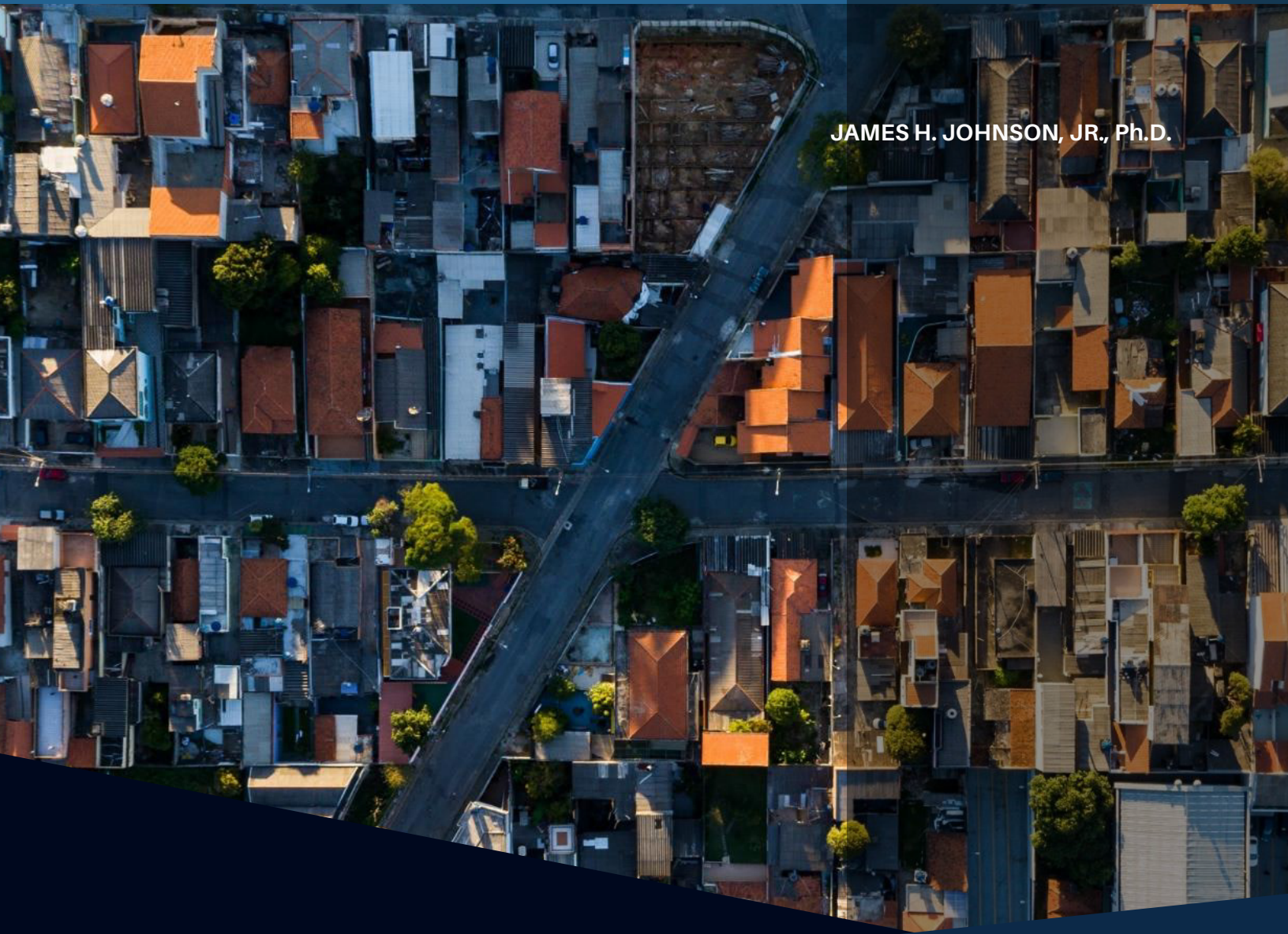


BUSINESS INTELLIGENCE FOR CREATING AN INCLUSIVE MODEL OF CONTRACTING AND PROCUREMENT IN THE CITY OF DURHAM

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INTRODUCTION

Gentrifying cities increasingly are adopting inclusive and equitable development policies, strategies, tools, and regulatory practices to minimize, if not altogether eliminate, the demographic and economic dislocations that often accompany their growing attractiveness as ideal places to live, work, and play for a creative class of young people and well-resourced retirees who are predominantly white (Delgado, 2014; Liu, 2016; Baux, 2018; Coffin, 2018; McFarland, 2016; Parilla, Joseph, 2017). Creating greater opportunities for historically under-utilized businesses to grow and prosper through enhanced local government contracting and procurement is one mechanism through which gentrifying cities are trying to generate greater equity and shared prosperity (Brichi, 2004; Edelman and Azemati, 2017; Robinson, 2017). Specifically, local officials in such cities are moving aggressively to transform their existing procurement systems into fully automated supply chain management systems, with the overarching goal of making their entrepreneurial/business ecosystems—the major job generators and sources of wealth creation—more transparent, accessible, equitable, and inclusive for diverse suppliers of goods and services ((Florida, 2017; Lohrentz, 2016; McKoy and Johnson, 2018; Fairchild and Rose, 2018) .

For cities like Durham that are struggling with how to respond to gentrification-induced demographic and economic dislocations (DeMarco and Hunt, 2018; Vaughan and Brosseau, 2018), the concept of an inclusive supply chain management system may be difficult to comprehend (Willets, 2017). Even in instances where local officials grasp the concept, such a system that requires greater supplier diversity in contracting and procurement may be perceived to be either too onerous or too expensive to implement (Treuhft and Rubin, n.d.).

PURPOSE & OBJECTIVES

