hub is attracting distribution centers to Louisville as occurred similarly in Memphis with the addition of FedEx.

Regional employment in the Transportation and Logistics (T&L) cluster grew 200 percent from 1992 to 1997. Currently, the cluster employs 22,600, or 17.2 percent of the regional labor force.[26] The West Louisville presence in the cluster represents approximately 47 establishments or 5 percent of the regional cluster. More than half of the T&L companies in West Louisville are small firms with between five and 49 employees.

[26] Cluster Mapping Project © 2000 Michael E. Porter; U.S. Industry & Trade Outlook 2000

The Louisville T&L cluster includes seven major industry sectors:

- Trucking;
- Pipeline;
- Air Cargo;
- Logistics;
- Rail;
- Warehousing; and
- Inland Water.

Trucking, Warehousing, and Logistics are the three fastest growing sectors in the Louisville region.

Given these trends, the strategy development process focused on distribution through trucking, warehousing and logistics. Trucking- and warehouse-related establishments make up the largest number of establishments in West Louisville.[27]

Regional Employment Trends

Sector	CAGR ('94-'97)
Warehousing	15.6%
Trucking	3.5%
Logistics	2.5 - 7.6%
Air	-0.6%
Inland Water	-6.3%
Rail	NA

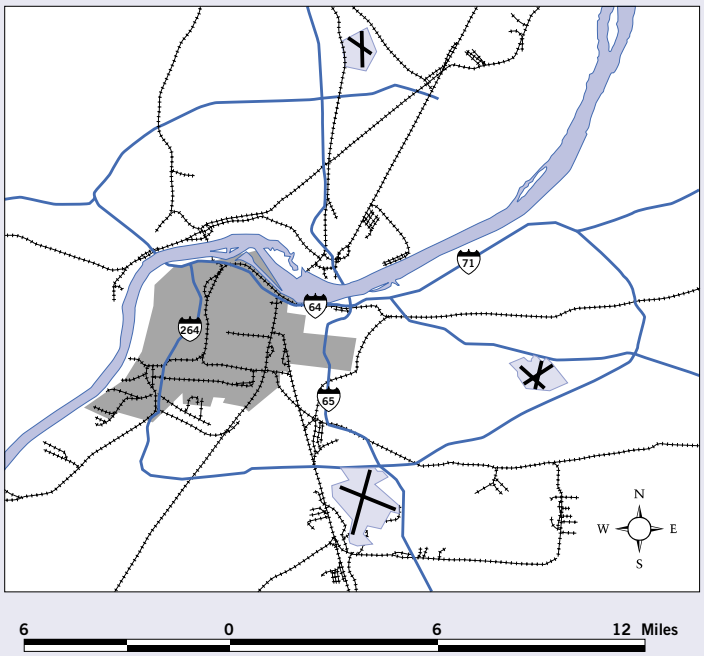
Source: US Economic Census, 1992; US Economic Census 1997.

West Louisville's Competitive Advantages – the Center of Louisville's Transportation Nodes

As the transportation industry grapples with the capital expenditures associated with transfer hubs, **the strategic location of West Louisville** within the greater Louisville region becomes an even more obvious competitive advantage. (See map). West Louisville has direct access to two of the four major highways in the region, Interstates 64 and 264, with the other two interstates just minutes away. The convergence of railroad systems and proximity to the river ports also offer intermodal opportunities. Many West Louisville sites even have direct railroad access. Intermodal transportation utilizes more than one mode of transportation for delivery of a load. The transfer of goods from one mode to the other also utilizes logistics and, to some extent, warehousing.

Certainly the addition of the UPS hub gives companies located in West Louisville a strategic time advantage in supply chain management, e-commerce fulfillment, and customer service. Niche operations such as computer repair and component assembly have thrived in such environments given their time-sensitive service. The small space requirements for such operations make West

West Louisville's Strategic Location



- **Proximity to river ports**
- **Proximity to airport (11 minutes to airport)**
- **Proximity to interstate highways: I-264, I-64, I-65, I-71**
- **Proximity to rail system (convergence of 3 major railroads)**

Airports
Runways
Interstate Highways
Ohio River
Railroads
West Louisville

[27] 1999 ABI; ICIC analysis

Louisville an attractive and viable location for niche operations given existing land and building constraints.

With a national average of 90 percent workforce turnover in the trucking industry,[28] one of West Louisville's greatest advantages is its **available labor force**. Experts estimate that there are currently 300 to 500 immediate openings in trucking in Louisville.[29] Many entry-level positions, such as freight handling, in the Transportation and Logistics cluster have minimal educational requirements so a variety of skill levels could be accommodated. Most distribution and logistics jobs pay competitive wages, while technical logistics jobs also provide career track opportunities. With the right training, West Louisville residents without higher educational attainment can access such job opportunities.

Investment and Entrepreneurship – Developing Opportunities

Entrepreneurship: In addition to job opportunities, the trucking industry provides entrepreneurial opportunities. There are several examples of truckers in West Louisville that lease or own their own trucks and work for larger companies on a contract basis. These types of trucking enterprises can offer greater earnings and more freedom, as well as possible long-term entrepreneurial opportunities, but there are a number of challenges, including the following:

- The capital investment for buying or leasing a truck and the associated insurance cost could deter many entrepreneurs from pursuing trucking opportunities;
- A certain logistical knowledge and trucking experience are advantageous as contract drivers usually get paid for one-way loads and must find their own return loads; and
- Trucking companies pay for insurance, retirement, vacation, and other benefits. None of these applies to contractors.

Land: Although Louisville has been successful in attracting distribution centers to the region, none has located in West Louisville. Lack of land and modern buildings, as well as the perception that West Louisville is an undesirable place to do business, have deterred companies. A large warehousing/logistics company would need 9-12 acres for each warehouse and such operations usually prefer to put more than one warehouse at the same location. West Louisville does not have such sites readily available. Without a distribution customer base opportunities for small trucking firms are limited.

Taxes: Further limiting trucking opportunities in West Louisville is the Kentucky Motor Vehicle Usage Tax (MVUT), which taxes the retail value of a vehicle. According to a study done by Spalding University and the University of Louisville Logistics and Distribution Institute,[30] MVUT has become a major motivating factor behind some firms' attempts to move away from Kentucky. Because of MVUT, it is less expensive for a Louisville trucking firm to locate its headquarters in Southern Indiana and register its trucks there, even if the majority of its business and trucks stay in Kentucky.

"The land in eastern Louisville was unaffordable so we moved here, two blocks away from the highway."

