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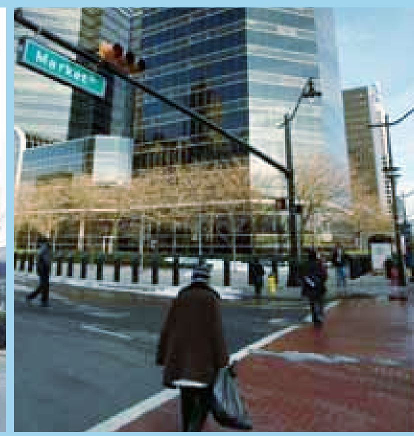
Buy Newark:
A Guide to Promoting Economic Inclusion through Local Purchasing



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Buy Newark:
A Guide to Promoting Economic Inclusion through Local Purchasing

Solana Rice
POLICYLINK

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From the PolicyLink Founder and CEO

During these uncertain times, many cities across the country are exploring new strategies for ensuring a strong, inclusive economic recovery. Often, one source of untapped potential is right under their nose: a multitude of small and mid-sized local businesses hungry for new opportunities. Redirecting even small amounts of our collective buying power to qualified local enterprises could give local economies a whole new outlook. *Buy Newark: A Guide to Promoting Economic Inclusion through Local Purchasing* suggests that Newark, New Jersey, could be the testing ground for such a new kind of initiative.

Newark, a mid-sized, post-industrial city with a population of 277,000, the majority of whom are people of color, has been grappling with high unemployment yet is fertile ground for a coordinated local procurement effort. By encouraging local purchasing of goods and services, companies and institutions based in Newark can help to transform small businesses, foster employment, and strengthen Newark neighborhoods.

Indeed, this report grew out of a series of convenings hosted by the Prudential Foundation to address issues of economic inclusion in Newark. Participants expressed the need to address entrepreneurship and employment by supporting small and mid-sized business growth.

Spurred by those conversations, and reflecting a concern for greater equity in economic development planning, this guide outlines steps for expanding local economies through coordinated citywide efforts. It offers numerous descriptions of specific procurement strategies, and five in-depth case studies drawn from around the country and the world.

It is hoped that this guide will serve as a tool for creating a more prosperous, just, and fair economy in Newark and beyond.

Angela Glover Blackwell
Founder and CEO
PolicyLink

From the Brick City Development Corporation Executive Director

Brick City Development Corporation (BCDC) was formed under the leadership of Mayor Cory A. Booker to be the primary economic development catalyst for Newark, New Jersey. We are organized to retain, attract and grow businesses, enhance small and minority business capacity, and spur real estate development within the city. BCDC works to actualize Mayor Booker's vision of making Newark America's leading city of urban transformation. Development is now on the rise: new businesses are sprouting, construction of two new hotels is underway near the Prudential Center, and we have had significant office and industrial business attraction announcements. Newark is on a strong trajectory; and one groundbreaking at a time, we are working to take projects through the Pipeline to the Finish Line.

With this renewed sense of possibility comes an opportunity to prove that a more inclusive economy is not only possible, but is also the cornerstone of a more stable, prosperous, and vibrant city. BCDC is proud of its role as an economic development catalyst in this new economy. We are committed to supporting the growth and development of small businesses in Newark. BCDC has provided over $13 million in loans for local businesses. Recognizing that small, minority- and women-owned business enterprises (S/M/WBEs) are important in Newark's economy, BCDC works to support many S/M/WBEs to open or expand in our city.

BCDC offers a range of services for small businesses, including access to capital and technical assistance. As a recently designated Community Development Financial Institution (CDFI), we are excited to have the opportunity to find new mechanisms to expand our lending capacity and support services for small businesses. BCDC also provides Newark businesses with an opportunity to connect and network through events and workshops.

Encouraging local purchasing can build on a strong portfolio of BCDC services that could help local businesses to operate more profitably in Newark. This guide is intended to support those firms, institutions, and agencies interested in local purchasing and procurement. We appreciate the work of PolicyLink and the collection of ideas presented herein. We will work on implementation strategies that will position Newark as a leader in sustainable economic development.

Lyneir Richardson
Executive Director
Brick City Development Corporation

Executive Summary

Small, locally owned businesses are the bedrock of thriving economies. They employ millions of people, they invest in their neighborhoods and cities, and they provide wealth-building opportunities for entrepreneurs. A dollar spent at a locally owned business stays in the local economy longer than a dollar spent with a company whose roots lie elsewhere, and it has a greater ripple effect.

This guide is designed for Newark, but it is useful for any purchaser or community seeking to improve local buying power.

Any purchaser can start a buy-local program—and this guide explains how. We also describe how a coordinated citywide effort that marshals the buying power of major businesses, anchor institutions, and public agencies to increase local buying can be a critical component of a city's economic growth strategy. Newark, home to several large corporations, hospitals, and universities, is well positioned to realize the significant benefits of a buy-local initiative.

TERMS

The terms **local procurement** and **local purchasing** are used interchangeably in this guide to mean the directing of institutional, governmental, corporate, or business expenses for goods, services, and contracting to locally based businesses. **Buying local** is a somewhat broader term that can also include individual consumer purchases, but for this guide 'buying local' generally refers to the adoption of local procurement and purchasing policies and/or a coordinated campaign to promote such policies. The term **buy-local initiative** will refer to a citywide, coordinated policy agenda, while the term **buy-local policy** will refer to individual purchasers' practices.

What are the benefits? For the city, directing more money to locally owned businesses fosters job creation and boosts tax revenue, while keeping profits local where they can be reinvested in the community. This can attract more businesses and residents to Newark. For purchasers, doing business with local contractors can result in faster, less expensive, and more personalized service. It can garner goodwill in the community. And it can save money.

Newark has the building blocks to launch a strong buy-local initiative. Several of Newark's corporations and institutions already have local procurement policies, many local businesses stand ready to expand, and organizations are in place to provide small business assistance and support.

Buying local is a potent economic development tool, but achieving results requires deliberate action, supportive policies, and coordination among stakeholders. *Buy Newark: A Guide to Promoting Economic Inclusion through Local Purchasing* offers a roadmap for creating a program in a single company or institution and for building momentum for a citywide effort. The guide presents strategies gleaned from best practices around the country and beyond.

The strategies described fall under three broad categories, which form the foundation for successful local procurement:

1. **Institute Formal Local Preferences.** These organizational policies establish buying local as a priority. They demonstrate commitment from the top levels of an organization, guide procurement practices, and make managers and staff accountable for success.

2. **Build the Capacity of Local Businesses.** A buy-local effort can work only if local firms

are able to provide needed goods and services and are sound and sophisticated enough to work with large purchasers. Corporations and public agencies can do a lot to groom local firms for bigger contracts and to connect them with emerging opportunities.

3. **Cultivate Relationships with the Local Business Community.** Purchasing is often about relationships, and purchasing agents need to actively build positive, productive relationships with local firms. Purchasers can also take creative steps to make their processes—from structuring contracts to bidding to payments—small business-friendly.

To unleash the power of buy-local strategies in Newark, the following recommendations are offered for both institutional and corporate purchasers interested in starting a program in their organizations and for people interested in coordinating a citywide initiative.

Recommendations for Purchasers and Procurement Offices

Identify internal and external stakeholders who can commit to changing policies and practices. Bringing people together can be critical in identifying challenges and coordinating solutions across an organization.

Define "local." Individual purchasers may differ in how they determine what it means to be a business located in the city of Newark. Some companies have one location in Newark but are headquartered elsewhere. Finding a definition that is precise, but easy to measure, such as a local business license or evidence of local tax receipts can facilitate ease of evaluation, but may detract from overall deep local impacts.

Establish goals and reporting to measure potential impact on organizational return and the local economy. Buying local is not charity and in many cases can improve the bottom line for large firms and institutions. Tracking and reporting will also indicate the effectiveness of your efforts.

Recommendations for a Coordinated Buy Newark Initiative

Develop a citywide plan for implementation and partnerships that will share, coordinate, and support individual firms' procurement strategies. The plan should coordinate diverse stakeholders to inventory ongoing practices, expose challenges, identify strategies for implementing private and public policies, and track the impact of the collective effort. This process should ideally result in designating one or two organizations to facilitate partnerships, maintain a robust business database, and organize campaign marketing and outreach. The plan should also lay the groundwork for how to finance and sustain these activities.

Support specific local procurement strategies by providing assistance to individual firms and agencies in developing buy-local strategies and goals that fit their needs and resources.

Develop supportive policies. Create policies, practices, and outreach in the private, public, and nonprofit sectors that make contracting with small businesses and local businesses easier. The City of Newark and other public agencies can play a key role in integrating local hiring and purchasing in future development involving public subsidy as well as in identifying current contracting opportunities.

Communicate success. Measuring and communicating success is an important part of maintaining and growing a buy-local initiative. Lift up early adopters of the buy-local program for promotion. Consider complementing a purchasing initiative with a campaign that includes retail and consumer goods. This is a great way for residents to also support local businesses that are not serving as direct suppliers to larger institutions or other businesses.


Market St

Introduction

In good economic times or bad, buy-local policies are a boost for purchasers, local businesses, and communities. Today, with resources stretched thin by a protracted economic downturn, buying local can leverage a city's purchasing power to help revitalize the local economy for the benefit of all.

This guide, intended for the civic, business, and political leaders of Newark, is useful in any community interested in sustainable economic development. It explains the basics of how to embark on a potentially transformative way of doing business.

Small businesses are the backbone of our national and local economies. Between 1993 and the fourth quarter of 2008 (the most recent data available), small businesses, with 500 or fewer employees, created 13.3 million jobs, that is 64 percent of all net jobs created during that period.

Source: U.S. Small Business Administration.

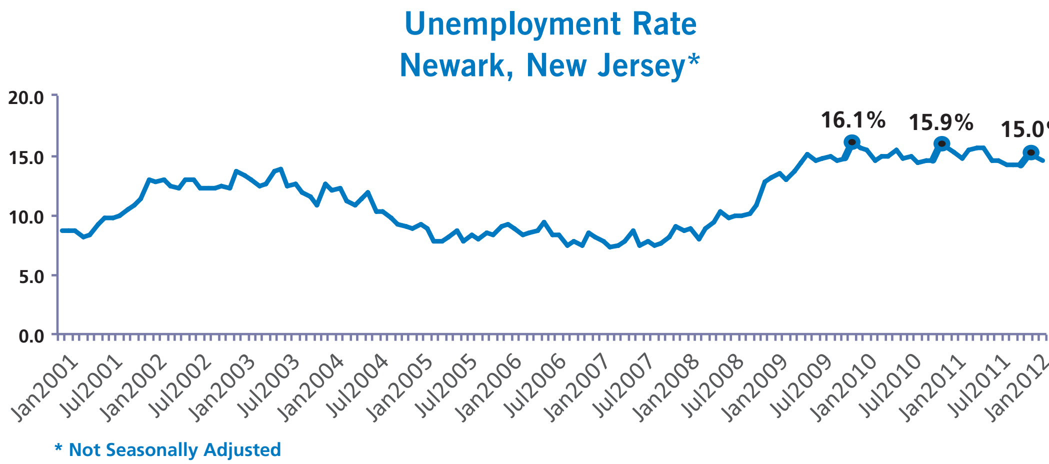
Buy-local policies redirect institutional, corporate, and business-to-business spending to community-based, locally owned companies. The spending can be for any good or service, from crews for a major construction project to janitorial services to basic office supplies such as ink cartridges or toilet paper. The most notable example within recent years is the shift that schools, universities, hospitals, and some grocers and restaurants are making toward local food purchasing. The 2008 National Farm Bill was amended to allow those schools operating Child Nutrition Programs to institute geographic preferences for sourcing their food. According to the National Farm to School Network, the number of farm to school programs, which use local farms as food suppliers for school meal programs, increased to 2,095 in 2009, up from 400 in 2004 and just 2 in the 1996-97 school year.[1] The effects of these policies reverberate in a community, stimulating job growth and more spending.

Local vendors are more likely than distant corporate suppliers to reinvest revenues in the community, by, for example, hiring residents or contracting with other local companies. A study in Chicago found that local businesses bought goods locally at twice the rate of national firms.[2] Additionally, because local suppliers are often minority-owned, buy-local policies will help spread the economic benefits to communities hit first and hardest by unemployment and recession.

As the chart on the next page depicts, Newark unemployment rates have hovered between 15 and 16 percent for the last three years; a shift toward local purchasing could be a big boost for small businesses that hire locally.

As small businesses thrive and expand, they and their employees contribute to the local tax base. A healthy tax base, in turn, supports improvements to blighted streets and commercial districts, more police, better schools—in short, the full array of services and amenities that attract new residents, bolster business activities broadly, spur further investment, and nourish a city's rebirth. With its business, cultural, and geographic assets, Newark is poised to take advantage of this innovative approach to economic revitalization.