Given this state of affairs, this paper highlights what is known about the current state of supplier diversity, that is, inclusive contracting and procurement through supplier development and supply chain management. More specifically, it explains the rationale behind the current approach to supplier diversity; defines the core characteristics of supply chains and supply change management systems; describes how such systems are developed and the analytical tools that govern how they operate; and identifies the “best in class” third-party supplier diversity management services firms that offer turnkey systems for inclusive sourcing. The paper concludes with a discussion of the advantages of implementing a best in class supplier diversity management program in a gentrifying city like Durham.

THE CURRENT STATE OF SUPPLIER DIVERSITY

Supplier Diversity “...is a simple matter of competitive advantage and sustained business viability” (D&B Supply Management Solutions, 2009)

Rationale & Approach

Nondiscrimination in public and private contracting and procurement—albeit not without legal challenges—has been government-mandated for nearly forty years. But public and especially private sector organizations perceptively are moving away from a *government-mandated* and toward a *market-driven* approach to supplier diversity in contracting and procurement (Shah & Ram, 2006; ConnXus, 2017; Lazarus, 2017; Johnson, 2018). While continuing to acknowledge and striving to comply with anti-discrimination laws enacted roughly four decades ago (AAAEO, 2019), public and private sector entities are increasingly recognizing how disruptive demographic trends are dramatically transforming the world of contracting and procurement and, in the process, making supplier development a strategic imperative rather than just a compliance issue (D&B Supply Management Solutions, 2009; LePage, 2014; Lohrentz, 2016; Rutherford, 2016; Suarez, 2016a; Rimmer, 2017; Zerp, 2018; LISC Los Angeles, 2018; Hussain, 2019; Vazquez & Frankel, 2017; Weissman, 2017; Fairchild and Rose, 2018; Fulkerson, 2018). More specifically, organizations that embrace supplier development as a strategic imperative recognize that the innovative capacity of small diverse suppliers, who typically are more flexible, agile, and driven to succeed than large firms, can boost their performance, reduce the cost of goods and services, and drive continued business growth in an increasingly diverse marketplace (GEP, 2019). Many of these small firms are owned by people of color, women, and/or members of the LGBTQ community (Vazquez & Frankel, 2017; Suarez, 2019a; Rimmer, 2017; Suarez, 2019a).

