

Local Procurement: An Evaluation of Barriers and Solutions from the Business Perspective



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ABOUT THE SUSTAINABLE BUSINESS NETWORK OF GREATER PHILADELPHIA (SBN)

The Sustainable Business Network of Greater Philadelphia (SBN) is a community of local independent businesses that demonstrates the degree to which businesses can build profitable enterprises while serving community needs and protecting the environment. SBN's mission is to build a just, green, and thriving economy in the Greater Philadelphia region. Since 2001, SBN has been the region's leading advocacy and membership organization for businesses committed to improving their environmental and social impact as well as their profitability.

SBN offers a variety of programming to our members and the broader local business community throughout the year:

- We connect members with each other, as well as decision makers, to exchange learnings and best practices, bond over commonalities, and share ideas for how policies and processes could better support local businesses to grow and thrive.
- We promote our members within and outside of our network, as well as the strengths of a local economy and triple bottom line practices.
- SBN advocates on members' behalf throughout the year to ensure that small, locally-owned, and sustainably-minded businesses are fully supported to start, grow, and thrive.

FOREWORD

Advancing local businesses has been consistently proven to be the most effective way to promote healthy economic growth and build wealth in communities. This is largely due to the 3 elements of the multiplier effect:

- Direct impact: spending done by a business in the local economy to operate the business, including inventory, utilities, equipment and pay to employees
- Indirect impact: dollars the local business spends at other area businesses that re-circulate
- Induced impact: additional consumer spending that happens as employees, business owners and others spend their income in the local economy

Local independent businesses are the backbone of a vibrant and resilient economy, providing long-term positive economic impact to communities: they represent more than 99% of all employer firms; employ nearly half of all employees in the private sector; have generated 2 out of every 3 new jobs since 1995; and are more likely to develop emerging technologies. Almost 1/5 of all local independent businesses are owned by minorities; more than a third are owned by women. Additionally, local independent businesses are more likely to be involved in their communities and incorporate environmentally responsible practices.

So how do we fully support our region's local independent business community? SBN has been tackling that question since 2001. One of the answers is prioritizing local first, including by the region's largest consumers: local government and anchor institutions, such as hospitals and universities. The City of Philadelphia purchases products and services from thousands of businesses every year. "Eds and Meds" in Philadelphia



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alone spend over \$5 billion annually on goods and services. However, only about half is spent with the region's local vendors. According to a January 2014 report from Philadelphia's Office of the Controller, "every \$1 million spent by anchor institutions with local vendors actually represents \$1.5 million in expenditures within Philadelphia and supports 10 additional local jobs." According to the same report, if these institutions increased their local contracting by an additional 25%, it would translate to about \$1 billion in additional local expenditures each year, support an additional 4,400 jobs, increase annual labor income by \$280 million, and increase annual tax revenues for the City by about \$14 million. For Philadelphia, which remains the poorest major city in the United States, these statistics are enough to catalyze action around local procurement.

This insistence is not to imply there haven't been early actions. Throughout 2017, the Office of the Controller engaged anchor institutions, and the City's Chief Administrative Office (a new office under Mayor Jim Kenney's leadership) worked to modernize city government and improve the efficiency and effectiveness of City services. In May 2017, Philadelphia voters approved a ballot measure allowing "for the award of certain contracts based on best value to the City" allowing for important considerations beyond price when awarding contracts, such as local; women, minority, and/or disadvantaged ownership; workforce diversity and inclusion; and triple bottom line business practices of people, planet, and profit.

SBN recognizes a third stakeholder group critical to developing and implementing successful local procurement policies and practices: local independent businesses. To compliment the work of the Controller and the CAO, and in close communication with them, SBN embarked on a year-long study about local procurement from the perspective of the local business, with a focus on women, minority, and disadvantaged-owned firms, as well as firms who practice the triple bottom line. 200 businesses shared their challenges in accessing contracting opportunities with the city and anchors as well as their ideas for solutions. The following report discusses our approach, findings, and recommendations.