Buying local can improve the bottom line for purchasers, too. This is not charity, but sound business. A study of northern California hospitals found that the greater appeal of fresh, local food can increase sales in hospital cafeterias. The same study went on to suggest that hospitals serving local food even have a competitive advantage over hospitals not serving local, fresh produce.[3]



Source: Bureau of Labor Statistics.

Smaller local suppliers often deliver faster, cheaper, and with more personalized service. And local vendors will often do whatever it takes to satisfy what is probably their largest customer. The challenge to encouraging these efforts is often building relationships among businesses and purchasers and overcoming administrative barriers such as contract size. The University of Pennsylvania, which increased spending with community vendors from less than $1 million in 1986 to $90 million in 2007, is a case in point: It negotiated cheaper rates on some contracts by bargaining directly with local franchise owners rather than with faraway corporate executives.

Yet, important as they are, the financial benefits are only part of the story. Buy-local policies can enrich the lifeblood of Newark. By working together, public agencies, universities, corporations, and small businesses can create avenues for civic communication and collaboration. Coupled with the economic gains, these avenues can lead to a reservoir of community goodwill for large institutions and small firms alike. Further, a vibrant local business sector can give the city a distinct "brand," fostering community cohesion, strengthening identity, and inspiring pride.

Buy-local policies come in many shapes and sizes. San Jose, California, uses a bid preference to help local businesses compete in the notoriously high-cost Silicon Valley. Washington, DC, has six preference categories for local, resident-owned, and minority-owned businesses. A large purchaser, a collaborative of purchasers, or an entire city can use the lessons learned in these and other communities as the starting point for crafting strategies that fit their unique environment.

Newark has enormous strengths that can be marshaled for an effective buy-local effort. Some of the city's large corporations already do local procurement, small businesses are pervasive, and a strong network of organizations can train and support local entrepreneurs to effectively compete and serve as vendors. With its rich history, universities and colleges, corporate headquarters, and proximity to New York City, Newark can reap huge dividends from a simple switch in fundamental business practices. This type of coordinated effort has been successful in citywide retail campaigns across the country focused on encouraging consumers to shop locally. The idea of coordinated procurement across sectors is new and cutting edge. From interviews, research, and observations, Newark appears to have all the makings of a city that is ripe for a coordinated citywide local purchasing and procurement effort that includes public, private, and nonprofit sectors committing to increasing their local spending.

This report is organized into four sections starting with broad strategies and delving into greater detail about how these strategies are implemented and what results they have produced in real-world applications.

Buy Newark: The Power of Local Purchasing
Newark has the potential to leverage tremendous purchasing power for transformative economic development. This section considers those strengths and makes the case for a coordinated effort.

Buy-Local Strategies, In-Depth
This section describes in detail strategies for instituting local preferences, building the capacity of local businesses, and cultivating relationships with the local business community.

Buy-Local Strategies In Action
Five case studies of governments and institutions show how buy-local policies and practices change the bottom line for large purchasers, improve the capacity of small businesses, and support local economies.

Bringing Local Purchasing to Scale: A Coordinated Buy Newark Initiative
A citywide coordinated initiative is unprecedented, but outlined here are basic guidelines for ensuring an inclusive effort.

Developing institutional policy priorities, building the capacity of local businesses, and cultivating relationships are the keys to implementing a successful Buy Newark effort.

Buy Newark: The Power of Local Purchasing

A buy-local initiative has great potential in Newark. That's the conclusion drawn from in-depth interviews with 14 procurement officials at 10 major institutions and companies in the city and extensive research of buy-local programs around the nation and the world. This section describes the building blocks already in place for a buy-local effort and briefly explains how to overcome the major challenges. Designed to address concerns in Newark, these strategies are applicable in many communities.

The Building Blocks for Buying Local

First, let's look at the opportunities present in Newark.

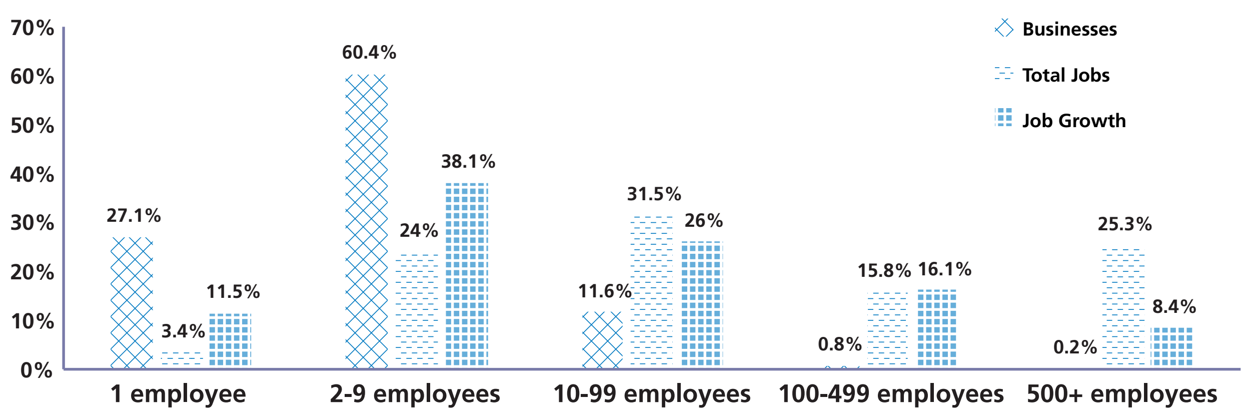
Strong Buying Power

Newark is home to six institutions of higher education including Essex County College, the New Jersey Institute of Technology, Rutgers University-Newark, and the University of Medicine and Dentistry of New Jersey-Newark. Additionally, Newark has half a dozen hospitals and clinics, several cultural institutions, locally headquartered corporations, an international airport, and a busy port.[4] These major purchasers can provide critical momentum for an ambitious, coordinated local procurement effort.

Fertile Business Environment

Companies that call Newark their home have grown and contributed significantly to job creation. Newark is in Essex County, New Jersey, where, according to the National Establishment Time Series (NETS) database, 99 percent of businesses based in the county between 1999 and 2009 were small businesses (employing between one and 99 people each). As the following chart shows, on average during this time period, 75 percent of job growth can be attributed to small businesses (as represented by the job growth numbers in the small business columns) based in Essex County employing 59 percent of employees. While

Business and Job Growth in Essex County, 1999-2009 Averages



Source: National Establishments Time Series.

not all small businesses will meet the demands of major purchasers, these growth patterns indicate the potential critical mass of small to mid-sized businesses necessary for an effective buy-local effort. Newark also has many organizations working with small businesses on capacity building and networking. These agencies can provide crucial preparation for local entrepreneurs to work effectively with large purchasers.

Commitments to Buy from Local and Minority-Owned Firms

Many purchasing officers at public institutions and corporations in Newark recognize the value of local spending and contracting. Some, in fact, formerly headed small businesses. Seven of the 10 organizations and companies PolicyLink interviewed maintained some commitment to buying local. This ranged from a verbal agreement to buy local goods and services whenever possible to an institutionalized program. While some companies have centralized purchasing, others reported that buying practices vary throughout the organization.

Many of Newark's large purchasers have supplier diversity programs, with formal commitments to contract with minority- and women-owned businesses. Public Service Electric and Gas Company (PSE&G) is the oldest and largest publicly owned utility in New Jersey; its holding company, Public Service Enterprise Group (PSEG), maintains its corporate headquarters in Newark and has started a Supplier Diversity Process to increase business with certified disadvantaged business enterprises. Online registration and staff assigned to answer questions from business owners simplify the process. Because Newark small businesses are more likely than major corporations to be minority-owned, such commitments could translate into more local buying. But this is not a given, so a preference for disadvantaged businesses must be complemented with an explicit buy-Newark component, in the case of supplier diversity efforts.

The payoff can be significant. New Jersey Institute of Technology (NJIT), for example, spends 26 percent of its purchasing at minority- and women-owned firms. Telecommunications giant Verizon spends $1.7 billion with such vendors, or roughly 8 percent of its annual spending. Rutgers University actively supports supplier diversity by hosting frequent networking and informational events, publishing guidelines on how to participate in procurement, and maintaining a database of local businesses.

State level mandates to diversify contracting can help government agencies and public institutions keep contracting relatively local. In 2004, the state of New Jersey commissioned an analysis of disparities in procurement among state agencies and found that despite the fact that minority- and women-owned enterprises represented 48 percent of the small businesses in New Jersey, they were awarded less than 2 percent of state contracts. In response, New Jersey Governor Jon Corzine signed Executive Order 34 in 2006, requiring 109 state agencies, departments, universities, and colleges to regularly track and report on the share of state contracts awarded to minority- and women-owned enterprises. The Executive Order also established the Division of Minority and Women Business Development which conducted a study showing that 8.5 percent of prime contracts went to minority- and women-owned enterprises in FY 2008.[5]

Challenges to Starting

With the opportunities and the potential dividends so rich, why isn't local buying standard practice? Procurement officials describe several hurdles:

- **Obtaining organizational support.** Recognizing the importance of buying local, some procurement officials try to do it when possible, but without formal policies or an institutional culture that claims this as a value, the efforts are episodic at best.
- **Identifying the players.** Companies often lack a reliable database of local businesses or information on how to reach them.
- **Finding the right match.** Companies often cite a lack of viable businesses with the capacity to handle large contracts or fill specific needs. For example, agents at Horizon Blue Cross Blue Shield of New Jersey said they have little flexibility in finding vendors to handle lab care and prescriptions. Similarly, officials with NJIT said they had searched for a local laboratory supply company with little success. Challenges like these, however, should not stop large purchasers from turning to local businesses for general needs, such as office supplies.
- **Defining local.** What, exactly, does "local" mean? What are the legal implications of

buy-local policies, especially for government and public institutions? How can a purchaser determine whether more local spending produces the desired results? These questions weigh on the minds of procurement officials.

These challenges can be overcome—and large purchasers committed to buying local have overcome them. Below, we briefly discuss how to approach the challenges, then turn to an in-depth look at buy-local strategies beginning on page 19.

Successful and Sustainable Local Purchasing is Possible

There is no one-size-fits-all approach to a buy-local program. Different strategies work best for different situations, institutions, and suppliers. To craft a program that's appropriate for your organization and your community, it is useful to consider three broad categories of strategies that form the foundation of effective local procurement.

Category 1: Institute Formal Local Preferences

Formal local preferences are official policies that establish buying local as a priority. Basically, these policies represent a pledge by a purchaser that "if all things are relatively even, we're going to choose the local business." A formal local preference not only shows buy-in and commitment from the highest levels of the organization, but it can also guide internal procurement policies and make managers and staff accountable for success.

Procurement officers balance competing pressures and needs when establishing buy-local policies, like lowering costs and evaluating the quality of customer service. A local preference policy should include clear assessment criteria to ensure that all purchasers understand how to balance and rate previous policies, like choosing the lowest bid in relationship to local purchasing mandates.

Formal local preferences can be instituted in several ways; some purchasing departments require that their suppliers partner with local business in some way—as a distributor, a subcontractor or other partner. Some public sector agencies —local, state, and federal governments—have mandates or automatic bid preferences that ensure local businesses get priority. A formal local preference is an essential ingredient of a buy-local effort, but it is not the whole recipe. It must be combined with other strategies that help local businesses overcome longstanding disadvantages.

Category 2: Build the Capacity of Local Businesses

Making the procurement process accessible to local businesses can have transformative effects only if local businesses are able to succeed as vendors. They must be able to provide relevant goods and services, and they must be sound and sophisticated enough to work with large clients. This category addresses how companies and public agencies can prepare small local businesses for larger contracts and connect them to emerging opportunities.

Category 3: Cultivate Relationships with the Local Business Community

Purchasing is often about relationships. To launch a successful buy-local program, purchasing agents need to know how to find local businesses and build relationships with them, even though this can be time consuming. Maintaining a regularly updated database of viable businesses can be extremely helpful for purchasers as they start this process.

But there's much more that large buyers can do to forge positive, productive relationships. While it may seem obvious that local businesses would want access to larger contracts, stepping into the vendor role presents challenges. Take cash flow, for example. Small businesses often find it difficult, if not impossible, to live with the extended payment schedule of large institutions or to cover large up-front costs until the purchaser will cut a check. Purchasing departments can take creative steps to help, from restructuring large contracts to make them more small business-friendly to developing supplier mentoring programs to building relationships and explaining expectations.

Getting Started

There are many strategies for getting a strong buy-local program up and running. But first, a purchaser must lay the groundwork for success. Here are three key steps:

1. Identify Stakeholders

For a buy-local policy to succeed, institutional culture must embrace it. That takes commitment from the organization's top leaders as well as its purchasing agents. "You can't leave one department to shoulder the whole burden," says Barbara Lea-Kruger, director of communications and project management at the University of Pennsylvania (Penn).

