



PROJECT VANGUARD

Accelerating Wealth Creation for Black and Latina Women



FULL REPORT

OCTOBER 2022

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PROJECT OVERVIEW

Project Vanguard is a multisector collaborative effort led by The Center for Economic Inclusion (The Center) to accelerate wealth creation opportunities for Black- and Latinx-women-owned businesses in the Greater Minneapolis-St Paul (MSP) region.

The Center is the nation's first organization created exclusively to build regional economies that work for everyone, offering a groundbreaking suite of racial equity consulting products and services for employers that are ready to compete by maximizing shared value, business results, and regional economic growth. The Center's consulting services include services and tools designed to accelerate supplier diversity efforts for bottom-line results. The Center works with organizations to:

- Assess supplier needs, and current and future spend;
- Evaluate current processes and practices;
- Recommend a strategy framework;
- Develop a tailored set of recommendations that include value improvement levers, key performance indicators to measure effectiveness, and pass-through spend/volume to set and meet supplier diversity goals;
- Develop strategic procurement partnerships to inform and facilitate internal process improvements, meet supplier diversity goals, accelerate business growth and build resilient local supply chains; and
- Provide capital for site acquisition and/or redevelopment and business growth.

Recognizing the emergence of businesses owned by Black and Latinx women as an opportunity for both job and wealth creation, The Center launched Project Vanguard to build capacity, to identify and leverage opportunities in the region's public and private sector market, and to "accelerate the journey from ready to scalable" in the opportunity-rich MSP region.¹ The Center is also looking to support a business spin-off strategy. Project Vanguard is investing social, intellectual, political, and financial capital directly in expanding the number of businesses owned by Black and Latinx women business owners. This includes work with business owners with annual revenues of \$75,000 to more than \$1 million who have been in business for two years and women in a position to purchase, diversify, and scale businesses generating over \$1 million in the region's leading growth sectors. Key goals are increasing annual revenues between \$1 million and \$10 million with those certified to do business with corporations and government agencies and driving shared accountability for the system changes required for creating a more racially equitable and inclusive regional supply chain and economy.

SUMMARY OF THE RESEARCH METHODOLOGY

In this section, a summary of the research approach is outlined. This research study supports the development of Project Vanguard and is designed to assess public and private sector spend, map the entrepreneurial ecosystem and the drivers of inclusive economic growth, and offer evidence-based recommendations for programmatic and policy efforts to support the accelerated growth. The purpose and value of this multidisciplinary work is two-fold: to inform The Center's efforts to accelerate wealth creation for Black- and Latinx-women-owned businesses in the Greater Minneapolis-St Paul (MSP) region, and to support data-informed, anti-racist, systematic changes in procurement, lending, and ecosystem resources accessible for fostering a resilient, local, inclusive supply chain. The Center guided this collaborative research, grounded in quantitative and qualitative data collection and analyses to scan the public and private sectors, businesses owned by people of color, and service and support providers across the regional ecosystem for opportunities to further these goals.

This data-informed approach provides insights for preparing businesses owned by people of color to meet and maximize the public and private sector demand in the MSP region.

Guiding research questions for the study include the following:

- What goods and services do relevant public sector organizations and key industries in Hennepin and Ramsey Counties procure? What portion of those goods and services are procured within the public and private sector in Hennepin and Ramsey Counties? And, what gaps exist between procurement demand and local spending?
- What level of procurement is possible based on the availability of goods and service providers owned by people of color in Hennepin and Ramsey Counties? What supply chain or procurement challenges prevent greater utilization of businesses owned by people of color?
- What sectors currently show limited to no presence of businesses owned by people of color where The Center for Economic Inclusion and other entities working with business owners of color, can support business start-up and growth, spin-offs, and/or business acquisition efforts? In what industries could The Center focus resources to encourage increased supplier diversity that will support businesses owned by people of color?
- What ecosystem support is needed to support growth opportunities? What ecosystem support is needed to support wealth creation opportunities for existing or new Black woman- and Latinx-owned businesses? And, what gaps if any must be filled?

This research includes quantitative and qualitative inquiry related to private and public sector spending in order to develop a comprehensive baseline of the procurement environment in which The Center will continue its work to grow economic opportunities for businesses owned by people of color in Hennepin and Ramsey Counties.

Key stakeholders were identified across four primary outreach groups:

- **Public Agencies:** public entities (i.e. state/local agencies) that require goods/services and pay suppliers for them
- **Private Sector Companies:** private firms that require goods/services and pay suppliers for them and firms that provide goods/services and are paid to provide these to buyers
- **Small Businesses:** selected private sector firms; regional women-owned/minority-owned/Black, Indigenous and People of Color (BIPOC)/Disadvantaged Business Enterprise (DBE)-/regionally certified firms/vendors/suppliers
- **Ecosystem, Diversity, and Professional Organizations:** resources/services providers, chambers, and professional organizations

The objective of the qualitative outreach was to develop understanding of public sector practices and opportunities, capture a nuanced understanding of company-specific diverse procurement practices of private buyers (current state and future outlook) and the perceived facilitators and barriers to increasing engagement of businesses owned by people of color, and develop understanding of the regional business environment and ecosystem mapping. The quantitative analysis also included efforts to map the current spending among the top 10 to 20 spending and growth industries in the MSP region.

Study Area

While the Minneapolis Metropolitan Statistical Area (MSA) includes 15 counties (including two counties located in Wisconsin), Hennepin and Ramsey are the two largest counties in the MSA. Generally, MSP is considered the regional center, and local leadership and officials operate collaboratively around issues of regional economic development. As such, and coupled with the service area of The Center and Project Vanguard, the Greater MSP region—with a focus on Hennepin and Ramsey Counties—was targeted for this research study.

The Greater MSP region is ripe with opportunity for Black- and Latino- owned businesses. Overall, currently businesses owned by people of color are relatively underrepresented, yet the economy is growing, and a majority of the supply chain spend stays within the region. In addition, local companies that represent significant industry leaders are actively engaged in supplier diversity efforts.

This is an environment in which all of the ingredients for equitable procurement exist, however the magnitude is unrealized. Companies' appetites to use their spending power to expand current businesses owned by people of color and to serve as a runway to grow new Businesses owned by people of color is significant but currently limited. Further, many companies are actively implementing promising practices, but supplier diversity investment and action is fractured across the region as companies further their diversity goals in isolation. Intentional, coordinated, and scaled supplier diversity efforts are needed to overcome procurement barriers and capture the expansion and growth opportunities that exist across areas of high supply chain demand.

PRIVATE SECTOR INDUSTRY TARGETS

The MSP region has a mix of trends in its business sector. Traditional established headquarters, financial companies, healthcare centers, and major manufacturers make up a large share of gross domestic product (GDP) and supply chain spending, while growth industries such as medical devices, technology services, and specialized manufacturing are growing. Twenty key private industry sectors² were identified by the research team that represent approximately 64% of GDP, with the highest potential for increased supply chain spending with people of color-owned suppliers, based on the following criteria:

- Regional growth and competitiveness, based on job growth that met or outpaced national averages and location quotient, a measure of relative concentration of the industry
- Industry size, as defined by contribution to GDP and jobs count
- Regional supply chain purchasing, including total dollar value and regional share of purchasing

The selected top industries met at least two of the three criteria related to regional growth and competitiveness, industry size, and regional supply chain purchasing, including large established industries like professional and technical services and insurance, as well as fast growth industries like medical device manufacturing, electronic products manufacturing, and software publishers. The selected private sector industries targeted for this research study include the following North American Industry Classification System (NAICS) industries

NAICS	Industry Name
332	Fabricated Metal Products Manufacturing
339	Miscellaneous (Medical Device) Manufacturing
335	Electrical Equipment and Appliance Manufacturing
524	Insurance
23	Construction
522	Financial Services
325	Chemical Manufacturing (Incl. Pharmaceuticals)
621, 623, 624	Health Care - Non-Hospital Services
42	Wholesalers
551	Management of Companies and Enterprises

NAICS	Industry Name
221	Utilities
622	Health Care - Hospitals
326	Plastics and Rubber Products Manufacturing
531	Real Estate
511	Publishing, Including Software
541	Professional, Scientific, and Technical Services
333	Machinery Manufacturing
813	Nonprofit, Advocacy, and Labor Organizations
481	Air Transportation
722	Food Service

To translate these industry trends and opportunities to current practice, the research team interviewed 28 supplier diversity leads at 21 companies with operations in the MSP region. Nearly all of the companies are headquartered in the region and all operate locally in competitive industries. Input from these companies was essential to validating industry-level data on current and future supply chain opportunities to expand supplier diversity efforts.

All the companies included in this study have formal or informal intentions to procure from businesses owned by people of color. Interviewees from each company informed this study about barriers and promising practices to change traditional procurement processes and foster greater accessibility to racially and ethnically diverse business owners. Further, this outreach intended to capture a nuanced understanding of company-specific diverse procurement practices (the current state and envisioned, realistic future potential) and the perceived facilitators and barriers to increasing local, diverse supplier engagement, specifically oriented around supplier businesses owned by people of color in the MSP region.

PUBLIC SECTOR AGENCY TARGETS

Within the MSP, some key public sector agencies represent federal state and local spending, comprise the majority of public expenditures, and offer the major opportunities for advancing racial equity and economic inclusion in the area. Surveys, interviews, research, and stakeholder engagement grounded further understanding of the current opportunities and gaps in the regional economy and local ecosystem. As major stakeholders in the region, public sector agencies targeted for participation in this research include:

- City of St. Paul,
- City of Minneapolis City of Lakes,
- Hennepin County,
- Ramsey County,
- Metropolitan Airport Commission,
- Metropolitan Council,
- Minnesota Department of Administration,
- Metropolitan Council,
- Minnesota Public Utilities Commission,
- Public Works Water Treatment, and
- St. Paul Regional Water Services.

Further, several inclusion and diversity targeted programs for businesses are connected to these agencies, including the following: Federal Disadvantaged Business Enterprise (DBE) program, Minnesota Targeted Group Business Program, the Economically Disadvantaged Business Program, Veteran-Owned Business Program, Small Business Enterprise Program and Vendor Outreach Program, Small Underutilized Business Program, and Metropolitan Council Underutilized Business Program.

In addition to the agencies that require goods/services and pay suppliers for them, outreach was conducted to W/M/DBE-certified businesses and small businesses, majority-owned suppliers/vendors, and local chambers, resources and services providers, and local professional organizations. A guiding goal of this outreach included disseminating the purpose of Project Vanguard. Interviewees conveyed what is going on in the ecosystem, opportunities, gaps, challenges, and the need to modernize supplier diversity practices and offered insights regarding what can be done to capitalize on opportunities, fill gaps, and direct monies for future impact.

ECOSYSTEM TARGETS

The region has an array of service and resource providers that can be accessible to support the needs and growth of the small and emerging business community, including businesses owned by people of color. This study included surveys and interviews with 11 ecosystem organizations and 21 businesses owned by people of color and women across the Greater MSP region. Ecosystem organizations included a range support to small businesses, and included African Career, Education and Research Inc., Social Impact Strategies Group, Minnesota Small Business Development Center (SBDC), LISC Twin Cities, Minnesota SBDC (Division of DEED), Neighborhood Development Center (NDC), Latino Economic Development Center (LEDC), Minnesota Black Chamber of Commerce (Blue Cross Blue Shield), and Black Women's Wealth Alliance. Many of the businesses owned by people of color and women that responded to the Project Vanguard research survey or interviewed were certified in some regional program, and doing business in the MSP and state of Minnesota such as construction and demolition; drywall; information technology, cyber security, network administration; roofing & architectural sheet metal; environmental & engineering; local trucking and freight; healthcare services; janitorial services; retail; and professional services.



