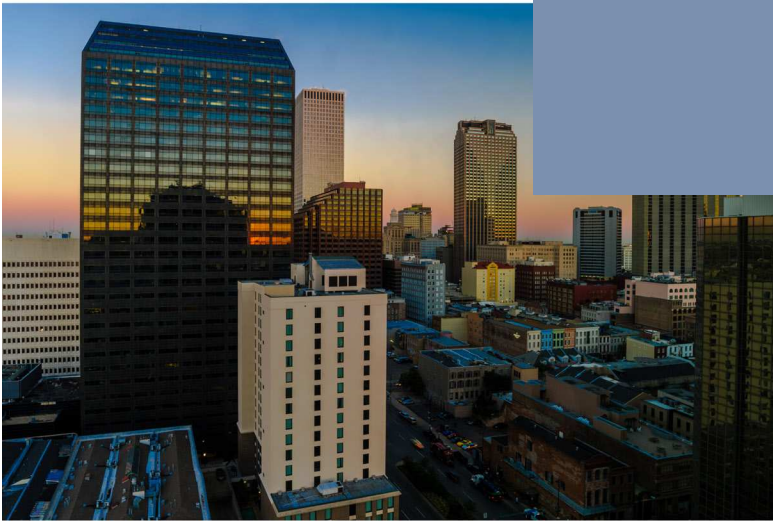




Healthcare Small Business Gap Analysis



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Healthcare Small Business Gap Analysis

Prepared for the New Orleans Business Alliance

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The Democracy Collaborative

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Executive Summary

On behalf of the New Orleans Business Alliance (NOLABA), The Democracy Collaborative and local partner, DMM & Associates, conducted a three-month assessment of the procurement practices and supply chain needs of New Orleans healthcare institutions and the capacity of small, local businesses to fulfill those needs. This Healthcare Small Business Gap Analysis grew out of the anchor institution strategy identified in *ProsperityNOLA*, the five-year plan for economic growth in New Orleans, published by NOLABA in 2013.¹

Based on our research, we found that supply chain practices vary widely among our target hospitals and that ownership structure and geographic footprint are key determinants of hospitals' appetite for local procurement. We also found that hospitals in New Orleans purchase relatively few goods and services from local small businesses, compared to the city's public agencies and large corporations. This is due mainly to the fact that supply chain processes at most of our targeted hospitals have not yet been designed to facilitate doing business with smaller suppliers or to intentionally promote local vendor access to bid opportunities. Most New Orleans hospitals do not yet have specific vendor inclusion goals, do not track data on local spend, do not have small business liaison offices, and do not advertise available contract opportunities to the public.

We also found that small, local businesses currently supply goods and services to

some of New Orleans' largest public agencies and private corporations, offering proof that multiple sectors of the New Orleans small business community do possess the necessary capacity to serve large customers, provided bids and terms are structured in a way that allows them to compete. And although small businesses face a unique set of challenges, such as lack of experience with the bidding process, barriers to capital access, or uncertainty about how to navigate hospital purchasing, these can be addressed through simple efforts on the part of buyers, like unbundling bids or improving payment terms. Where capacity gaps may still exist, we found that there is a robust ecosystem of local business development assistance available to strengthen and prepare small businesses for success with large contracts. Moreover, the development of some key hospital-focused interventions could further strengthen this ecosystem and mitigate risk for healthcare buyers.

But re-aligning the culture and supply chain practices of an entire local industry is not an easy process. Success requires significant dedication and long-term commitments from multiple stakeholder groups. To guide hospitals and community partners in this process, we documented a number of inclusive supply chain programs, nationally and in New Orleans. We found that the challenges encountered by these large institutions, while initially developing supply chain inclusion programs, closely mirror the experiences reported by New Orleans hospital officials. But we also found that success is both possible and worth the investment. Many sourcing experts claim to have realized significant benefits from deliberately inclusive sourcing. Based on these common experiences and established best practices, we have included a composite development plan in this report to help hospitals visualize how to build a supply chain inclusion program, over time

After careful analysis, we have concluded that New Orleans has all of the ingredients necessary for a successful anchor development initiative and that the opportunity for greater small business-healthcare partnerships is compelling. We encourage NOLABA and its partners to convene a conversation around the cultural and practical investments necessary to achieve these objectives. To support this process, we have made a series of recommendations designed to guide hospitals in the process of re-localizing key areas of their supply chain and to help small business owners, technical assistance organizations, The City of New Orleans, and The New Orleans Business Alliance understand their unique roles in fostering this transition. With strong leadership and shared commitment, the New Orleans hospital industry can transform from laggard into leader, through strategic local sourcing that meets institutional needs and creates economic opportunity in New Orleans.

