

Insights and Perspectives on California Small Business Supplier Diversity

Executive Summary

May 2016

Contracts represent the lifeblood for many small businesses; spurring sales growth, infusing needed capital, and providing steady predictable revenue streams and profitability. Contracting opportunities allow small businesses to increase local hiring and transform their communities from the inside out. A robust pipeline of supplier diversity opportunities are a necessary catalyst for economic growth within the local community.

For a variety of reasons, minority vendors have been grossly underrepresented in the process of securing contracts from corporate and government entities. California businesses, while more progressive than most states, can improve their contracting with diverse suppliers. California's minority population represents of 58% of the total population.¹ However, spending by California's major utilities (Energy, Telecom and Water) with diverse businesses only represents 19% of total spend.²

Contracting opportunities span the spectrum of business industries. However, the primary opportunities of focus are Construction, Information Technology, Facilities/Maintenance, and Professional Services (Finance/Legal, Marketing, Human Resources, Consulting) industries. These industries represent the lion's share of procurement opportunities for ethnically diverse businesses

*Successful Bidding:
Get to know the decision makers*

For many small, ethnically diverse businesses, navigating the procurement maze is especially difficult. Along the way there are a number of pitfalls which result in many of these businesses never participating in contracting opportunities. There are three major areas of concern for diverse small businesses:

- **Becoming Certified.** Many diverse small businesses never get beyond the point of researching the procurement process. The paperwork needed to become certified can be initially cumbersome. Additionally, understanding the necessary certifications is an issue. Certifications are not universal. For those who don't fully understand the process, the certification process can be cost prohibitive.
- **Submitting Bids.** Understanding whether the small business qualifies to bid can be confusing. There isn't a standard method of receiving or submitting information on relevant bid opportunities. Successful bid submissions require an awareness of RFP opportunities, the fostering of relationships with decision makers, as well as financial and operational readiness.
- **Formulating Winning Bids.** Business stability is tantamount to securing contracts with large organizations. To effectively compete, businesses must demonstrate the operational capacity to execute the contract, a sound performance history of service delivery and the financial wherewithal to handle contract requirements. For many diverse

businesses, the effects of the 2008 economic downturn still affect their ability to demonstrate the financial capacity to execute on a winning bid.

Awarding Contracts: It's not just a numbers game

Our research has indicated several emerging issues among contracting organizations:

- Due to either scale, operational or financial issues, there is a shortage of qualified minority vendors in the procurement RFP process.
- Due to size and scale issues, many diverse businesses cannot immediately compete for larger contracts. There needs to be more emphasis and training on the process of being an effective subcontractor.
- Measuring success of an organizations supplier diversity program can be difficult. There is a lack of common procurement success metrics among contracting organizations.

As an outgrowth of the aforementioned issues, there have been several emerging trends among contracting organizations. With increasing frequency, contracting organizations are:

- Taking a “less is more” approach by focusing on the strength (quality) of their vendor pool rather than number of vendors (quantity) in the pool.
- Placing less emphasis on total spend and more emphasis on working to build capacity within their vendor pool.
- Increasing efforts to track the diverse business spend of primary contractors (1st tier) with their subcontractors (2nd tier).

Key Recommendations

Enhance opportunities through increased business outreach and recruitment

Effective outreach and recruitment requires identifying high potential diverse businesses seeking to initiate or expand their contracting opportunities with contracting organizations. Businesses can be identified by utilizing a number of outreach tools and resources. Specifically, a consortium of strategic partnerships (new and existing), business development organizations and key industry associations should be formed to connect businesses with contract opportunities, contract intelligence and support services and contract financing.

Capacity building through Technical Assistance

Technical Assistance and training tools are necessary to build overall procurement capacity of ethnically diverse small businesses. Custom business assessment tools will take an initial snapshot of the recruited businesses and determine the necessary level and type of technical assistance needed. Based on the assessment, integrated growth plans and training plans will be developed. The trainings will be administered through workshops, webinars, and mentoring and coaching sessions.

Increase access to capital by utilizing both traditional and alternative sources of capital

A major barrier to ethnically based businesses participating in the contracting process is access to capital. To address this issue, a collaborative of capital providers will be formed to provide access to community lenders, credit enhancements and leverage relationships with a wide range of financial services providers, including community based lenders, micro lenders, banks, bridge financing sources and crowdfunding sources.

¹ U.S. Census Bureau. (March 2015). Projections of the Size and Composition of the U.S. Population: 2014 to 2060

² Greenlining Institute. 2015 Supplier Diversity Report Card