PRIVATE SECTOR RESEARCH & ANALYSIS

This section provides detailed recommendations for private businesses and corporations for advancing inclusion of businesses owned by people of color in private sector procurement activity. The section details the research outcomes relative to the regional supply chain, opportunities for economic inclusion and private sector growth potential. A comprehensive overview of 20 identified industry sectors is provided, along with a detailed analysis of the goals for utilization of racially and ethnically diverse businesses and of diverse spending with these businesses by corporations in the MSP region. Barriers and challenges to economic inclusion identified in the private sector contracting environment are also detailed in this section of the report.

Recommendations for Private Sector Corporations

In the private sector, supplier diversity efforts are led by individual companies and reflect each company's unique commitment and strategy for engaging diverse suppliers in their work. Our conversations with 21 companies engaged in supplier diversity efforts, both formally and informally, have identified a range of strategies and effective solutions for increasing supplier diversity. These strategies are influenced by each company's unique industry-specific challenges to diverse supplier contracting, but also by the resources dedicated and priority given to supplier diversity efforts in each company. This section offers a review of the promising practices of supplier diversity programs in the MSP region and discusses where there may be areas of improvement and missed opportunity. Because many of these strategies and practices have developed in response to challenges to increasing engagement of businesses owned by people of color, these challenges are briefly detailed. Nearly all companies interviewed organize their supplier diversity efforts within or adjacent to procurement and supply chain functions. Thus, changes to procurement operations and practices make up the bulk of strategies that are most influential to promoting engagement with racially and ethnically diverse suppliers.

The supplier diversity leads included in this study represented a range of supplier diversity maturity: 19% of companies are actively developing a program, while 71% are implementing an established supplier diversity program. Just 10% of the companies represented in this study do not have a formal program or current plans to develop one. These recommendations included here should be considered in light of the stage of program development and implementation.

SUPPLIER DIVERSITY FUNDAMENTALS

Supplier diversity is a growing practice that lacks shared standards, metrics, and collective action. All of the companies interviewed described their supplier diversity activities as generally isolated from other companies. Examples of shared goals exist, such as the Billion Dollar Roundtable, yet most implement siloed supplier diversity programs. Implementing supply chain functions fundamental to promoting supplier diversity is necessary to achieving supplier diversity goals.

- **Track, monitor, and report company spending relative to an established starting place.** Establish baselines and build a data infrastructure to conduct ongoing tracking and reporting on corporate procurement trends. As companies increase data collection and reporting capacity, prioritize metrics beyond broad spending totals, such as disaggregated spend by business ownership characteristics, request for proposal (RFP) inclusion rates, rate of bid decline by businesses owned by people of color, number of contracts and average size by supply chain sector, and business unit supplier diversity performance.
- **Prioritize internal education around supplier diversity to solidify leadership-level commitment (top-down) and foster buy-in among procurement decision-makers and project managers (bottom-up).** Create the business case and establish strong leadership support to set goals and communicate supplier diversity progress. Work closely with colleagues that are decision-makers and managers in sales, operations, contracts, and procurement to communicate the importance of their role in supplier diversity progress and the need for alignment between leadership-supported goals and implementation.

- o Determine the business case for supplier diversity and track relevant business outcomes.
 - o Reinforce the importance of individuals' roles in making decisions to drive supplier diversity outcomes at the company level.
 - o Pilot and test supplier diversity processes in select procurement areas and alongside allies to demonstrate potential and dispel myths (e.g., there is a greater cost to grow utilization of businesses owned by people of color).
- **Connect with fellow supplier diversity leads and racially and ethnically diverse suppliers to develop and evolve supplier diversity program practices.** Regularly connect with supplier diversity practitioners at other companies as well as businesses owned by people of color to understand what procurement practices reduce barriers and support increased utilization of racially and ethnically diverse suppliers.
 - **Demonstrate internal commitment and capacity for more successful, sustained diversity and inclusion efforts.** Have dedicated resources and focus to vetting, networking, and building effective vendor relationships with MBEs in order to better address the barriers and meet growing needs.

IDENTIFICATION OF FIRMS OWNED BY PEOPLE OF COLOR

Supplier diversity leaders highlighted challenges identifying new businesses owned by people of color that were available and performing the work required at a similar scale as a consistent barrier to forging contracting relationships with new businesses owned by people of color. The supplier identification process and its challenges are highlighted further in Section 7. While these challenges were widespread

- **Understand that resources (time, money) are required to identify and build a strong pipeline of businesses owned by people of color.** While some “silver bullet” solutions, such as paid access to supplier databases (e.g., Supplier.io, National Minority Supplier Development Council [NMSDC]) may ease the initial challenge of business identification, these only act as a “phone book” for businesses owned by people of color and vetting and networking effort is still required.
- **Engage in external networking events and conferences to connect with racially and ethnically diverse suppliers (e.g., Women’s Business Enterprise National Council [WBENC], NMSDC).** External engagement at conferences, workshops, and networking events was commonplace across supplier diversity programs in all industries as a way to meet potential suppliers but also to demonstrate each company’s interest in supplier diversity.

INCLUSION IN OPPORTUNITIES

Because private sector procurement processes lack the transparency and public notice requirements of the public sector, it is common for opportunities to be circulated among companies that do not include businesses owned by people of color. Many supplier diversity officers noted that engagement of businesses owned by people of color in contracting opportunities was often limited by challenges to identify available “contract-ready” businesses owned by people of color or contract decision-makers would pre-identify a preferred vendor (discussed further in report). To counteract these challenges to inclusion:

- **Require that businesses owned by people of color be included in all bid opportunities/RFPs for purchasing.** To circumvent the challenge of closed bids, institute guidelines that businesses owned by people of color are included for all issued RFPs, when possible. In some cases, it is not possible to identify racially and ethnically diverse suppliers from certain sectors or for very specialized needs, but the intention of the policy is to make these cases the exception, not the rule. When inviting multiple businesses, follow up with businesses owned by people of color who decline to bid. Direct and transparent conversations with suppliers lead to greater understanding of barriers for each business that can improve the RFP process for racially and ethnically diverse suppliers.
 - o In sectors where many businesses owned by people of color are available, require a 1:1 ratio of businesses owned by people of color contracted to every nondiverse business contracted. Balancing opportunity where it is most feasible to be inclusive is just an important starting point; continuing to build a pipeline in other sectors is also critical, especially those that bring access to high value opportunities, like legal support or accounting.
- **Share upcoming opportunities and demand for suppliers widely to give many businesses maximum insight and time to prepare for upcoming opportunities.** Strategies to promote transparency include posting

procurement opportunities to all suppliers registered in vendor portal and sharing company procurement projections/pipeline of future demand to inform current and future businesses owned by people of color about long-term needs. Greater visibility into bid pipelines can help businesses owned by people of color scale up or get “contract ready” in time to competitively bid.

OPERATION AT SCALE

Many medium- and large-sized procuring companies in the private sector require contractors that can operate at scales that can be challenging for small and growing businesses. Supplier diversity officers identified this as a principal concern in engaging new businesses owned by people of color and a critical factor in assessing their contract readiness. As one business representative noted, “We end up going with the biggest players in the industry because these are the ones that support the [scale we need].” Ideas to lower the scale barrier include:

- **“Right-size”, re-scope, or divide contracts to make them accessible to smaller businesses as Tier 1 suppliers.** Where feasible, reduce the size of contracts to open opportunity to businesses owned by people of color that may be growing or performing work with procuring companies for the first time. Giving opportunities to businesses owned by people of color helps to build their capacity to take on larger contracts and grow, even if it means rescoping a contract for a specific locality, size, or specialty.
 - o Pair a business owned by a person of color with another seasoned business in order to grow their capacity for similar contracts in the future.
 - o Build relationships with businesses owned by people of color through smaller opportunities within a local or regional market that can build the suppliers’ experience and ability to operate at larger, national scales over time.
- **Target support for businesses owned by people of color in sectors where many challenges persist or barriers to entry are high.** Understanding sectors where suppliers face particularly challenging hurdles to engagement and targeting programs to address these for businesses owned by people of color, increases their opportunity to engage. For example, JPMorgan Chase conducts an evaluation process for diverse suppliers to determine their readiness for contracting with the company. For suppliers who need assistance covering the costs of strengthening their capabilities—most often in cyber security—Chase offers financial assistance to Black-, Hispanic, and Latino-owned businesses to be able to meet financial industry standards and qualify for corporate contracting opportunities. Financial assistance through the Diverse Supplier Grant Initiative started with Chase’s \$5 million contribution in 2022, alongside a commitment to match other corporate donations 1:1.

FINANCING AS A LIMIT TO PERFORMING AT SCALE

In particularly capital-intensive sectors, access to capital and financing is a barrier to engagement on larger contracts—even when a business has the ability to perform the work—which limits small businesses owned by people of color. Construction is a prime example where capital access can be a challenge to enable businesses owned by people of color to grow and break out of roles as subcontractors, which typically do not compensate businesses at the level of their Tier 1 counterparts. Recommendations to ease the strain of capital access:

- Relax financial bonding requirements or offer alternatives to bonding such as subcontractor default insurance (SDI). For example, Mortenson operates a SDI program so that they can implement bonding flexibility when needed, and further their commitment to increase diverse suppliers’ accessibility to their company’s contracting opportunities based on a well-established financial barrier.
- Adopt payment schedules that compensate suppliers every two weeks or 30 days. To avoid delays in payment, which can tie up financing and capital, more frequent payment schedules lower potential delays in work progress and enable suppliers to focus on staffing and work quality over immediate financial burdens. Procuring companies can use their influence to require Tier 1 contractors to adopt similar payment practices with Tier 2 subcontractors and consultants.

CENTRALIZED PROCUREMENT TRENDS

Especially for large procuring companies, centralized procurement is becoming more common, which concentrates purchasing power to reduce costs and often simplifies challenging supply chain logistics. As one interviewee noted, “We really have to have a centralized way to logistically manage a supply of goods from 20,000 individual suppliers; it is a logistical nightmare. So we want to have our suppliers work with (our centralized supplier).” Centralized procurement minimizes the opportunity for racially and ethnically diverse business owners to engage with large companies, as well as shifting any supplier diversity efforts to Tier 2 subcontracting relationships, which procuring companies have minimal control over.

An alternative approach for consideration:

- **Procuring companies can influence centralized suppliers to include businesses owned by people of color in their supply chains, either for specific businesses or for businesses owned by people of color in general.** Sponsoring small businesses that are ready to scale with centralized suppliers allows them to gain access and engage in large supply systems serve many large companies. Using this strategy can act as a multiplier to opportunity for businesses owned by people of color by giving them access to a much larger amount of business and lower competition.