INTRODUCTION

Health Services and BioInnovation is one of the fastest growing sectors in the Greater New Orleans area and has been identified as one of the top industry clusters “with the greatest potential to generate quality jobs and impact the city’s competitiveness.”² In the BioDistrictⁱ alone, roughly \$3.3 billion in investment capital is expected to be deployed over the next 15-20 years, with the potential to generate over 34,000 direct and indirect jobs.³

But even as the healthcare industry and New Orleans look forward to this expansion, poverty and inequality still threaten to slow recovery and hamper growth. A recent study by the Lindy Boggs National Center for Community Literacy at Loyola University found that only 48 percent of working age African-American males in New Orleans are employed, reflecting a steady decline from 63 percent three decades earlier.⁴ And, in the Claiborne Corridor alone, where a majority of the biomedical corridor lies, more than 50,000 people survive on a median household income of \$18,000 or less.⁵ The fact that these conditions persist even after the expenditure of tens of billions in federal recovery dollars, following Hurricane Katrina, provides ample evidence that investment alone will not ensure prosperity for all. A more comprehensive approach is needed to ensure that those investments are leveraged for the maximum benefit of the local economy and all New Orleans citizens.

The New Orleans Business Alliance’s *ProsperityNOLA* report and Mayor Landrieu’s 2014 Economic Inclusion Strategy have both recognized that the city’s hospitals and other anchor institutions have a critical role to play in creating pathways to prosperity for traditionally underserved citizens, not only as job creators but also as purchasing organizations. Through a series of high-level meetings, jointly convened by Mayor Landrieu and NOLABA, several New Orleans hospitals have already made significant workforce

development commitments and have also expressed willingness to re-localize some of their sourcing.⁶

The question, now, is how to do so in a way that strengthens hospital supply chains, increases opportunities for local vendors, and benefits all New Orleanians.

ABOUT THE STUDY

The principal goal of this study is to identify strategic opportunities to leverage the resources of local hospitals in the service of building a more equitable and inclusive economy in New Orleans. Our recommendations are meant to compliment similar assessments that have focused on direct hiring and workforce development initiatives. In particular, this study emphasizes the opportunities to connect locally owned small businesses to supply chain needs at key New Orleans hospitals, including the Ochsner Baptist Medical Center, the LCMC System (Children’s Hospital, Touro Infirmary, Interim LSU Hospital and its replacement, the University Medical Center, opening in 2015), New Orleans East Hospital, Tulane Medical Center, and the Veteran’s Administration Hospital (opening 2016).

To map these opportunities, our teams conducted interviews with 146 New Orleans stakeholders, representing eight hospitals, 12 additional anchor buyers, 20 technical assistance organizations, 43 small businesses, and a variety of public stakeholders, in addition to 24 strategic sourcing experts from around the country. Our assessment also draws on The Democracy Collaborative’s knowledge of best practices in local supply chains, from our national Anchor Institution Initiative, and the direct experience of DMM & Associates, who helped design the local/disadvantaged vendor program at one model local hospital.

ⁱ“BioDistrict New Orleans, is a state-enabled economic development district created by the State of Louisiana in 2005 and charged with the responsibility of growing both the programmatic and physical development components of the biosciences sector of the New Orleans economy. The 1,500-acre district spans the downtown and Mid-City areas of New Orleans, bounded by Earhart Boulevard, Carrollton Avenue, Loyola Avenue and Iberville Street.” (biodistrictneworleans.org)

Our research did not uncover any obvious unmet healthcare demand for goods or services that could be immediately met by local suppliers.

Therefore, we focused on:

1. Documenting the state of local procurement in New Orleans hospitals and examining the cultural and procedural barriers to small business-hospital relationships.
2. Assessing the capacity of small, local businesses—defined as having \$100,000 to \$1 million in revenue and at least one year of operation—to serve large healthcare contracts.
3. Determining the ability of technical assistance organizations and other intermediaries to build and strengthen the capacity of local small businesses to serve large healthcare contracts and identifying areas where there may be opportunities to reinforce those supports.
4. Benchmarking best practices in targeted supply chain inclusion programs, both nationally and in New Orleans, that could inform the development of similar initiatives in New Orleans hospitals.
5. Documenting unmet demand from any New Orleans anchor institutions or other large buyers that might indicate an opportunity for new local business development.
6. Analyzing how NOLABA and its partners can best address the challenges identified and support an anchor-linked small business development initiative.

Based on our analysis, we have concluded that New Orleans has all of the ingredients necessary for a successful anchor development initiative and that the opportunity for greater small business-healthcare partnerships is compelling. Below we highlight some key findings that contributed to our assessment.

KEY FINDINGS

Hospital Interview Themes

About New Orleans Hospital Purchasing

As with most hospitals nationally, a large portion of New Orleans hospital procurement is done through Group Purchasing Organizations (GPOs), such as MedAssets or Novation. Commonly, GPOs are used to obtain basic goods, pharmaceuticals, and medical supplies, while service contracts, such as landscaping, courier, air and heating, office and environmental services, concessions, legal and professional services, floral, and renovations are let on a more individualized basis.

We estimate that the healthcare institutions in our target group have combined procurement spending in excess of \$1.5 billion per year. Based on our research, we found that hospitals in New Orleans do some local sourcing but that they purchase relatively few goods and services from small businesses, when compared to the city's large corporations and public agencies.

