



2009

Using Procurement To Grow Inner City Businesses

A Resource for Inner City Entrepreneurs

ICIC's Mission is to promote economic prosperity in America's inner cities through private sector engagement that lead to jobs, income and wealth creation for local residents.

Staples Foundation for Learning's Mission is to teach, train and inspire people from all walks of life by providing educational and growth opportunities.

This paper is a joint research effort between the Initiative for a Competitive Inner City (ICIC) and Staples Foundation for Learning (SFFL). ICIC and SFFL are long-time partners dedicated to fighting urban poverty through inner-city economic development. Together, we have developed a primer for inner city businesses to take advantage of procurement opportunities with large organizations.

Introduction

Nina Vaca, the CEO and founder of Pinnacle Technical Resources, began her IT solutions business in inner city Dallas, Texas in 1996 with only \$300 in savings. Barely a decade later, and boasting a five year CAGR bordering on 100%, the company now earns over \$140 million in annual revenues. Nina credits her success to her ability to network and build strong relationships with clients, especially Fortune 500 companies.

Corporate, university and healthcare procurement offices can be a vital component of the growth strategy for companies of any size due to the sheer volume of purchasing that passes through these entities. For inner city businesses, the value proposition is simple. A contract with a large procurement office can help a growing business grow to scale and can provide a stable source of revenue for many years. However, inner city businesses do not always look to connect with large organizations and may be missing opportunities. A survey of roughly 250 fast-growing inner city firms reveals that large corporations and organizations are the primary customer base for only one quarter of these firms. Surprisingly, this trend is also evident with supplier diversity programs. Forty-one percent of the fast-growing inner city firms we surveyed are women or minority-owned, however, less than half of these firms are certified by governing bodies such as the National Minority Supplier Diversity Council (NMSDC) or the Women's Business Enterprise National Council (WBENC).

In the age of the conscientious consumer, large organizations also benefit from a diverse group of suppliers that better represent their customer base. In addition to providing some differentiated products and services, diverse suppliers can also save corporations money. Shell Corporation recently consolidated its licensees of promotional branded products to a list of six preferred suppliers, four of which are M/WBEs. In addition to increasing efficiency, this move has saved the company as much as 20% on promotional projects.

Like Shell, many large procurement offices actively seek small, diverse suppliers. How can more inner city firms effectively establish relationships with large organizations to take advantage of potential business opportunities? Through discussions with the NMSDC and WEBNC, as well as interviews with over three dozen minority procurement specialists, consultants and diverse suppliers, we have assembled a resource to help eligible inner city businesses better understand the evolving landscape of supplier diversity and the business opportunities it presents.

We have identified three major procurement changes within the last two decades: (1) supplier consolidation, (2) the rise of e-commerce and (3) increased supplier competition. While each of these trends represents a potential obstacle for small women and minority business owners, many creative and determined businesses have found ways to generate new business opportunities.

Supplier Consolidation

Challenges:

Organizations are approaching procurement more strategically and analytically than ever before, with a focus on cost-effectiveness and efficiency. Technology enhances communication between an organization's multiple functional sourcing teams, making a consolidated supplier base more prevalent and cost-effective. Corporations, municipalities, universities and hospitals are all taking advantage of scale economies by offering larger contracts to fewer suppliers.

Women and minority business owners consistently report that large organizations have no room in their budgets to enter into contracts with smaller organizations. Similarly, corporations often concede that scale is the largest obstacle when connecting with diverse suppliers. They argue that supplier consolidation makes good business sense; the increased competition that comes with additional smaller suppliers does not compensate for the additional cost and complexity in the supply chain.

Opportunities:

Look to partner. Even very small diverse suppliers have found creative ways to involve themselves in projects for larger organizations. Subcontracting has been prevalent for years in the construction industry, as large contractors seek to meet the diversity requirements of government contracts. Prime contractors frequently subcontract work to diverse businesses in order to meet participation goals set at local, state and federal levels. Similarly, large corporate suppliers are often looking for cost-effective solutions to partnering with minority businesses in order to meet contract requirements for diversity.

Many firms encourage subcontracting through specific second-tier spending goals. Subcontracting stipulations are a less-time intensive way for corporations to demonstrate a commitment to supplier diversity. While BBN Technologies, an IT services firm headquartered in Boston, has its own supplier diversity program, it also requires diversity subcontracting plans for all vendor proposals valued at or above \$500,000. Each plan contains specific targets for overall spending with small, women, minority and veteran-owned businesses and is measured against annual goals.