Increasing local procurement and ensuring contracting by best value are not easy tasks, but as this report shows, the region's local business community is ready and willing to help – with products, services, and ideas for solutions. SBN is behind them and committed to supporting the adoption of meaningful change around local procurement and contracting by best value.



Anna Shipp
Executive Director

INTRODUCTION & PROJECT GOALS

In 2017, The Sustainable Business Network of Greater Philadelphia (SBN) undertook research to understand how they and others could help locally owned small businesses better access work opportunities with local government and anchor institutions. The project focused on barriers faced by all locally owned small businesses with a further emphasis on understanding any additional barriers faced by WMDBE owned businesses. As a member organization supporting locally-owned businesses and with a focus on an inclusive and sustainable community, the study results documented here have a high relevance and importance to SBN members and the broader locally owned business community. Additionally, research collected from SBN's Continuing Education Grant Program recipients was used to identify expanded ways to use micro-grants to support business capacity-building.

PROJECT GOAL

The project's overall goal was:

Assess the barriers that Philadelphia's locally-owned businesses face in accessing contracting opportunities with local government and anchor institutions and identify capacity-building resources that could help businesses overcome those barriers

PROJECT OBJECTIVES

Three specific objectives for the project supported the defined goal:

- Engage 50-100 local independent businesses regarding their experiences with local City and anchor institutions procurement, leading to an understanding of challenges and needs
- Analyze challenges and needs, and engage local independent businesses with a focus on WMDBE businesses on ideas for meaningful solutions
- Evaluate the effectiveness of SBN's Continuing Education Grants, one of many resources that SBN offers to its members.

RESEARCH APPROACH

Research for the "Local Procurement: An Evaluation of Barriers and Solutions from the Business Perspective" study was approached through a systematic three step process. Each step built on the findings of the previous phases to develop a detailed understanding of the issues faced by locally-owned small businesses. The first two steps, interviews and surveys, collected information from individual business owners on their procurement experiences. The final step, focus groups, helped to verify the priorities of the findings of the individualized business research and refined the opportunities identified to support businesses in overcoming procurement barriers.

The research collected perspectives from SBN's own membership and sought to engage members of other business organizations in the region. Throughout the study there was a total of 173 individual contacts with independent businesses¹. 68 of the businesses (40%) in the study identified as WMDBE. Throughout the first

¹ Through observation, we know that a small percentage of businesses were involved in multiple phases of research; this data cannot be verified due to the anonymity of the surveys in the first two phases and the nature of the focus groups.

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two steps of research, interviews followed by surveys, businesses were asked to self-identify if they were white male-owned, women-owned, minority-owned, disadvantaged-owned, LGBTQ-owned but were not asked to verify that they were certified in the WMDBE or LGBTQ categories. The selection option is relevant because it enabled respondents to choose all that applied to be inclusive of the intersections that represent business owners from historically underrepresented groups.² Contacted businesses fell into a range of 16 industries, the highest self-reported industry was consulting. Less than half of the businesses (roughly 40%) identified as having 25 full time employees (FTE) or less; 42 participants (24%) in the second phase self-reporting as having 1-5 full time employees (FTE) and 25 participants (15%) self-reporting as having 6-25 FTEs. There were roughly 18 individual contacts with procurement professionals and other institutions invested in questions of procurement during the focus group phase. Comprehensive charts with additional data can be found in the Procurement Barriers Research Report.

INDIVIDUALIZED BUSINESS RESEARCH

Data on individual businesses were collected from two phases of research. The preliminary research drew from businesses that are recipients of SBN's Continuing Education Grant Program. The second phase of research drew from a broad cross-section of businesses who have been in, are currently in, or aspiring to be in, contractual relationships with government and anchor institutions in Greater Philadelphia, be they as prime contractors or as sub-contractors. A diverse and inclusive cross-section of business owners and C-Suite managers was included in both phases, enabling researchers to identify any significant differences in the barriers faced by WMDBE business owners relative to the businesses that did not identify as WMDBE. For both phases, interviews were used to build an in-depth understanding of businesses procurement experiences, challenges, and needs. The results of the interviews were then used to design surveys to reach a larger number of businesses.