Early on, it is important to include voices from all parts of the organization that have a hand or a stake in purchasing, including end users and administrative and legal offices. People in these groups often have valuable insight into the institutional barriers to local purchasing and the policies needed to overcome them. Organizations that have launched successful buy-local efforts also emphasize the importance of bringing in community stakeholders at the outset, including local business leaders and community groups working with local firms.

University of Pennsylvania's Buy West Philadelphia campaign got off to a rocky start in 1986 in large part because the university neglected to build relationships with the community, officials say. Many local businesses, initially excited about the prospect of contracting with Penn, became disillusioned when they realized that they sold products and services that the university did not typically buy. Penn launched a broader universitywide economic inclusion initiative in 2004 that encompassed construction, hiring, and purchasing. Two-thirds of the committee that oversees this initiative represent local businesses, city councilmembers, clergy, trade unions, and other community groups. The university also took great care to clarify and manage the expectations of everyone involved.

2. Define "Local"

After convening a core group of committed people, the first order of business is defining what it means to be a 'local' vendor. Local purchasing preferences can encompass any boundary, from a handful of zip codes to a whole city or county to an entire state. It is worth noting that the impact of local purchasing will be significantly diffused the broader the defined area. Since Newark is the largest city and economic hub of Essex County, using the county boundary may be fine as a definition of local, but smaller cities should consider these implications.

Many purchasers use some combination of the criteria listed in the table on page 17 to define local. For those just getting started, the simplest and most inclusive definition is those businesses with at least one physical location in the city, or those that have a local business license and pay local property taxes. However, either definition will likely include businesses that are not locally owned, so over time purchasers will need to develop additional criteria to target spending locally. A citywide buy-local effort that encompasses many institutions would encourage purchasers and suppliers to have one shared definition of local, one shared database of qualifying firms, and possibly, one group certification procedure. See the Bringing Local Purchasing to Scale section on page 41 for additional information.

3. Keep Track

Purchasers must track the results and here are first steps:

Establish a baseline. Calculate current local sourcing and establish a baseline for measuring future efforts. Ownership and employment information may not be available for all current vendors, but most vendor lists can at least be sorted by zip code and by chain versus independent ownership. To simplify, some institutions focus on certain categories of purchases like goods, contracting, or services.

Set targets. How much should local spending be increased? A purchaser may select distinct goals for different categories, since some are easier to shift to local vendors than others. Goals should be ambitious but realistic, especially in the first year. As experience builds, local spending goals can be increased for maximum impact.

Record your progress. Once you have your baseline and goals, you'll want to track how you're doing. How many local companies now serve as vendors? How much money are you spending? This should be part of regular recordkeeping.

With institutional commitments, community buy-in, a solid idea of what you mean by local, and with data and a monitoring system, you're ready to go. We will next turn to specific buy-local strategies to consider as you craft a program that works for your institution and your community.

DEFINING "LOCAL"

Business has…	Advantages	Disadvantages
… at least one physical location in the city.	Simple, easy to determine.	Will include many nonlocally owned businesses that contribute little to the city's economy.
… headquarters or main office in the city.	More services, such as accounting, are likely to be directed to local businesses. Major corporate stakeholders more likely to be in the region.	Requires checking for compliance. Most economic activity may be outsourced.
… a local business license and pays local property taxes, business taxes, and/or sales taxes.	Simple, easy to determine.	Will include many nonlocally owned businesses that contribute little to the city's economy.
… more than a certain percentage of owners, employees, and/or suppliers/service providers who are city residents.	A more direct measure of the effects of the business on the local economy in terms of jobs and re-circulated profits.	Requires more effort to track and check for compliance (especially if you include suppliers). May change frequently.
… more than a certain percentage of revenue from local transactions.	Indicates connection to local customer base/business community.	A low score means a business is bringing money into the city from outside—which is good *if* it stays there.
… more than a certain percentage of assets (physical and financial) located locally.	Can be an indicator that economic activity is kept local rather than outsourced.	Difficult to measure. Variable in how well it indicates local benefit.
… a higher local multiplier than its competitors. (See page 19 for details on calculating multipliers.)	The best, most direct measure of how much spending will help the local economy.	Very time consuming to measure and requires extensive trust from and participation by businesses.

A comprehensive buy-local effort supports local businesses in meeting the standards and qualifications of institutional and corporate purchasers.

Buy-Local Strategies, In-Depth

This section provides more detail on the strategies mentioned earlier, describing how they work, disadvantages and advantages, and examples of how they have been used. Companies, agencies, and organizations can choose from these strategies to develop effective policies to strengthen connections with local suppliers and the community. The section is organized according to the same categories introduced earlier:

(1) Institute formal local preferences

(2) Build the capacity of local businesses

(3) Cultivate relationships with the local business community

For a menu of strategies at a glance, see the Appendix.

(1) Institute Formal Local Preferences

By changing procurement policy, any purchaser—a company, a university, a public agency or a whole city or state—can give local businesses a real chance to compete for contracts. Local preferences can take many forms, from automatic price breaks for local firms to annual numerical targets. Let's look closer.

Calculate local multipliers for bidders

The best way to keep procurement money circulating locally is to choose vendors or suppliers based on their local multiplier. A multiplier is essentially the ripple effect of a purchase—how many additional services and amenities and additional transactions can one purchase initiate and circulate within the local economy. This essentially tells you how much of their revenue remains in the community. The New Economics Foundation, a think and do tank based in the United Kingdom, uses the image of a leaky bucket to describe the multiplier effect. The water pouring into the bucket represents cash from philanthropic institutions, spending from non-residents, commercial revenue, and federal dollars. The water leaking out represents cash that flows to remote corporate headquarters or far-flung contractors.[6] Newark's bucket will be easier to fill if some of those holes are patched by picking suppliers with high local multipliers.

How it works: A local multiplier can be calculated on a per supplier basis or a per contract basis. On a supplier basis, this calculation involves gathering information about how many of a business's owners, employees, subcontractors, and suppliers are local. To get a better sense of the ripple effects, a representative group of those local owners, employees, and suppliers would also be interviewed about their spending practices.

Usually, a purchaser starts with a broad assessment of its own multiplier, by surveying the local spending practices of a representative selection of its current vendors (including all of the largest contracts) to identify areas for improvement.

On a contract basis, the purchaser asks similar questions: How and where would a potential vendor spend the money from that contract? And how can such an assessment be incorporated into the bid or RFP process? Michael Shuman, author of *Going Local* and director of research and public policy at the Business Alliance for Local Living Economies, suggests asking for the percentage of the contract that will be spent locally, calculating the multiplier and then the tax revenues, and adjusting the bid by that amount; this gives an advantage to those bids with a greater local multiplier.

Who uses it: This approach has been used primarily in the United Kingdom, but any purchaser willing to do the research can use this tool. A tool called the LM3 (Local Multiplier 3), devised by the New Economics Foundation,[7] has been used by local governments in the United Kingdom to devise economic development strategies, by individual businesses and nonprofits to identify their own local multipliers and improve them by selecting different suppliers, and by citizens' groups in various campaigns.

Advantages: This is the only strategy that gives a concrete, relative measure of a business's impact on the local economy. If used consistently, it can provide the greatest clarity about impact for the least expenditure. It also provides ways to compare locally owned businesses with each other and with nonlocal businesses. Finally, it is less likely to encounter legal challenges. Theoretically, business can reinvest money locally, though it is almost always the locally owned ones that actually do so.

Asking questions about local multipliers during the bid process also clearly communicates priorities to potential suppliers. While European Union rules prevent a local multiplier from being used to add formal points in awarding a bid, simply asking the questions has spurred contractors to contribute much more to the local economy, says consultant Barry Mitchell. "Even though it didn't give any points, it made people think." Everyone realized that a high multiplier would give an unofficial advantage in a tie. "We have a substantive amount of buy-in from major private sector suppliers. They are saying 'We want to spend more with you locally.'"

Disadvantages: Calculating even an approximate local multiplier requires a lot of data, much of it sensitive and proprietary. This is time consuming to compile. Also, bidders may be tempted to misrepresent spending patterns, should they become a factor in assigning contracts. Purchasers have to fact-check and monitor compliance.

Examples: City officials in **North Norfolk, UK** used the LM3 tool to calculate the local impact for two contracts with similar labor and supply demands: a parking lot built by a nonlocal contractor and a sea wall built by a local contractor.

Officials interviewed contractors in person at their offices. Of the total contract value, the local contractor spent 34 percent on local staff, 42 percent on local businesses, and 4 percent on investment purchased locally. The nonlocal contractor spent nothing on local staff and 17 percent on local businesses. City officials then surveyed the local contractor's local staff and the two local subcontractors to determine their local re-investment rates, and used those as the basis for calculating the third round of local recirculation.

The results were eye opening. Although the nonlocal parking lot contract was significantly larger than the local sea wall contract—£120,000 compared with £72,000—the parking lot generated less money for the local economy: £147,168, compared with the sea wall's £154,587. For every £1 spent, the sea wall contractor generated £2.15 in the local economy, while the parking lot contractor generated only £1.23.[8]

A good example of why local multipliers can be more effective than policies based solely on location comes from another municipal government in the United Kingdom, **Knowsley,** which found, to its surprise, that a nominally local company had a lower multiplier rating than a competing nonlocal company. It turned out the "local" company was a regional headquarters for a national company with national suppliers, while the "nonlocal" company was located just outside of Knowsley and employed many local residents.[9]

Make "being local" a value— and reward it.

All procurement officers balance different values when awarding a contract, such as cost, quality, service, convenience, and streamlining the supply chain. As part of their buy-local policies, some firms instruct their staff to include business location in that calculus.

How it works: This strategy can take many forms: One of the best is including local supplier goals as a metric in evaluating the performance of purchasing officers. Companies can also emphasize buying local at staff meetings and trainings or add questions about local ownership to interview protocols and data tracking.

Who uses it: Anyone can, ideally as an additional component of a larger strategy.

Advantages: Gives purchasing officers flexibility in hiring contractors and suppliers and clarifies that local purchasing is a core job function, not a frill.

Disadvantages: Without specific guidelines and other strategies to level the playing field for local businesses, it can be easy for purchasing officers to overlook the value of local contracting in favor of more familiar and easily achieved metrics like cost.

Examples: The **University of Pennsylvania** has made meeting local procurement targets part of the annual performance evaluations. There's a lot at stake, because those evaluations determine compensation for the following year. Meeting the ambitious local buying goals is considered part of purchasers' basic job function, from purchasing agents to the director of e-business. The university has come to believe that linking job performance to local targets has been a key part of improving local spending. In 1986, Penn's local spending was less than $1 million; in fiscal year 2007, it was $90 million.[10]

Require that large suppliers work with small local businesses

As part of contract negotiations with large national suppliers, some purchasing departments require them to partner with a local business in some fashion. This is a good way to get around a shortage of local vendors with sufficient capacity.

How it works: The custom agreements are written into the contract. National brands may agree to work through a local dealer, share their wholesale discounts with a local partner, or carry out some other collaborative effort. Large contractors, whether local or not, may agree to meet certain targets for local subcontractors.

Who uses it: This requires a fair amount of capacity to negotiate individualized contracts, so mostly private institutions and corporations use national/local partnerships.

Advantages: This approach turns what might be an obstacle to buying local into an opportunity: It leverages the fact that much of an institution's spending is going to stay with its established larger contractors, at least for the near future. Institutions have had success in combining the price and experience of larger contractors with the creativity and service of smaller, more local businesses. In fact, these arrangements can end up saving money for the institution.

The local businesses involved not only get the immediate benefits from this agreement, but they can also use their new relationships or advantages such as volume pricing to land other big contracts. This further boosts the local economy without higher costs to the buy-local institution.

Disadvantages: Can be time consuming to negotiate and monitor; requires retaining large nonlocal contracts. There is no one-size-fits-all model.

Examples: **The University of Pennsylvania** wanted to work with a local office supply store, Telrose, which did not have the capacity or pricing to handle the contract on its own. The university negotiated a three-way deal between Office Depot (a nationwide chain) and Telrose. In exchange for cost reductions, Penn offered an unusually long contract, benefiting both the local and national suppliers.

At first, Telrose acted more or less like a subcontractor, handling primarily delivery and service. But over time the company moved up to the primary contractor position, handling ordering and billing, while Office Depot supplied materials only. The university ended up with a price-friendlier contract than it would have negotiated with the national supplier, a face-to-face relationship with a nearby vendor, and a $5 million contract with a local minority-owned company.

On a smaller scale, **Columbia University** buys toner from a local company through an arrangement with its office supplies contractor. When university purchasers buy other office supplies, they can easily select additional local products at the same time.