Definitions and Characteristics

What are “best in class” organizations doing to fully capture the value of supplier development? In an effort to remain competitive and continue to provide high quality goods and services, they are adopting an inclusive supply chain management approach to continue firm growth and development or improve organizational performance (Ambe & Badenhort-Weiss, 2011; Clinton, 2016; Bailey, 2019; ConnXus, 2017; CVM Solutions, 2018).

What is a supply chain and what are the main elements of an inclusive supply chain management system?

A supply chain is “a network between a company and its suppliers to produce and distribute a specific product to the final buyer. This network includes different activities, people, entities, information and resources. The supply chain also represents the steps it takes to get the product or service from its original state to the customer” (Kenton, 2019).

In today’s hyper-competitive world of business, the general consensus in business strategy is that firms do not compete, but their supply chains do (Littleton, 2008). Consider, for example, Fed Ex and UPS, two multinational courier delivery services. The source of competition between these two firms is their systems of logistics, packaging, order

fulfillment, warehousing, transportation management (ground, air, and ocean), and labor management—the essential elements of their supply chains.

Whether formally recognized as such or not, similar supply chain systems exist in all sectors of the economy (Jacoby & Hodge, 2008). In instances where supply chains are not formerly recognized and properly leveraged, firms are less likely to remain competitive owing to major inefficiencies and gaps in their production, service, and/or delivery systems (Engle, 2011). The same is true for public sector organizations (Cravero, 2018; Williams, 2015; Goldsmith, 2017; Goldsmith & Becker, 2018; Reith, 2007). Needless to say, supply chains cannot compete effectively without a world class transportation system (Jacoby & Hodge, 2008).

Program Development Processes

In organizations with world class supplier development programs, the commitment to supplier diversity comes from the top leadership and the strategic importance of this commitment is diffused throughout the organization via formal education and training programs as well as multi-channel communication systems (Hill, 2015; Suarez, 2019b; CVM Solutions, 2018a).¹ Accountability to the supplier development program is achieved by tying compensation of heads of every unit within the organization to supplier diversity goals established for their respective units (D&B Supply Management Solutions, 2009; Larzus, 2017).

Customarily supply diversity goals are set based on both internal and external benchmarking (Jones, 2016). And the goals have to be SMART, that is, specific, measurable, achievable, results-oriented, and time bound (Harris, 2010). To arrive at such goals, organizations with world class supplier diversity programs go through a three-step process (Bailey, 2019; Gosizk, 2018; CVM Solutions, 2015, 2018b, 2019a).

First, they look at their existing supply chains and identify areas of existing diversity spend (Procurious HQ, 2016). Explaining why this is necessary, one inclusive supply chain expert said (CVM Solutions, 2017):

You cannot chart a path to a destination if you do not know where you started. You must identify diverse suppliers in your supply chain and how much you spend with those suppliers. You must run your supplier file through a third-party supplier data enrichment service. [And] then calculate diversity spend with those certified suppliers. This is a snapshot of your current supplier diversity program.

¹There is, as Lazarus (2017) notes, a particular need to “educate procurement executives and stakeholders on the value that supplier diversity can bring in order to maintain support for these programs.” In federal and state departments of transportation, it is vitally important for civil rights and compliance, engineering, inspections, and management to work together to ensure the success of supplier diversity programs (U.S. DOT, 2018, 2019).

Second, they undertake an opportunity analysis, looking for areas in their supply chains where there is an absence of diversity spend. The purpose of this exercise is to identify “opportunities” to broaden or expand the reach of their supplier diversity programs.

Third, they gather supplier development program intelligence from similar organizations, looking not only at their diversity goals, key performance indicators, and metrics, but also the processes undergirding their supplier diversity programs (CVM Solutions, 2015, 2018b; Gosizk, 2018).