Interviews

Business owners or C-Suite managers were interviewed from ten businesses in the general cohort³ and four from the Continuing Education Grant recipient cohort. Interviewees were identified by SBN. Each interview collected information on business demographics, barriers that businesses faced when contracting or trying to contract with the City of Philadelphia and large anchor institutions, and their ideas for how to reduce those barriers. Additionally, the grant recipient cohort was asked how they used their grant funding and how it benefited them. The methodology followed for the interviews was the utilization of the collected data to inform the research, and support the design of a survey to collect more data from additional businesses. The interview results supported the design of a survey to collect data from additional businesses.

Survey

Web-based surveys were conducted in May (grant recipient cohort) and July (general cohort) 2017. Since the survey questions were formulated from the interview data, they asked similar questions about barriers as in the

² Businesses were not asked to verify whether they were certified or not in order to be inclusive of businesses that identified as WMDBE but had not necessarily undergone certification.

³ For the purposes of this report, the "grant recipient cohort" refers to respondents from the preliminary phase of research that focused on the Continuing Education Grant program by SBN, while the "general cohort" refers to respondents from the second phase of research that includes a broader base of businesses.

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interviews. Most survey questions were multiple-choice using options derived from the interview data. 69 businesses participated in the second phase's survey and 7 in the grant recipient cohort survey.

Data Analysis

Analysis of the data collected from individual businesses from the interviews and surveys was conducted in a three-step process:

1. An affinity analysis was conducted on the interview data to identify the main themes for each interview question. That data was then used to support the creation of the survey.
2. The survey and interview data were then combined and analyzed to prioritize the themes collected from each question. Prioritization occurred by tallying each mention of those themes by respondents, the themes were then presented to respondents in descending order.
3. The resulting themes were assessed within the context of the project goals to develop points for consideration that identified options to improve the business supports and policy priorities that SBN and others could pursue.

BUSINESS FOCUS GROUPS

Three focus groups were scheduled and facilitated with business owners in September and October 2017. The purpose of the focus groups was to further clarify and specify the priorities of local independent businesses related to acquiring contracts with the City and anchor institutions and designing solutions for barriers that impede successful procurement. A total of 101 participants attended the three focus groups; of those who attended eleven were certified WMDBE and seven were representatives from the City of Philadelphia.

Focus Group Data Collection

Each focus group provided business owners with contextual background on the project and the previous steps of the research. The top challenges and needs identified during previous phases were introduced to participating businesses. Businesses were asked to vote by a show of hands on their top three priorities from the list of business support ideas and other possible solutions. After the votes were collected, the group was asked to elaborate and contextualize their choices. Participants were also invited to offer additional ideas for exploration. Data was collected for each topic that participants discussed.

Focus Group Data Analysis

The notes from the focus groups were assessed within the context of the project goals to develop points for consideration. The points for consideration identified possible programmatic and policy actions that are included in this final report.

RESEARCH FINDINGS

Very small businesses (1-5 FTE) indicated that the size of their business posed the biggest challenge to their procurement opportunities. Very small businesses also cited that the second biggest obstacle they faced in contracting with the City and anchor institutions was their capacity to respond. These barriers were cited as significantly more (but no more than 30% difference) than the remainder of respondents. The third biggest



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challenge that they cited was the lack of information about opportunities. WMDBEs also indicated that the size of their business posed the biggest challenge to their procurement opportunities. They also cited that the second biggest obstacle they faced in procuring with the City and anchor institutions was the knowledge of relevant processes and policies. These barriers were cited as slightly more (more than 10% difference) than the remainder of respondents.