REPORTING

The reporting function of supplier diversity programs is intended to bring increased transparency into the performance of procuring companies in making meaningful impacts on inclusion outcomes. Tracking annual spend with businesses owned by people of color is the most common metric for reporting and monitoring progress in supplier diversity programs, which focuses on the aggregate dollar value that goes to businesses owned by people of color. However, this can mask a widespread challenge, wherein few large contracts with businesses owned by people of color drive the vast majority of the annual spend. One supplier diversity lead noted, “Of my diverse supplier spend, 90% of spend comes from the top two or three diverse suppliers. This is a huge risk (that we could lose one and not meet goals).”

Consistently tracking, reporting and assessing Tier 1 and 2 spending increases transparency and improves accountability. However, some companies track this and include it in their annual spend, while others do not. Tier 2 spend is not consistently tracked, reported, or assessed, which contributes to an additional layer of ambiguity and a persisting lack of accountability. Further, even for Tier 1, it can be challenging to prime contractors to track diverse spend, unless they have supplier diversity requirements or internal company priorities.

- **Consider adopting metrics beyond “annual spend with diverse suppliers” to track and report what may reflect alternative and important dimensions of supplier diversity success,** such as contract size by supplier demographics, “instances of engagement,” and RFP diverse supplier inclusion and spend conversion rates.
- **Set goals and communicate progress for supplier diversity at the business unit level.** Monitoring and regularly communicating progress towards goals (even if internally) within company divisions or units pushes accountability towards company-wide targets towards contract decision-makers and reinforces the need for all areas of the business to be committed.
- **Set goals, monitor progress, and/or establish “scorecards” of Tier 1 contractors in terms of their Tier 2 diverse spend.** Procuring companies have the ability to influence Tier 1 suppliers to track and adopt measures of their own progress with businesses owned by people of color and can use this influence to promote inclusive practices outside of their direct management.

CONTRACT AWARD DECISION-MAKING

Supplier diversity programs and the procurement and supply chain programs in which they frequently sit are often positioned in procuring companies as a support mechanism to contract award decision-makers, such as business unit leaders. This frequently creates a division between supplier diversity goals and efforts and the award decisions themselves, which requires drawing on indirect influence for procurement change. Further, supplier diversity staff in smaller programs are often juggling responsibilities, especially when the company does not have a full-time equivalent (FTE) dedicated to supplier diversity. These factors make it difficult to expand each program’s formal and informal influence on contract decisions. Interviewees noted several ways in which they could exert greater influence throughout the company:

- **Invest in supplier diversity through staffing and resources.** Companies that have high expectations for supplier diversity progress prioritize and devote staff and financial resources to supplier diversity priorities, including data collection and analytics, outreach and marketing, internal and external networking and relationship building, and targeted programming (such as mentorship and technical assistance).
- **Make the business case for supplier diversity’s value to the company.** Communicating the importance of supplier diversity to a procuring company’s success helps to garner support for supplier diversity efforts outside of the supplier diversity office. National Co+op Grocers has seen increased consumer-driven demand for products manufactured by racially and ethnically diverse businesses in their stores. This consumer demand supports their internal supplier diversity efforts. Knutson Construction has seen an increase in demand for diverse suppliers from clients that are not required to support it. “It’s great to see private sector clients [not just public sector] requesting diversity and inclusion goals. This helps us strengthen our business case.”
- **Make direct introductions between company procurement or budgeting decision-makers and diverse**

suppliers to break into pre-existing networks. Across industries, supplier diversity leaders identified cases where “preferred vendors” were commonly shared at the time of sourcing, which often represented suppliers that decision-makers were familiar with through past experience or reputation. Building connection points between businesses owned by people of color and decision-makers lowers the perceived risk of alternative, new suppliers. Making introductions to contract decision-makers that are new to the job and yet to build pre-existing networks may also increase access to opportunity.

- **Focus on internal communications to get supplier diversity efforts and goals in front of contract decision-makers.** Creating regular touchpoint opportunities to highlight the efforts and shared responsibility of supplier diversity across a procuring company was highlighted by several interviewees in the healthcare, insurance, finance, construction, and utilities industries. For example, at Gillette Children’s, regular monthly conversations with internal decision-makers have been critical to supplier diversity progress: “If we weren’t meeting on this frequent basis, people would forget about it as a priority ... meeting frequently makes it a joint goal, keeps us talking about it, and that’s how we’ve made the success we have.” At another company, a supply chain officer summarized how important it has been for supplier diversity efforts to be discussed beyond the sourcing department: “it’s about business units and sourcing talking about supplier diversity.”
- **Make the case for supplier diversity as a way for employees to impact diversity, equity, and inclusion (DEI) on a regular basis.** Supplier diversity efforts are often bundled into strategy level DEI efforts and not positioned as an action that many employees can take (as opposed to diverse talent acquisition strategies, which are often described this way.) In order to drive shared ownership in supplier diversity, “rebranding” it as a directly impactful DEI action that contract decision-makers can make regularly puts them in a position of choice and influence. One supplier diversity leader described how “I pitched supplier diversity as an alternative way for people to get involved in DEI ... there wasn’t a single person that did not show interest. This was appealing to a lot of people, especially in the Twin Cities, where we’ve had a lot of racial unrest.”

CAPACITY OF BUSINESSES OWNED BY PEOPLE OF COLOR

A supplier’s capacity, skills, and ability to complete work at a necessary scale are frequent concerns of supplier diversity leaders, especially among medium and large-sized procuring companies. When supplier businesses are judged to not be “contract ready,” this requires supplier diversity programs to continue identification and assessment efforts with other companies. However, when promising businesses owned by people of color are identified, supplier diversity programs face an additional opportunity to help build businesses owned by people of color that may mature into “contract-ready” businesses.

- **Build internal and external mentorship and networking programs to develop the capacity of promising businesses owned by people of color and help them to grow.** These efforts can be as intensive as a regular mentoring program or as simple as a set of consistent and meaningful engagement opportunities for racially and ethnically diverse suppliers with internal decision-makers and implementors.
 - One supplier diversity leader described bringing together a cohort of businesses owned by people of color and invited engagement company-wide—including the CEO, marketing and operations employees—to host a holistic discussion on how to best work together.
 - Knutson Construction’s Accelerator Program hosts monthly trainings for racially and ethnically diverse supplier mentees, and makes regular introductions to staff, particularly in relation to new or current procurement needs, to combine capacity building with potential contracting opportunities.
 - Retain connections to promising businesses owned by people of color and check in semi-annually to see if they are ready for opportunities.
 - Identify external business accelerators and incubators and sponsor promising businesses owned by people of color to grow their businesses.
- **Create alternative contracting mechanisms that have impact on inclusion and low impact on procuring companies, such as:**
 - Shorter contract agreements and paperwork that are released in advance and do not require significant legal review;
 - Longer-term contract options that support companies owned by people of color’s financing applications; and
 - Shorter payment terms, such as two weeks or 30 days.
- **Prioritize considerations for growing the capacity of companies owned by people of color over time towards high value opportunities.** Increasing opportunities for bigger, larger contracts with diverse

suppliers ensures that these suppliers are not relegated to small contract options or in low-value, low-spend procurement areas.

The following section provides additional context for developing these recommendations.

Private Sector Spending

MSP is a growing economy with a mix of competitive industry sectors and a robust local supply chain. Major corporate anchors, including headquarters, finance, insurance, healthcare, and professional services combine with fast growth industries, including medical devices and advanced manufacturing. The region benefits from strong local suppliers in professional services, while relying on outside suppliers for specialized manufactured goods and products. The 20 sectors analyzed support local supply chain spending, including professional and administrative services, real estate, finance and insurance, wholesalers, and construction. Currently, Black- and Latino-owned businesses make up a small share of businesses in these supply chain sectors, but opportunities exist in areas with high spend, existing ownership by people of color, and low capital thresholds to enter.

The 20 industry sectors were identified based on regional growth and competitiveness, which was based on job growth that met or outpaced national averages and location quotient, a measure of relative concentration of the industry; industry size, as defined by contribution to GDP and jobs count; and regional supply chain purchasing, including total dollar value and regional share of purchasing. These sectors are outlined in the tables below and represent \$77 billion in total supply chain spending (approximately 61% of total supply chain spending in Hennepin and Ramsey Counties), of which \$58 billion remains in the region. Hennepin and Ramsey Counties have a low level of supply chain “leakage” or spending outside of the region by private sector buyers, and as illustrated in this study, private sector supply chain spending follows a pattern: Procurement in professional services, management, real estate, healthcare, and construction purchasing tend to remain local. These areas of supply chain spend have high regional purchasing coefficients (RPCs). In contrast, specialized manufactured goods tend to be purchased from outside of the region.

Private Sector Procurement Activity of Selected 20 Industries: 2019

NAICS	Industry Name*	Total Supply Chain Spend (\$)	Local Supply Chain Spend (\$)	Regional Leakage
524	Insurance	\$10.0 B	\$9.0 B	10%
531	Real Estate	\$8.9 B	\$8.0 B	10%
541	Professional, Scientific, and Technical Services	\$9.4 B	\$7.8 B	17%
42	Wholesalers	\$7.8 B	\$6.6 B	18%
551	Management of Companies and Enterprises	\$6.3 B	\$5.5 B	13%
622	Health Care - Hospitals	\$4.7 B	\$3.7 B	22%
621, 623, 624	Health Care - Non-Hospital Services	\$4.3 B	\$3.3 B	23%
23	Construction	\$4.5 B	\$2.5 B	46%
221	Utilities	\$2.7 B	\$1.9 B	29%
722	Food Service	\$2.2 B	\$1.6 B	27%
339	Medical Device Manufacturing	\$2.6 B	\$1.4 B	47%
333	Machinery Manufacturing	\$2.9 B	\$1.3 B	55%
813	Nonprofit, Advocacy, and Labor Organizations	\$1.4 B	\$1.2 B	16%
325	Chemical Manufacturing (Incl. Pharmaceuticals)	\$2.9 B	\$1.1 B	62%
332	Fabricated Metal Products Manufacturing	\$1.8 B	\$0.8 B	58%
522	Financial Services	\$0.7 B	\$0.6 B	10%
511	Publishing, Including Software	\$0.6 B	\$0.5 B	16%
326	Plastics and rubber products manufacturing	\$1.4 B	\$0.5 B	63%
481	Air Transportation	\$0.8 B	\$0.4 B	48%
335	Electrical Equipment and Appliance Manufacturing	\$0.6 B	\$0.2 B	65%

- Insurance, professional services, management, real estate, and healthcare are among the highest spenders in procuring in the regional supply chain.
- Supply chain spending outside of the region (regional leakage) is low across most industries, with the exception of specialized manufacturing and resources such as petroleum products.
- The largest dollar value in supply chain spending tends to be in professional services, as large industries like insurance, services, real estate, and management purchase these services.
- There is overlap between the largest supply chain industries and the most competitive growth industries, but some examples like wholesale trade and real estate are more established slow-growth industries that account for a large share of regional spending.