Based on the information gathered via this benchmarking and goal setting exercise, a vendor/diversity scorecard is usually created, which identifies the key performance indicators and metrics that will be used to judge the success or failure of the supplier development program (Harris, 2010; Trent, 2010). In the past, program success or failure was based almost solely on a spend analysis, that is, what share of the contracting and procurement budget was spent with diverse suppliers (Larzus, 2017; Harris, 2010). Today, vendor/diversity scorecards typically include a much broader range of key performance indicators and metrics (Trent, 2010; Harris, 2010; Jones, 2016; Clinton, 2016; Fast, 2018; Peters & Wuerth, 2018; Biedron, 2019; Peterson, n.d.). A list of commonly used indicators, which were culled from the extant literature, appears in Table 2.

Table 2: Selected Supplier Diversity Program Key Performance Indicators and Metrics

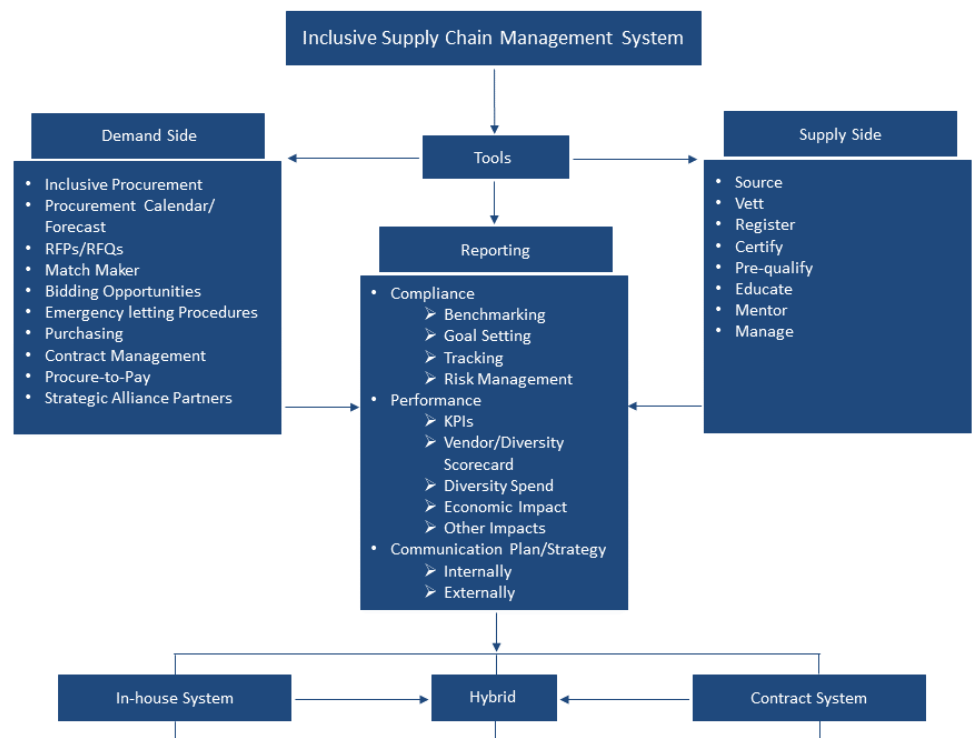
Performance Indicator	Metric
Total Diverse Supplier Count (Tiers 1 & 2)	Absolute & Share of All Vendors
Tier 1 Diverse Supplier Count	Absolute # & Share of All Tier 1 Vendors
Tier 2 Diverse Supplier Count	Absolute # & Share of All Tier 2 Vendors
Total Diversity Spend (Tiers 1 & 2)	Absolute \$ and Share of Total “Influenceable” Spend*
Tier 1 Diversity Spend	Absolute \$ & Share of Tier 1 Total “Influenceable” Spend
Tier 2 Diversity Spend	Absolute \$ & Share of Tier 2 Total “Influenceable” Spend
Certified firms	Absolute # & Percent Change DBEs applying for certification
Prequalified firms	Absolute # & Percent Change in DBEs that are prequalified to perform work
Deals Won	Absolute # of Diverse Suppliers Awarded Contracts