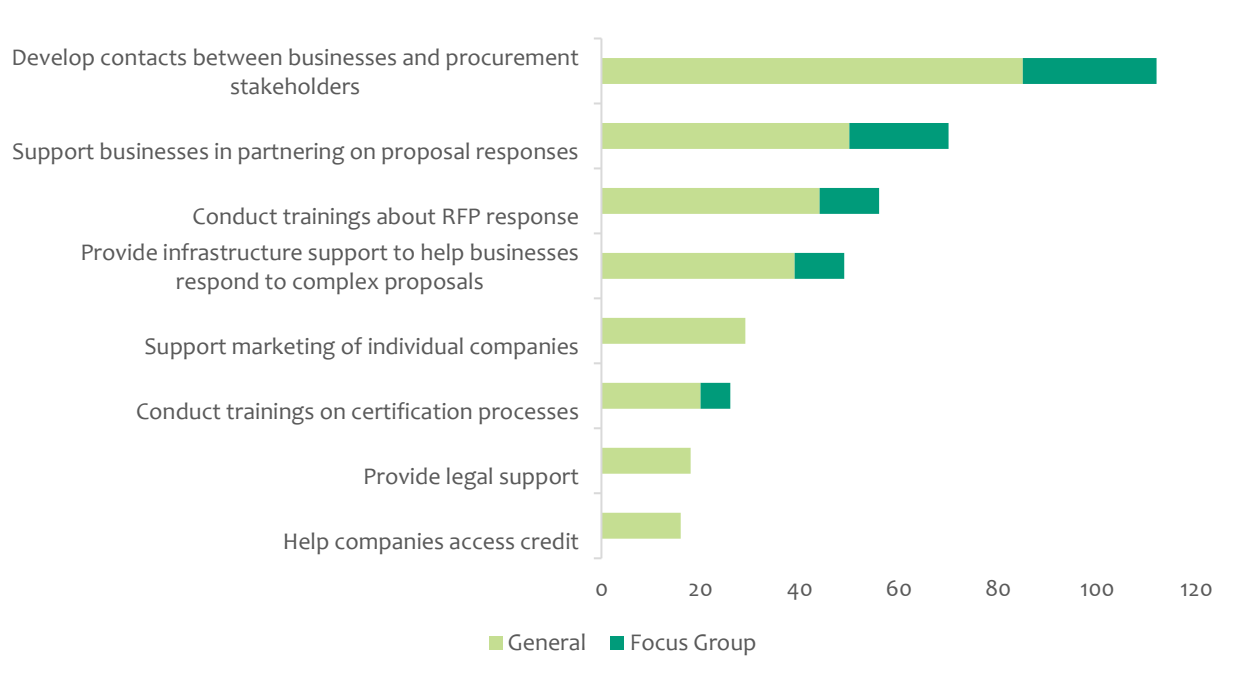
To that end “lack of information about opportunities” and “insufficient relationships with relevant players” were shown to be the top two major barriers to procurement. According to the survey results including both cohorts, lack of information about opportunities within the City and anchors was regarded as the top barrier (with 53% and 71% of the total responses respectively).

A small difference was found in the barriers identified by the 68 respondents who self-reported as WMDBE owned relative to the general businesses. A small number of businesses identified the need for simplification of and training in certification processes, as well as expanding the focus of City and anchors’ procurement to other historically underrepresented populations, such as the LGBTQQ community.

Most significant, however, is the consistency seen across all business participants in their recognition of a common set of business support needs relative to size. The consistency seen in just a few areas indicates that these are common and high priority issues to most of the small businesses assessed. It is not possible from this work to conclude that additional barriers for WMDBEs do not exist, but rather that the barriers we did identify are so important to small businesses they may mask other barriers uniquely faced by WMDBEs.