Give automatic bid and RFP preferences to local businesses

Many local governments in the United States have instituted automatic percentage preferences for local businesses in their bids and/or RFPs. These are essentially less nuanced versions of the local multiplier idea, based on the assumption that, on average, businesses that are locally based and/or locally owned to some extent have a greater net benefit to the local economy. These policies are straightforward, explicit commitments to the local business community: We are willing to pay more to support you.

How it works: In standard bidding, the qualified bidder with the lowest bid wins. For a request for proposal (RFP), points are assigned for meeting certain criteria (including cost). To give a competitive advantage to local suppliers, automatic bid and RFP preferences change the rules for contracts below a certain size, often $100,000.

Commonly, the purchaser either reduces the total of the bid from a local supplier by a fixed percentage, just for the purposes of awarding the contract, or adds RFP points for being local. The bid is typically lowered by somewhere between 1 percent and 10 percent.[11]

Variations include tie-breaker-only provisions. Kern and Fresno counties, in California, take a cost-neutral approach: If the lowest bid is nonlocal, the purchasing agent must notify any local bidder who was within 5 percent of the lowest bid and give that bidder 48 hours to submit a new bid that is less than or equal to the lowest bid.

Vendors may have to be certified as local beforehand to receive the preference, or may have to qualify for the preference with each bid or proposal. Definitions of local can vary widely and make a big difference in the effectiveness of these preferences. For example, in San Jose, a business must merely have a local branch or store to qualify; in Los Angeles, the headquarters must be local and it must be a small business.

Local-supplier preferences within bids and RFPs are often combined with preferences for small, minority-owned, or women-owned firms to give larger advantages to firms that have generally been at the greatest disadvantage: local *and* small *and* minority- or women-owned.

Who uses it: Primarily local governments and other public agencies such as school districts. This is partly because governments benefit more immediately and directly from increased local economic activity through increased taxes, so they can better justify the potentially higher costs of some contracts.

Advantages: Formal preferences like these are automatic, so once in place they kick in routinely. They are consistent and support all local businesses, mitigating the "who-you-know" factor. An official cost preference acknowledges that the economic benefit to the local economy of buying local may offset lower costs that come from the economies of scale and offshore labor of corporate suppliers.

Disadvantages: Giving a fixed advantage to local businesses does not account for differences in how much local businesses return to the local economy or how much a particular business needs the help, so this may be a less than efficient use of subsidy. Since these preferences contain no targets or changes to the system, by themselves they are unlikely to dramatically increase the participation of local vendors without significant marketing.

They are typically not applied to contracts over certain thresholds,[12] and some practitioners believe that even smaller contracts will face legal challenges eventually.

Many purchasing officials and their membership organizations oppose preferences on the theory that they discourage competition from vendors that are not granted this leg up in bidding.[13] Conversely, preferences may also reinforce the idea that local businesses are, by definition, not competitive.

Examples: **San Jose, California** instituted a bid preference to help local businesses survive and prosper in high-cost Santa Clara County. The preference lowers the total amount of the bid by 2.5 percent for locally based businesses, plus an additional 2.5 percent for businesses that are also small. Firms have to apply for the preference with every contract. The policy defines all of Santa Clara County as local and excludes construction contracts due to state laws. Since the preference was instituted in 2004, local business spend has remained steady and the number of local businesses in the county has increased modestly.

Washington, DC, has for many years given a detailed set of advantages to local and minority-owned businesses. Businesses may get certified in any of six preference categories: Local Business Enterprise, Small Business Enterprise (local or metropolitan area), Disadvantaged Business Enterprise (doesn't have to be local), Development Enterprise Zone, Resident Owned Business, and Longtime Resident Business. Collectively these are called "Certified Business Enterprises" or CBEs. Each category adds a maximum of 12 points to an RFP or reduces a bid by up to 12 percent of the total bid making the cost more competitive with higher bids.

According to a 2002 evaluation, every dollar spent on a CBE preference contract generated an additional 55 cents of spending on goods and services in the District. Every two jobs created directly by a contract generated one additional indirect job. From October 1, 1999 to September 30, 2001, these contracts generated $66.5 million in direct and indirect tax revenues, including $19.4 million for the District government.[14]

Solicit bids/RFPs only, primarily, or first, from local businesses

If local businesses are underrepresented in bidding, a competitive advantage for local bidders will not make much difference. Therefore, some institutions set separate goals about soliciting bids locally.

How it works: A purchasing department may sometimes solicit bids only from local vendors, effectively ensuring that one will win the contract. Alternatively, purchasers may turn to lists of local businesses or set a goal that at least one local business be included in the pool of competitors for each contract.

Who uses it: Usually public agencies, though any purchaser that uses a formal bidding or RFP process can do this.

Advantages: Increases the chances of, and in some cases, guarantees that a local vendor will be chosen, without compromising standards. Achieving this goal can be an inspiration for outreach and mentoring to increase local participation in bidding.

Disadvantages: Reaching out to local bidders only to have them lose out does nothing for the local economy. If no competitive local businesses provide the commodity or service in question, this approach will have little impact unless combined with other strategies.

Examples: For contracts under $100,000, the Washington, DC procurement department turns first to its DC Supply Schedule, which includes only certified businesses (mostly local) that have committed to a pre-determined price on certain items. Next, the department turns to the full list of certified businesses. The department opens the contract to non-certified bidders only if it cannot find at least three qualified, interested certified businesses. This gives local companies a tremendous incentive to become certified.

Institute a direct preference or requirement for state procurement

In limited instances, legislation can include preferences or even requirements for purchasing within the state.

How it works: Some legislative directives are absolute, while others merely state a "preference" for local/in-state contracts. Many preferences specify lowering the total bid for those bidders that are within the state and increasing the bids of out-of-state bidders. The directives are usually applied to narrow categories such as public art, printing, food, or locally manufactured materials.

Who uses it: State governments.

Advantages: A preference for indigenous art or a key industry can bolster state identity and pride and keep industry and jobs in state.

Disadvantages: Easier to use at a state level where there is more vendor variety. This is legally tricky and faces frequent challenges. It can drive up costs.

Examples: Thirty-five state governments have enacted bid preferences.[15] The state of New Jersey passed a bid preference that gives in-state bidders an advantage in bid evaluation over out-of-state firms. The state has also enacted a statute requiring that each state department make a good faith effort to direct at least 25 percent of the dollar value of their contracting to small businesses (less than 100 employees) registered with the state of New Jersey.[16]

The state of **Arkansas** requires public art to be commissioned from in-state artists. The state of **Alabama** requires all "motor fuels, oils, greases and lubricants bought by or for the State Department of Transportation for use in the construction, maintenance, and repair of the county roads and bridges" to come from suppliers in the county where they will be used. The state of **Michigan** requires all state printing contracts to happen in state.

> *“It’s a bigger vision than ‘If we have a need and they have a product and if we can pull it off, great.’ It’s ‘We have a need to have small businesses grow, how can we do that?’”*
>
> **—Anthony Sorrentino, Vice President, University of Pennsylvania**

(2) Build the Capacity of Local Businesses

The solvency and sustainability of local businesses are critical to a successful buy-local effort. Local businesses need to provide relevant, high-quality goods and services, and they need to be prepared and willing to work with large, often bureaucratic clients. This category details ways to support the development and capacity of small locally owned businesses.

Provide targeted technical assistance to local and disadvantaged businesses

Decades of disinvestment and discrimination have left many small businesses in Newark and cities throughout the country at a disadvantage capacity-wise compared to major suppliers. A comprehensive buy-local effort must help local businesses meet the standards and qualifications of institutional and corporate purchasers.

How it works: In every region, many nonprofits, university departments, and city agencies provide small-business support services, from business plan coaching to incubator space to bookkeeping classes to micro loans to networking events. Companies or institutions committed to buying local can create in-house versions of some of these services, especially if they complement an existing supplier mentoring program. Or purchasers can partner with outside programs to meet the needs of local vendors and buyers alike. Organizations and agencies can also support community- or university-based entrepreneurship programs by referring local vendors (or would-be vendors), providing funding, or serving as a clearinghouse to better coordinate the offerings.

Who uses it: Organizations with the capacity to train and coach local businesses.

Advantages: Allows purchasers to get beyond the frustration of “there aren’t any businesses that can do what we need” and support the development of businesses that will deliver. This helps supply meet demand.

Disadvantages: This is a long-term investment in the future that will not produce an increase in local spending in the next quarter or two. There are often turf issues when many organizations provide similar services, and attempts to add to, influence, or coordinate those offerings can be politically tricky.

Examples: **The University of Pennsylvania (Penn)** refers businesses that do not yet qualify as a Penn vendor to the Penn Wharton School of Business Minority Business Enterprise Center. There, businesses can receive technical assistance on the areas they need to improve. Also, Penn is one of the 15 members of the Philadelphia Area Collegiate Cooperative (PACC), a cooperative purchasing organization established in 2000. PACC works with the University Purchasing Initiative of Philadelphia’s Office of Economic Opportunity (formerly the Minority Business Development Council) to both support businesses and provide independent assessment of a business’s current capacity.

Columbia University partners with local nonprofits that refer potential vendors to the university and that support vendors new to working with the university.

Refer local vendors to other purchasers

A business that does not qualify to be one institution’s vendor may be a perfectly good fit for another. Every purchaser has its rules and limitations. One may require the capability to use an e-procurement system while another may not. A major corporation may be able to raise its bonding threshold while a city government may not.

How it works: Large purchasers commit to a buy-local strategy and work together to understand each other's needs and supplier criteria. This allows all of them to refer promising local vendors to one another.

Who uses it: Anyone who has formed relationships with other purchasers interested in local procurement can make informed referrals.

Advantages: Personalized referrals help improve purchasing efficiency throughout a consortium and provide a ladder of opportunity for businesses not yet able to meet the most sophisticated vendor requirements. Referrals also promote goodwill between institutions and local businesses, which increases the chances for deals in the future as the business develops its capacity.

Disadvantages: It takes time to develop the networks and relationships to make worthwhile referrals.

Example: When otherwise sound vendors cannot work with the **University of Pennsylvania** because they are not technologically sophisticated enough to participate in Penn's entirely online purchasing environment, the university often refers them to a smaller school in PACC, such as Drexel or LaSalle, which do not have e-procurement requirements.

(3) Cultivate Relationships with the Local Business Community

Purchasing is about relationships. To successfully increase local spending, purchasing agents need to know how to find local businesses and build relationships with them. This can be time consuming. The following strategies make it easier and more appealing to buy local.

Create an easy-to-use and regularly updated database of local businesses

While a database does not create relationships, providing purchasers with easily accessible information about viable local businesses can significantly raise the odds that a local firm will get a shot at a given contract. Having a one-stop shop that is user-friendly, easily searchable, and versatile is important to meeting the needs of purchasers who will have many different criteria for purchasing.

How it works: Once a purchaser has figured out what "local" means, the database developer uses information from local minority business councils, chambers of commerce, small business support organizations, local business networks, and other community groups to identify local businesses that sell the goods and services that the purchaser buys. If a certification system is in place, the database focuses on certified businesses. Purchasers may also allow local businesses to self-certify and register in an online system. In any case, the key is to keep the information up to date.

Once the database exists, it can be the first go-to list for purchasing agents.

Who uses it: Anyone can. However, it takes an organization with substantial overhead and staffing to create and maintain the database.

Advantages: A thorough database lets you know what is available. It allows a purchaser to set more realistic targets for buying local, to focus efforts by sector, and to identify new prospects. It spares purchasing agents from having to do exhaustive and repetitive research, and it gets around the first level of objection: "But I don't know who the local vendors are." When something is needed quickly, the local vendors are only a click away.

Disadvantages: A lot of effort and constant outreach go into setting up and maintaining a good database. A shared public database can reduce the workload on any one purchaser's shoulders, as can collaboration with local business networks.

Developing a database, especially one that allows local businesses to self-register, may inadvertently raise the hopes and expectations of businesses that do not offer what the purchaser needs or those that are not ready to enter large contracts.

Examples: When **Columbia University** wanted to expand its buy-local efforts, Manager D. Sean Johnson started by buying a private database of businesses that he could search by zip code. He found all the businesses in the Upper Manhattan Empowerment Zone, and then augmented that list by reaching out to the NY/NJ Minority Supplier Development Council, the Small Business Administration, and other similar networks. He contacted all the minority-owned businesses on his list (the university felt it had solid relationships with majority-owned local businesses) to get preliminary information.

While this took a lot of work, it produced a database that allowed Columbia to identify sectors where the university could quickly shift its spending more locally. In fact, the database proved so useful that local business development nonprofits asked to share it. To Johnson, however, it remained a work in progress. "Never get stuck with what you have," he says. "Always build the list."