Deals Lost	Absolute # of Diverse Suppliers Not Meeting Required Contract Qualifications
Diverse Supplier Turnover	Absolute # of Diverse Suppliers Ceasing to Participate in DBE Program
Tier 2 Diverse Supplier Mobility	Absolute # & Share of Tier 2 Firms Graduating to Tier Firms
Tier 1 Diverse Supplier Mobility	Absolute # & Share of Tier 1 Diverse Supplier Experiencing Growth in \$ value of Contracts Awarded
Economic & Community Impact	Share of Total "Influenceable" Spend in Distressed Communities , # of Jobs Created, Tax Contributions, etc.
Supplier Diversity Program ROI	Ratio of Program Implementation Cost to Total "Influenceable" Diversity Spend

Source: Compiled by author. *"Influenceable spend" are dollars that could potentially be spent with diverse suppliers." There are some areas of business operations in which there are no diverse suppliers. Research suggest those areas should be excluded from calculations of diverse spend.

Analytical Tools

Three types of analytical tools usually are embedded in inclusive supply chain management systems. As Figure 1 shows, they include demand side tools, supply side tools, and compliance/performance tools. The specific tools subsumed under these three headings typically govern how the supply chain management system is organized and how it operates.



Source: Author.

Demand Side Tools are instruments used to educate and train staff about inclusive supply chain management and procurement, communicate with and link prime contractors and diverse suppliers with contracting and procurement opportunities, and manage relations between prime contractors and diverse suppliers that win contracts to produce goods and services (Hammett, 2019; Grainger Editorial Staff, 2017; Hill, n.d.; Johnson, 2018).

Supply Side Tools are used to recruit, screen or vet, certify, prequalify, educate, and mentor diverse suppliers—historically under-represented and small businesses aspiring to do business with government and/or the private sector (CVM Solutions, 2018b, 2019a).

Reporting Tools are instruments used to benchmark and set goals for supplier diversity, assess risk, and monitor a host of key performance indicators, including but not limited to diversity spend, economic/community impact, and return on investment, via a vendor or diversity scorecard (Gosizk, 2018; Harris, 2010; Procurious HQ, 2016; Trent, 2010; Biedron, 2019; Jones, 2016; Peters & Wuerth, 2018; Peterson, n.d.).

Organizations with the best supplier development programs typically engage top-notch software partners who handle the nuts and bolts of the organization's supplier diversity initiative, that is, demand, supply, and compliance/reporting. In the e-procurement marketplace, these entities brand themselves as supplier diversity services firms or third-party solutions providers (ConnXus, 2019a; Gosizk, 2018; Hill, 2015). However, as Figure 1 illustrates, the technology-enabled solutions under-girding some organization's e-procurement strategy are built and managed by in house IT staff. In still other instances, the e-procurement platform is a hybrid: some functions are built and managed in house and other functions are contracted out to one or more third-party service providers.

Best in Class Supplier Diversity Management Solutions

Even a cursory Google keyword search reveals that the e-procurement marketplace is flooded with software tools designed to handle specific functions in an organization's supply chain management system, including vendor selection, vendor management, and vendor performance (Brudo, 2019; Domnick, 2015). However, given the rate at which technology changes, the general consensus is that contracting with a turnkey third-party solutions provider is the best approach to maintaining a world class supplier development program.² As one study concluded,

The best supplier management services—and the software solutions they produce—offer the best data to help supplier diversity programs set baselines, identify return on investment, chart both Tier 1 and Tier 2 spend, measure results, and accurately report on suppliers.

²This is especially the case for organizations that are either new to or struggling to achieve supplier diversity.