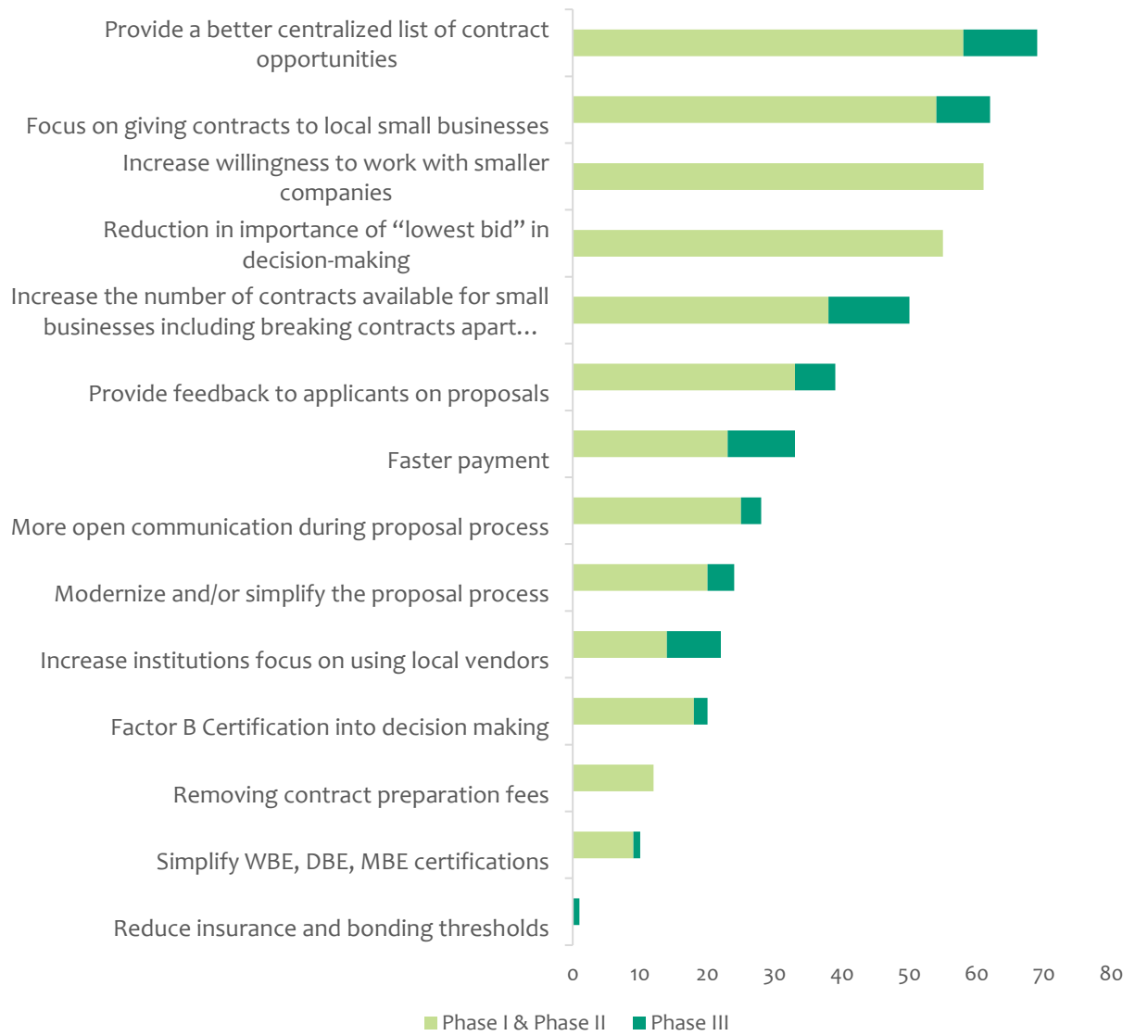
The following charts show all the business support and policy themes that were identified from research conducted in both individual business research phases and the focus groups. They are a combination of the number of times they were mentioned in the interviews and surveys (lime green bars) and the number of votes in a prioritization exercise in the focus groups (hunter green bars). In general, there is a strong correlation between what was identified as important in the first and second research phases and the focus groups.

BUSINESS SUPPORT THEMES



Business support themes show that it is critically important to help businesses build the relationships they need with procurement professionals and other businesses to successfully bid on RFPs. Three of the themes identified (marketing, legal support, and credit) are not included in the recommendations from this report. However, these are legitimate needs of all businesses, and major emerging challenges to small businesses that should be addressed by creating solutions to capacity barriers, making them relevant to business member and support organizations.