PRIVATE SECTOR GROWTH

The 20 key private industry sectors³ identified represent approximately 64% of GDP, with the highest potential for increased supply chain spending with diverse suppliers, based on the following criteria:

- Regional growth and competitiveness, based on job growth that met or outpaced national averages and location quotient, a measure of relative concentration of the industry
- Industry size, as defined by contribution to GDP and jobs count
- Regional supply chain purchasing, including total dollar value and regional share of purchasing

Private Sector Industries Selected Based on Local Growth and Competitiveness: 2021

NAICS	Industry Name*	Total Supply Chain Spend (\$)	Local Supply Chain Spend (\$)	Regional Leakage
Growth Industries				
332	Fabricated Metal Products Manufacturing	23%	\$3.1 B	0.9
339	Miscellaneous (Medical Device) Manufacturing	22%	\$6.3 B	2.9
335	Electrical Equipment and Appliance Manufacturing	20%	\$1.0 B	0.6
524	Insurance	16%	\$21.5 B	1.8
23	Construction	15%	\$11.4 B	0.7
522	Financial Services	14%	\$2.1 B	1.6
325	Chemical Manufacturing (Incl. Pharmaceuticals)	13%	\$4.1 B	0.6
621, 623, 624	Health Care - Non-hospital services	12%	\$14.7 B	1.4
42	Wholesalers	11%	\$22.2 B	1.0
551	Management of Companies and Enterprises	10%	\$19.3 B	3.7
221	Utilities	8%	\$5.0 B	0.9
622	Health Care - Hospitals	3%	\$10.4 B	1.2
326	Plastics and Rubber Products Manufacturing	3%	\$2.0 B	1.2
531	Real Estate	2%	\$28.9 B	1.1
Established Industries				
511	Publishing, Including Software	-2%	\$3.1 B	1.4
541	Professional, Scientific, and Technical Services	-5%	\$31.9 B	1.0
333	Machinery Manufacturing	-8%	\$4.9 B	1.3
813	Nonprofit, Advocacy, and Labor Organizations	-10%	\$3.9 B	1.5
481	Air Transportation	-20%	\$2.1 B	2.0
722	Food Service	-28%	\$5.2 B	0.7

The 20 industry sectors are supported by 82 supply chain sectors, including goods, services, construction, wholesale trade, transportation, and others that total over \$57 billion in annual spend. Of those, 13 supply chain sectors represent over \$1 billion in local, annual spend. The largest value exists in professional and administrative services, real estate, insurance, and wholesale trade—see table below.

While this represents a large share of regional economic activity, a key factor in this analysis is the availability of businesses owned by people of color within areas of local supply chain demand. As seen in the table below, the rates of Black and Latinx business ownership are low in many sectors, with the largest share of companies in construction and professional services. Although Black- Latinx-owned businesses make up a small share of businesses in these supply chain sectors, opportunities exist in areas with high spend, existing ownership by people of color, and low capital thresholds to enter.

Top Supply Chain Sectors With Over \$1 Billion in Annual, Local Spend: 2019

Supply Chain Sector	Local Supply Chain Spend	Black- and Hispanic or Latinx-Owned Firms Count (%)
Professional, Scientific, and Technical Services	\$13 B	253 (2.8%)
Real Estate	\$9 B	15 (0.5%)
Insurance Carriers and Related Activities	\$9 B	0 (0%)
Administrative and Support Services	\$5 B	94 (3.3%)
Wholesale Trade	\$5 B	55 (1.7%)
Management of Companies and Enterprises	\$4 B	0 (0%)
Monetary Authorities-Central Bank	\$3 B	N/A*
Securities, Commodity Contracts, Other Financial Investments and Related Activities	\$3 B	1 (1.1%)
Utilities	\$3 B	1 (25%)
Credit Intermediation and Related Activities	\$2 B	0 (0%)
Food Services and Drinking Places	\$1 B	27 (0.7%)
Construction	\$1 B	251 (6.5%)
Telecommunications	\$1 B	0 (0%)

Barriers to Supplier Diversity

This section provides insights regarding potential barriers to supplier diversity in the MSP region. Private sector companies seek supplier relationships with “contract-ready” businesses, which is critical for being considered for and seen as competitive for contracting opportunities. Most frequently, procuring companies defined contract-ready suppliers as those that can operate at the scale required, with the skills and capacity required to complete the job and operate within the regulations of their business and industry. Barriers include issues related to cost, scale and capacity.

Importantly, contract readiness is viewed very differently from cost competitiveness. Most often, a supplier company’s perceived ability to provide high value in completing a contract was the precursor to being asked to bid on an opportunity, while cost considerations were important for determining who wins the contract. Contract readiness is about getting in the door, and cost is often a critical factor in winning the contract.

Supplier diversity leads discussed operational barriers to their work that impact utilization of racially and ethnically diverse suppliers in addition to the cross-cutting procurement barriers and associated promising practices highlighted in this study. As supplier diversity leads attempt to shift procurement processes and expand opportunities for new and businesses owned by people of color, interviewees described a wide range of operational barriers:

- Determining supplier diversity investment: Several interviewees who are launching new programs felt unsure about the staffing and resources needed. Questions about which supplier databases (see Section 3) and data monitoring software systems would be most effective represented large uncertainties in companies that have not yet made significant supplier diversity investments. One interviewee said, “I wish there were standards or guidance on what’s needed to get started.” This interviewee was “guestimating” about the resources needed for their program and was concerned simultaneously about underestimating costs during this pivotal moment to request company investment and about overestimating the costs and needing to illustrate a return on investment on a new initiative.
- Reputational risk: despite a general appetite for supplier diversity, supplier diversity leads described a divergence among their colleagues’ willingness to change or diversify their contracts. For example, interviewees have seen demands for larger staffing to manage more suppliers tied to company supplier

diversity efforts. Others have felt pressure on contract performance based on their advocacy to change or expand the supplier pool beyond the suppliers their colleagues know. If something goes wrong, it can be perceived as a mark against the supplier diversity program rather than a standard contracting challenge.

- Disbelief in need for racially explicit goals: 10% of companies did not have active supplier diversity programs, and 24% did not have dedicated staff for supplier diversity efforts. In select cases, this lack of targeted investment and action stemmed from a belief that race-explicit procurement policies were not needed to achieve diversity within the companies' contracting outcomes. One interviewee noted that their focus is on "experience and quality, and as a result their portfolio of suppliers is diverse." Another interviewee noted that education about equity, systemic racism, and implicit bias was required to make progress with their colleagues on racially explicit supplier diversity efforts.

COST

Cost was described as a distinct challenge in encouraging engagement of businesses owned by people of color. First, many companies agreed that cost was very important, even in an environment where businesses owned by people of color was being sought, and that it was challenging in their environments to make a business case that working with a racially and ethnically diverse firm was worth a notably more expensive contract. For example, in Gillette Children's case "some RFPs, proposals [cost] are all over the place. It can be hard for us to make a choice around increasing our spend with businesses owned by people of color and increasing our overall expenditure in a certain area." Several companies noted that supplier diversity programs could not operate by overemphasizing cost in light of long-term potential. One interviewee noted a trend that low-cost bids were becoming less important in light of efforts to increase the company's supplier chain resiliency and to grow a multitude of long-term supplier partnerships. Cost—real and perceived—is a balancing act that most supplier diversity leads are consistently navigating.

SCALE

Among the largest concerns identified around supplier readiness was a supplier company's ability to do the work sought at the size and scope of the procuring company's need. Principally, procuring companies stated that they look at experience to gauge a supplier's past ability to perform work at a certain scale, as well as revenue and number of employees. While some procuring companies mentioned revenue thresholds to do business, others suggested it was simply an unofficial criterion used as a proxy measure to assess a business' ability to operate at certain scales. One supplier diversity lead of a large financial institution noted that revenue was a proxy for ability to comply with rigorous regulatory standards: "You have to be at a certain level with compliance and technology, so it's hard to work with a 'mom and pop' shop. If you are below \$10 million [in revenue], you're probably not going to be attractive from a procurement standpoint." Other industries, like construction, may use financial measures such as access to lines of credit, as a measure for assessing readiness for scale.

Some procuring companies have seen the scale of their procurement opportunities increase, while others have made intentional efforts to reduce the size and scale of opportunities to increase engagement of businesses owned by people of color. Moves to centralize procurement and create fewer, larger contracts is motivated by its cost savings and simplified logistics; however, several supplier diversity leads in the healthcare and insurance industries noted that they saw how this would introduce challenges to smaller and businesses owned by people of color hoping to do business with them, and would only raise the scale standards.

CAPACITY

The specific skills required to complete a contract are highly dependent on the service in demand and scope of work. However, a supplier business's capacity to complete a job is also important to be competitive and is gauged by a business's work experience, years in business, and references. When a supplier has completed a contract of a similar scope and has done so for many years, their ability to deliver is less questioned during the procurement and delivery process, according to many of the supplier diversity leads interviewed. One supplier diversity lead mentioned that, given the economic turmoil and staff turnover of the past two years, some supplier businesses have changed what they do, making experience and longevity an important determinant of a business's ability to deliver.

The expectation that businesses owned by people of color should have performed the same work previously leaves little room for growth of new businesses' capacity and limits the entry of businesses owned by people of color operating in larger, more valuable contracts. As discussed in Section IV, some supplier diversity strategies include programs to mentor and build capacity racially and ethnically companies to counteract this challenge.

STANDARD BUSINESS AND REGULATORY REQUIREMENTS

Many procuring companies detailed standard requirements that, without, would limit a supplier’s ability to win contracts with their company. These are included in the table below. Some industries, such as finance and insurance, are heavily regulated by federal guidelines, which are required for many of the contracts they provide.

Contract readiness requirements do not often differ by a supplier’s diversity status; however, some companies have adjusted practices to account for barriers that businesses owned by people of color may face. For businesses owned by people of color, this may also include certification by specific bodies (e.g., NMSDC, WBENC). Sixty-one percent of procuring companies interviewed that had established a policy to allow businesses to self-certify as minority-owned or women-owned.

Most Commonly Mentioned Standard Requirements

Standard Requirements (All industries)	Industry/Service-Specific Standard Requirements
<ul style="list-style-type: none"> Evaluations of financial standing (e.g., Dun & Bradstreet report, credit check) Background check Reference check Insurance (value dependent on sector/opportunity) 	<ul style="list-style-type: none"> Insurance and finance: compliance with federally mandated regulations (e.g., confidentiality, data security) Working with sensitive data: data and network security processes, QC processes, HIPAA processes (health) Construction: line of credit, QC processes Trucking/transport: safety requirements

Private Sector Goals and Diverse Spend

The companies with formal supplier diversity programs track diverse spending by gender and racial/ethnic minority status, but the majority of companies do not share spending total or disaggregated spending totals publicly. Companies that described successful supplier diversity program implementation were imbedded in core areas of the company (such as sales, procurement, or operations). This allowed supplier diversity leads to leverage dual top-down and bottom-up strategies to further supplier diversity priorities at all staffing levels.

Most of the procuring companies included in this research have committed at least some staff time, financial resources, and company-wide support for equity and inclusion investments that include supplier diversity as a core priority. 71% (15 of 21) of companies interviewed have a formal supplier diversity program, and an additional 19% (4 of 21) of companies are actively developing a formal supplier diversity program. Two of twenty-one companies do not have a formal or emerging program (10%). Nearly all of these companies described diverse-spending goals. Diverse spend is defined broadly by companies and includes ownership characteristics such as race, ethnicity, and gender and LGBTQ, disability, and veteran- status. These goals ranged from 2.5% to 15% for total diverse spend, which includes a range of business ownership certifications (e.g., minority-owned, women-owned, veteran-owned, LGBTQ-owned). For those with current or upcoming supplier diversity programs, nearly all companies incorporated race- and ethnicity-specific goals. A growing number of companies publicly report diverse spend totals.