Table 3 lists the supplier diversity services firms that are referenced most often in the extant literature as “best in class” inclusive supply chain management systems. Their turnkey technology enabled-platforms are designed to address both demand and supply functions as well as compliance and reporting issues in inclusive supply chain management (ConnXus, 2019a).

Table 3: Turnkey Supplier Diversity Management Solutions Firms

Firm Name	Link
Aon Diversity Solutions	https://www.aon.com/diversitysolutions/default.jsp
B2Gnow	http://b2gnow.com/
ConnXus Diversity & Inclusion Solutions	https://connxus.com/
CVM Supplier Diversity Data & Management Solutions	https://www.cvmsolutions.com/
D&B Supplier Diversity Solutions	https://www.dnb.com/products/supplier-management-tools/supplier-diversity-data.html
Diversity Reporting Solutions	https://diversityreporting.com/
Diversity Spend Solutions	https://dssxperts.com/
Diversity 411	http://diversity411.com/about-us/
IVS Solutions	https://www.ivssolutions.net/
Supplier Gateway	https://www.suppliergateway.com/

Source: compiled by authors.

On the demand side, supplier diversity services firms offer a series of online buyer or contracting and procurement solutions. This is typically achieved through a registration tool that facilitates strategic sourcing by matching or connecting vetted diverse suppliers with contracting and procurement opportunities. The firms sponsor intelligent matchmaking events that take place either virtually or face-to-face at conferences or trade shows. Their e-platforms also have the capability to engage suppliers regarding their performance and to manage their contracts. These tools are ideal for firms and organizations that produce procurement forecast or procurement calendars.

Turnkey solutions providers typically host supply side tools in a supplier management portal. There you will find a supplier locator/registration tool, which is designed to

help public and private sector clients identify qualified suppliers. In one of the supplier management portals, the tool “sits on top of a large and accurate database with detailed diverse supplier information,” which is developed and maintained by the supplier diversity services firm (ConnXus, 2019a). In addition to identifying existing certified and prequalified diverse suppliers, the tool lets clients know if vendors have been used by other private or public sector entities. The tool also allows searches for suppliers “based on a variety of parameters, making it easy for internal teams, or even ... prime suppliers, [to] easily locate proven diverse suppliers from one platform” (ConnXus, 2019a). Commenting on the value of a supplier locator tool, one author noted that “access to this data dramatically reduces the due diligence required to determine if a firm has the capacity to meet your needs and be included in an RFP.”

Turnkey solutions firms use multi-channel marketing strategies and tactics to encourage diverse suppliers to register on their websites. In addition to completing a process that formally certifies them as diverse suppliers, one turnkey solutions provider asks online registrants to complete a survey comprised of a battery of prequalification questions about the specific product or service they provide. And “[t]he survey functionality incorporates scoring and automatically notifies the appropriate buyer if a registering supplier has a survey score above a pre-established threshold” (CVM, 2017).

Most of the supplier management portals host a third-party screening or data enrichment service. This service is for firms and organizations that maintain their own database of diverse suppliers. Given that supplier data can change over time, such firms can “enrich” or ensure accuracy of their data by verifying it with a third-party service provider that specializes in maintaining an up to date database on the nation’s diverse suppliers of goods and services. As one supply chain expert put it,

...running a third-party data enrichment process on a regular basis is imperative to monitoring changes in your supplier data base and maintaining the integrity of your program.

These third-party screening services monitor a “...wide range of factors indicative of supplier health and viability, including:

- Changes in management teams
- EPA Violations
- OSHA violations
- Quality Issues
- Noticeable lags in response times to inquiries
- Presence of Government Control Lists—for example Office of Foreign Assets Control (OFAC), the Federal Bureau of Investigation (FBI), the Bank for International Settlements (BIS), and United Nations Sanctions

- Changes in supplier payment trends
- Risk scores that predict the likelihood of instability or bankruptcy
- Event indicators including ownership changes, public filings (law suits, liens, claims and judgements), natural disasters” (D&B Supply Management Solutions, 2009).