-West Louisville business owner

[28] ICIC analysis; Statistical Abstract of the United States, 1999

[29] ICIC expert interviews

[30] Lambert and Min, "The Impact of State Taxes on the Development and Growth of the Trucking Industry," 2000

In order to capitalize on the advantages and address these barriers, the following opportunity areas have been identified. The Transportation and Logistics Action Team included representation from trucking and logistics industries, local developers, Riverport Authority, and the University of Louisville Distribution and Logistics Institute.

Transportation and Logistics Cluster Strategic Recommendations

Opportunity #1

Actively pursue business development and entrepreneurship opportunities in niche distribution and logistics to leverage West Louisville's location.

Market West Louisville as a Distribution and Logistics location

- Identify West Louisville companies currently participating in the Transportation and Logistics cluster;
- Utilize the regional business base to develop opportunities for business development and/or expansion;

Focus on small niche logistics operations

- Ensure that West Louisville companies join and participate in the Logistics Network being set up by Greater Louisville Inc.;
- Encourage the redevelopment and development of Distribution & Logistics facilities in West Louisville in coordination with land assembly strategies; and
- Explore innovative financial vehicles to fund redevelopment and development opportunities.

Opportunity #2

Pursue local entrepreneurship opportunities in trucking

Focus on small, local specialty trucking

- Benchmark the cost/benefit of running a trucking company in Louisville versus surrounding states;
- Explore feasibility of creating a business service and development program for trucking concerns that can be used by existing independent contractors, drivers, or trucking companies;
- Explore feasibility of an incubator for start-up trucking companies with services and training; and
- Explore feasibility of developing a secure lot with a maintenance facility for independent truckers.

Opportunity #3

Link the West Louisville workforce to truck driver demand in region

Utilize existing educational programs for workforce training

- Utilize the Logistics and Distribution Institute at the University of Louisville for networking/training opportunities; and
- Encourage participation in the GLI Transportation/Trucking Network.

Life Sciences Cluster (Health Services and Medical Devices) – Early Evolution

The Louisville region is becoming a recognized leader in biomedicine and healthcare services (also referred to as Life Sciences). Having been the site of surgery for the first self-contained artificial heart transplant, the Louisville Medical Center recently gained national recognition as a cardiac center. In its visioning report, regional leadership singled out Life Sciences as one of the region's highest priority areas for development. Specifically, the region has focused on:

- Expanding the research capacity of the University of Louisville;
- Creating the Louisville Medical Center Development Corporation (LMCDC) to capitalize on economic development and enhanced research and development opportunities; and
- Developing a health-services business park adjacent to the Louisville Medical Center while developing the capacity of the Louisville Medical Center by attracting life-science-related businesses.

The Strategy Project focused on articulating a role for West Louisville in the long-term regional strategy by capitalizing on opportunities in industries that are part of or related to the Life Sciences cluster, namely Health Services and Medical Devices. Opportunities focus on workforce, outsourcing, and locating manufacturing operations in West Louisville.

The Life Sciences cluster, the third largest cluster in the Louisville region, grew 15 percent over a five-year period (1992 - 1997). The cluster includes at least nine industry sectors:

- Medical Devices;
- Ambulance;
- Rubber, Plastic, and Metal Products;
- Pharmacy;
- Medical Laboratories;
- Insurance;
- Medical Equipment and Supplies, Wholesale and Rental;
- Support Services, such as Facility, Logistics, and Administration; and
- Health Services, such as Rehabilitation, Psychiatric, Acute Care, Home Healthcare, Nursing Homes, and Assisted Living Facilities.

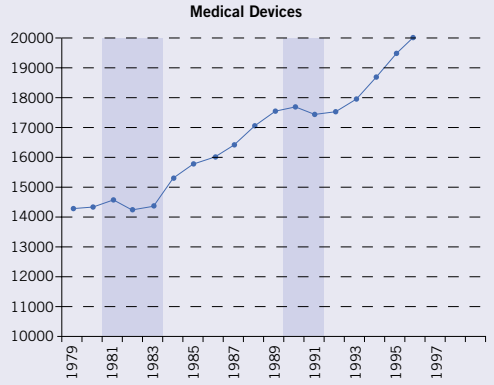
Hospitals and Health Services provide the majority of jobs in the cluster with Medical Devices, Pharmaceuticals, and Insurance representing the largest growth in jobs over a five-year period – approximately 20 percent.[31]

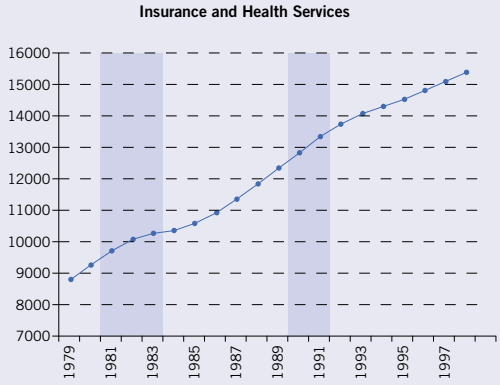
Nationally over the past two decades, companies in life science areas have grown steadily. One reason these companies have grown is the increase in the elderly population, which has grown in number and as a percentage of the total population.

- Over-65 age group accounts for 13 percent of population yet 40 percent of healthcare spending;
- Between 1995 and 2030, the over-65 age group in the United States will double in size; and
- The 85 and older age bracket is the fastest growing and most likely to use health services.[32]

The continuation of these trends supports growing demand for life-science-related areas. Health Services and Medical Devices have sustained growth during the 1980s and 90s even through periods of recession. Medical Devices has proven to be more sensitive to national business cycles with slight dips during periods of recession but it shows quick recovery. These two sectors should continue to display steady growth.

Business Cycles and Annual National Employment Trends 1979- 1998





Shaded areas cover periods of recession as defined by the National Bureau of Economic Research

Source: National Bureau of Economic Research; Bureau of Labor Statistics, US Department of Labor; ICIC analysis

[31] Cluster Mapping Project © 2000 Michael E. Porter; ABI 1999; ICIC Analysis

[32] Healthcare Financing Administration; Standard & Poor Industry Surveys "Financial Services" 1999; U.S. Industry & Trade Outlook 2000

Carving Out a West Louisville Niche in Life Sciences

West Louisville currently has very little of this cluster present with fewer than 30 life-science-related establishments employing only 460. The majority of establishments are laboratory and research institutions, medical device input companies,[33] or health-service-related establishments. However, with a long-term objective to bring West Louisville into this regional cluster, there are a number of strategies that can be pursued.