Key Challenges to Local Hospital Sourcing

One reason for the gap between our target hospitals and other large buyers in New Orleans, such as public authorities—which have long been accustomed to using disadvantaged business enterprises as subcontractors—and private corporations—which often work to meet a variety of diverse vendor targets (see Appendix A)—is that supply chain processes at most of our targeted hospitals have not yet been designed to facilitate doing business with smaller suppliers or to intentionally promote local vendor access to bid opportunities. Six out of the eight hospitals we studied do not yet operate small business-focused supply chain inclusion programs (a third hospital has a diverse-vendor inclusion program which does not emphasize small or local vendors). For example, these hospitals do not have specific small or local vendor inclusion goals, they do not track data

on local spending, they do not have small business liaison offices, and they usually do not advertise available contract opportunities to the public.

A hospital's appetite for local procurement is often influenced by its geographic footprint and ownership structure. Hospitals with a multi-state footprint may prefer to work with large-scale regional or national vendors. Similarly, hospitals receiving government funding may be legally required to meet certain diverse vendor targets and prevented from considering others. The Veteran's Administration Hospital, for example, is accountable for meeting sourcing goals for small or disadvantaged-, women-, and veteran-owned businesses, but is not allowed to preference vendors based on geography.

Hospital representatives may perceive other challenges to re-localizing their buying patterns. For example, some cited a general lack of information about the capacity of the New Orleans small business community and a lack of understanding of how to begin a re-localization process. Other hospital leaders expressed concerns that local sourcing could increase costs or expose their institutions to risk if the small businesses hired lacked the capacity to meet their needs.

In some cases, there may also be internal cultural barriers that prevent hospitals from embracing local sourcing. For example, many hospitals have a history of positive relationships with incumbent suppliers that can make them hesitant to change. As one supply chain executive at a large corporation explained, "Asking someone to change suppliers is like me asking you to change your favorite barber. When you've found someone who does a good job, you get comfortable. It doesn't mean you're a bad person." But because of the way that opportunities were historically limited for women, minority, or otherwise disadvantaged-owned businesses, the entrenchment of incumbent suppliers can sometimes serve to reinforce existing inequality. For this reason, it is important that small or diverse-owned businesses have access to opportunities to compete.

Small Business Interview Themes

About Small Business in New Orleans

The City of New Orleans is home to approximately 35,000 businesses with less than \$1 million in annual revenue, according to ReferenceUSA's database of national business listings. About 82 percent of these businesses have fewer than four full-time employees and 63 percent generate annual revenues below \$500,000 per year. We concentrated our research on companies of this size whose product or service offering is appropriate for hospitals and which operate in industries that traditionally hire from the Mayor's target population of "disadvantaged job seekers," meaning people of color and workers without college degrees.

Small Businesses in New Orleans Have the Capacity to Serve Large Contracts

Despite perceptions, we found that small, local businesses currently supply goods and services to some of New Orleans' largest public agencies and private corporations, as both prime and sub-contractors. It is common for public agencies in New Orleans to do nearly 30% or more of their spending with small, local, or disadvantaged businesses. In addition, there are two hospitals in our target group who have had great success using local small vendors, offering proof that multiple sectors of the New Orleans small business community do possess the necessary capacity to serve large hospitals, provided bids and terms are structured in a way that allows them to compete.

In addition, many small businesses may have more capacity than it would initially appear. For example, 72 percent of the businesses we interviewed had 10 or fewer full-time employees, while others didn't even have a commercial address. However, half of these 72 percent of businesses reported regular use of contract labor—sometimes numbering hundreds of contractors per year—to scale up or down according to the needs of a particular job. Indeed, as long as small businesses have access to capital and a strong man-

agement infrastructure, they can often tap into this hidden capacity and scale to meet the needs of large clients.

But it must be noted that the successful small vendor relationships we reference were often made possible not only by the technical ability of the small businesses, but also by specific efforts on the part of the buyer to make the connection work, such as unbundling bids, improving payment terms, assisting with access to capital, or engaging in active efforts to make the bids known to supplier diversity or business support organizations. For example, the way an RFP is structured can determine whether or not a small business has the necessary capacity to qualify and compete for a job. As one small business owner put it, “If you want to bid out textiles and you add televisions to the bid... this prevents small businesses from bidding because [they] can’t get the best pricing from the manufacturer...The practice of bundling [is the problem]...Medical-surgical equipment and televisions do not go together.” Small businesses in New Orleans may indeed lack the capacity to bid on huge regional or bundled contracts. But hospitals that wish to increase local spending can overcome this challenge through simple steps that set up small businesses for success, such as unbundling contracts or mandating that prime contractors employ local subcontractors.

Key Challenges For Small Businesses

Beyond bid structure, there are other challenges that make it difficult for New Orleans small businesses to compete for and win opportunities with large hospitals. Some of the most consistently cited barriers mirror the standard set of issues faced by small businesses seeking contracts with any large institutional buyer. Others were more unique to the New Orleans hospital context.