A large majority of companies (16 of 21) reported dedicated supplier diversity staff. The number of FTEs ranged from half of one FTE to thirteen FTEs. The average across companies interviewed was two FTEs. Twenty-four percent (5 of 21) did not dedicate staff time to supplier diversity. Core to most companies’ operations is internal data collection and reporting. A large majority (14 of 21) of interviewed companies track company procurement spending by business ownership, and several companies closely monitor the translation of RFP inclusion requirements to resulting award and detailed spend outcomes. Data collection and analysis requires staffing and financial resources (often for software systems), which created a barrier for some companies to regularly track and report on supplier diversity activity.

Beyond the logistics of program operations, several companies described an overarching multi-pronged approach to furthering their supplier diversity goals at all levels of the company. Leadership support was critical to empowering supplier diversity leads and establishing and tracking key performance metrics on both changes to internal company procurement processes and progress toward targeted outcomes. Performance and outcome metrics ranged from diverse business inclusion on bids and diverse spending disaggregated by ownership to detailed spending trends at direct; indirect; and Tiers 1, 2, and 3 procurement levels. Along with leadership support, buy-in with staff was essential to forming practical solutions to inclusive procurement challenges and, most importantly, shifting company culture to imbed supplier diversity as a way of doing business. One interviewee noted that “educating and partnering with the ‘implementers’ in my company means that I have champions across departments and offices.” Working with people at all levels of the company can create

alignment between individuals making macro-decisions for the company with those who make day-to-day decisions that reflect and further supplier diversity priorities.

Lastly, supplier diversity is often communicated as an element of a greater equity and inclusion strategy and implemented as a holistic approach to tackling inequities where the companies operate. For example, Mortenson's supplier diversity efforts are centralized within the company's Community Empowerment department alongside workforce equity initiatives. That level of integration with corporate equity strategies does not preclude integration with companies' operations. In fact, in many cases, supplier diversity is imbedded as a core aspect of company-wide operations, sales, or procurement departments—not as a separate or stand-alone program. For example:

- **JPMorgan Chase** integrates supplier diversity throughout the company's strategy and operations. While the supplier diversity staff ultimately report into the procurement department, the team works closely with other business verticals such as marketing, community development, and customer-facing financial services to connect underrepresented companies to opportunities across the company. Additionally, the team incorporates supplier diversity "ambassadors" across departments and company locations to deepen their colleagues' supplier diversity knowledge and further embed supplier diversity action at each level of the company.
- **Target's** supplier diversity program is embedded throughout the company's procurement department and within each level of their procurement processes, including spending projections, bidding, and contract awards and monitoring.
- **National Co+op Grocers'** supplier diversity efforts are focused on consumer product goods (i.e. shelf-ready products for direct customer consumption). As a result, supplier diversity is a part of the consumer project goods department so that staff can leverage immediate opportunities to grow their diverse spend, and in the future, inform other areas of the company based on demonstrated progress.
- **United Health Group's** supplier diversity initiative is a part of the company's Sustainability Program, and is fully integrated within their sourcing and procurement processes.

Supplier diversity leads find that level of integration to be important in incorporating opportunities for inclusion of businesses owned by people of color from the beginning of the procurement process (projecting needs) to RFP scoping (developing bid packages and identifying potential suppliers) to award and monitoring (tracking performance and contract outcomes).

Supplier diversity leads pointed to current (some described as "traditional") areas of utilization of businesses owned by people of color —such as administrative and professional services and construction trades — as key opportunities to scale and capture more of the market where demand is actively high. Supplier diversity leads also identified areas where utilization of businesses owned by people of color is sparse or nonexistent but represent supply chain sectors increasing in demand—such as information technology (IT) hardware and software and consumer product good manufacturing.

Supplier diversity leads described both current areas of utilization of businesses owned by people of color and highlighted supply chain sectors where they intend to grow procurement with these racially and ethnically diverse suppliers. Some supplier diversity leads recognized areas for additional supply chain spending where businesses owned by people of color are perceived as limited or absent. They also identified areas where businesses owned by people of color could fill expanding supply chain needs due to new or expanding market. The table below illustrates 16 supply chain areas where interviewees described current and future utilization of businesses owned by people of color, and Section 8 further details these areas of opportunity.

Summary of Company Feedback on Current and Future Utilization of Businesses Owned By People of Color

Supply Chain Sector	Current Diverse Firm Utilization	Future Diverse Firm Utilization
Administrative services, including staff augmentation (temporary staffing, accounting, security staffing), building and property maintenance, and house-keeping	X	X
Construction, including skilled trades, interior “finishing,” foundation and substation building, concrete, steel rebar, mechanical, electrical and plumbing (MEP), clean energy construction	X	X
Construction supplies, including MEP	X	X
Financial services, including third party underwriting services and investment services	X	X
Food manufacturing, including consumer product goods and food retailers	X	X
Food services, including catering	X	
Manufacturing, including technology hardware and software, refrigeration systems, HVAC systems, commercial interior hard goods (i.e. industrial lighting, shelving), batteries, commercial signage	X	X
Non-hospital clinical services	X	
Printing	X	
Professional, technical, and scientific services, including marketing and communications, legal, research consulting, digital design, architecture and engineering, IT staffing, data processing, analytics and security, and warehousing and transportation logistics	X	X
IT publishing, including hardware, software development (i.e. fintech, fabrication technology, robotics, and AI)	X	X
Real estate property development and management		X
Repair and maintenance, including commercial equipment and HVAC systems, and truck transportation repair	X	X
Transportation, including freight shipping, regional transportation, and local courier services	X	X
Warehousing, including “light industrial” packing and delivery services	X	
Wholesale, including office supplies, medical supplies, chemical supplies, packaging supplies, and commercial furniture, fixtures and equipment	X	X

Private Sector Contracting Environment

Procurement in the private sector follows a process that allows procuring companies to advertise and award contracts with less transparency and accountability to businesses owned by people of color than the public sector. As a result, accessing contracts as a businesses owned by people of color can be challenging across the procurement process, from supplier identification to award decision to reporting.

SUPPLIER IDENTIFICATION

Nearly all RFPs are privately circulated among businesses invited to bid (i.e., not typically available publicly); however, the process by which businesses are identified varies. In the identification stage, private sector procuring companies are free to share the RFP with as few as a single business, unless dictated by company policy or regulated by the use of public resources. Often, supplier diversity practices encourage opportunities to be shared with businesses owned by people of color where “contract-ready” businesses are available and identifiable.

Notably, identifiability and availability are considered the twin challenges of advancing contracting opportunities to businesses owned by people of color

- **Identifiability:** Procuring companies have difficulty finding contract-ready businesses owned by people of color in a sector.
- **Availability:** Procuring companies perceive a lack of contract-ready businesses owned by people of color present and operational in a sector that drives decisions to not circulate RFPs to businesses owned by people of color.

Nearly all supplier diversity programs highlight these challenges as a primary barrier to increasing spend with businesses owned by people of color, which together form a cycle that limits the distribution of contracting opportunities to these firms seeking to grow their work with a new procuring company.

When trying to identify businesses owned by people of color to engage with or share a specific contracting opportunity, procuring companies shared three main ways in which they seek businesses to work with:

- **Supplier portals:** Approximately half of procuring companies maintain vendor portals through which businesses can register, share experience/services, and share racial/ethnic/disadvantaged ownership status (self-certification and external certification requirements vary.) Through portals, procurement staff can distribute opportunities with suppliers and identify businesses owned by people of color, with many of their documents in place. Some supplier portals are straightforward and easy to access, while many procuring companies acknowledged that their vendor portals require a large amount of effort to successfully register—sometimes requiring days of legal review, financial reporting, and other time-consuming data compilation, particularly in highly regulated fields, like insurance and financial services.
- **Supplier databases:** Several large procuring companies rely heavily (and in some cases, exclusively) on externally compiled databases of diverse suppliers, which are scanned when an RFP is being developed, in order to identify and invite racially and ethnically diverse firms. Examples include those produced by Supplier.io and NMSDC. These databases are costly (~\$18,000 for a single year), which limits their use by small- and medium-sized procuring companies.
- **Active networking:** Many supplier diversity programs take an active role in expanding the pool of known suppliers through community outreach events, including tradeshows, conferences, and business development workshops. These efforts help to identify new and businesses owned by people of color to share opportunities with but also help to educate supplier businesses on what services are in demand and detail contracting requirements.

Supplier diversity leads suggested that the most influence they have on procurement decision-makers is before the RFP is shared (during identification) rather than at the time of award. Where supplier diversity staff can be particularly impactful is in pushing decision-makers to consider businesses owned by people of color and identifying new businesses for consideration.

Supplier Diversity Practices That Promote Inclusive Procurement at Identification Phase

<p>External networking and relationship building: Attend tradeshows and workshops to pursue supplier network growth. Company example: Knutson Construction</p>	<p>Internal networking and relationship building: Engage proposal developers/decision-makers in supplier diversity conversations before RFPs are developed in order to get them thinking about businesses owned by people of color, and not predetermine a preferred business. Company examples: Gillette Children's, McGough Construction</p>	<p>Internal procurement processes: Embed review of racially and ethnically diverse firms in standard procurement development processes; and rescope RFP as smaller "packages" that creates more flexibility in business identification and bid competitiveness. Company example: Mortenson</p>	<p>Internal procurement standards: Require utilization of businesses owned by people of color on RFPs, when feasible based on availability. Company examples: HealthPartners, Target, United Health Group</p>
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AWARD DECISION

Awarding contracts in the private sector has little to no transparency, as criteria and scoring of proposals are not made public and can be determined by a single decision-maker. Decisions related to who is awarded a contract are often made by business unit leaders (e.g. head of marketing) rather than procurement or supplier diversity staff, who might reflect "best value" or a balance of cost-effectiveness and confidence in businesses' work quality. Often, familiarity plays a role in this decision, as award decision-makers will know from the onset who they would like to work with or are aware of someone's previous work, which further limits the entry of new businesses into contracting opportunities.

Despite the overall lack of transparency, some procurement practices from supplier diversity staff interviewed help to change practices at this phase by:

- Introducing businesses owned by people of color to decision-makers that are potential supplier diversity champions or are newer on staff and do not have established networks.
- Branding supplier diversity effort as a DEI action that staff can take beyond talent acquisition.

REPORTING

Transparency in private sector procurement has increased in recent years: More large procuring companies are publicly reporting diverse spend as part of their corporate responsibility efforts. For the Minneapolis-St. Paul region, many supplier diversity staff emphasized the importance of greater transparency and growth in reporting willingness, particularly in the wake of George Floyd's murder in 2020.

Of the procuring companies with formal supplier diversity programs, nearly all of them shared goals and their progress against them. The methods used to establish these goals ranged broadly, from "doubling our baseline number" to "being slightly better than the industry average" to a detailed accounting of "addressable spend" (i.e., spend in categories where businesses owned by people of color are more likely to be engaged). All but several nascent supplier diversity programs made goals and progress against them public, and many report these metrics monthly or quarterly to leadership.