Workforce Opportunities are the Most Readily Available

Louisville healthcare administrators have spoken anecdotally of a shortage of healthcare workers. Hospitals have even gone as far as to recruit workers internationally. West Louisville has a concentrated underutilized workforce that may be a good fit for many Medical Devices and Health Service jobs. The Medical Device Manufacturing workforce requirements span a broad range of skill sets including:

- Direct labor (hourly) – High School Diploma;
- Technical/ Scientific - College Degree and Industry Experience; and
- Administration - College degree and 10+ years Industry Experience.

The Health Services workforce requirements are more geared toward those with more entry-level skills and include:[34]

- Nursing Aides;
  - Usually does not require a high school diploma;
  - Certification Program;
- Licensed Practical Nurses/Registered Nurses;
  - Degree from state-approved school of nursing (usually 2-3 year program);
- Dietary;
  - Associate degree approved by the American Dietetic Association Council on Education Division of Education Accreditation/Approval;
- Medical Information Management; and
  - High School Diploma;
  - Certification Program;
- Administration;
  - Generally, high school diploma.

Efforts are already underway in Louisville to develop training and recruiting strategies for the health services cluster.

Outsourcing Could be a Benefit to Hospitals and to Companies

Louisville can also take advantage of outsourcing trends in healthcare. Outsourcing healthcare services increased by 20 percent from 1999 to 2000 and is expected to grow by 15 percent annually through 2002[35]. Outsourcing

[33] Medical device input establishments have a product or service that could be used in medical device manufacturing; many chemical and plastics companies fall into this category.

[34] Briarwood Community College; ICIC interviews and analysis

has increased, in part, because healthcare companies face increasing pressure to reduce administrative costs and because hospitals face continued consolidation and downsizing. A rise in preventive treatment driven by managed care and medical technology advancements has also impacted the growth of outpatient settings and outsourcing opportunities.

In most cases, outsourcing has led to large-scale consolidation of purchasing from national suppliers, leaving few opportunities for local suppliers. However, interviews with local healthcare administrators suggest a number of areas that could be considered for local outsourcing. Many of these outsourcing opportunities would benefit from West Louisville's labor, location, and transportation advantages. These include:

- Patient transportation – transportation specialists serving local hospitals;
- Hospital material logistics – warehousing and in-house distribution of medical and non-medical supplies;
- Staffing services – recruiting and screening full- and part-time employees;
- Laboratory services – creating economies of scale in routine laboratory work; and
- Administrative services – claims processing, data processing, transcription, collections, patient satisfaction measurement, medical record, etc.

Outsourcing logistics and administrative services functions provides opportunities for companies to reduce costs and for the development of inner city supplier businesses. These opportunities may be enhanced if a collaborative model, such as a Group Purchasing Organization (GPOs), is used. Hospitals reap significant cost savings, and GPOs can spend time on value-added functions, such as improving utilization and standardization of products. GPOs and cooperative/collaborative training models may provide a means for hospitals to improve competitiveness. The figure below gives an illustrative example of how a GPO can impact the bottom line.

Impact of Group Purchasing Organization to Hospital Profitability

Revenues	**Without GPO $ 1 Million**		**With GPO $ 1 Million**
Expenses - medical supplies and equipment, labor; *Assume 85% of revenues*	$ 850K	*Assume: 2.5% Savings*	$ 829K
Expenses - non-medical supplies and equipment, purchased services; *Assume 10% of revenues*	$ 100K	*Assume: 5% Savings*	$ 95K
Profit: Assume 5% of revenues	$ 50K		$ 76K

$26K purchasing savings results in a 53% improvement to profit

Source: Andersen Consulting research in "Hartford Inner City Business Strategy," ICIC, April 2000

[35] 2000 VHA Strategic Outsourcing Study

"The Louisville region is still very early in its evolution to becoming a center for medical device manufacturing but seems to have a lot of promise."

–Louisville Life Sciences expert

Small Land Parcels Fit Well with Medical Device Manufacturing

Louisville has made tremendous strides in developing land and buildings to accommodate life sciences companies. Initiatives led by the LMCDC, including the development of the Life Sciences Research and Business Park, represent concerted, strategic efforts that are laying the groundwork for the growth of this cluster.

Such a concerted effort is necessary to include West Louisville as part of targeted areas for investment by life sciences firms. Available land and facilities in West Louisville could be used to accommodate medical device manufacturing companies. Small and medium-sized companies have space requirements of 50,000 square feet or less, which fits nicely with West Louisville's pool of land.

West Louisville may also be able to meet similar land needs of some suppliers needed by medical device manufacturers, such as:

- Plastic molding and extrusion;
- Calibration/ Standard Services;
- Sterilization;
- Bio-Laboratories; and
- Packaging materials.

However, a number of barriers exist. Space for medical device manufacturing must meet precise technical parameters, requiring significant retrofitting or renovations in existing buildings of former chemical and manufacturing establishments. In addition, the perceptions of crime and general disinvestment in West Louisville are significant deterrents to potential investors and must be addressed directly.

Medical Device Manufacturer: Space Requirement

Size	Total Square Feet	Rooms
Minimum	10,000	Clean room Material Segregation and Warehouse QA and Document Control Inspection (Incoming, In-Process, Finished Goods) Mechanical Room Office
Mid-level	50,000	Clean room Material Segregation and Warehouse QA and Document Control Engineering Inspection (Incoming, In-Process, Finished Goods) Machine shop Mechanical Room Office

Source: ICIC interviews with industry experts and executives

Although most life science opportunities are long-term and at early stages now, the concerted effort of public and private leaders to develop this cluster is already making a difference. By looking for ways to incorporate West Louisville into the effort, the region can begin to find ways to capitalize on the underutilized assets that exist in West Louisville.

Representatives from the University of Louisville Medical School, University of Louisville Hospital, and private -sector executives from medical devices and health services companies comprised the Life Sciences Action Team.

Life Sciences Cluster Strategic Recommendations

Opportunity #1

Link West Louisville entrepreneurs to administrative and logistics-outsourcing opportunities with major health services providers

Promote West Louisville services to major health services providers

Leverage the regional Healthcare Network and Louisville Medical Center to explore creation of a Group Purchasing Organization

- Identify potential GPO participants;
- Identify cost-saving opportunities for organization; and
- Work with potential GPOs to develop career track jobs.