General challenges cited include:

- Lack of experience with the bidding process:** Smaller companies just beginning to seek large contracts may not know how to submit a credible bid for large contracts and also may not have access to the software used by larger companies to estimate accurate costs. Underbidding and overextending are classic beginners’ mistakes that may carry grave consequences. In the worst cases, underbidding may prevent small businesses from completing a job they have started.
- High bonding and retainage:** Bonding and retainage requirements can prevent small businesses, particularly construction companies, from qualifying for contracts. As one small business owner reported, “I tried to bid on a [large hospital] project but was screened out due to a five million dollar bonding requirement. My bonding costs me more than my larger counterpart. I pay 2% to their 1%. I have to get lines of credit to finance a job. We don’t get paid on a 30-day net—my retainage on [another hospital] project is still outstanding.”
- Lack of back office capacity and time to pursue leads:** As one technical assistance executive described, small business owners often lack the capacity to work “on their business instead of in their business.” This can have a number of consequences, such as a lack of time to create the types of professional financial statements required for bidding on large contracts or a lack of time to seek and apply for contracting opportunities. We interviewed one local business executive who had been successful in earning a contract with a large health system. This person described how winning the contract required a tremendous investment of time and resources: first for networking and soliciting business, then to navigate a lengthy iterative bidding process, and later to maintain the relationship and keep the contract. Although this medium-sized company had the time and resources to invest in this process, many smaller companies do not—these businesses could strongly benefit from more back office support services.
- Barriers to capital access:** Serving large buyers or prime contractors often requires businesses to bear huge up-front cash layouts for materials or storage, resulting in high costs to obtain financing. Large buyers may also require bidders to purchase additional insurance or increase their labor force before they have even been awarded a contract. Lengthy payment cycles complicate matters, forcing small businesses to “float” months

of payroll and other operating expenses while waiting for payment. Adding to the challenge is the fact that many small businesses have limited access to credit, often because of imperfect personal credit history, lack of assets, or insufficient financial record keeping.

Direct interventions, such as credit counseling, financial education, and back office support services can improve credit access, over time. But there are also a number of immediate steps that creative buyers can take to assist small businesses. For example, one large New Orleans business permits small contractors to store project materials in their company's warehouse, so they don't need to lay out cash to rent storage space. Another intervention that buyers can make is to negotiate with their own financial institution to extend lines of credits to their contractors. If the bank is willing, this effectively allows small businesses to piggyback on the good credit of buyers while establishing their own.

New Orleans hospital-specific barriers cited include:

- **Lack of clarity on hospital purchasing systems:** Lack of clarity on how to navigate hospital procurement was the most frequently cited barrier in our small business interviews. Of the 43 small businesses we spoke to, 22 had done business with hospitals as either prime or sub-contractors but only eight had done business with hospitals other than the two in our target group that utilize supply chain inclusion targets and have programs designed to facilitate business with small or otherwise disadvantaged businesses. When asked about the other New Orleans hospitals, multiple business owners reported having tried and ultimately failed after months of trying to penetrate those hospitals' procurement systems. They were often unable to obtain even basic information on what was being purchased, when contracts would be open to bids, or who to contact regarding business opportunities at the hospitals. These experiences were consistent with what procurement officials at these hospitals reported; namely, they indicated that their institutions do not make contract opportunities public.

- **Overcoming negative perceptions about small businesses.** Negative perceptions about small business capacity may create an environment where small businesses face added difficulty competing against large incumbents. One small business owner that had succeeded in obtaining a hospital contract described a climate where his company had to beat the incumbent's price, quality, and value by significant margins just to get a chance. Another described his experience this way: "They see you as a small business and automatically assume you don't have the capability to do the job." Though every business must succeed or fail on their own merit, targeted local sourcing initiatives give small vendors the opportunity to prove their competency and offer hospital buyers the opportunity to capture greater value by increasing competition.

Technical Assistance Interview Themes

Resources Exist to Strengthen Small Businesses for Success with Hospital Contracts

New Orleans has a very high-functioning ecosystem of local technical assistance resources available to strengthen and prepare small businesses for success with large health-care contracts. These technical assistance entities range from incubators to accelerators to educational programs to free or low-cost counselors and consultants to trade associations and chambers of commerce to CDFIs that supplement financing with a variety of business development services.

Although many agencies operate in one relatively small market, we found that New Orleans' technical assistance sector operates very cooperatively, taking care to leverage each other's strengths and avoid duplication of services. For example, one technical assistance program with high minimum standards for admittance makes a point to personally connect any business which fails to qualify for their program to other agencies in town that can help them address specific areas of weakness.

Many of the aforementioned challenges to small business-hospital partnerships can be addressed through these technical assistance services such as training, education, and other support services. Furthermore, graduation from certain technical assistance programs was reported to give large buyers greater confidence in the ability of local suppliers to succeed on a contract.