The content of what is reported differs across companies, though nearly all report annual third-party diverse spend or percentage of annual third-party diverse spend. Public diverse spend metrics most often reflect an aggregate spend across categories in woman-owned, racial/ethnic minority-owned, LGBTQ+-owned, and veteran-owned businesses. A subset of companies track disaggregated demographics for businesses owned by people of color separately (e.g., Latino-owned, Black-owned), and even fewer publicly report these numbers. Further, some companies included Tier 2 spending as part of this metric, while others did not.

Many supplier diversity staff recognize that "what you measure matters" and disaggregated reporting is preferred, yet they explained why they often do not report disaggregated numbers. First, many supplier diversity programs, especially those that have a single FTE or less, stated that they do not have the resources to categorize the large number of suppliers they work with and the programs that automate this calculation can be very costly. Second, in some cases, the majority of diverse spend in a company's goal can come from one to two businesses owned by people of color in a single category. Supplier diversity officers suggested that this would make disaggregated reporting look unsuccessful in certain areas.

The lack of transparency in reporting disaggregated diverse spend limits the accountability of many companies and transforms goals into public relations pieces more than impacting inclusion outcomes. Still, some supplier diversity programs have established policies and practices that promote inclusion:

- Tracking the number of contracts with racially and ethnically diverse firms, in addition to annual spend with these firms, to ensure companies are not relying on several large contracts to meet targets.
 - o Company example: HealthPartners began to consider other meaningful metrics for supplier diversity progress that demonstrate progress in other ways. "We have shifted our thinking beyond 'diverse spend' alone and now also count 'instances of engagement with businesses owned by people of color' because some engagement is so small that it never shows up, yet it still matters... We have to do business with minority businesses wherever we can. It may not always have a big impact on our spend, but we need to count it."
- Setting goals and monitoring diverse spend at the business-unit-level (not just company-wide). In some cases, companies tie supplier diversity goals to executive compensation.

PRIVATE SECTOR EXPANSION OPPORTUNITIES

In this section, each area of growth is examined to reflect the analytical triangulation between a quantitative model of the region’s supply chain demands, interviews conducted with supplier diversity and procurement staff working in private sector companies, and the availability analysis of Black and Latinx businesses. Listed below are combined, contextualized insights from these analyses to help characterize sector-specific demand and opportunity.

Current Expansion

Expansion potential for diverse contracting includes sectors where businesses owned by people of color have a relatively strong presence in MSP and that have a high amount of supply chain spend and relatively low capital requirements for business operation. Opportunities for current expansion are defined as industries with a significant amount of supply chain demand and existing local businesses owned by people of color. Opportunities are categorized as “current” since these sectors continue to grow and capital-to-labor ratios are relatively low.

Summary Data: Opportunities for Current Expansion

Industry	Annual Local Spend	Black- and Latinx-Owned Businesses Count (Percentage)	Capital-to-Labor Ratio (Dollars per Hour Worked)	Company: Current or Future Area of Diverse Spend
Professional, Scientific, and Technical Services	\$13.2 B	253 (2.8%)	\$12	X
Administrative and Support Services	\$5.1 B	94 (3.3%)	\$6	X
Food Services	\$1.4 B	27 (0.7%)	\$8	X
Construction	\$1.2 B	251 (6.5%)	\$12	X
Repair and Maintenance	\$800 M	6 (0.9%)	\$5	X
Couriers and Messengers	\$600 M	4 (4.0%)	\$10	X
Truck Transportation	\$600 M	35 (8.2%)	\$10	X
Non-Hospital Healthcare Services	\$400 M	11 (1.0%)	\$14	X
Transit and Ground Passenger Transportation	\$200 M	13 (7.9%)	\$4	X

Source: IMPLAN. 3-digit NAICS aggregations for Hennepin and Ramsey Counties, 2019; Metro-Source Availability Analysis, BLS Total Factor Productivity, RTI Interviews

PROFESSIONAL, SCIENTIFIC, AND TECHNICAL SERVICES

- Sector definition: high-value, high-skill services to support business operations (e.g., accounting, legal, IT support, R&D, management consulting)
- Largest regional spend across sectors: \$13.2 billion
- Capital-to-labor ratio: \$12 per hour worked (low)

The services most in demand and widely referenced include staffing businesses for IT, services for data security and network security, and opportunities to engage with businesses in marketing, communications, and human resources (HR)/benefits.

This sector receives a high third-party spend from almost all industries included in our study, except for construction, which contributes to the sector’s large dollar value in regional spend. In particular, medium-to-large-sized businesses with headquarters or management operations in MSP seek to engage professional service providers to support core business functions, like HR and IT. Supplier diversity leads suggested that they have had the most success in engaging businesses owned by people of color in the areas of IT support and some technology security fields but suggest that demand in this sector is poised to sustain growth, particularly as tech-reliant services grow and staff move to remote work.

ADMINISTRATIVE AND SUPPORT SERVICES

- Sector definition: services to support business operations (e.g., building maintenance, landscaping, staffing, security, temporary support services)
- Regional spend: \$5.1 billion
- Capital-to-labor ratio: \$6 per hour worked (low)

In-demand services in this lower-skill sector (that is typically also compensated at lower levels) include staffing augmentation services, facilities maintenance, and administrative needs, like printing.

Staffing augmentation businesses identify and position external personnel to augment organizational capacity on a temporary basis and are a common area for supplier diversity programs among procuring companies in utilities, financial, insurance, large retail, and healthcare to engage with businesses owned by people of color. In some cases, spend with a small number of staff augmentation businesses made up a bulk of a company's diverse spend. However, a supplier diversity lead of one company noted that "the staff augmentation space is saturated." Through their networking and outreach with people of color and women suppliers, their staff hopes to increase engagement in new areas where fewer businesses owned by people of color operate and higher value opportunity persists.

Facilities maintenance is an area where many companies that maintain physical spaces (e.g., retail stores, office buildings, hospitals/clinics) currently engage racially and ethnically diverse suppliers. These services can include landscaping, janitorial services, housekeeping, snow clearing, and parking lot services (e.g., striping, calking). Other administrative services, like printing or production of branded materials, represent not only areas of consistent demand for procuring companies, but also areas of easier entry for businesses owned by people of color, where they could make RFPs smaller to grow the capacity of smaller businesses.

FOOD SERVICES AND DRINKING PLACES

- Sector definition: restaurants and food services, such as catering and corporate vending
- Regional spend: \$1.4 billion
- Capital costs: \$8 per hour worked (low)

Subsectors of food services most in demand are food services to support cafeterias (provision of food items and services of it), commercial vending, and catering for event services.

Food services is a relatively easy sector for procuring companies to engage new suppliers in, as it is not often subject to the security or legal requirements of technology contracts, for instance. One supplier diversity officer in the insurance industry noted that they are often looking for new food offerings, and especially ethnic cuisine, for corporate events. While vending services are commonplace in many office buildings and hospitals, several smaller procuring companies noted that they are beginning to spend less on this service, as they see their workforce transition to hybrid and remote work schedules. "This [transition to hybrid work] has changed our office needs and supply. We do not order the paper or more traditional supplier items. We do not use a coffee vendor anymore. We haven't replaced this."

CONSTRUCTION

- Sector definition: civil, infrastructure, commercial, and residential building construction, including tradespeople and raw materials suppliers
- Regional spend: \$1.2 billion
- Capital-to-labor ratio: \$12 per hour worked (low-medium)

Note that construction is a labor-intensive industry, as both capital and labor needs are high.

Construction contractors most commonly identified as needed by procuring companies include finishing work (e.g., drywalling, painting), plumbing, and mechanical and electrical (M&E) services.

The construction sector is one in which procuring companies have a large degree of familiarity with supplier diversity, as they frequently work on publicly funded contracts, which have diverse supplier requirements. One supplier diversity officer in the construction sector noted that Mechanical and Electrical (M&E) typically had higher-paying contracts than other construction trades, and that it was a goal to have more M&E diverse suppliers. Another supplier diversity officer noted that MSP has many businesses owned by people of color M&E businesses compared with many other regions, making this a promising area for expansion.

REPAIR AND MAINTENANCE

- Sector definition: repair and maintenance services for automotive, HVAC, electrical and other building and equipment repair services
- Regional spend: \$800 million
- Capital to labor ratio: \$5 per hour worked (low)

Repair services in greatest demand included automotive repairs; maintenance and repair for specialized health equipment; and irregular, facility-specific repairs to systems like HVAC and electrical.

In cases where procuring companies' assets require repair—office space, trucks/cars, other facilities that are owned and not rented—ongoing maintenance and repair is necessary. Some companies noted that this was a reliable source of demand for contracting, though companies will frequently contract for these services on an as-needed basis. In the case of some large companies that own their own fleet of delivery trucks, tankers, and equipment, the repair and maintenance of these items is a notable cost, particularly for some manufacturing-heavy industries. For hospitals and healthcare systems with highly specialized medical equipment, there is a critical need to support these systems' operations, but a requirement is that any technicians to perform these services have highly specialized training themselves.

TRUCK TRANSPORT

- Sector definition: short-, medium-, and long-haul trucking services for goods
- Regional spend: \$600 million
- Capital to labor ratio: \$10 per hour worked (low)

Long-haul trucking and transportation of goods was in greatest demand among the retail and manufacturing procuring companies interviewed, which represented large businesses with global footprints. These companies also discussed the importance of transit via ship, rail, and plane.

Among the supply chain sectors analyzed, truck transportation had the highest percentage (8.2%) of businesses that were minority-owned, with 35 Black and Hispanic or Latino-owned businesses in Hennepin and Ramsey Counties. Given the number of available businesses owned by people of color, truck transportation is an important near-term expansion area for the region.

COURIERS AND MESSENGERS

- Sector definition: short-haul delivery services for goods
- Regional spend: \$600 million
- Capital to labor ratio: \$4 per hour worked (low)

Courier and messenger services include short-haul and local delivery services that would operate in the regional or metropolitan areas only (as opposed to medium- and long-haul transport services). These services were in highest demand among healthcare systems that frequently use these services to shuttle medical items short distances, for example from clinic to lab to hospital.

NON-HOSPITAL HEALTH SERVICES

- Sector definition: non-hospital healthcare, including primary care, urgent care, laboratories, and home healthcare
- Regional spend: \$400 million
- Capital to labor ratio: \$14 per hour worked (medium)

Non-hospital health services most in demand from the companies interviewed are laboratory services that contract for services like sample testing, radiology, and other specialized healthcare needs that can be conducted outside of a hospital setting. Non-hospital health services, including primary care, labs, and home healthcare, represents an estimated \$400 million in local supply chain spend, and is the industry sector that has the highest portion of Black business ownership in the US based on data from the Census Bureau 2019 ABS.

TRANSIT AND GROUND PASSENGER TRANSPORTATION

- Sector definition: variety of passenger transportation activities, such as urban transit systems; chartered bus, inter-city bus transportation; and taxis.
- Regional Spend: \$200 million
- Capital to labor ratio: \$4 per hour worked (low)

Transit and ground passenger transportation includes private services such as bus, limo, and similar taxi services for business needs. While hired private transportation services represent a smaller market than truck and courier transportation, they represent an estimated \$200 million in local annual spend by businesses and have a notable presence of existing Black- and Hispanic or Latino-owned businesses in the region, and nearly all of the spending is local.