Opportunity #2

Establish and promote recruiting and training programs serving the West Louisville workforce

Create a collaborative recruiting and training program for healthcare employees

Opportunity #3

Develop and market West Louisville as a location for medical device manufacturing

Identify and engage local, regional, and national medical-device-related companies to stimulate West Louisville cluster growth

- Identify existing and potential West Louisville and non-West Louisville medical device manufacturing companies to explore potential growth opportunities and develop and cluster linkages; and
- Recruit a large company, such as Baxter, J&J, or Medtronic, which would accelerate the development of the cluster and create related business needs in manufacturing and business-to-business services.

Work with key players, such as Louisville Medical Center, academic community, and others, to identify and incubate key medical devices manufacturing assets and resources

- Identify an implementation organization to work with key local players in continuing to develop the Life Science cluster strategy for growth;
- Highlight West Louisville features that support a life sciences initiative, such as its location and labor supply; and
- Link West Louisville businesses and residents to training programs and needed resources to develop existing businesses and foster entrepreneurial opportunities.

Identify West Louisville sites/buildings that meet medical device manufacturing specifications and Life Sciences cluster strategy for growth

Business Environment Findings and Recommendations

"There was no where I knew of to get help [to apply] for Enterprise Zone incentives."

–West Louisville executive

A Strong Business Environment Supports Growth Productivity

The quality of a company's business environment can greatly influence its efficiency and competitive position. Inner cities typically suffer from several disadvantages as business locations. These inner-city disadvantages must be seen as economic hurdles and addressed as part of an economic strategy. Investments in improving the business environment are a highly leveraged way of approaching economic development since the productivity of many firms, not just a few, is increased. Common examples of business environment disadvantages include:

- scarcity of land and difficulty assembling parcels for development;
- lack of available and effective business services;
- discrimination against residents and entrepreneurs;
- high taxes and utility cost relative to the suburban area;
- difficulty in finding affordable insurance;
- higher rates of crime and perception of crime;
- poorly maintained logistical infrastructure;
- burdensome regulations and permitting requirements;
- environmental pollution;
- weak education and training system; and
- poor reputation of an area as a place to do business.

Addressing business environment issues represents a genuine opportunity to increase the competitiveness of West Louisville and strengthen the regional economy as a whole. Business environment issues are critical enablers to any cluster-specific growth or development strategy. As noted earlier, the business environment area focused on addressing specific challenges West Louisville business owners identified: Land Assembly, Business Development Services, and Reputation.

Data gathered in interviews identified the key business environment issues facing business owners. They cited difficulties with their location, including inability to expand on current sites or acquire usable parcels of land, cumbersome regulations, and limited access to capital. Many owners felt a lack of access to business development services slowed down business growth. Business owners also reported concern that the reputation of West Louisville hindered their abilities to do business in a number of ways including attracting employees and winning bids on contracts.

A Balanced Approach to Evaluating the Issues Informed Recommendations

In order to address the three key business environment challenges, information on the following areas was gathered in a series of interviews:

- Current programs or initiatives that address some aspect of a particular business environment issue;
- The impact of current regulations or procedures on the business environment issue; and
- Entities (public, private, or non-profit) that operate in or have influence over a particular issue.

Additionally, other cities that have taken steps to improve similar business environment issues were surveyed to explore best practices.

Land and Land Assembly: An Untapped Resource

Usable Land is a Necessity for West Louisville

Seventy-seven percent of the companies interviewed cited inadequate land or facilities for expansion as a competitive disadvantage. Several companies even cited inadequate land or facilities as a potential reason for leaving West Louisville. The paradox is that while a number of companies wish to grow in West Louisville, they cannot access vacant land and buildings. Many parcels are not immediately available for reuse due to environmental clean-up issues, or they are neglected vacant buildings unfit for use. As a consequence, West Louisville may lose many of its vital economic contributors as these businesses outgrow their existing facilities.

An abundance of developed suburban land near West Louisville, i.e., Riverport, has absorbed many new and relocated businesses, which has, until now, alleviated any pressure to develop usable inner-city land. Now that Riverport has nearly reached its capacity, the Louisville region will have a greater need for marketable land.

Availability of usable land and buildings is critical to economic development. Most commercial and industrial land requests are for at least five acres. The majority of land parcels in West Louisville are less competitive than the region because they are considerably smaller and often fragmented with many different landowners. The lack of readily available sites in West Louisville, and the city in general, severely limits opportunities to attract new companies or grow the existing business base. Two of the targeted business clusters, Automotive and Transportation and Logistics, are particularly affected. Many companies in these clusters rely on large tracts of industrial land.

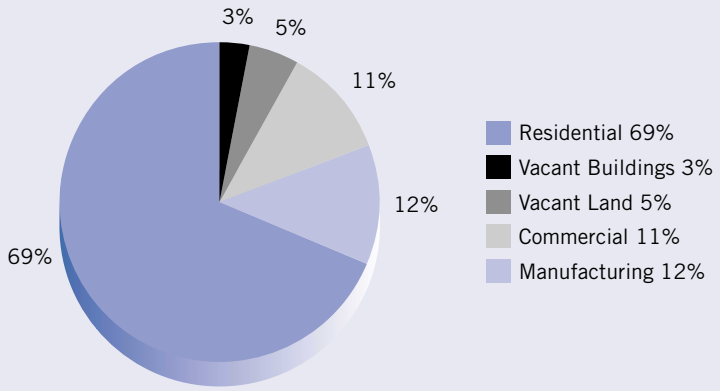
"Right now we are landlocked... I've had to put on a night shift to make up for the fact that we have no land for expansion."

–West Louisville businessowner

"West Louisville will not be competitive with the suburbs without land being in place."

–Regional executive

Square Footage of Property in West Louisville



Source: Dr. Arthur W. Dakan & Margaret Maginnis, University of Louisville. This information is based on field and database research and is estimated by block group. A block group consists of 5 total blocks.

Available Land Exists in West Louisville

Louisville's overall vacant land rate is far below the national average (4.3 percent versus 15.4 percent, respectively). West Louisville, however, has almost a fifth[36] of the city's unused land, totaling more than 7.8 million square feet. Interestingly, only slightly more than 1.2 million square feet (15.8 percent) of that unused land is currently leasable[37]. Much of the remaining land has abandoned structures in poor condition, which render the parcels unattractive to the market, and/or contaminated land. The high number of abandoned buildings in West Louisville contributes significantly to the city's higher than average abandoned structure rate, 5.7 abandoned structures per 1,000 inhabitants, compared to the national average of 2.6.[38] Developing this land into marketable parcels represents a significant opportunity for West Louisville.