A Few Key Investments Could Further Strengthen The Technical Assistance Ecosystem

The development of some key hospital-focused interventions could further strengthen the technical assistance ecosystem and mitigate risk for healthcare buyers. Several technical assistance agencies and close to two thirds of the businesses we interviewed endorsed the idea of creating a healthcare-specific technical assistance program. Such a program could be developed for small businesses that have won their first healthcare contract and could provide up to two years of post-award support, to help them walk through scaling up and executing on that contract. This would be a way to build small business capacity while reducing risk for hospital buyers.

Other more general technical assistance interventions that could support healthcare-small business partnerships include increasing the number of sites that offer access to contractor bidding software and creating direct mentorship programs, to help business owners develop the soft skills required for success with institutional buyers, such as networking and solicitation.

Resources Exist to Support New Business Development, if Desired

There are also resources available to develop new businesses, tailored to the specific sourcing needs of hospital buyers, where local suppliers are not already available. We heard preliminary reports of certain market gaps that could suggest potential business development opportunities, including a need for seafood processing, a need for back office

support services for contractors, and others (see recommendations section). Linking this interest to the City of New Orleans' cooperative development initiative could further increase the economic and social impact of locally-focused healthcare procurement.

Resources Also Exist to Foster Hospital-Small Business Connections

Resources are also available for hospitals that desire support throughout the process of re-localizing some of their spending. One of the brightest spots in the New Orleans supplier diversity community is a self-organized association of supply chain professionals from several large purchasing institutions who informally refer to themselves as "The DBE Roundtable" (DBE refers to the Small & Local Disadvantaged Business Enterprise certification explained on page 10). Drawing representatives from Harrah's Hotel and Casino, the Sewerage and Water Board, the City of New Orleans Office of Supplier Diversity, the Regional Transit Authority, Metrosource Consulting, the Housing Authority of New Orleans, the New Orleans Aviation Board, the Orleans Parish School Board, the Recovery School District, Good Work Network, and Louisiana Associated General Contractors, Inc., this group meets monthly to discuss what works in their inclusion programs, support one another through their challenges, identify opportunities for alignment between local buyers, document Small & Local Disadvantaged Business Enterprise (SLDBE) compliance issues and best practices, and ultimately make recommendations to Mayor Landrieu. Though less than a year old, the group is strongly committed to strengthening the New Orleans small business community. Furthermore, this group is openly inviting toward newcomers and would welcome participation from hospital representatives.

In addition to the DBE Roundtable, there are a number of resources available to assist hospitals with identifying and reaching local vendors. The City of New Orleans Office of Supplier Diversity has a website where organizations may post RFPs. In addition, most technical assistance organizations we interviewed expressed willingness to forward hospital RFPs to their client listservs. Another tool used by

many large New Orleans corporations is maintaining memberships or sponsorships with organizations such as the Greater New Orleans Chamber of Commerce, the Hispanic Chamber of Commerce of Louisiana, the New Orleans Regional Black Chamber of Commerce, the Women's Business Enterprise Council South, and the Southern Region Minority Supplier Development Council. These affiliations help them connect with a pool of motivated small, local, and/or diverse vendors.

Supplier Diversity Professionals & National Expert Interview Themes

To examine other large buyers' experience with small businesses and to identify best practices in targeted supply chain inclusion programs, we examined a number of time-tested public sector and corporate supplier diversity programs, both nationally and in New Orleans, and documented the evolutions of their programs, over time.

The Business Case for Inclusive Sourcing

Many corporations and public agencies we interviewed claimed to realize significant benefits from deliberately inclusive sourcing. One corporate supply chain executive described the savings from their company's SLDBE program as follows:

1. There is a cost savings to doing business with local vendors that comes from having direct access to the C-Suite (senior executive) level. The time and effort that it takes to resolve disputes, modify orders, or negotiate is reduced because there is less bureaucracy.
2. The proximity of local vendors saves money in other ways. For example, buyers can reduce the amount of stock they carry because supplies can be quickly replenished. Carrying less stock also reduces loss from spoilage.

3. There is an economic multiplier effect from doing business with local vendors. Local businesses buy products, pay taxes, and hire in New Orleans, which ultimately grows the local market and increases the company's customer base.

Hospitals may especially benefit from the types of economic multipliers this executive cited. Over time, increasing economic opportunity for New Orleans' citizens would likely decrease the number of hospital patients who cannot afford to pay for treatment. Reducing poverty would also have a long-term impact on the incidence of chronic diseases, such as diabetes, that drive up healthcare costs. Indeed, recent data on healthcare suggest that 80 percent of healthcare outcomes depend not on the access to and quality of medical care, but rather on socioeconomic, environment, and behavioral conditions.

Entergy's Supplier Diversity Department makes a similar business case for inclusive supply chains on its website, stating that supplier diversity programs benefit them by providing:

1. Better quality products and services resulting from increased competition and
2. Higher level of personalized service and flexibility.

All of these responses point to a key concept, which has to do with the difference between lowest price and best value. Large suppliers may be able to leverage economies of scale to drive down costs and offer customers rock-bottom prices. However, when other factors are considered, including level of service, timing, flexibility, specialization, and local economic impact, small and local businesses may look much more competitive.