The Department of Small and Local Business Development in **Washington, DC**, takes a different approach. As discussed in the section on instituting formal local preferences, it relies on an extensive certification process for local, resident-owed, disadvantaged, and small businesses, so it keeps a database of certified businesses. This database is accessible online, and the City's purchasing department goes to it first for purchasing decisions. A staff of five oversees certification and compliance for the database of more than 1,200 businesses.

Use procurement cards for smaller purchases

Many small local businesses are not set up for delayed payments through purchase orders or checks. Procurement cards—essentially business credit cards—get around this problem in settings where many people have the authority to make purchases below a certain threshold.

How it works: Procurement cards are given to those with purchasing authority.

Who uses it: Institutions with decentralized purchasing.

Advantages: Procurement cards encourage the use of small local vendors because purchases can be made in person without printing checks, and the vendors can get paid immediately.

Disadvantages: Collecting data on purchases can be difficult. Many of the smallest local vendors don't have the capacity to accept any sort of credit card, including a procurement card, which puts them at a disadvantage compared with bigger companies and chains in the neighborhood. This can be addressed through a companion strategy: Help local vendors get merchant credit card accounts.

Example: **Columbia University**, which has decentralized purchasing, instituted a procurement card system to give "end users" better access to local vendors. However, the university quickly discovered that many local vendors did not accept credit cards. So the university partnered with a local bank, which agreed to give participating businesses the same reduced rates and fees that Columbia gets if they set up merchant accounts. This gave local firms a significant cost break and opened up more vendor possibilities for Columbia.

Redesign contracts to capture the strengths and capabilities of local suppliers

Instead of wondering how to find a local vendor that can meet the current specifications of a contract, purchasers can take a fresh look at the contract itself, with an eye toward buying local. What goals does the contract seek to achieve? How can the terms be adjusted to be more inviting to local businesses, without sacrificing the needs of the purchaser? We tend to think that contract specifications are set in stone, but they're not. With flexibility and creativity, purchasers can revise contracts to play to the strengths of local firms.

If clear criteria such as nutritional quality, freshness, and frequency of delivery are included in contracts, it is often the smaller or local suppliers that have the advantage.[17]

How it works: This will work differently every time, as the point is to match local business strengths with re-envisioned contracts. For example, a university might change catering requirements to encourage seasonal variations in offerings or ethnic foods, or it might raise standards for freshness or customizability. Any of these shifts would give local purveyors an advantage. In the same vein, a purchaser might require a locally available service representative or prioritize the reduction of downtime and repair costs by buying equipment from a business that can make local rush service calls.

Who uses it: Governments in Europe subject to strict free trade, lowest-bidder regulations have pioneered this way of thinking as a way to increase local spending when official local preferences are not available or desirable. But anyone can try this. Columbia University, for example, has identified niches in certain sectors, for example, temporary staffing, where local businesses are competitive. In fact, they are better able to deliver, even though they are not competitive for the sector writ large.

Advantages: Spurs a creative rethinking of a purchaser's goals and how to achieve them. The purchaser may end up with higher quality commodities and services and even some that are carefully tailored to address multiple needs at once. The Cornwall Food Programme, below, is a wonderful example.

This approach does not require legislative changes or provoke legal or philosophical challenges about quotas, yet it is likely to generate contracts with local businesses.

Disadvantages: Because it requires individual attention to each contract, relationships to know what's available locally, and creativity to blend the two, this approach cannot be codified into a set of rules that become automatic. It requires a high level of understanding, commitment, and attention from all decision makers.

Example: Cornwall Food Programme (CFP), a consortium of National Health Service hospitals in Cornwall, England, a disadvantaged area, wanted to improve the food served by its members and provide more economic benefit to their region. The consortium started by switching ice cream suppliers.

A local dairy offered a superior product but could not compete on cost with the national brand that CFP had been buying. So CFP changed its ice cream contract to require a higher nutritional value. The local ice cream had 50 percent more protein, which can matter a lot for patients with poor appetite.

National contractors did not even bother to bid,[18] and the local dairy won the contract. The hospitals even saved money, despite the higher cost of the contract, because the tastier, healthier ice cream bolstered patient recovery and lowered expenditures on liquid supplements for elderly patients.

Change the procurement process to make local and minority- and women-owned enterprises more competitive

Local businesses are often smaller and may be unable to fulfill the demands of a traditional purchasing contract immediately. To make contracts more accessible to businesses like these, some purchasing departments adapt their practices to address common obstacles these businesses face, without sacrificing price or quality. The goal is usually to groom businesses that will be able to grow into the standard expectations.

How it works: Some of the most common changes are:

- **Smaller or graduated contracts.** With new local vendors, contracts may be broken into smaller parts or assigned for just one department, building, or product to make them more manageable for smaller companies. These vendors can take on more as they grow and gain experience.
- **Longer contracts.** Some national-local partnerships receive longer than usual contracts, allowing them to lower costs and take time to establish themselves.
- **Faster payment.** Small businesses often struggle with cash flow, and traditionally institution payment schedules are very slow, leaving vendors with gaps they cannot sustain. Some purchasing departments have committed to a 30-day payment cycle to lower this barrier to participation. The UK government guide, *Small Business Friendly Concordat,* which many local governments in the United Kingdom have adopted, stipulates that governments will require that their general contractors do the same for subcontractors.[19]

Who uses it: Anyone can.

Advantages: Faster payment schedules open the door to more vendors without costing the purchaser anything much beyond an initial transition period. Smaller contracts allow for fine-tuned matching of

> *"It's a misconception that local suppliers are always more expensive. In the UK, some of the small local suppliers of organic milk are so competitive that they're now supplying local schools. But first we had to seek them out."*
>
> **—Barry Mitchell, Economic Development Consultant**

the strengths of vendors and contracts, resulting in good performance, lower risk, and greater accessibility for small local business. "We have to think creatively even though the supply chain is shrinking," says Sean Johnson of Columbia.

Disadvantages: Having smaller contracts contradicts the trend in purchasing toward fewer overall contracts to increase procurement efficiency.

Examples: The construction department of **Case Western University** instituted a 10-day payment cycle to help emerging minority-owned businesses overcome cash-flow obstacles. Combined with changes to its bonding practices (see the following strategies discussed on page 29), the shift led to $70 million in contracts with minority-owned firms from 2002 to 2007.

Columbia University tries to balance shortening its supply chain with recognizing the value of dividing procurement needs into smaller, more discrete pieces. For example, the university had identified several temporary staff positions that were particularly difficult to fill. Its main supplier for temporary staffing resisted taking on more sub-vendors that may specialize in staffing those jobs. The university hired a local firm to fill that need and the improved service made up for the inconvenience of adding an additional contract and lengthening the supply chain.

Penn does not break down contracts, but it sometimes offers national-local partnerships five- or 10-year contracts instead of the standard three years. This gives local businesses room to grow. Ralph Maier, former purchasing director for Penn, offers, "They're going to give us part of their profit margin, but what they are losing in margin, they make up in volume and security."

Make the application process more accessible and streamlined

Often local businesses have trouble getting institutional contracts because they do not know how to enter the process, or even that the opportunity exists. They may be quite competitive at providing their goods or services, but they may not have been moving in the right circles, learning from the right mentors, or looking in the right places for notifications. Large multinational companies have people who specialize in seeking new business or writing contracts; for small business owners, it's one more task on a very long list.

How it works: Purchasers can take many steps to expand access for smaller and local firms.

- **Supplier mentoring:** Build one-on-one relationships to coach business owners on bidding and demystify the process.
- **Outreach and marketing:** Work with community groups, small business development groups, and ethnic business organizations to promote contracting and vending opportunities, explain how to get involved, and publicize any local preferences that exist.
- **Streamlining materials:** Remove or reduce repetitive, expensive, or unnecessary hoops in the registration, qualification, and bidding phases. Provide clear, readily understandable information on expectations and requirements.

Who uses it: Most purchasers that commit to a buy-local policy try to do this to some extent.

Advantages: Though it entails some upfront cost in staff time, better accessibility and outreach does not increase the cost of contracts and should lead to

> *"I hear all the time from my colleagues: 'I invited the local suppliers to bid and they weren't competitive so they lost.' If that's all you do, it won't work. Mentoring is what will get it done."*
>
> **—Ralph Maier, Former Purchasing Director, University of Pennsylvania**

more bidders and increased competition. This approach is essential if local preferences are to effectively increase local contracting. Relationship-building also generates higher quality bids from local vendors as they better understand what is expected of them.

Disadvantages: If starting from scratch or in an environment of mistrust between institutional purchasers and local businesses, this can take a lot of work before it bears fruit, and may involve a considerable investment in time with vendors who do not end up qualified.

Examples: To offset the advantage of national chains that have dedicated staff to respond to RFPs and bids, **Penn's Supplier Mentoring Program** meets with prospective local bidders to walk through the process before they submit a bid. The program helps local businesses understand the requirements and identify creative ways to meet them cost effectively. Often this is enough to make a local business competitive.

San Jose, through its **Small Business Outreach Program**, actively works to make its process more accessible. Staff attend four to six outreach events per year. The procurement office organizes some, while local ethnic chambers of commerce or nonprofits sponsor others. The program also uses online posting and email notification and holds stakeholder roundtables to get suggestions for improvements. The Small Business Development Commission, appointed by the City, meets monthly to monitor and recommend changes. The commission has instituted moves, such as purchasing umbrella insurance for certain construction projects, thereby removing a barrier for small businesses. Officials review RFP and contracting language, such as the requirement for "experience with like entities," which might pose an unnecessary hurdle for small or local firms.[20]

Address challenges of bonding to diversify the pool of local contractors

Small businesses often face a "you-need-experience-to-get-experience" dilemma when it comes to securing bonding, which is usually required for large institutional contracts. These surety bonds are like insurance, in that they are a source of funding should the contractor not perform the services or provide the goods agreed to in the contract. Many purchasers require businesses to be bonded in order to submit a bid. This proof of credibility is often a large barrier for small businesses because the larger the contract, the larger the required bonding amount. The decision to offer bonding to a company that has never been bonded before often relies on personal credit scores, cash flow, and even personal contacts, erecting barriers for many small entrepreneurs. Some institutions have taken innovative steps to get around these problems and diversify their pool of local contractors.

How it works: All purchasers can offer mentoring to help potential vendors through the bonding process. Private purchasers, such as corporations, have the flexibility to raise their bonding threshold, or, less frequently, purchase materials directly to lower a contract amount and therefore lowering the amount of the bonding necessary.

Public purchasers can create bonding pools—often lines of credit—to offer a partial guarantee to the surety companies for eligible firms (small, local, minority- or woman-owned, etc.). Ingrid Merriwether, who runs a firm in California that implements a dozen such programs, says this not only increases the chances that smaller local companies can get bonded but it also gives public agencies "skin in the game," so they are more likely to go to extra lengths to ensure a successful working relationship with the local companies.

> *"Access to bonding is an artificial barrier. These contractors have the capacity to do the work."*
>
> **—Ingrid Merriwether, CEO, Merriwether & Williams**

Who uses it: Any large firm or institution can share information and start a mentoring program. Private firms have more leeway to raise their bonding threshold; governments are often bound by law to require a certain amount of bonding. Public and private purchasers can instead explore bonding pools or guarantees.

Advantages: Raising the bonding threshold—the contract amount for which a bond is required—is a simple one-time step that can produce big results quickly. A higher bonding threshold or offering bonding guarantees can *reduce* construction costs by increasing the pool of competitors.

Disadvantages: Raising the bonding threshold entails some additional risk, in theory. Creating a bonding pool may require upfront fundraising and significant administrative work to organize.

Examples: In 2002, **Case Western University** raised its bonding threshold from $25,000 to $500,000, meaning that projects under $500,000 do not require a bond. This by itself dramatically increased the university's ability to hire small, local, and minority-owned firms. The university has not incurred any greater losses as a result. "Have we exposed ourselves to greater risk? Yes," says Heidi Holman, director of construction. "Is it worth it? Yes."

But Case Western did not stop there. It helps firms get bonded, which enables them to compete for contracts beyond the university. It held a conference to demystify the bonding process and offers ongoing mentoring and training.

Merriwether & Williams Insurance Services works with 12 public agencies in California, including local governments, airports, and school districts, to implement bonding assistance programs. In each case, the agency first sets aside a pool of funds (often just a line of credit) as collateral for the bonding companies. Usually, the maximum percentage guaranteed is 40 percent, and often 10 percent is enough. There is also a dollar cap, which ranges from $250,000 to $750,000. Once a contract is completed, the letter of credit is retired and those funds are free for another company.

Merriwether & Williams also provides technical assistance in preparation for bonding. After several rounds of contracts, companies establish enough of a track record and capacity that they can qualify for bonding without the guarantee.

Since 1995, Merriwether & Williams has enabled contractors to bid on $300 million in contracts that were previously out of reach because of bonding problems. Those bidders won contracts worth $100 million. Over the years, the guarantee has been invoked only once, a program loss ratio of two-tenths of 1 percent; the average for the industry is 35 percent. "Our contractors have generated $9 million in savings because we've increased the pool of competitors," says Merriwether. "In essence, programs like this can pay for themselves."