Time and Money Have Held Back Land Assembly Efforts

A number of barriers must be addressed in order to capitalize on West Louisville's vacant land and buildings. First, it typically takes significantly longer to redevelop inner-city land than to develop green-field land. Often the development process is lengthened by regulatory and procedural challenges. For example, the environmental clean-up associated with preparing some sites for reuse is an expensive and time-consuming process. Hence, the assembly and redevelopment of contaminated sites requires a more intricate financing solution.

Second, there is a lack of access to and a shortage of available funds to cover the additional costs of site assembly, remediation, and disposition.[39] The city often takes the place of private-sector developers when challenges such as these exist. However, the City of Louisville does not have the authority to purchase land at fair market value for economic development purposes if the owner is unwilling to sell. The city's power of eminent domain is restricted to property to be used for "public" purposes.

Louisville is building momentum to turn this challenge into a West Louisville opportunity. The Kentucky legislature has recently enacted brownfields legislation. The City of Louisville created the Land Bank Authority in 1988 to expedite foreclosures on delinquent properties, and it has transferred vacant lots and blighted residential structures to developers. The Land Bank Authority has focused its powers on residential redevelopment, amassing over 2,000 vacant lots in the neighborhoods surrounding downtown. Recently, a land banking initiative was begun to identify and inventory land for industrial sites.

The Land Assembly Action Team, comprised of a number of public- and private-sector representatives from GLI, LDA, land developers, environmental law, and financial institutions, agreed that the critical factor in addressing land use issues is having enough financial resources to make investments of scale.

[36] 17 percent

[37] Leasable in this case is defined as all space within a building that would be used to produce revenue. Hallways, restrooms, and the managers' space (if any) are not counted

[38] Arthur W. Dakan, University of Louisville; Brown, Todd & Heyburn, PLLC, "Vacant Land in Cities," Brookings Institute, 2000; ICIC analysis and interviews

[39] ICIC interviews

Land and Land Assembly Strategic Recommendations

Opportunity: Redevelop unusable and outdated buildings into marketable sites

Determine site and building needs for businesses within the focus clusters–Transportation and Logistics, Automotive, and Life Sciences–and companies currently operating within the area

Inventory unused and underutilized land and building supply

- Centralize all public and quasi-public land and building inventories under the Louisville Development Authority;
- Target the older industrial and commercial corridors within West Louisville for land assembly; and
- Identify brownfields and potential brownfields sites using EPA-identified sites and Louisville insurance maps as a baseline; maintain formal records in consolidated database.

Create marketable sites compatible with Greater Louisville Inc. and the City's West Louisville business retention, development, and attraction strategies

- Consider retrofitting existing structures and/or sites in addition to providing newly assembled parcels for development; and
- Target potential brownfields properties for an area-wide risk assessment as part of an assembly strategy.

Streamline the administrative process by assigning responsibility to one agency, effectively creating a "one stop shop."

- Investigate innovative land assembly mechanisms through an existing or modified state authority (for example, through the coordination of land assembly efforts with the Riverport Authority).

Identify potential financing sources, both private and public, to stimulate the redevelopment process

- Explore the use of a targeted Tax Increment Financing District or other districts that will assist in leveraging funds for acquisition-related costs;
- Explore the enhancement of existing state assembly/disposition authority with incentives to encourage redevelopment; and
- Investigate other sources, both public and private, for significant funding, such as foundations or federal government (e.g. Eli Lily/Indianapolis, Section 108 Loans, or US Army Corps of Engineers brownfields program).

Develop and implement a focused marketing strategy in partnership with GLI, LDA, and others for West Louisville land and buildings

- Link the overall strategy to regional planning efforts and Governor Patton's Smart Growth Initiative.

Business Development Services: Supporting the Business Base

Non-profit or public sector business development service providers often fill critical resource gaps for small to medium-sized companies. Because of their size, these companies may not have the cost effective means to access certain services to help grow their businesses. Business development service providers supply assistance and expertise in an effort to stimulate, support, and sustain business growth. These organizations aim to meet the needs of companies through a range of programs, such as:

- Financial Analysis;
- Procurement, SBIR / STTR Assistance;
- Business Licensing, Permits, Patents, Zoning Assistance;
- Technology Access and Training;
- Business Counseling & Planning;
- Human Resources;
- Education, Worker Training / Retraining;
- Financial Resources;
- International Trade Assistance;
- Information and Referral;
- Marketing & Sales; and
- Market Research & Financial Data.

"You can go to a seminar and hear about [best practices] but when you come back to the office how do you make it happen?"

–West Louisville executive

"We're supposed to be able to sell West Louisville, but we don't know what its strengths are."

–Louisville economic development professional

A Number of Service Providers Work in West Louisville

Louisville has numerous business development service providers at the neighborhood, city, and regional levels. The market areas of at least nine of these service providers include West Louisville. Services offered include, but are not limited to: location and site, expansion, financing, business plan and strategy development, management skills, procurement assistance, and workforce development. The table below describes the clientele of each organization and the range of services offered.

Providers of business development services for West Louisville companies seem to specialize in the similar types of services – management skills and business plan/strategy development– and target the same clientele: (micro and small companies with 1-49 employees). For instance, six of the above nine West Louisville service providers offer business plan and strategy development. Of those six service providers, only GLI focuses on companies other than micro or small in size.

A review of the business services offered throughout the region and specifically in West Louisville suggested three areas for improvement:

1) While overlap or duplication of services by providers offers a wealth of resources to West Louisville companies, the resources could be more efficiently utilized. For example, a recent study prepared for the LDA[40], notes that the "service system" focusing on minority entrepreneurs boasts "a collection of

Existing Business Development Services

Organization	Clients	Expansion	Financing	Management Skills	Permitting/ Regulations	Procurement Assistance	Business Plan/ Strategy	Workforce Development	Incubation
Greater Louisville Inc.	All businesses in the region	•		•		•	•	•	
Greater Louisville Small Business Development Center	Businesses with under $400K revenue			•		•	•		
Kentuckiana Minority Supplier Development Council	Established minority-owned businesses			•		•			
Louisville–Jefferson County Office of Business Services	All businesses in Jefferson County		•						
Louisville Business Resource Center	Start-up and micro businesses in the West End			•			•		
Louisville Central Development Corporation Business Plus	Start-up and micro businesses (under $500K revenues) in the West End		•	•			•		
Louisville Development Authority	All businesses in City of Louisville	•							
Louisville Enterprise Group	Micro and small businesses in the West End		•	•			•		•
Louisville Minority Business Development Center	Micro and small minority-owned businesses in the region			•		•	•		
Workforce Investment Board	All businesses in region							•	

[40] Lyons"Articulating the Current Minority Business Development System in Louisville, Kentucky," University of Louisville

service providers that offer assistance at every level of entrepreneurship." The report also highlights that several overlaps and gaps in service exist. The Strategy Project had similar findings. In particular, there is a need for additional services directed at companies transitioning from small-sized to medium-sized (those companies with 20 to 50 employees). Service providers must develop their knowledge and understanding of other providers within the network in order for the spectrum of service to evolve into a system and fully develop its client entrepreneurs in a way that will transform the local economy.