National Peers Cite Similar Challenges as New Orleans Hospitals

Through our interviews with large buyers, nationally, we found that the challenges encountered during initial development of their inclusion programs closely mirror the expe-

periences reported by New Orleans hospital officials. Comfort with incumbent suppliers, concerns about small business capacity, and the need to re-design sourcing practices to suit small suppliers are a few of these very common experiences. But, to the extent that the barriers to greater partnerships between small business and New Orleans' hospitals closely resemble those experienced by national peers, examples of what has worked for other organizations can illustrate how to overcome those barriers. Based on these common experiences and established best practices, we have included a composite development plan in this report to help hospitals visualize how to build a supply chain inclusion program, over time (see Appendix B).

Setting Priorities & Selecting Third-Party Certifications

Because our target hospitals differ in their ownership structure and geographic footprint, there is not a one-size-fits-all supply chain inclusion program that will work for every hospital. Different types of inclusion goals may be appropriate for different organizations. For example, some hospitals may decide to target a particular geography, using zip codes to identify qualified vendors. Others with a wider footprint may instead adopt a goal of creating opportunities for a particular demographic group with representation across its entire service area, such as veteran- or minority- or women-owned businesses, using nationally recognized certifications such as the Minority-Owned Business Enterprise (MBE), Woman-Owned Business Enterprise (WBE), Veteran-Owned Enterprise, or Service-Disabled Veteran-Owned Enterprise to identify qualified vendors. Some hospitals may even choose to target more than one type of small, local, or diverse-owned enterprise.

For New Orleans hospitals seeking to target the group of businesses at the heart of Mayor Landrieu's Economic Inclusion Strategy, we recommend use of New Orleans' locally focused, race- and gender-neutral SLDBE certification. Because of its widespread use in New Orleans, there is a strong infrastructure of support available for new institutions that choose to accept the certification, such as a central database to post contract opportunities and a public

directory of certified businesses on the City of New Orleans Office of Supplier Diversity's website. Though no program is perfect, we found that the SLDBE program does serve to connect small, local, and disadvantaged businesses to opportunities with large buyers and help them to build relationships with purchasing institutions.

THE WAY FORWARD

A Multi-stakeholder Approach

Though healthcare-small business partnerships have great potential to build community wealth in New Orleans, the way forward may not be easy. Realigning the culture and supply chain of an entire local industry requires significant dedication and long-term commitments from multiple groups. Anchor institution strategies, in particular, are successful when trust and shared vision are built over time. Success in this initiative will depend on the combined efforts of multiple New Orleans sectors: Hospitals will need to gradually re-structure their entire supply chain programs; small businesses will need to invest in themselves, develop and nurture relationships with buyers, and be willing to accept that change cannot come immediately; City government must remain steadfast in its commitment to an anchor-linked economic development initiative; and the technical assistance community will need to develop new programs and interventions tailored to this unique opportunity.

RECOMMENDATIONS

To support this process, we have made a series of recommendations designed to guide hospitals in the process of re-localizing key areas of their supply chain and to help small business owners, technical assistance organizations, the City of New Orleans, and the New Orleans Business Alliance understand their unique roles in fostering this transition.

For the New Orleans Business Alliance, some key next steps are to:

- Convene and guide the necessary stakeholders as a champion of this comprehensive initiative and support them in implementing the recommendations given below.
- Organize healthcare-specific vendor fairs, based on the best practices identified in our full report and on successful local models, such as the recent Louisiana's Got Talent event organized by ACG and Good Work Network.
- Work with ConnectWorks and the City of New Orleans' Anchor Collaborative coordinator to develop a hospital anchor collaborative/community of practice, according to the best practices outlined in the full report.
- Work with the City's Office of Supplier Diversity to oversee the development of a master forecast calendar of existing and upcoming anchor contract opportunities and encourage hospitals to use this resource.
- Assist all area hospitals, especially those that are in a growth/transition phase, by providing resources and support for the development of a locally-focused supply chain inclusion program.

For the Mayor and City government, our key recommendations are to:

- Encourage a specific local spending commitment from healthcare anchors.
- Ask the Office of Supplier Diversity to create a fact sheet of business support resources with a listing of technical service agencies in New Orleans and the services offered by each.
- Ask the Office of Supplier Diversity to create a directory of prime contractors and publish this on its website.

- Support additional funding for the Office of Supplier Diversity to expedite the approval process for the growing number of small businesses seeking SLDBE Certification, especially for those seeking to apply for currently advertised contract opportunities.
- Support feasibility research regarding the potential to develop cooperative business in these or other industries: (Note: The industries below were identified by anchor buyers in our interviews as areas of unmet demand)
 - a. Manufacturer authorized medical equipment repair and installation,
 - b. Local food (particularly pepper farms, aggregators/food hubs, and post-processing for local seafood),
 - c. Back office services for contractors (e.g., accounting, financial planning, joint purchasing),
 - d. AV/technical/lighting/production.