Create and support a geographically based purchasing cooperative

Working with other nearby purchasers to negotiate contracts can result in better deals with local companies due to greater volume and efficiency of concentrated delivery and service.

How it works: Institutions with similar needs, such as universities and colleges, work together to approach potential suppliers and negotiate beneficial contracts. They may or may not focus entirely on local buying, but their geographic concentration can make it easier to get good deals from local business owners, who may find it efficient to service several nearby clients at once.

Who uses it: Medium-sized institutions that could gain leverage in volume discounts by joining with similar purchasers located nearby.

Advantages: A consortium can get better deals on local and nonlocal contracts, and purchasing directors can share some of the negotiating work. Smaller institutions can team up to find and mentor local suppliers, or to support an agency to do it. Purchasing directors can share successes and contacts in the local business community.

Disadvantages: Administrative overhead can be costly.

Example: The **Philadelphia Area Collegiate Cooperative (PACC)** has 14 member institutions. While its official mission is to acquire goods and services at the lowest cost to its members, many recognize the value of local purchasing.

George Mulligan, executive director for Capital Projects & Support Services at Montgomery County Community College, who coordinates PACC, says the group does a lot of shopping around and often finds that far-flung contractors carry higher overhead costs than local firms because the cost of doing business is spread over a large area. "We're always looking to leverage our advantage,'' he says. "For us, it's being in tight proximity to each other, in a large urban area."

Many PACC schools participate in the partnership contract that Penn negotiated with local office supply company Telrose and Office Depot. Telrose is the subcontractor for most of the schools, handling local delivery. But the company has moved to the "Tier One" contractor position with Penn and once it is established in that role, other schools plan to follow suit.

"We don't just look at price, we look at value. We include local as part of the value calculation. It's not a set-aside."

—D. Sean Johnson, Director of Vendor Management and Relations, Columbia University

Buy-Local Strategies in Action

Buying local is not a new idea. It's frequently used in the retail sector to encourage consumers to patronize local shops. It's less common in institutional or corporate procurement, and coordinated citywide initiatives rarely go beyond the city's own purchases. But bold, comprehensive action can, and does, happen.

The following five innovative efforts illustrate how to take effective action and avoid common pitfalls in developing local procurement programs. Each case study presents the buy-local philosophy, strategies, and, where possible, the results.

University of Pennsylvania

Top Buy-Local Strategies:

- → **Local goals in staff evaluations**
- → **National-local partnerships**
- → **Supplier mentoring**
- → **Referrals**

With 20,000 students, 4,200 faculty, and 174 research centers, the University of Pennsylvania, an Ivy League university in West Philadelphia, is a formidable economic player in the city.

West Philadelphia is largely residential with a few commercial strips. Through the 1970s and 1980s, it suffered serious, sustained disinvestment, like many other urban neighborhoods. It had an antagonistic relationship with Penn, as the university sought land for expansion and some people pushed to isolate the campus from its surroundings, in response to increasing crime and blight.

In 1986, the Penn purchasing department spearheaded the Buy West Philadelphia campaign, an effort to purchase from local businesses as a way to invest in the surrounding neighborhoods and build community relationships. Since local businesses at that time did not provide the goods and services that the university needed, the campaign fed mistrust among community members.

In 2004, the program got a huge boost when Penn launched a comprehensive institution-wide initiative, the Penn Compact, which had local engagement and economic inclusion as core tenets. This expanded the focus of local purchasing across the entire university and included construction, local hiring, procurement, and workforce development. The effort was largely successful because it had strong support from the highest levels of administration, and, even more importantly, from university trustees.

Buy-Local Philosophy. From the top down, Penn recognizes that its fortunes—especially its ability to attract students and faculty—will rise and fall with the health of the surrounding neighborhood. Officials have made local procurement part of a larger economic inclusion initiative that also addresses local hiring and local contracting. That initiative, in turn, is part of a comprehensive revitalization effort.

Within the purchasing department, local purchasing is integrated into all business practices and not a stand-alone, considered a way of doing business, not a special program. "We have no diversity program manager or economic inclusion manager," says former Purchasing Director Ralph Maier, who was instrumental in implementing the University Economic Inclusion and Local Procurement program. All purchasing managers understand that economic inclusion is “part of their core business responsibility.”

Penn considers local purchasing in staff evaluations and compensation. To measure success, officials tally the dollars spent locally rather than the number of local vendors, focusing on negotiating large, high-impact local contracts. “Economic inclusion is good business for us,” Maier says. “I don’t inject personal opinions into this. For us to be successful, to keep recruiting top faculty and top students, the local community has to be successful.”

Penn does not pay premiums to use local companies; each contract must make business sense. “A lot of times entrepreneurs don’t understand why they have to be competitive,” says Maier. “They would say, ‘With your budget, a 5 percent price differential should be peanuts to you.’ What they did not understand is we have federal contracting guidelines, and fiduciary responsibility.” Penn does not make exceptions on process either. If a business is not technologically savvy enough to participate in the university’s online e-procurement system, no contract is drawn.

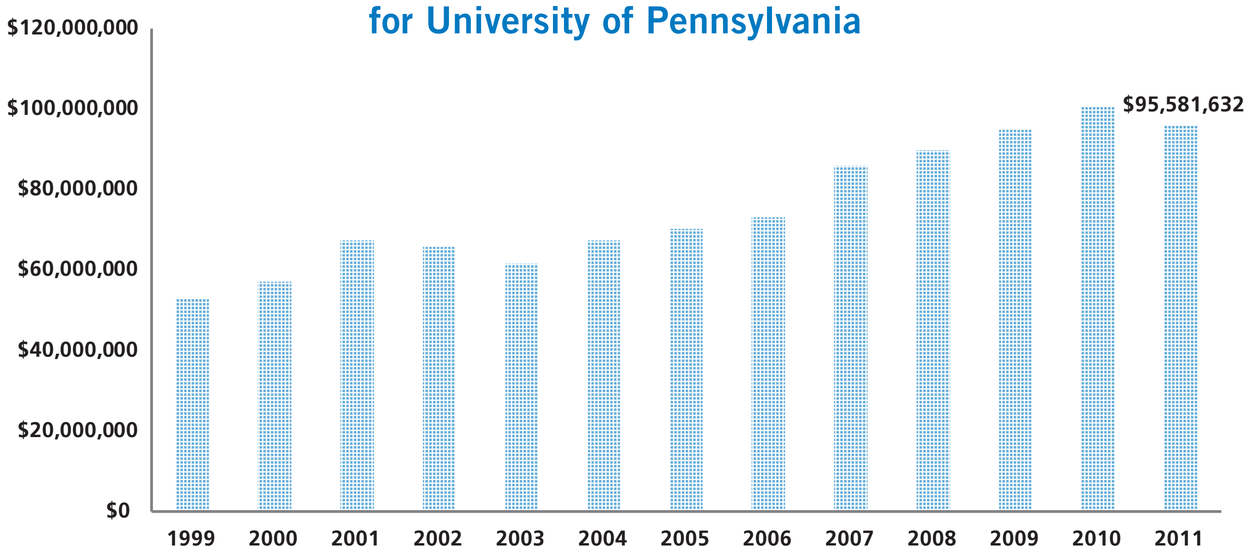
How It Works. Businesses located within the eight zip codes surrounding the university in West and Southwest Philadelphia are considered local. Penn is considering expanding the zone to the south to include a more industrial area with more room for businesses to move and grow. Penn has a formal preference for contracting, hiring, and purchasing from businesses that are locally owned before prioritizing location.

Every year, the purchasing department sets ambitious goals about how much to increase its local spending, and, as mentioned earlier, meeting those targets is part of the performance evaluation of purchasing managers.

Penn’s Economic Inclusion taskforce, two-thirds of which is composed of community members, and a partnership with the Greater Philadelphia Urban Affairs Council, connects the university with the local business community and helps Penn identify potential vendors. Maier says it’s essential to make needs, expectations, and limits clear to the community up front. “Early on, we just said, ‘We want to buy from local businesses,’” he recalls. “Then we have 52 suppliers call us for commodities we don’t buy. Then they walk away with a bad taste in their mouths, saying ‘There’s Penn again, not following through.’”

As part of its commitment to local procurement, Penn has a supplier mentoring program. It provides extensive one-on-one work with promising local suppliers, explaining everything from the e-procurement system to the bidding process, why they need to be competitive, and how they can

Local Community Supplier Spending by Fiscal Year for University of Pennsylvania



Source: Penn Purchasing Services website: http://www.purchasing.upenn.edu/supply-chain/local-community-supplier-spend.php.

improve their offers. When prospective vendors do not meet Penn's criteria, the purchasing department often refers them to other local universities that might make a better match. The department also refers businesses to a program at the university's business school to help them expand their capacity.

Penn leverages its national contracts with requirements that national companies partner with local distributors or vendors. This enables the university to get the price it needs while supporting the growth of local businesses and local jobs.

Results. In 1986, Penn's local spending was less than $1 million when they started the Local Community Business Initiative. Since then, Penn has spent $847 million; the chart on the previous page shows that local spending has increased nearly each successive year after 2003.[21]

Columbia University

Top Buy-Local Strategies:

- → **Local as part of value**
- → **Smaller contracts**
- → **Procurement cards**
- → **Database**
- → **Changing application process**

Columbia University, a large private university with more than 25,000 students, is located in Manhattan's Morningside Heights neighborhood, just south of Harlem, with a medical campus in Washington Heights, north of Harlem. It has a decentralized purchasing system, with only certain large contracts going directly through the purchasing department.

Buy-Local Philosophy. Columbia officials consider being local an important value of a vendor, and they are focused on building and strengthening relationships with minority-owned local businesses, in particular. "We want vendors nimble enough to respond to our needs," says Director of Vendor Management and Relations, D. Sean Johnson. "Larger vendors sometimes can't react to our needs as much. With a local vendor we can walk over to them and talk. We don't just look at price, we look at value," Johnson adds. "We include local as part of the value calculation. It's not a set-aside."

Columbia recognized that outreach to local firms was not enough; to bring in more local vendors, the university itself had to change. "Our goal was not so much how do we make current processes include local businesses, but also how do we revamp our vendor processes so they are more local friendly," says Johnson. "This should be our vendor process period, not just a local initiative."

How It Works. Columbia identifies local as within the New York Empowerment Zone, which encompasses the 17 zip codes that include the neighborhoods of Harlem, Washington Heights, and Inwood (located just north of Washington Heights).

The purchasing department created and maintains a database of local minority-owned suppliers, starting with a private database, supplementing it with data from minority and small business networks, and then contacting business proprietors for additional information.

As part of a program to diversify purchasing, the purchasing department analyzed the university's spending patterns and identified temporary staffing as an area where it could target more money locally. "When we looked at increasing local representation in temporary staffing, our larger vendor said 'We have enough sub-vendors,'" recalls Johnson. "We said, 'Let's look at this differently. Are there niche areas not being served well?' And they did come up with some areas where they were having trouble getting people, and a local, specialized business was able to provide staffing in those areas better."

The department is also carving contracts into smaller segments to get smaller vendors in on deals. "Small vendors think they can do anything, and then we explain what we mean by 'desktop delivery' (on the desk, the next morning) and they say 'Uh, maybe we can just do one building,'" says Johnson. "So we do often start them on one particular department or one building."

In Columbia's decentralized purchasing environment, encouraging local buying at the "retail" level as well as at wholesale is important. The university uses the procurement card—essentially, a university credit card for department heads, professors, staff, students, or anyone else who makes small purchases for a department. The cards allow local businesses to get paid immediately rather than waiting for a check to be cut. Many smaller vendors could not accept credit cards, so university agents arranged for banks to give them the same preferred rates for merchant accounts that Columbia enjoys.

Columbia also uses its buying power to spur partnerships between national and local firms. As part of every applicable proposal, the university asks companies, "If you're not in the local community, how will you partner with the local community?" In one example, a large vendor connected smaller local firms to its wholesalers, and they gave the local vendors the same bulk discount pricing available to high-volume companies. This lowers costs for everyone: Columbia, the local vendors, and their retail customers. That, in turn, helps local companies compete and grow.

San Jose, California

Top Buy-Local Strategies:

→ **Automatic bid preference**

In the heart of Silicon Valley, San Jose is a famously expensive place to run a business. In 1996, California voters passed Proposition 209, which prohibited public institutions from making decisions based on race, gender, or ethnicity. This invalidated the City of San Jose's programs to support minority- and women-owned enterprises, which were often also local. San Jose officials feared that without these programs, local companies would lose out to competitors in outlying areas or distant parts of the country that have much lower costs of living and doing business. In response, in 2004, the city council created a local business bid/RFP preference. The council defines "local" as Santa Clara County. While San Jose is the largest city in the county in terms of population (900,000), defining the county as 'local' works to dilute the impact of local procurement for the City of San Jose.