2) Interviews with several of the business assistance organizations revealed that providers felt they knew very little about the types of companies operating in West Louisville or what unique advantages and challenges exist. Broader knowledge of the overall business base in West Louisville will help in the formulation of strategy for the business service providers and lead to greater impact.

3) There is also a need to simplify access to the most appropriate service providers based on a company's needs. With so many organizations, companies are often unclear where they should turn for help. The report cited earlier notes that "both individual service providers (with a few exceptions) and the current system as a whole appear to suffer from a lack of visibility to minority entrepreneurs, to other service providers, and to sponsors." Establishment of a one-stop resource that directs companies to the appropriate service providers would allow companies to maximize available resources. Other cities, such as Tucson and Los Angeles[41], have established service provider networks and/or Web pages to serve this function. Louisville is in the process of creating a small business service provider network. The momentum for this network needs to be sustained and perhaps expanded to include all service providers to ensure that the needs of medium-sized companies are met.

Significant Progress has Already Been Made

Louisville is already on its way to addressing some of the challenges identified above. First, the Louisville Small Business Development Service Providers Network is in its infancy stage having just re-formed. Members plan to meet bi-monthly to facilitate communication, focus efforts, and collectively improve service provision. Goals include:

- Development of a resource and service guide;
- Identification of the current spectrum of business development support services, as well as service gaps, and attempting to categorize them into service cluster areas;
- Use of a referral form and database, which the Louisville Business Resource Center, located at the Nia center and LCDB Enterprise Group have begun to develop; and
- Production of a quarterly newsletter.

Second, the Louisville Business Resource Center is currently increasing its emphasis on serving as an assessment and referral center. Specifically, they are implementing a database system to enhance the referral process, and they are improving the referral form and integrating it into the Small Business Development Service Providers Network's tools.

Finally, Greater Louisville Inc. (GLI) maintains a "players guide" on its Web site, which is a list of regional economic development organizations and permitting and regulatory agencies with contact information and links.

All of these resources serve an important role in fostering entrepreneurial and business growth. Their impact will be even greater if they have a shared agenda and strategy going forward.

The Business Development Services Action Team included representatives from local non-profit service providers, the City of Louisville Office of Business Services, Louisville Business Resource Center, and GLI.

[41] See Tucson's Entrepreneurship Network at www.enet-tucson.com and Los Angeles' Regional Business Assistance Network at www.laedc.org/bap.html for more information

Business Development Services Strategic Recommendations

Opportunity: Streamline and coordinate business development services to help small and medium-sized West Louisville companies become more competitive

Identify existing companies and develop stakeholder partnerships with the goal of assisting these companies (especially in expansion or relocation)

Ensure existing service providers build a West Louisville focus into their program structure

- Ensure existing service providers enhance their programs, strengthening and expanding the range of services provided to West Louisville businesses in the three cluster areas as well as in construction services;
- Develop a relationship with the businesses not in the targeted older industrial and commercial areas; and
- Identify funding and support to hire an economic development professional to engage the targeted businesses and connect them to business development services within the three cluster areas and construction services.

Eliminate duplication of services and improve business access by creating an all-inclusive delivery system of technical assistance and support services

- Develop a matrix listing the business development needs of an evolving or growing business with corresponding services/assistance available;
- Build upon the existing matrix developed by ICIC;
- Eliminate gaps in services for small and medium-sized businesses (5-250 employees); and
- Enhance the connectivity to service providers to improve service delivery, e.g., set up a Web site and toll-free number that provide access and links to all service providers, serving as a first-stop resource.

Reputation: Changing Perceptions

Improving Perceptions is Key to West Louisville's Success

The reputation of an area as a place to do business influences a company's ability to attract employees, customers, and even financing. For West Louisville, negative reputation appears to be holding the area back from realizing its economic potential. The Strategy Project explored the reality and perception of West Louisville's reputation as a place to do business. The most compelling finding, which is consistent with ICIC's work in many other inner cities, is that West Louisville companies rank perception of crime as one of the top competitive disadvantages of being located in the area. Until the issue of reputation is addressed, efforts to retain West Louisville companies and attract others will be challenging

Perception of crime is at the heart of reputation issues for urban areas. Actual crime is often compounded by misperceptions about an urban community resulting in a sizable impediment to community and business development. Getting behind crime statistics is necessary to illuminate the reality of crime occurrence in the area.

Crime statistics are divided into violent and non-violent categories. West Louisville's violent crime rate is indeed significantly higher than that of the remainder of the city. High violent crime is often what leads to negative perceptions of an area, thereby deterring business development. However, research and interviews with West Louisville companies reveal that non-violent crime is the category that impacts the day-to-day business of companies.[42] The non-violent crime rate of West Louisville is comparable to other cities and is only slightly higher. Most companies reported experiencing nothing more than minor vandalism or theft.

Since over 80 percent of West Louisville crime is non-violent in nature, we can infer that the negative reputation of West Louisville as a place to do business is a result of misperceptions. Underscoring this point is the fact that two-thirds of company owners identified the perception of crime as a competitive disadvantage to doing business in West Louisville. Regrettably, perception of crime is a difficult problem to remedy since it builds on historical associations, racism, misperceptions, and narrow medial representations of the area. Of these factors, the most immediate lever for change is a media strategy that provides a more complete picture of West Louisville.