PROCEDURAL THEMES FOR CITY AND ANCHORS



A wide range of input was received on possible procurement procedural changes. As the results were evaluated, those that were most relevant to the priority support areas identified by the participants were included in the recommendations. This approach is not meant to devalue the other ideas presented by participating businesses, but instead is encouraged to be reviewed within the procurement context of the City of Philadelphia and other large anchor employers, the details of which are best known by those procurement professionals. Additionally, during this study, the City of Philadelphia had stated their intent - and passed into code in May 2017 - to transition to best value from lowest bid. This can help to improve access to contracting opportunities for small businesses, particularly value-based businesses. It must also be noted that, as of this writing, the City of Philadelphia has not defined "best value" and this study may be informative of that definition as it emerges.

RECOMMENDATIONS

As discussed in the research findings, research results were remarkably similar across the interviews, surveys, and focus groups regarding top barriers, and only slight differences for business size and ownership. They demonstrate that most small businesses face a common set of barriers that impede their success in developing and maintaining contractual relationships with the City of Philadelphia and other regional anchor employers. The summary reports for each step of the research include points for consideration that identify trends and possibilities for business support programs and procedural changes; these could be used to develop solutions that can reduce the procurement barriers small businesses face. The final recommendations below draw from those considerations to present ideas for the development of programs and policies. Together these ideas, if incorporated into programs provided by business support organizations, and procedural changes, if incorporated into City and anchor institutions procurement practices, will help to address the barriers identified by the participating local businesses.

PROGRAMMATIC RECOMMENDATIONS

Help businesses build stronger relationships with important procurement contacts

Many businesses involved in the research indicated that they did not have the relationships they needed to successfully know about and bid on project opportunities. Business organizations should consider ways to create relevant and meaningful opportunities for business leaders and procurement professionals to meet and build relationships. These professional relationships could be further supported by increased mentoring and coaching for small businesses on how to build and maintain stronger procurement relationships.

Support collaborations between small businesses to enhance their ability to successfully respond to RFPs

Smaller businesses by their nature have limited capacity and breadth. The focus needed to enable smaller “niche” and locally-owned businesses to succeed, also restricts their ability to respond to RFPs. This, in turn, impacts procurement professionals’ ability to receive potentially superior and highly specialized services from these suppliers that are only sidelines of larger suppliers with a broader range of capabilities. Programs that help businesses find compatible and complimentary collaborators can increase their ability to successfully respond to broader and larger RFPs. These could include enhancements to business organization’s directories, events to help businesses in related professional fields to meet and build relationships and creating forums where businesses can seek suitable partners.

Increase local businesses’ awareness of RFPs that are relevant to them

Many businesses indicated that they find it difficult to know when RFPs relevant to them are issued. Challenges identified ranged from a lack of awareness of systems that list RFPs to a lack of ability to find relevant RFPs in published RFP directories. Promoting the systems used to distribute RFPs, better categorizing the relevance of RFPs to business types, and accessible (online and other) training will help busy business owners that want to bid on jobs find RFPs with enough time to respond.

Provide overview training on the procurement processes followed by the City of Philadelphia and other anchor employers

In general, small businesses do not have focused business development resources. Unsurprisingly, this limits their ability to learn about and track changes in the procurement processes followed by the City and anchors. Offering short and actionable procurement training programs will help. Programs that provide an overview of procurement processes, and a step-by-step approach to completing competitive bids will build business owners' confidence so that the time they spend responding to RFPs will be worth the investment.

Share the procurement success stories of locally-owned businesses

Showing that success is possible is a powerful motivator and will build the confidence of businesses, especially small locally-owned businesses, to participate in the procurement process. Case studies that highlight how small businesses have successfully bid can motivate other business to bid on RFPs and build a larger pool of local bidders.

Provide guidance and training on the certification processes for WMDBE Business Enterprises

Business owners from underrepresented communities indicated that achieving WMDBE certification was a long and tedious process, and not always helpful. Additionally, some were unsure of how to pursue the certifications they were entitled to. Providing training or direct support that includes step-by-step guidance to help small WMDBE owned businesses achieve certification is an important step to ensure a more diverse pool of qualified bidders for contracts. Many businesses also explored the certification process alone and discovered that there are multiple ways to become certified and the certification process could be supported by consolidating available resources and information.