Subcontracting is also a low-risk way for large procurement offices to evaluate their diverse suppliers. As they gain experience and confidence in the diverse suppliers' ability to deliver, large organizations are often willing to extend bigger contracts. Rejected in their bid to supply a large university with vans and busses, a small, southern auto-repair business negotiated with the winning bidder to provide maintenance and repair services. Several years and tens of millions of dollars in revenue later, they have become one of the university's major direct suppliers.

Waste Management Inc., a Fortune 500 company that provides waste and environmental services, not only includes supplier diversity requirements in their contracts, but also encourages "continuous improvement on the percentage of M/WBE participation and utilization" in every year of the agreement." This target led the Michigan branch to contract its entire janitorial needs to Developers Diversified Services, a certified minority supplier of janitorial services. The resulting contract not only reaffirmed Waste Management's commitment to supplier diversity, but also led to almost \$90,000 in cost savings.

Seek on-demand projects. On-demand projects are often ideal for (or may even require) smaller players. Organizations such as universities and hospitals are often tasked with small projects that must be completed quickly. Many of those organizations maintain a "Preferred Companies List," a list of trusted businesses willing to work at a moment's notice. Similar to subcontracting, on-demand projects can be a great foot-in-the-door strategy and often lead to larger, longer-term contracts.

The University of Virginia, for instance, prequalifies a number of minority businesses who are willing and prepared to accept work on a moment's notice. Often these jobs require a short term commitment, but they offer the prospect of future work. Said one state-university procurement employee, "It seems like every other week we have a group of faculty needing to be moved from one end to our campus to another. We need a small organization; none of our larger movers would take such small work on short notice." As a result, they rely on a short list of small moving companies that have proven to be reliable. Bob Garcia, CEO of The Chappy Corporation, a major electrical and mechanical corporation, reported a need for trustworthy suppliers who could help with their constant stream of projects. "With all the different types of work we do," says Garcia, "we're always looking for companies we know can get the job done."

The Rise of E-Commerce

Challenges:

Most corporations have moved to electronic tracking systems, web-based marketing and on-line catalogs/ordering. Electronic purchasing closely connects buyers and sellers, enabling direct business-to-business contact and removing the middle-man. Ten years ago, the middle-man position was ideal for small businesses; large buyers and sellers did not have the time or ability to connect with each other. However, modern technology has vastly improved corporate communication and supply tracking, enabling large corporations to eliminate supply chain inefficiency through direct connections.

Opportunities:

Use basic technology to market your business. E-commerce is about more than survival; the internet has removed many barriers to entry, leveling the playing field for technologically-savvy small businesses without large (or any) marketing departments. As Steven Lyons, Vice President of Purchasing and Administration at Caesars Entertainment explains, “In the past, we would go to a physical location, meet with the diverse suppliers in a particular area, interview people and put them into the system. That can now be done online. Technology also lets us quickly disseminate the suppliers’ information to different regions so our buyers in those markets are aware of what suppliers are available and meet with them.”

Inner city business owners consistently cite the importance of a professional, easily searchable website. “Even small businesses need effective websites. Our business is tiny,” admitted the founder of a small consulting firm, “but you wouldn’t know from looking at my website.” Effective website design can be the best way to disseminate information about a small, inner city business to large companies doing their research on new, diverse suppliers.

Leverage e-commerce. For the technologically savvy inner city firm, technology is about far more than e-mail responses and website upkeep. E-commerce and online reverse auctions are cheaper, more efficient methods of connecting buyers directly with sellers and can deliver real value for small firms looking to cut costs. AT&T reports that its diverse suppliers participate in its e-sourcing and online reverse auctions. Fred Lona, Manager of Supplier Diversity, explains, “It’s the suppliers that want to grow their businesses that show up at these events. They want to provide us with more for less.”

While many small businesses have invested significant time and resources into improving their technological knowledge, others have focused on partnerships with cutting edge corporations. Staples Corporation, for instance, has formed strategic alliances with many diverse suppliers, allowing them to take advantage of the Staples tracking system, next day guarantees, shipping centers and more. Many corporations highlight products sold by diverse suppliers in their online and paper catalogs. W.W. Grainger, a leading business-to-business distributor of facility maintenance supplies, lists all products from diverse suppliers marked with a special logo in their online catalog. Buyers can purchase products from diverse suppliers while enjoying all of the benefits of the W.W. Grainger online purchasing system.