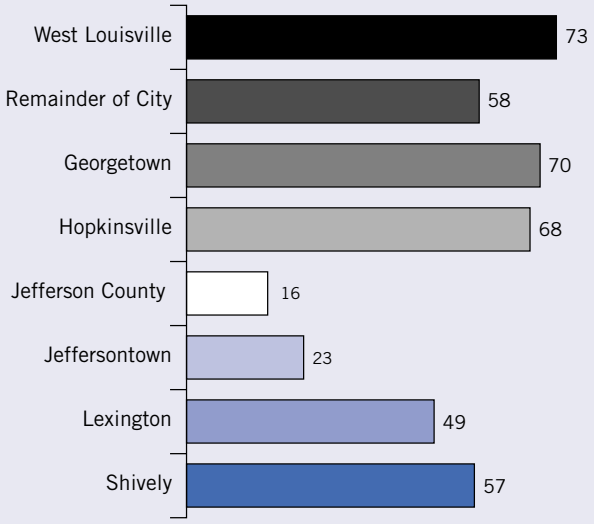
Media Coverage has Been Limited

ICIC's analysis of the local **media coverage** of West Louisville reveals a preponderance of reporting on crime. A search of the archives of The Courier-Journal, the primary daily newspaper for Kentucky and Southern Indiana residents, reveals that crime was the central topic of many articles on West Louisville. Over a third more stories are about crime than about the next most popular topic: high school sports. Despite being home to almost 1,500 companies employing nearly 34,000, West Louisville business is rarely, if ever, mentioned.

"I had a real problem when I first moved here. My employees, particularly the women, didn't feel safe coming to work. I knew it was generally safe, but that's not what they see on the news and it took them a while to believe."

–West Louisville businessowner

Non-Violent Crime Rate (per thousand residents)



Source: 1998 URC, State of Kentucky; 1998 Louisville PD; ICIC Analysis

[42] ICIC interviews

"No one sees the West End as a place of opportunity. They don't even look there. There's a huge image problem to overcome."

–Louisville commercial real estate developer

An overemphasis on reporting on crime, common in many urban areas, creates a community and business development impediment for West Louisville. Not only is it more difficult for West Louisville to compete for new companies, but existing companies are not benefiting from the same level of business coverage, thereby affecting their growth potential. The first step must be to provide the media with easy access to information on business growth and community improvement.

New Initiatives Need to Include the Entire West Louisville Community

Historically, racism and classism have been barriers to prosperity in communities of color, such as West Louisville. ICIC recognizes that addressing these issues is critical to having West Louisville fully participate in the regional economy. While the Strategy Project has not directly focused on these issues, it is hoped that this approach, focused on economic inclusion and building on assets, will help bring down the walls around race and class. There are current initiatives underway, such as One Louisville, which address these critical issues. One Louisville was assembled to study and improve race relations in Louisville. The task force is made up of local African-American leaders, local police representatives, and others. Further support of the One Louisville initiative can build a stronger sense of community in Louisville and,

Midtown Cleveland Case Study

Other cities have addressed similar negative perceptions in their neighborhoods. Cleveland's MidTown Corridor was perceived as being unsafe, "filled with rundown buildings and empty lots" and viewed as "less than desirable for business or residential development." Companies were leaving the area and crime and unemployment rates were rising. Local leadership formed the MidTown Cleveland Initiative in 1982 to improve the Midtown area of Cleveland for business and community development. The Marketing and Communications Committee, made up of MidTown Cleveland members and professional services representatives, was created to lead a large-scale public relations and marketing effort.

Branding the area as MidTown Cleveland, they used taglines, such as "MidTown – A Cleveland Business District" and "MidTown – It's Working." MidTown also branded a green and white logo to be used on all press materials and street signage. Since MidTown's inception 15 years ago, there has been a decline in its crime rate, a series of makeovers and rehabilitation of old buildings, and they have attracted $500 million worth of new investment in the area.

One of the critical factors in the success of MidTown Cleveland was stimulating the interest of local stakeholders. By rallying the business community behind the initiative, MidTown instantly created numerous spokespeople to spread positive feedback about the area. West Louisville companies must come together to address the issue of reputation and become positive spokespeople for the area.

in turn, will help to decrease crime and improve the perception of neighborhoods such as West Louisville.

The *Louisville Defender*, a weekly newspaper aimed at Louisville's African-American community, has published a number of positive articles about West Louisville, particularly about successful residents. More positive stories need to be communicated to a larger audience in order for perceptions to change.

Reputation Strategic Recommendations

Opportunity 1: Promote West Louisville's assets to local and regional communities

Promote West Louisville's importance to the Louisville region

- Widely disseminate the findings of The Strategy Project with respect to the value of West Louisville's economy, its economic potential, and value to the region;
- Develop marketing materials for West Louisville targeted at real estate and business development agents; and
- Develop community/neighborhood activities and events, such as forums, seminars, and briefings on The Strategy Project to be held quarterly over the next year.

Create a positive attitude toward West Louisville's importance to the region

- Rally local business stakeholders to support the initiative and begin to address the issue of reputation; and
- Identify and develop partnerships with strategic key stakeholders to create momentum and strong brand credibility.

Opportunity 2: Market West Louisville assets to attract investment

Design a targeted media campaign around cluster opportunities

- Develop strong media partners – TV and radio partners needed for high frequency;
- Provide the media with regular and easy access to business stories; and
  - Have the mayor regularly visit and speak about successful West Louisville companies;
  - Create a special award to be given to an outstanding person or business;
  - Publish a list of the 10 fastest growing companies located in West Louisville;
- Create a database of key influential people and entities to be kept informed of activities and opportunities.

Opportunity 3: Improve actual and perceived security in West Louisville

Bring together and partner with local police, business groups, community organizations, and residents to increase sense of security by building upon existing programs and exploring alternative methods

- Build upon existing programs, such as One Louisville and the Premise Data Report; and
- Explore alternative methods to improve perceived and actual security, such as a Police Homeowner Loan Program or Security Advisory Committee.

Implementation

Implementation

Real Assets, Real Potential, Real Impact

While numerous studies have focused on the challenges in West Louisville, few have focused on the opportunities. The West Louisville Competitive Assessment and Strategy Project was designed around building on assets and opportunities, and creating an action-oriented agenda. A structure has been designed by the Assessment Team to ensure implementation of the strategic recommendations.

It is important to note that the implementation structure has been carefully crafted to take advantage of existing infrastructure and to avoid the necessity of creating new entities. The various elements of the implementation structure will provide the capacity deemed necessary to deliver on the Assessment Team's commitment to produce results in West Louisville. Equally important will be **institutionalization of the process** so that it can be migrated to other clusters, providing a basis for continued growth and development of the West Louisville business base.