Buy-Local Philosophy. Officials believe that supporting local business makes good economic sense for city government and the community as a whole. "If you keep the procurement local, then that's business that pays property taxes, sales tax, and employs people," says Walter Rossmann, deputy director for accounting and purchasing for the City of San Jose. "It's really the multiplier effect. Not just direct revenue, but more the bigger economic development picture."

Rossmann says aside from outreach, his department has not done other local purchasing efforts like redesigned contracts. "We have a lot of large contracts and a lot of small contracts. Buying locally is not just to attract local business," he says. "There's a tension there in terms of priorities, but the local preference kind of takes care of the tension. Besides, a small company can always pair up with someone else to prepare a bid."

How It Works. San Jose's bid preference lowers the price of bids by 2.5 percent for qualified local businesses, giving them a competitive advantage.

Local ownership is not a requirement: large franchises and chains can qualify for the preference as long as they have a local branch, office, or store with at least one employee. Qualified businesses include both local companies, and businesses with fewer than 35 employees companywide, regardless of where they are located.

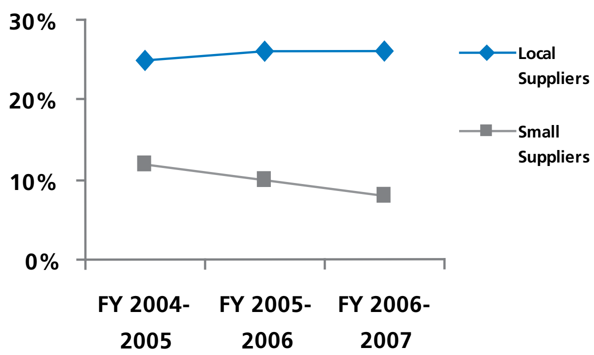
There is no certification program for local businesses; a business must apply for the preference in every bid or RFP submission. Although this has caused some "heartaches" when a business neglects to do so, city officials say the process is more efficient than hiring staff to oversee formal certification.

The city publicly identifies the companies that receive local preferences. If a competitor challenges another bidder's eligibility, the city investigates. Rossmann says that the city has investigated only three or four times in the past few years, and except for a company that had not paid for its business license, everything turned out to be in order.

Results. Unfortunately, San Jose did not establish a baseline for spending with local businesses before implementation, and it does not track how often the local preference is applied to bids. This makes it hard to determine the effect of its program, even though the city has tracked local spend since the program's launch.

In San Jose during FY 2006–2007, one of every three purchase orders went to local suppliers, resulting in 26 percent of dollars going to local suppliers. As the chart on the next page shows, the percentage of dollars spent with local businesses increased by 1 percent; however, the percent of dollars *recorded* as spent with small business actually declined.[22] The decline in the amount of purchases with small businesses is

Percent of Contract and Purchase Order Dollars Awarded to Local Suppliers and Small Suppliers



Source: San Jose Small Business Opportunity Program.

likely due in part to the fact that in April 2007, the competitive procurement requirement was raised to contracts over $10,000 from $5,000. These changes mean that the data does not include small business purchases under $10,000.

The number of small businesses (companies with fewer than 35 employees) and employment at these companies increased 3 percent from 2006 to 2007. In 2007, small businesses were 88 percent of all San Jose business and employed 44 percent of the city's workforce.

Washington, DC

Top Buy-Local Strategies:

→ **Automatic bid preference**
→ **Solicit bids locally**
→ **Require local subcontracting**
→ **Targeted technical assistance**

Washington, DC, had local preferences as far back as 1977, with its Minority Contracting Program. After a federal court struck it down as unconstitutional in 1992, the District developed a race-neutral approach by focusing on local, small, or disadvantaged businesses. This was meant as a temporary emergency measure until officials could collect data to support reinstating the original program. But that research never happened, the revamped program stuck, and categories have since been added.

Buy-Local Philosophy. Supporting small local businesses has been part of DC's approach for long enough that the district has an entire agency, the Department of Small and Local Business Development (DSLBD), charged with "fostering economic growth and the development of emerging District-based business enterprises through programs and opportunities, agency and public/private contract compliance, advocacy, and supportive legislation."[23] The job-creation potential of local businesses is high among the DC government's goals, and officials give significant competitive advantage to certified businesses.

How It Works. Businesses that qualify as a Certified Business Enterprise (CBE) receive preferred status for procurement and contracting opportunities. CBE designation is contingent upon being a local business enterprise. Once that is established, businesses can pursue additional certifications as a:

- small business
- disadvantaged business
- business located in an Enterprise Zone
- business owned by a resident, or owned by a longtime (at least 20 years) resident

Each certification adds points to a proposal and reduces the total bid price by a percentage. For example, being a disadvantaged business adds two points to a contractor's overall proposal and subtracts 2 percent from the overall bid total making these bids more competitive.

The Office of Contracting and Procurement (OCP), which provides contracting services for selected agencies and offices in the District, has a mandate to spend 50 percent of its funds with certified firms. It uses three strategies:

- First, prioritizing Certified Business Enterprises in bid solicitation. For contracts under $100,000, OCP first notifies the businesses on the DC Supply Schedule (a listing of open product and service needs), then the full CBE list, and lastly the list of general registered vendors. OCP needs a minimum of three bidders and will go to the next level only if it has not received that number.

> *"The quality of the food we are getting is so far above what we were getting from national contracts that it is helping patients get better more quickly."*
>
> **—Mike Pearson, Head of Hotel Services, Cornwall Healthcare Estates and Support Services**[25]

- Second, once enough bidders are found, each qualification that a business fulfills translates into a percentage advantage on bids or a points advantage on RFPs in a cumulative fashion, up to 12 points/percentage points.
- Third, contracts at, or over, $100,000 require that a certain amount of subcontracting involve CBEs. These set-asides range from 25 to 50 percent, with 35 percent being common.

Because the combined advantages of first notification and preference in bidding are so great, businesses sometimes claim they are local when they are not, says Jamaine Taylor of the DSLBD. The department has five full-time staff devoted to certification and compliance.

DSLBD reaches out to local businesses through bus shelter ads and other promotions, but for the most part it happens through word of mouth. DSLBD offers frequent trainings, events, research, and education to prepare disadvantaged businesses for bidding and place them in contracts.

Results. According to a 2002 evaluation, every dollar spent on a CBE preference contract generated an additional 55 cents of spending on goods and services in the District, and every two jobs created directly by a contract award generated one additional indirect job. From October 1, 1999 to September 30, 2001, these contracts generated $66.5 million in direct and indirect tax revenues, with approximately $19.4 million accruing to the District government.[24]

Cornwall Food Programme

Top Buy-Local Strategies:

- → **Redesign contracts**
- → **Supplier mentoring**

While rural southwestern England seems light years away from Newark, the county of Cornwall holds valuable lessons in instituting buy-local strategies. These strategies cut costs to the organization and improved the quality of products it served to its clients. Cornwall Food Programme (CFP) was created by a consortium of three National Health Service (NHS) locations in Cornwall, a disadvantaged area. NHS wanted to improve its food quality and direct some economic benefit to this region. Due to strict European Union free trade rules, NHS could not deploy a simple local bid preference.

Buy-Local Philosophy. Local food tends to mean fresher and higher quality. Supporting local farms and food suppliers in turn enables more good food to be produced in the region. And more nutritious, tastier food translates into direct cost savings for hospitals.

How It Works. CFP evaluated its contracts one at a time, looking for ways to recast them to get a better product that a local supplier would likely have an advantage in providing. The program also worked directly with potential suppliers to help them change packaging and portions to meet the needs of NHS.

One of their early actions was to change ice cream suppliers. Hospital staff noticed that the mediocre ice cream they were serving for dessert was often left, melted, on patients' plates.[26] Clearly, this was a waste of money and food.

CFP identified a local dairy, Callestick, which made high-quality ice cream. CFP and the dairy identified ways to reduce costs, for example by reducing portion sizes and simplifying packaging. CFP believed that the value of the local dairy's resulting offer was not competitive with the previous supplier, based strictly on price.

CFP quantified that value and included it in the contract specifications as nutrition requirements. The local dairy's ice cream had 50 percent more protein than the previous supplier's. "CFP altered the specifications of its ice cream contract to require a higher nutritional value. On the basis of the revised specifications, the national contractors declined to even submit bids, and Callestick won the contract on both price and quality."[27]

Similarly, CFP switched to local fish cakes with a higher percent of fish versus filler and added affordable goat cheese from a local supplier in appropriate small-portion sizes that had been too small for the supplier to sell easily on the national market.

In 2008, Cornwall Food Programme made an even greater leap. From the beginning, officials realized that in order to source more locally grown food, especially organic, they would need to be able to cook more from scratch rather than rely on packaged and prepared foods. So they created the Cornwall Food Production Unit. The facility opened in February 2008, employs 28 people, and prepares high-quality food for three hospitals, with the capacity to serve more.

Results. CFP has been able to spend 83 percent of its budget with local companies and 41 percent on local produce *without increasing cost*.

The new ice cream has been good for patients and the bottom line. The hospitals have saved money through the decreased use of expensive powdered drink supplements given to elderly patients to maintain their calorie intake.[28]

Public, private, and nonprofit firms in Newark have the potential to leverage tremendous purchasing power for transformative economic development. By learning from singular efforts, a citywide coordinated effort could yield great rewards.

Bringing Local Purchasing to Scale: A Coordinated Buy Newark Initiative

As the case studies have demonstrated, one large purchaser's buy-local effort can make a significant contribution to a local economy. But a concerted, coordinated effort by a group of purchasers can compound the benefits for the buyers and the community.

This section includes recommendations for action steps to establishing a broad Buy Newark Initiative that leverages the tremendous buying power of local institutions, large and mid-sized firms, and public agencies. While an integrated, comprehensive citywide local purchasing effort is unprecedented in Newark, or anywhere, there is hope. A buy-local initiative in Newark can build confidence, even in a rough economy, and support a sustainable recovery.

A coordinated effort could provide many benefits including efficiencies in research, marketing, small business capacity development, and vendor referrals and achieving economies of scale. Combining efforts into a citywide initiative would magnify each participant's impact. A coordinated effort does require time and dedication from a lead agency (possibly a local government agency or business development organization) to develop and convene a network of participants and technical advisers, to promote incentives for buying local, to develop a system for evaluating its impact, and most of all to champion the effort to diverse stakeholders.

We envision four steps to launching a citywide buy-local initiative:

Develop a Plan

A comprehensive buy-local effort requires a plan that includes input from public and private purchasers (small, medium, and large), small business development agencies, local suppliers, and civic and community partners. Agencies like Brick City Development Corporation, the Council for Higher Education in Newark, the Newark Alliance, the Newark Regional Business Partnership, and others that have close relationships with businesses and entrepreneurs are a great starting point for identifying additional partners and outlining a plan. The plan should, at a minimum, include the following:

- A shared definition of local that includes a measure of resident ownership and/or resident employees, not merely the local address of a company.
- A strategy to support each participating purchaser in crafting its own buy-local policy, strategies, and goals to match its particular needs, limits, and opportunities.
- An inventory of citywide policies (existing and proposed) that support business development and collaboration.
- An inventory of individual purchasing policies targeted at buying local.
- A strategy for how purchasers and small business development agencies can partner, share best practices, and track progress across the city.

Increasing local buying happens incrementally, and the benefits of doing it citywide will be realized only if participants come together regularly to share, learn, and coordinate. Toward that end, we recommend:

- Designating a coordinating organization that will commit dedicated resources and staff time to champion the buy-local plan. This will involve fostering ongoing communication and coordination among purchasers and businesses, technical advisors, etc.; bringing in new organizations;

and managing projects that support the buy-local efforts of the whole group.

- Supporting a lead organization in developing and maintaining a public, searchable database of local businesses, as well as providing marketing and communication about the citywide campaign. Coordinating local multiplier assessments would be helpful as well, as most purchasers will have many suppliers in common.
- Collaborating with small business development organizations to help purchasing departments revamp their contracting practices and prepare local businesses to be "contract ready."

Support Each Purchaser's Buy-Local Strategies

While a comprehensive approach is important, each participating purchaser will likely adopt particular buy-local strategies and goals to fit its needs and resources. Each participant should start with an assessment of its local purchasing practices and current contracts.

- Where possible, use a potential vendor's actual local reinvestment or multiplier as a supplementary measure of local benefit, especially for formal bid preferences.
- Purchasers may need technical assistance to encourage and guide them to shape their processes and contracts to meet the needs of small vendors.