A third option involves working with an intermediary such as Esource Systems and Integration, a minority-owned business in Huntersville, N.C. Esource facilitates interaction between minority firms and large procurement offices. President Eric Chapman explains, “The corporations may have big IT infrastructures, but the supplier may not have that same level. That’s where we come in – by going out to diverse suppliers and web-enabling them; by providing tools to allow them to be visible and transact with buying corporations electronically.” Esource works with the large pharmaceutical company GlaxoSmithKline by creating a provider-based interface that allows GSK to connect directly to diverse suppliers through online catalogs.

Supplier Competition

Challenges:

Globalization and technology have had an impact on businesses of every size with U.S. suppliers competing worldwide. Supplier diversity has become particularly competitive. In recent years, the definition of a diverse supplier for many organizations has expanded to include women-owned businesses, disabled veteran-businesses, historically underutilized businesses, and many more. Additionally, recent legal precedents have imposed far stricter standards on when and how public institutions can make purchasing decisions based on race and gender. For instance, the Adarand decision of 1995 requires “baselining” before race-based preferences can be used in certain industries.

Measurement also plays a critical role that drives procurement behavior. Most supplier diversity programs measure their progress in terms of the percentage of procurement dollars spent with diverse suppliers. Instead of focusing on identifying new diverse suppliers who make

a small contribution to the total spend, the measurement system makes it easier for corporations to focus on growing the size of the contracts spent with their existing diverse supplier base. Said one diverse supplier of IT services, “Imagine if we changed the metric so that businesses also cared about the number of diverse supplier partners. It would completely change the way that supplier diversity programs operated.”

Opportunities:

Build long-term relationships. Most inner city business owners acknowledged that networking is crucial, but diverse supplier coordinators reported that many potential suppliers do not fully understand networking tactics. “I’ve got to get to know your business before I’ll even think about passing your name on,” said an urban public school district’s supplier diversity coordinator. “And you’ve got to know ours.” Doing your homework on an organization often means more than simply understanding their basic value proposition. PepsiCo, for instance, has demonstrated a strong commitment to eco-friendly products. Ron Parker, the company’s Chief of Global Diversity, explains what this means to suppliers, “Instead of you supplying us with paper and pencils, we want you to supply us with paper and pencils that are biodegradable.”

The time required to cultivate a long-term relationship is substantial; the payout, however, can be lucrative. BKM Resources, a New Jersey-based MBE specializing in chemical distribution and management, chose to focus on acquiring long-term contracts from major corporations. This strategy helped them land several long-term multimillion dollar contracts with Cargill, a giant producer with over \$100 billion in revenue. CEO Reche Kirkland credits BKM’s ability to secure and retain long-term contracts on their unparalleled service, “We want to be big enough to serve you globally, but small enough to know you.”

Successful inner city businesses begin working on the next contract before the first one has even been signed. Lee Lambert is the regional director for Zycron-Memphis, an international information technology services and solutions firm. The company has offices in locations including Chicago, Dallas, Chattanooga, and Tampa, and has provided FedEx with IT staffing since 2003. When Lambert realized that the company lacked an off-site IT development facility, he approached FedEx with a proposal that eventually led to a long-term contract. “It would have been a mistake to rest on our laurels,” explains Lambert. “We had to be constantly looking towards the future.”

“No” is rarely the end of the story for an inner city business. Bob Garcia, CEO of Chappy Corporation, reported that in-person check-ins were very important. “Some small business owners we work with come in every few weeks just to check in and see if we have any jobs where we can use their services. Although quick to take no for answer, these business owners work to ensure that they will eventually be at the right place at the right time.” AT&T’s Corporate Subcontracting Plan records all diverse suppliers who apply for contracts and the reason for acceptance and failure. “I make a note of all the suppliers I talk to,” said the director of a large university supplier diversity program. “Even if I can’t use you, chances are good that I know someone who can.”

Additional W/MBE Procurement Resources:

National Minority Supplier Diversity Council
(www.nmsdc.org)

Women’s Business Enterprise National Council
(www.wbenc.org)

Diversity Business.com (www.diversitybusiness.com)

Minority Business Entrepreneur (www.mbemag.com)



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