Expand the use of small capacity building grants to help business grow their capabilities

Small grants to help small businesses develop administrative capabilities such as marketing and contracting will help business owners fill the knowledge gaps they need to grow their businesses and successfully bid on RFPs. An example of a successful micro-grant program is SBN's Continuing Education Grant, which are currently awarded to businesses that provide services and products related to a significant emerging industry: green stormwater infrastructure (GSI). The flexible grants enable recipients to develop their knowledge, skills, and portfolios to successfully bid on GSI projects. The flexibility of the grants was noted as key to their value to the participants. GSI grant recipients encouraged the expansion of the program to help them build a broader range of capabilities with an emphasis on including core business administrative infrastructure that many small businesses lack.

PROCEDURAL RECOMMENDATIONS

Create more opportunities for small businesses to bid directly through smaller contracts or as subcontractors on projects

Smaller businesses do not have the scale or other needed capacities to bid on many jobs. Finding ways for businesses to bid on discrete parts of larger jobs directly or more formally defining how small businesses can be included as subcontractors can increase the number of small businesses in contractual relationships.

Increase communication with businesses throughout the procurement process

Business will benefit from increased communication throughout the procurement process. Two-way communications with bidders during the process will help businesses provide better bids and build their ability to submit better bids in the future. Improved bids are better for the contracting agency as well. Consider adding more opportunities to ask and respond to questions during the procurement process and provide clear and specific feedback on proposals that are not selected to improve the quality of proposals submitted.

Add a focus on additional designations for underrepresented business owners to diversify the pool of contractors

Research participants highlighted the need to include LGBTQ ownership as a local focus as it relates to certifications. Some businesses also highlighted that employing a disadvantaged workforce should qualify for some level of DBE certification. Since this is a federal designation, the City should explore how local, WMDBE, LGBTQ, and B Corp certification can be factored into Philadelphia's "Best Value" definition; other value-based ("triple bottom line") businesses, such as those that hire returning citizens and/or people from other disadvantaged populations, should also be included.

Use business certifications to diversify the vendor base and promote sustainable business practices as part of the City's best value procurement initiative

Certifications such as WMDBE, LGBTQ, and B Corporation/Benefit Corporation align with City of Philadelphia priorities around inclusion and sustainability. Research participants recognized the City's efforts in "Best Value" purchasing as it was announced during the research. Participants requested clarity on how "Best Value" would be defined and encouraged consideration that local, underrepresented business designations, B Corp certifications, and other "triple bottom line" factors be included in the City's criteria.

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APPENDIX I: BUSINESS SUPPORT AND POLICY THEMES TABLES

Policy Themes	Total	Grant Recipients	General	Focus Group
Provide a better centralized list of contract opportunities	69	-	58	11
Focus on giving contracts to local small businesses	62	2	52	8
Increase willingness to work with smaller companies	61	2	59	-
Reduction in importance of “lowest bid” in decision-making	55	4	51	-
Increase the number of contracts available for small businesses including breaking contracts apart into more manageable pieces	50	3	35	12
Provide feedback to applicants on proposals	39	2	31	6
Faster payment	33	-	23	10
More open communication during proposal process	28	-	25	3
Modernize and/or simplify the proposal process	24	-	20	4
Increase institutions focus on using local vendors	22	-	14	8
Factor B Certification into decision making	20	-	18	2
Removing contract preparation fees	12	-	12	-
Simplify WBE, DBE, MBE certifications	10	-	9	1
Reduce insurance and bonding thresholds ⁴	1	-		1