Medium-Term Growth

After reviewing opportunities for initial expansion, the team identified five sectors for near-term growth, identified by industries with high supply chain spend and relatively low capital costs relative to labor but few existing businesses owned by people of color. These included, as seen in the table below, construction suppliers, fabricated metal product manufacturers, warehousing, food manufacturing, and miscellaneous manufacturing (including medical supplies). In most cases, regional spend is high, but in others like food manufacturing and medical supplies, high levels of leakage (spend occurring outside the region) could present an opportunity for a local businesses owned by people of color to support the supply chain within the market. Each of these represents a medium-term opportunity that will call for greater investment in supporting and scaling businesses owned by people of color.

These areas of medium-term growth are defined as industries with a significant amount of supply chain demand but few or no existing local businesses owned by people of color. Opportunities are categorized as “medium-term” since these sectors continue to grow and capital-to-labor ratios are relatively low, but few businesses owned by people of color currently exist.

Industry	Annual Local Spend	Black- and Hispanic or Latino-Owned Firms Count (Percentage)	Capital-to-Labor Ratio (Dollars per Hour Worked)	Company: Current or Future Area of Diverse Spend
Building Material, Garden Equipment and Supplies Dealers	\$600 M	2 (0.7%)	\$13	
Fabricated Metal Product Manufacturing	\$300 M	4 (1.5%)	\$19	X
Warehousing and Storage	\$200 M	0 (0%)	\$2	X
Food Manufacturing	\$100 M	5 (5.3%)	\$38	X
Miscellaneous Manufacturing (Including Medical Supplies)	\$100 M	4 (2.6%)	\$40	X

Source: IMPLAN. 3-digit NAICS aggregations for Hennepin and Ramsey Counties, 2019; Metro-Source Availability Analysis, BLS Total Factor Productivity, RTI Interviews

BUILDING MATERIAL AND GARDEN EQUIPMENT AND SUPPLIES DEALERS

- Sector definition: retail for building and landscaping materials
- Regional spend: \$600 million
- Capital to labor ratio: \$13 per hour worked (low)

The demand in the building materials and garden equipment/suppliers sector draws primarily off of the demand for construction in the MSP area, as these retailers provide the raw goods for the industry. Construction materials and supplies can include raw materials suppliers (e.g., utility poles, steel beams, concrete), lumber, and landscaping goods, which are sourced from point-of-sale locations. Much of the sourcing for these materials is preferred to be local, as it is costly to transport these materials.

FABRICATED METAL PRODUCT MANUFACTURING

- Sector definition: transformation of metal into intermediate or end products through forging, stamping, bending, forming, machining, welding and assembling, and other processes.

- Regional spend: \$300 million
- Capital-to-labor ratio: \$19 per hour worked (low)

The fabricated metal manufacturing sector also draws its greatest demand from MSP's growing demand for construction services. This can include large-scale building materials, such as steel beams, as well as indoor "hard goods" such as shelving for large retail stores. Several interviewees noted that they have needs for specialized metal construction materials (e.g., specialized steel) and signage for construction projects.

FOOD MANUFACTURING

- Sector definition: production of prepared and packaged food goods
- Regional spend: \$200 million
- Capital-to-labor ratio: \$38 per hour worked (low)

Food manufacturing demand centrally focuses on food goods produced and packaged for retail sale (e.g., grocery stores, restaurants, cafeterias).

Despite major food manufacturing companies having headquarters in MSP, most of the supply chain spending (86%) occurs outside of Hennepin and Ramsey Counties, which signals that this is an area where locally produced items may be well positioned to fill demand. Further, within the commercial food retail industry, there is a growing customer demand for businesses owned by people of color to be represented in available products.

MISCELLANEOUS MANUFACTURING

- Sector definition: includes manufacturing of medical suppliers and devices, as well as other less prominent manufacturing industries
- Regional spend: \$100 million
- Capital-to-labor ratio: \$40 per hour worked (low)

Miscellaneous manufacturing is mainly composed of medical device and medical supplies manufacturing, which is an important and significant area of spend for the healthcare industry. The sector has a capital-intensive supply chain that is mainly outside of Hennepin and Ramsey Counties: Of the industries analyzed, 91% of their spending on medical devices and supplies occurs outside the region, one of the highest shares of regional leakage.

While this demand is strong and the health industry is growing, several procuring companies in the healthcare industry noted that they have little flexibility in changing their medical device and supplies sourcing because it is such a specialized area. Despite the large demand, this is an area that receives little attention from supplier diversity programs, as a result. One interviewee noted specifically that "we just do not have much flexibility [in medical supplies] because we are limited in who we can buy from: [only one producer] makes the only implant for one procedure, so we're buying from them. Even things like bandages take a lot of buy-in to switch vendors. This is just a much harder category to make changes in."

Long-Term Growth

Finally, the data presented sectors for long-term growth—while there is a forecast for continued supply chain demand and industry growth, there are few current businesses owned by people of color in these sectors. Additionally, these industries come with high barriers to entry such as high capital requirements. These long-term growth opportunities are concentrated in lending and technology product development, including telecommunications, software publishing, data centers, and other tech products and services.

Long-term growth is defined as industries with a high amount of supply chain spend but few or no existing local suppliers. Opportunities are long term as sectors continue to grow and capital requirements are relatively high.

Industry	Annual Local Spend	Black- and Hispanic or Latino-Owned Firms Count (Percentage)	Capital-to-Labor Ratio (Dollars per Hour Worked)	Company: Current or Future Area of Diverse Spend
Credit Intermediation and Related Activities	\$1.8 B	0	\$89	X
Telecommunications	\$1.2 B	0	\$177	X
Data Processing, Hosting, and Related Services	\$1.0 B	1 (0.5%)	\$172	X
Publishing Industries (Except Internet)	\$600 M	2 (0.8%)	\$99	X
Other Information Services	\$300 M	0	\$172	X

CREDIT INTERMEDIATION AND RELATED ACTIVITIES

- Sector definition: traditional bank lending for commercial and individual entities
- Regional spend: \$1.8 billion
- Capital-to-labor ratio: \$89 per hour worked

Credit intermediation and related activities is the traditional lending sector for commercial and personal banking. The sector includes all services associated with facilitating credit, loans, currency exchanges, financial transaction processing, and escrow services. Businesses serving procuring companies provide the necessary infrastructure to support all basic financial transactions and lending. This sector is one of the largest, with over \$1.8 billion in annual business spend in the region, but there is no significant presence of businesses owned by people of color, and there are large barriers to entry, including capital requirements and existing presence of large banks to serve commercial customers.

DATA PROCESSING, HOSTING, AND RELATED SERVICES

- Sector definition: Technology companies that own and operate infrastructure to support digital processing and online operations, including data centers, web hosting, and cloud providers
- Regional spend: \$1.8 billion
- Capital-to-labor ratio: \$89 per hour worked

This sector includes businesses that provide infrastructure for Internet access, web hosting (e.g., streaming services, application hosting) and mainframe facilities, or automated data processing and data entry services. These services are in greatest demand among industries that are investing in expanding web-based service offerings and data analytics. Like many sectors that are necessary for increasingly web-oriented and data-intensive business processes, this is a sector that will see an increasing demand from procuring companies that operate in data-intensive environments.

TELECOMMUNICATIONS

- Sector definition: wired and wireless telecommunications infrastructure and service, including Internet service providers
- Regional spend: \$1.2 billion
- Capital-to-labor ratio: \$177

Telecommunications services include businesses that provide and operate transmission facilities and infrastructure for procuring companies to use for business operations (wired and wireless, e.g., satellite). This is a high-demand and capital-intensive industry with major players that have the existing infrastructure to support telecommunications.

PUBLISHING INDUSTRIES (INCLUDING SOFTWARE DEVELOPMENT)

- Sector definition: tech companies and commercial publishing, which is dominated by software and app development activities

- Regional spend: \$600 million
- Capital-to-labor ratio: \$99

Dominated by software development, this sector is in high demand, is growing fast, and commands high-dollar contracts given the extensive competition globally.

Large companies across the insurance and financial services industries pointed to high demand for and high spend on new software application products, as well as the challenges of bringing businesses owned by people of color into these opportunities. Supplier diversity officers seeking new software contractors found it challenging to find businesses owned by people of color creating the next app for their needs, partially because of the fast-changing, sell-quick culture of tech, which leads to many acquisitions in the space. If a businesses owned by people of color builds a promising app, it is often very quickly acquired by a nondiverse business. “The new generation is cashing out on companies before we can even talk to them about certification. We need to think more about creating these generational businesses.”

This has led supplier diversity officers to adopt an active mentoring role to bring in diverse suppliers in this high-demand sector. “Lots of people are selling products that IBM or Microsoft created, but what we need are the minority companies that have the talent to go build the next generation of networks and apps. They are there; we are just trying to get them to think big,” stated one supplier diversity lead.

OTHER INFORMATION SERVICES (INCLUDING WEB PROVIDERS AND TOOLS)

- Sector definition: other technology services companies, such as web providers, search engines and web-enabled tools that run on the Internet
- Regional spend: \$300 million
- Capital-to-labor ratio: \$172

Information services, including web providers, continue to be in high demand and represent critical operations as businesses have moved to an environment of telework and e-commerce. Procuring companies of all sizes suggested that trends in remote work and increasing digitization of work operations combine to make web-based tools a growing area of spend. However, this is a capital-intensive industry with large existing players in the market, making it difficult to compete.

NAICS	Industry	Annual Regional Spend	Description
522	Credit Intermediation and Related Activities	\$1.8 B	Traditional bank lending for commercial and individual clients
517	Telecommunications	\$1.2 B	Tech companies, including wired and wireless telecommunications infrastructure and service providers
518	Data Processing, Hosting, and Related Services	\$1.0 B	Tech companies including data centers, web hosting, and cloud providers
511	Publishing Industries (Except Internet)	\$600 M	Tech companies including software developers
519	Other Information Services	\$300 M	Other tech companies, including web service providers, search engines, and other web-enabled tools.

Finally, a large share of regional supply chain spending occurs through wholesalers, which buy goods directly from manufacturers and distribute and sell them to commercial clients. This sector represents nearly \$5 billion in annual supply chain spending and has some presence of Black- and Hispanic or Latino-owned businesses. The wholesaling, distribution, and logistics sector presents an opportunity for both ownership of Tier 1 (direct) and Tier 2 suppliers (those that sell their goods and services to procurers through a wholesale business). Wholesaling has a high capital threshold to maintain inventory but can generate high impact through support of Tier 2 suppliers.

Industry	Annual Local Spend	Black- and Hispanic or Latinx-Owned Business Count (Percentage)	Capital-to-Labor Ratio (Dollars per Hour Worked)	Company: Current or Future Area of Diverse Spend
Wholesale Trade	\$4.8 B	55 (1.7%)	\$42	X

WHOLESALE TRADE

- Sector definition: wholesalers and centralized procurement entities that sell goods that they do not produce as a value-added retailer
- Regional spend: \$4.8 billion
- Capital-to-labor ratio: \$42

Wholesale trade includes agents and brokers that do not assume the title of goods being sold but receive a commission for the service of selling them from a centralized facility or entity. Most often, this includes procurement of technology products, including software and computers, that were developed and sold from the business that manufactures them and were resold through as “value-added resellers.” Specific to the healthcare industry, a healthcare network identified a single centralized supplier that simplified distribution and made costs lower, given the pooled purchasing power they could use when working with other similar providers nationally.