Third-party screening services also can confirm if self-reported diverse firms are indeed diverse (ConnXus, 2019a).

Supplier management portals also offer both online and face-to-face opportunities for diverse suppliers to receive education and training as well as network with and receive mentorship from prime contractors.

In addition, supplier diversity management services firms have developed reporting tools that track key performance indicators and metrics (Gosizk, 2018; Grainger Editorial Staff, 2017; Hammentt, 2019; Procurious HQ, 2016; Sievo, n.d.). They not only track Tier 1 spend but also Tier 2 spend, that is, diversity spending that results from the diverse suppliers of the Tier 1 prime contractors (ConnXus, 2019b; CVM Solutions, 2016b, 2019c; Hill, 2017). Organizations with world class supplier development programs view requiring prime or Tier 1 contractors to report their spend with diverse suppliers as another strategic approach to expanding or growing the pool of diverse suppliers (Suarez, 2019c). Notably, as one supplier diversity expert put it, “Tier 2 reporting is part of supplier diversity’s future” (CVM Solutions, 2019c).³ In addition to diversity spend, these tracking tools are also designed to estimate the broader economic and community impact of supplier diversity programs (CVM Solutions, 2016a; Fast, 2018; Harris, 2010; Peterson, n.d.; Trent, 2010).

VALUE-ADDED IMPACTS

CVM Solutions (2018a) has outlined ten advantages of a best in class technology-enable supplier development program:

- Helps organizations access more vendors and foster competition among their suppliers, empowering suppliers “to offer more competitive pricing, service levels, and options for their clients/customers.”
- Promotes innovation—Supplier diversity programs often create opportunities for suppliers to work together and these partnerships typically encourage “out-of-the-box thinking and empowers...suppliers to offer more specialized solutions.”
- Grows supplier channels and sources—more companies competing for business—and creates more options to choose from. “With more options available, you can be

³As correctly noted in the extant literature, “Going with a managed services provider for Tier 2 reporting not only can ensure accurate reporting of your supplier diversity program, but also assists your primes in their reporting” (CVM Solutions, 2019c).

more selective in your procurement decisions, receiving the best possible product and value.”

- Encourages small vendors with complimentary solutions to team up on business opportunities that they otherwise would not be able to handle—a form of collaboration that probably would not happen without a best in class inclusive supply chain management system.
- Improves brand perception. Programs can aid economic development of surrounding communities and thereby humanize large corporations and public sector entities.
- Drives job creation. Aiding economic development in local communities create jobs and economic growth opportunities for local businesses and families.
- Creates stronger and more sustainable business partnerships. Investing in long term relationships with small suppliers helps “them gain the economic and business resources they need to continue to grow and by extension, create more reliable, sustainable, and beneficial partnership for both businesses.
- Nurtures relationships with suppliers that benefit your customers. “Businesses that cultivate strong supplier relationships are able to communicate with greater ease, troubleshoot issues with greater efficiency, and ultimately provide a better-quality end product to their customers.”
- Achieves supplier diversity goals. Most organizations have quarterly and annual goals. A supplier development program helps “ensure that you continue to grow in the right direction and see a sustainable return on your efforts.”
- Improves alignment and engagement. Supplier development “requires the support and involvement of your entire organization (beyond just your procurement department). Working one-on-one with suppliers encourages organizational leaders to become more intimately involved with these programs and aware of their benefits. This direct engagement will help improve buy-in for both supplier diversity and supplier development initiatives.”

The City of Durham is a \$555 million enterprise. Leveraging the foregoing advantages of an inclusive supply chain management system will go a long way in facilitating the City’s ability to achieve its aspirational goal of creating greater shared prosperity for the local citizenry and especially the neighborhoods and communities that have been left behind in the current economic boom and renaissance.

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