The early-stage implementation phase is expected to last a minimum of two years. The key participants in the implementation phase will determine the implementation structure going forward after two years. The core components of the implementation phase include the following:

West Louisville Economic Alliance

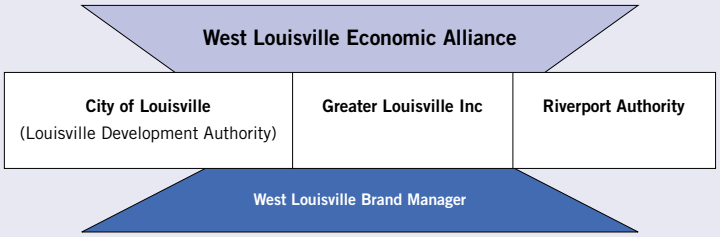
The driving force behind the implementation of the strategic recommendations will be the West Louisville Economic Alliance (The Alliance), made up of West Louisville stakeholders and cluster representatives. The Alliance will champion The Strategy Project and institutionalize the implementation plan within the regional economic development framework.

The Alliance will act as an umbrella confederation, working with key entities to raise West Louisville's presence as an economic location and to implement the action plans. Existing organizations will incorporate the West Louisville strategies into their regional economic development agendas. The city will work intensively on land assembly and business services issues, with the Louisville Development Authority taking a lead role. Greater Louisville Inc. (GLI) will oversee cluster-specific strategies, and the Riverport Authority will use its power for acquisition and disposition of land to support the city on land assembly issues. All of these entities will be involved in assisting The Alliance in address-ing the issues of image and reputation.

West Louisville Brand Manager

West Louisville will also now have a new dedicated resource, **the West Louisville Brand Manager**. This individual will work closely with the Alliance,

Implementation Organization Structure



and develop and manage relationships with West Louisville businesses and executives as well as the businesses and executives in the rest of the region. The Brand Manager will be uniquely positioned to accomplish this by being intimately familiar with the opportunities that exist in West Louisville and working within Greater Louisville Inc. This will provide the opportunity to be closely linked into the regional economic development infrastructure and help to build relationships at the regional level. Other key participants in implementation who will work with this person include representation from the Louisville business schools, Riverport Authority and the private sector, which has already provided significant support for this effort.

Alliance with Riverport Authority

As previously noted, land assembly is a critical element to stimulating West Louisville's growth and prosperity. The Assessment Team has recommended that a special alliance be formed between the city's Louisville Development Authority, GLI, and the Jefferson Riverport Authority, Jefferson County's premier industrial park. Riverport's land acquisition powers make it a valuable partner for land assembly and disposition. LDA and GLI will coordinate their efforts with Riverport to further develop a West Louisville land acquisition strategy. The alliance will also work to identify and structure appropriate and innovative strategies for financing land acquisition. This alliance is one of the most powerful tools for economic development in West Louisville because of its ability to leverage existing resources and acquire and resell land.

Louisville Business School Network for Urban Development

A consortium of Louisville-area graduate business schools will supplement and support the implementation of strategic recommendations by providing consulting services to individual West Louisville companies. The consortium can also operate in a research capacity for discreet issues such as working with a finance class to research a particular form of land assembly financing. The consortium teams can also be particularly valuable in introducing the West Louisville Brand Manager to companies that are, with appropriate assistance, poised for growth or are good candidates for repositioning within the three focus clusters.

The Private Sector

The private sector has already demonstrated its support for the effort by providing a significant share of the funds for The Strategy Project and the bulk of the funds needed to launch and sustain early stage implementation of the strategic recommendations over the next two years. Many executives served on the Assessment Team and Action Teams and provided invaluable local knowledge and energy. Continued participation of the West Louisville and regional private sectors is a critical element to successful implementation of the strategic recommendations. The following is a list of companies that have contributed resources to The Strategy Project:

A. D. Porter Funeral Home
Active Transportation
Bank of Louisville
BellSouth Telecommunications, Inc.
BF South, Inc.
Brown-Forman
First Capital Bank of Kentucky
George Fisher
Hillerich & Bradsby Co., Inc.
The Humana Foundation
The John H. Schnatter Foundation
Leonard Lyles
LG &E
Longview Foundation, Inc.
Louisville Central
Development Corporation
Louisville Community
Development Bank
Louisville Urban League
Main Street Realty
Maker's Mark Distillery
National City of Kentucky
NTS Corporation
Old Colony Insurance Service, Inc.
Steel Technologies
SUD-CHEMIE
Thornton Oil

Conclusion

Conclusion

West Louisville is rich in opportunity and business potential. West Louisville's business base is diverse, multi-faceted, and marginally linked to the regional economy. The three industry clusters that have been targeted for investment and growth – Automotive, Transportation and Logistics, and Life Sciences – are poised to capitalize on the area's competitive advantages as a strategic location, with an underutilized workforce, and opportunities to strengthen the links to the regional economy. Building on these advantages and addressing the disadvantages such as land assembly and building constraints and reputation will better position West Louisville to compete for jobs and investment.

Change in West Louisville can be initiated by viewing the area through a new lens of business potential. The market-based opportunities identified in this research focus on fostering business clusters and a competitive business environment. Many of the recommendations present employment opportunities in well-paying, career-track jobs. If West Louisville residents can be connected to these jobs, their incomes and potential for wealth will be greatly increased.

A spectrum of high-priority opportunity areas has been identified, each with substantial community impact but also unique implementation requirements. Success will require sustained commitment across multiple constituencies to harness energy, resources, and leadership. Already, over 50 Louisville leaders have been actively engaged in developing this strategy and implementation plan. Their leadership will hopefully inspire others to join in this important effort and support the momentum already underway. By stimulating ongoing commitment for these strategic recommendations, Louisville can reverse the trend of disinvestment and advance the economic prosperity of West Louisville businesses and residents.

West Louisville is an important part of the vibrant Louisville region and needs to be a part of the regional economic vision for the future. The Strategy Project ensures that it will be, and it will make that vision stronger, more competitive, and more complete.

The ICIC Mission

The ICIC mission is to spark new thinking about the business potential of inner cities, thereby creating jobs and wealth for inner-city residents. We act to transform thinking, provide cities with a new vision of economic development, and engage the resources of the private sector to accelerate inner city business growth.

The Initiative for a Competitive Inner City

The Initiative for a Competitive Inner city (ICIC) is a national, not-for-profit organization founded in 1994 by Harvard Business School Professor Michael E. Porter, following several years of pioneering research on inner-city business and economic development. With affiliates in three cities and significant on-the-ground activities in many others, ICIC has rapidly established itself as a national force in inner city economic development.

ICIC advocates the need to build healthy inner cities and chronicles their competitive potential as attractive locations for business growth and investment. ICIC has sought to shift the focus of thinking about inner cities from community deficiencies to market opportunities. While perceptions are still in flux, the concept of the inner city as a competitive location able to compete for jobs, income, and wealth is gaining ever-greater currency.

For more information on this report or the implementation of this project, please contact:

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OR

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