For hospitals, some first steps that could have a big impact are to:

- Begin tracking local spending and benchmarking results against industry peers.
- Initiate a supply chain inclusion program that seeks to increase local procurement over time.
- Distribute Requests for Proposals (RFPs) to a central clearinghouse, such as the City Office of Supplier Diversity's website or a listserv of technical assistance organizations.
- Publish information about bid opportunities and contact information for purchasing managers on their websites.
- Hold pre-bid business information sessions, facilitated by the agency's chief procurement officer or diversity liaison, to educate the small business community on hospital expectations and selection processes.

- Issue prompt payment to local small businesses.
- Develop inclusion goals and consolidate these into policy—begin with subcontractors, and communicate regularly with prime contractors to ensure successful follow through.
- Articulate sourcing priorities that move from “least cost” to “best value.”
- Create a small business or DBE liaison position, like many New Orleans private corporations have.
- See additional recommendations in Appendix B.

For technical assistance providers, key recommendations are to:

- Develop a day/weekend class to train local businesses on healthcare industry requirements and introduce them to the various procurement systems of local hospitals and anchor institutions.
- Develop a more long-term program to support small businesses that have won their first large healthcare contract to successfully execute on their jobs.
- Develop a single intake service to refer small businesses to the appropriate programs.
- Develop a program to match small business owners with direct mentors, such as retired executives or other business owners.
- Increase access to contractor bidding software.
- Develop programs to assist small businesses with bonding agencies.
- Increase access to programs that offer back office support services.
- Raise funds to subsidize membership in trade associations or other professional organizations.

CONCLUSION

Based on our findings, we believe that the ingredients necessary for integrating small businesses into hospital supply chains are present in New Orleans. The City government strongly supports an anchor institution-linked development strategy and is committing tangible resources. The small business community has significant capacity and is supported by a robust ecosystem of technical assistance services. The state of knowledge regarding development of inclusive supply chain programs is extensive and a community of local supplier diversity professionals is willing and able to support new entrants from healthcare institutions. Most importantly, there is enough willingness from the healthcare anchors to begin a process of re-localizing their supply chains, particularly if they can be assured that locally-focused spending will not unnecessarily raise costs or increase risk.

We encourage the New Orleans Business Alliance to convene a conversation around the cultural and practical investments necessary to achieve these objectives and to support each stakeholder in designing and implementing a plan for progress. With strong leadership and shared commitment, the New Orleans hospital industry can transform from laggard into leader, through strategic local sourcing that meets institutional needs and creates new economic opportunity in New Orleans.

APPENDIX

Appendix A: Supplier Inclusion Programs In New Orleans

See pages 14-15.

Appendix B: Supply Chain Inclusion Development Plan

See page 16.

| Organization | Supplier Inclusion Program Details |
|----------------------------|---|
| Regional Transit Authority | <p>Age of Formal Supplier Inclusion Program: 34 years Has Minimum Inclusion Targets Using Third-Party Certifications: Yes Has a Dedicated Supplier Diversity Office/Liaison: Yes Includes Diversity Statement on Website and/or in RFP Language: Yes Advertises Contract Opportunities with Community Partners: Yes Program Highlights:</p> <ul style="list-style-type: none"> • Obtained state approval to do DBE set-asides • Frequently unbundles larger contracts • Hired Metrosource Consulting to design supplier diversity program • Is one of four SLDBE certifying agencies |
| Harrah’s Casino | <p>Age of Formal Supplier Inclusion Program: Over 20 Years Has Minimum Inclusion Targets Using Third-Party Certifications: Yes Has a Dedicated Supplier Diversity Office/Liaison: Yes Includes Diversity Statement on Website and/or RFP Language: Yes Advertises Contract Opportunities with Community Partners: Yes Program Highlights:</p> <ul style="list-style-type: none"> • Meets SLDBE goals as well as corporate MBE, WBE, and similar goals • Diversity office identifies diverse vendors for any contract over \$1,000 • Takes optional steps to help small businesses succeed, such as offering net-15 payment terms or allowing small vendors to use their storage space • Is one of four SLDBE certifying agencies |
| Blue Cross Blue Shield | <p>Age of Formal Supplier Inclusion Program: Over 20 Years Has Minimum Inclusion Targets Using Accepted Certifications: Yes Has a Dedicated Supplier Diversity Office/Liaison: Yes Includes Diversity Statement on Website and RFP Language: Yes Advertises Contract Opportunities with Community Partners: Unknown Program Highlights:</p> <ul style="list-style-type: none"> • Supplier diversity program founding principle is that “New Orleans’ economic success is intimately tied to minority procurement” |
| Sewerage and Water Board | <p>Age of Formal Supplier Inclusion Program: Unknown Has Minimum Inclusion Targets Using Accepted Certifications: Yes (35%) Has a Dedicated Supplier Diversity Office/Liaison: Yes Includes Diversity Statement on Website and RFP Language: Yes Advertises Contract Opportunities with Community Partners: Yes Program Highlights:</p> <ul style="list-style-type: none"> • Has a staff of seven which enables strong compliance monitoring and ability to support diverse vendors with bidding and executing on contracts • Is one of four SLDBE certifying agencies |