Develop Supportive Policies

The City of Newark and other local public agencies and authorities should enact policies that support local businesses and local procurement. It is recommended that local government agencies take the following first steps:

- Review economic development subsidy practices to make sure they are not biased toward non-local businesses.
- Clarify bidding regulations. In particular, local government should state explicitly that criteria other than cost may be factored into a winning bid. One model is what Western Australia calls "Value for Money": the principle that when goods and services are purchased, public authorities achieve the best possible outcome for every dollar spent by assessing the costs and benefits to government and the community, rather than selecting the lowest purchase price.[29]
- Project-specific policies can help divert resources to local businesses as well. For example, local advocates can push decision makers to establish goals and mandates for using a percentage of work hours and/or project dollars toward hiring local contractors, vendors, and professional services for projects using public subsidies. The Los Angeles International Airport overhaul, the Atlantic Yards development in Brooklyn, and the Penguins Arena in Pittsburgh all contained sections on local hiring and contracting.[30] Consider creating partnerships with statewide groups such as Sustainable Jersey to advocate for state- and federal-level policies that level the playing field for small local businesses.

Communicate Success

Buy-local can be a rallying cry for a city. Telling your story and broadcasting your success can inspire other big purchasers, small businesses, and even consumers to jump on board. To this end, the following strategies are recommended:

- Identify and support early adopters that commit to concrete changes in procurement (e.g., making faster payments, always checking the database of local businesses first) and to develop more substantive strategies within their procurement departments (e.g., supplier mentoring, recasting contracts). Feature early adopters in a highly visible promotional campaign supported by the City of Newark. This could take many forms, for example, a recognition program using attention-getters such as window stickers and awards that help businesses stand out as buy-local champions.
- Consider coordinating with a retail buy-local campaign that gives consumers new ways to support local businesses that may or may not be serving as direct suppliers to large institutions or companies.

Conclusion

Public, private, and nonprofit firms in Newark have the potential to leverage tremendous purchasing power for transformative economic development. These individual case studies and strategies have demonstrated the rewards for singular efforts, but imagine what a citywide coordinated effort could spur. Such a strategy requires a neutral champion that can track disparate efforts and act as a connector to facilitate relationships. The good news is that Newark has the makings of such a strategy: a robust network of supportive agencies for businesses, many small and mid-sized businesses, and a strong cadre of institutions, large employers, and public agencies with purchasing power. Investing the time to set up, track, and sustain a local purchasing effort in Newark and in many similar communities across the nation has the potential to yield considerable community, economic, and environmental benefits.

Appendix

	Strategy	How It Works	Who Uses It
Institute Formal Preferences for Local Business	**Calculate local multipliers for bidders/suppliers**	Measures the economic activity that vendors and suppliers can generate in a community. For example, purchasers would include a local multiplier in evaluating bids by considering how many local owners, resident employees, and local subcontractors and suppliers are to be used. This gives firms with local employees and subcontractors an advantage in bidding and helps keep procurement money circulating locally.	• Any sector.
	Include being local as assessment criterion	Organizations direct staff to include a business's location among the factors used to award contracts. Local spend goals may also be a factor in purchasing officers' performance evaluations.	• Any sector.
	Require that large suppliers partner with small local businesses	Some purchasing departments require their large national suppliers to work with a local business as a distributor, subcontractor, or other partner. These national-local partnerships are good ways to make a formal commitment to local purchasing even when local vendors lack sufficient capacity for a full-scale contract. May also reduce costs.	• Large private institutions or purchasing cooperatives.
	Give automatic bid preferences for local businesses	Similar to the local multiplier, this strategy is based on the assumption that local businesses generate a greater net benefit for the local economy. Accordingly, they are "rewarded" in the bidding process. Typically, a formula kicks in to lower a local supplier's bid by a fixed percentage (just for the purposes of evaluating the bid) or add RFP points for being local. Generally applied to contracts below $100,000. Vendors may first have to be certified as local or have to qualify for the preference with each bid.	• Public agencies, primarily.
	Solicit bids locally first	When local businesses are underrepresented in the bidding process, a competitive advantage for local bidders will not make that much difference. To address the disparity, a purchasing department may solicit bids only from local vendors, turn first to lists of local businesses, or set a goal to include at least one local business in the pool of competitors for each contract.	• States, usually only for very narrow categories.
	Institute a mandate for local procurement	It is possible in some instances to mandate local purchasing of certain goods. This typically happens at the state level. For example, Michigan mandates that all state agency printing contracts are in-state. Mandates are usually applied to public art, printing, food, use of locally manufactured materials, or other narrow categories.	• Any sector can use them, once created. • Larger institutions, public or private, especially those that have a certification process for vendors, usually make them. • A third party can also make one.
Build the Capacity of Local Businesses	**Provide targeted technical assistance to local and minority- and women-owned businesses**	Organizations across the U.S provide technical assistance and services to support small businesses in bidding and contracting. Universities and other major purchasers can create in-house versions through business schools or other centers, especially if they combine well with a supplier-mentoring program. Business development programs can tailor offerings to the needs of potential or current vendors and offer feedback on their performance.	• Any sector. Relationships with other local purchasers interested in local procurement are important.
	Refer local vendors to other purchasers	A business that may not qualify to be a vendor for one purchaser may be suited for another. Every buyer has its rules and restrictions. One may require the capability to use an e-procurement system, while another does not. A private institution may be able to raise its bonding threshold while a city government may not. When purchasers committed to buying local work together and understand one another's needs and supplier criteria, they can refer promising local vendors to their counterparts.	• Any sector. Relationships with other local purchasers interested in local procurement are important.

	Strategy	How It Works	Who Uses It
Cultivate Relationships with the Local Business Community	**Create an easy-to-use and regularly updated database of local businesses**	A current, accurate database of local and minority- and women-owned businesses can serve as the primary go-to list for purchasing agents. When purchasers have information on potential local vendors at their fingertips, it can increase the likelihood of local contracting. If a certification system is in place, the database is made up of the businesses that have successfully completed a certification system that verifies they are indeed a local, viable, functioning business. Another approach is to allow local businesses to self-certify and register in an online database or e-procurement system; this requires appropriate outreach and training.	• Institutions with decentralized purchasing.
	Use procurement cards for smaller purchases	Procurement cards and business credit cards allow employees to make purchases below a threshold without approval from a purchasing department. These small purchases can be ideal for local businesses that are not set up to take purchase orders or wait for checks to be issued.	• Any sector. Especially good for those with legal restrictions on formal preferences.
	Redesign contracts to capture the strengths and capabilities of local suppliers	Adjust contract requirements such as quality standards or vendor location to better meet purchaser's needs and local business capabilities. For example, by changing catering requirements to encourage seasonal fluctuations in available food and ethnic offerings, or strengthening standards for freshness or customizability, a purchaser gives an advantage to local food purveyors.	• Any sector.
	Adapt procurement process	Purchasing departments change their strategies to make the process friendlier to local and disadvantaged businesses. Examples include smaller/graduated contracts, longer-term contracts, and faster payment schedules.	• Any sector.
	Streamline and simplify the application process	Removing or reducing repetitive or expensive steps in the registration, qualification, and bidding process makes it more accessible to smaller local firms. Purchasers review materials internally and externally to make sure they present clear, easy-to-understand information about requirements and expectations.	• Any sector.
	Address challenges of bonding	Institutions may offer mentoring to help potential vendors through the bonding process. Private purchasers may also raise their bonding threshold. Public purchasers can create bonding pools—often lines of credit—to give a partial guarantee to the surety companies for eligible firms (small, local, minority- or woman-owned, etc.). This increases the likelihood that they will be offered bonding and can reduce costs.	• Private institutions raise their bonding threshold. • Public agencies create guarantee pools. • Any organization that provides technical assistance/mentoring.
	Create a geographically based purchasing cooperative	A group of purchasers with similar needs can create a cooperative to negotiate better deals with local companies due to greater volume and efficiency of concentrated delivery and service. Although a purchasing consortium does not necessarily focus on local suppliers, its geographic concentration can be attractive to local firms, which may find it efficient to service several nearby clients at once. Likely reduces costs.	• Medium-sized institutions located near other similar purchasers.

Notes

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[2] Civic Economics, *The Andersonville Study of Retail Economics* (Chicago: Civic Economics, October 2004).

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[4] "Business Climate," Brick City Development Corporation, http://www.bcdcnewark.org/business-climate/index.html (accessed December 2011).

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[6] Bernie Ward and Julie Lewis, *Plugging the Leaks: Making the Most of Every Pound That Enters Your Local Economy* (U.K.: The New Economics Foundation, Esmée Fairbairn Foundation and the Neighbourhood Renewal Unit, September 2002).

[7] Justin Sacks, *The Money Trail: Measuring Your Impact on the Local Economy Using LM3* (UK: New Economics Foundation and The Countryside Agency, 2002), http://www.pluggingtheleaks.org/resources/plm_lm3.htm.

[8] Ibid., 84-85.

[9] Ibid., 81.

[10] John Kromer and Lucy Kerman, *West Philadelphia Initiatives: A Case Study in Urban Revitalization* (Philadelphia: University of Pennsylvania, 2004), 43 and interview with Ralph Maier, August 2008.

[11] There are many ways to set these percentages. San Diego, California, uses the amount of local sales tax it will earn back on a local contract (the contractors pay state tax, a portion of which is returned locally) to set its local preference (currently 1 percent). This makes the preference essentially cost-neutral.

[12] Thresholds can be found in the *Federal Register,* December 19, 2003 (Volume 68, Number 244), page 70861 (DOCID:fr19de03-130), http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2003_register&docid=03-31373-filed.

[13] See National Institute for Governmental Purchasing, Local Preferences Poll, 2004, http://www.nigp.org/surveysolutions/survsole40.pl and Glen Cummings, et al., *State and Local Procurement Preferences: A Survey* (National Institute for Governmental Purchasing, 2006), http://www.nigp.org/research/06prefsurvey.pdf.

[14] Mason Tillman Associates, Ltd., *Local Small Disadvantaged Business Enterprise Program: Cost Effectiveness and Financial Impact Analysis,* (Washington, DC: District of Columbia Office of Local Business Development, December 2002) http://dslbd.dc.gov/DC/DSLBD/About+DSLBD/DSLBD+Publications/Evaluation:+Local,+Small+and+Disadvantaged+Business+Enterprise+Program:+Cost+Effectiveness+and+Financial+Impact+Analysis.

[15] "Local Purchasing Preferences," The New Rules Project, http://www.ilsr.org/rule/local-purchasing-preferences/ (accessed January, 2012).

[16] "Small Business Set Aside Program," State of New Jersey, Department of Treasury, Division of Purchase and Property, http://www.nj.gov/treasury/purchase/smallbusiness.shtml.

[17] Charlotte Russell, *A Fresh Approach to Hospital Food,* (Bristol, U.K.: Soil Association, 2007), 38.

[18] The New Economics Foundation, *Public Spending for Public Benefit* (U.K.: The New Economics Foundation, 2005), 60.

[19] *Small Business Friendly Concordat: Good Practice Guide,* Office of the Deputy Prime Minister, http://www.communities.gov.uk/publications/localgovernment/smallbusinessfriendly, 27.

[20] Memo from Katy Allen, Director, Public Works Department and Scott P. Johnson, Director, Finance Department, to Driving a Strong Economy Committee, April 30, 2007, "Small and Local Business Contracting." http://www.sanjoseca.gov/clerk/CommitteeAgenda/CED/052407/CED052407_d.pdf.

[21] Penn Purchasing Services website http://www.purchasing.Penn.edu/supply-chain/local-community-supplier-spend.php (accessed Jan 2011).

[22] Memo from Katy Allen, Director, Public Works Department and Scott P. Johnson, Director, Finance Department, to Driving a Strong Economy Committee, April 30, 2007, "Small and Local Business Contracting." http://www.sanjoseca.gov/clerk/CommitteeAgenda/CED/052407/CED052407_d.pdf.

[23] Department of Small and Local Business Development website, District of Columbia, http://dslbd.dc.gov/DC/DSLBD/About+DSLBD/Who+We+Are (accessed January 2012).

[24] Mason Tillman Associates, Ltd., *Local Small Disadvantaged Business Enterprise Program,* 18.

[25] Quoted in Russell, *A Fresh Approach to Hospital Food,* 7.

[26] *Public Spending for Public Benefit, 60.*

[27] Ibid.

[28] Russell, *A Fresh Approach to Hospital Food,* 7.

[29] "Local Purchasing Preferences—Western Australia," The New Rules Project, http://www.newrules.org/retail/rules/local-purchasing-preferences/local-purchasing-preferences-western-australia (accessed February 2010).

[30] The best language, according to community benefits agreement expert Amy Lavine of Albany Law School, requires "contracts to be unbundled and…developers to give special notice and/or hold pre-bid meetings for interested local businesses." HUD's Section 3 contracting regulations, especially the "X factor" approach found in the appendix of Section III(2), can be used as a model.

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