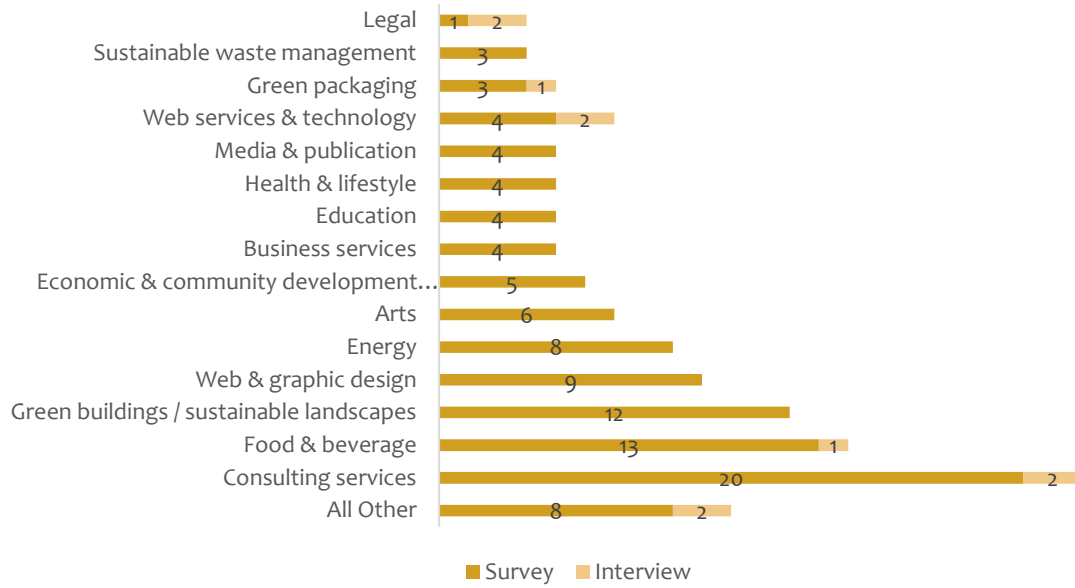
⁴ Reducing insurance and bonding thresholds was a theme that was mentioned in the interview phase but phased out in terms of priorities in the survey process. It then re-emerged in the focus groups and found itself back in the dialogue at the final focus group.

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Business Support Themes	Total	Grant Recipients	General	Focus Group
Develop contacts between businesses and procurement stakeholders	112	3	82	27
Support businesses in partnering on proposal responses	70	-	50	20
Conduct trainings about RFP response	56	-	44	12
Provide infrastructure support to help businesses respond to complex proposals	49	1	38	10
Support marketing of individual companies	29	-	29	-
Conduct trainings on certification process	26	-	20	6
Provide legal support	18	-	18	-
Help companies access credit	16	-	16	-

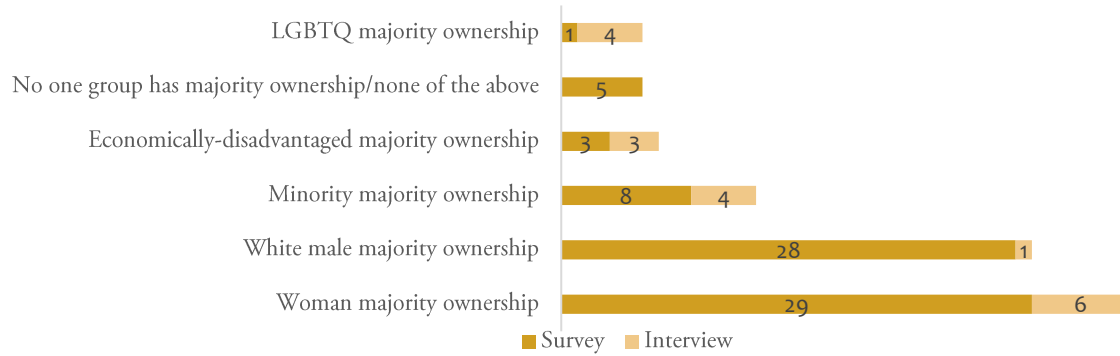
APPENDIX 2: BUSINESS AREA DEMOGRAPHICS

This chart reflects the business area for all participants from the first two phases of research.



APPENDIX 3: BUSINESS OWNERSHIP

This chart reflects the business ownership for all participants from the first two phases of research.



APPENDIX 4: APPROACH TO BUSINESS DEVELOPMENT WITH CITY & ANCHORS