Appendix A: Supplier Inclusion Programs In New Orleans

| Organization | Supplier Inclusion Program Details |
|-----------------------------|--|
| Entergy | <p>Age of Formal Supplier Inclusion Program: Approximately 18 years</p> <p>Has Minimum Inclusion Targets Using Accepted Certifications: Yes – Requires at least one qualified diverse vendor competing for any contract over \$100,000 and has an overall 25% inclusion goal</p> <p>Has a Dedicated Supplier Diversity Office/Liaison: Yes</p> <p>Includes Diversity Statement on Website and RFP Language: Yes</p> <p>Advertises Contract Opportunities with Community Partners: No, but vendors can sign up through diversity office to be notified of opportunities</p> <p>Program Highlights:</p> <ul style="list-style-type: none"> • Compensation of sourcing managers is tied to meeting inclusion goals • Diversity office helps match prime contractors with diverse subs • Measures and reports internally on cost savings of diversity sourcing • CEO emphasizes diversity in public meetings and internal communication |
| City of New Orleans | <p>Age of Formal Supplier Inclusion Program: Over 18 years</p> <p>Has Minimum Inclusion Targets Using Accepted Certifications: Yes (50% local, 35% SLDBE)</p> <p>Has a Dedicated Supplier Diversity Office/Liaison: Yes</p> <p>Includes Diversity Statement on Website and RFP Language: Yes</p> <p>Advertises Contract Opportunities with Community Partners: Yes</p> <p>Program Highlights:</p> <ul style="list-style-type: none"> • Office of Supplier Diversity has a staff of six, one Spanish speaker • Hosts pre-bid meetings • Has a newsletter for SLDBEs • Does random job-site visits to monitor compliance of primes • Maintains a central database where any organization can advertise contracts • Maintains an online database of all certified SLDBE firms in the area • Supplier Diversity Office has veto power over contracts originating from all city departments and charter entities |
| Louis Armstrong Airport | <p>Age of Formal Supplier Inclusion Program: 35 years</p> <p>Has Minimum Inclusion Targets Using Accepted Certifications: Yes (29%+)</p> <p>Has a Dedicated Supplier Diversity Office/Liaison: Yes</p> <p>Includes Diversity Statement on Website and RFP Language: Yes</p> <p>Advertises Contract Opportunities with Community Partners: Unknown</p> <p>Program Highlights:</p> <ul style="list-style-type: none"> • Sourcing uses software designed by Metrosource Consulting • Meets both DBE goals as well as federal MBE/WBE goals • Instead of one inclusion target, targets vary by industry, based on market scan • Is one of four SLDBE certifying agencies |
| Orleans Parish School Board | <p>Age of Formal Supplier Inclusion Program: 2.5 Years</p> <p>Has Minimum Inclusion Targets Using Accepted Certifications: Yes (35%)</p> <p>Has a Dedicated Supplier Diversity Office/Liaison: Yes</p> <p>Includes Diversity Statement on Website and RFP Language: Yes (RFPs)</p> <p>Advertises Contract Opportunities with Community Partners: No, but does advertise on website and in local newspapers</p> <p>Program Highlights:</p> <ul style="list-style-type: none"> • Breaks up nutrition contracts by single items. • Sources both fresh produce and processed/canned foods locally, demonstrating that there is capacity in local food |

Appendix A: Supplier Inclusion Programs In New Orleans

| Year | 1 | 2 | 3 | 4+ |
|---|---|---|---|----|
| Phase 1: Beginner | | | | |
| CEO/Board commitment | ■ | | | |
| Begin tracking spend data and benchmarking against industry | ■ | | | |
| Publish a supplier diversity statement on website | ■ | | | |
| Develop basic inclusion policies (i.e. requiring 1 diverse supplier per big) & include language in ITB/RFP advertisements | ■ | | | |
| Advertise contracts to community partners | ■ | | | |
| Phase 2: Intermediate | | | | |
| Set specific purchasing targets | | ■ | | |
| Appoint a dedicated supplier diversity liaison or office | | ■ | | |
| Develop procedures to ensure small businesses/DBEs have access to information on the goods and services needed and how the procurement process/system works. List names and contact info of purchasing managers on your website | | | ■ | |
| Begin holding pre-bid conferences for all contract opportunities | | | ■ | |
| Phase 3: Advanced | | | | |
| Begin unbundling contracts and assist prime contractors with unbundling and sourcing | | | ■ | |
| Link purchaser's compensation to meeting inclusion goals | | | ■ | |
| Conduct internal education with a goal of culture change | | | ■ | |
| Build small business capacity through targeted programs such as prime-sub mentorship programs, support of healthcare-focused incubators or TA programs, and pre-bid support services through the DBE liaison/office | | | | ■ |
| Promote relationship building between purchasing managers and small business owners | | | | ■ |

Appendix B: Supply Chain Inclusion Development Plan

ENDNOTES

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