Large and medium-sized companies rely on wholesale and warehousing services as centralized procurement mechanisms that simplify the complicated logistics of sourcing, selling, and distributing a large volume of goods. Many companies interviewed across multiple sectors used or were moving toward greater centralization of procured goods through wholesalers.

This space reflects dual opportunities that may be realized in different time frames: First, the opportunity to serve procuring companies as a retailer is a rich opportunity that requires a large amount of capital to start up and operate (e.g., warehouse space, logistics staff) but that pays high dividends.

Second, some businesses are suppliers of goods to a wholesaler or centralized procurement entity (similar to a Tier 2 relationship), which often resells goods from a limited number of suppliers. It can be challenging and costly to access an opportunity to have goods sold through wholesalers, yet rewarding due to increased access to a market of procuring companies. For example, recently, HealthPartners identified a new paper cup producer that was also a minority-owned business. Because HealthPartners contracts for the bulk of its supplies through Cardinal Health, they decided to sponsor the minority-owned business to be able to do work with the national supply chain organization, which allowed them access to Cardinal Health’s network of customers. “We absorbed some additional costs, and we uplifted a supplier from very small work with restaurants and sponsored them through Cardinal Health as a national distributor. They have since worked with other health systems too.”

NAICS	Industry	Annual Regional Spend	Description
42	Wholesale Trade	\$4.8 B	Wholesalers that sell goods to businesses, often Tier 1 suppliers that serve as the primary buyer of goods from Tier 2 suppliers and resell and distribute them to final buyers. This is a capital-intensive sector with high costs to purchase and maintain inventory, but it can have a significant effect on the supply chain.



PUBLIC SECTOR RESEARCH & ANALYSIS

This section provides detailed recommendations to public agencies for advancing inclusion of businesses owned by people of color in public procurement activity. The section details the research outcomes relative to public sector opportunities and growth potential, as well as barriers and challenges to economic inclusion identified in the public sector contracting environment.

Recommendation for Public Agencies

Quantitative and qualitative data for nine public agencies in the MSP region were analyzed to inform the public sector opportunities and gaps. The analysis and accompanying best practice research yielded the following key recommendations for public agencies to meet goals for racial equity in government contracting.

RACE-NEUTRAL AND RACE-CONSCIOUS PROGRAMMING

First and foremost, most of the agencies interviewed use race-neutral programming with set-asides for small businesses up to a certain dollar threshold. For organizations and agencies with a commitment to economic inclusion, race-neutral programs should be designed to level the playing field for businesses owned by people of color to compete in full and open competition procurement methods. The test of the efficacy of race-neutral programs is the ability of businesses owned by people of color to successfully compete as measured by utilization of these businesses compared to their availability. Race-based programs are intended to remedy disparate outcomes, such as those identified in the Disparity Study and are utilized when race-neutral strategies prove to be ineffective in leveling the playing field for businesses owned by people of color. Race-neutrality is an overarching theme across programs, so much so that some agencies interviewed were unaware of the participation of Black and Latino businesses, as the data collection and reporting do not disaggregate the utilization of businesses by race and ethnicity. In the absence of disaggregated data on utilization and availability, these agencies are unable to develop race-conscious strategies that meet the needs of businesses owned by people of color, or minimally, to adjust the race-neutral strategies to be more effective. Compellingly, in many instances where the agencies attained their Targeted Group or other race-neutral program goals, the attainment of the goal was the result of utilization of businesses owned by nonminority men and women.

Recognizing that the legal basis underpinning race-neutral programming to achieve racial equity goals allows agencies to utilize race-conscious strategies when the race-neutral program fails to level the playing field, public agencies should conduct an analysis of the impact and outcomes of their race-neutral programs and determine the efficacy of these programs in leveling the playing field. The analysis should inform changes to race-neutral strategies, as well as development and implementation of race-conscious strategies that have the potential to close the gap between availability and utilization of businesses owned by people of color.

GOAL SETTING AND SUBCONTRACTING

Contract goal setting and subcontracting opportunities can offer a narrowly tailored approach for race-conscious programs for attaining economic inclusion outcomes. Unlike race-neutral set-asides and sheltered market programs that limit opportunities to certain industries or dollar-value opportunities, contract goals are only utilized where there are subcontracting opportunities and afford opportunity across the spectrum of public sector procurement activity regardless of the size of the project or the industry. Public agencies should develop contract goals for all projects that have subcontracting opportunities, based on a ready, willing, and able analysis of certified businesses owned by people of color in the region. Moreover, overall program goals that combine certified businesses owned by people of color and women- and veteran-owned businesses tend to achieve the goals through utilization of nonminority men and women. As such, separate, market-based goals for achieving equity outcomes, narrowly tailored to address the deficiencies of race-neutral programs, could be developed, implemented, and enforced.

PROCUREMENT STANDARDS

With mostly race-neutral inclusion efforts in government contracting across the region, many public agencies struggle with analysis of good faith efforts, most requiring cursory outreach efforts. The same is true for agencies in the MSP region interviewed for this report. To remedy this shortcoming, good faith efforts should use a “reasonable person” standard for evaluation to ensure that the efforts are a demonstration of what can reasonably be expected of a person who is acting in good faith and to inoculate the evaluation from legal challenge. For example, if there are 25 certified electrical businesses in the region and a contractor making the case for good faith efforts contacts only two of the 25, is it reasonable that the contractor was trying to meet the goal? Notably, the reasonable person principle, while a legal standard, is still subjective and requires training and capacity building (and practice) for compliance staff to be able to discern what can be considered reasonable. In addition to the reasonable person standards, bidders and offerors for public projects should be required to demonstrate attainment of the goal, or good faith efforts to attain the goal, as a matter of responsiveness to the invitation to bid or solicitation and should be required to provide written proof that the goal was achieved or that good faith efforts were employed in attempting to attain the goal with the submission of their bid or proposal—not after selection and contract award. Failure to demonstrate attainment of the goal or good faith efforts with bid or proposal submission should be considered nonresponsive, and the bidder or offeror should not be considered for contract award.

DATA AND TRANSPARENCY

Compliance activities involve requirements for contractors with subcontracting requirements to report small-business activity disaggregated by race. However, the utilization or goal attainment reports are publicly available for some (e.g., Metropolitan Council and Ramsey County) but not all public agencies operating in the region. (Notably, as experts in the field, our research team struggled to find publicly available data on outcomes and performance.) Regional agencies also acknowledged the need for a comprehensive database that merges the listing of certified businesses across agencies and certification programs. It was noted that these data should be disaggregated by race, ethnicity, gender, and other program eligibility requirements. First and foremost, a single consolidated certification database should be developed and should be publicly available for all public agencies and private corporations with economic inclusion goals. (A combined database of regional certification programs with businesses identified by race and gender where the data is available is included with this report.) As well, transparency and public availability of data are key to building community confidence, and more importantly, critical for ensuring accountability. A publicly available dashboard for reporting economic inclusion outcomes for all agencies in the region should be developed and implemented.

TRAINING AND CAPACITY BUILDING

Both procurement and supplier diversity professionals in the region were interviewed as a part of the research process. Most of the persons interviewed had a good grasp of their agency’s program and there was evidence of knowledge and capability around outreach, certification, and access to online resources and vendor portals. However, there was an evident need for training and capacity building around issues of compliance with policies for inclusion, particularly race-conscious policy requirements, are evident. Specific areas recommended for staff development include compliance monitoring, good faith efforts analysis, self-performance and commercially useful function, and contract goal setting. Interagency knowledge sharing and coordination of services would enhance the overall capacity of agencies in the region and ultimately advance the ability of businesses of color to participate in public sector opportunities.

INFRASTRUCTURE INVESTMENT AND JOBS ACT

Unlike less-resourced regions in the country, the MSP region is uniquely positioned to capitalize on the Bipartisan Infrastructure Law, which offers significant opportunity for economic inclusion through the federal requirements for utilization of disadvantaged businesses. What is notable about the Infrastructure Investment and Jobs Act (IIJA) is the following: Most of the \$1.2 trillion investments will be administered by the U.S. Department of Transportation (USDOT), significant funding is available through the EPA (which is in the process of adopting the USDOT’s disadvantaged business program policies, and most of the funding will be distributed to states. Given the enormity of opportunity IIJA presents to the region, USDOT-funded agencies (e.g., Minnesota Department of Transportation, Metropolitan Airport Council, public transit agencies, etc.) could be convened and engaged to better ensure that state and local programs and policies for DBE participation are designed to truly level the playing field for people of color to participate in this once-in-a-generation investment in the built environment of the nation.

MOBILIZATION FUND

Certified businesses, public agencies, and ecosystem partners noted access to capital as a critical gap to participation of businesses owned by people of color (despite the number of ecosystem partners that provide small business loans). This is a particularly impactful issue for federally funded projects, which require contractors who get paid in arrears (sometimes as much as 120 days) to make weekly prevailing wage payments to all workers in compliance with the Davis Bacon Wage Act. Moreover, while prime contractors are often allowed to bill mobilization costs prior to the start of a project to cover operating and administrative costs for new projects (e.g., insurance and bonding, securing permits, equipment rental, site prep, etc.), mobilization payments are generally not extended to subcontractors. As such, businesses owned by people of color participating in federally funded construction projects as subcontractors start off in a negative cash flow position, as they are required to make weekly payroll payments for months prior to receipt of their first payment. Public agencies should consider a policy that allows mobilization funding for subcontractors as a race-neutral means for leveling the playing field for businesses owned by people of color and women. In addition, a contract mobilization fund that provides both up-front capital for bonding, insurance, and other administrative costs and a working line of credit to help subcontractors meet weekly payroll requirements could be developed and implemented in partnership with the Community Development Financial Institutions or other small business lenders in the ecosystem.

DISPARITY STUDY

Many of the recommended actions reported in the most recent Disparity Study should be considered and implemented by key public agencies as detailed in Section VII. Most notably among the disparity study recommendations are: 1) the utilization of alternative delivery methods and best-value procurement; and 2) elimination or modification of self-performance requirements that have a higher threshold for businesses owned by people of color than for non-minority businesses.

Public Sector Spending

Economic industry data retrieved indicate local government spending of approximately \$750 million, of which \$385 million, over 51%, is spent with the regional supply chain. Compellingly, as detailed below, the top 15 industries for government spending in the region account for over 80% of the total government spend and almost 90% of spending in the region.⁴ **For all industries with public spending over \$1 million annually, there are 1,333 certified businesses owned by Black and Latino businesses and 506 businesses owned by Black and Latinx women.**

Public Sector Local Government Spending: 2019

Description	Total Spend	Regional Spend
42 Wholesale Trade	\$65,438,200	\$62,501,135
23 Construction	\$55,145,213	\$54,293,503
541 Professional, Scientific, and Technical Services	\$53,031,934	\$49,092,940
561 Administrative and Support Services	\$41,360,131	\$35,549,027
524 Insurance Carriers and Related Activities	\$33,604,668	\$29,507,336
521 Monetary Authorities-Central Bank	\$22,188,073	\$22,185,758
324 Petroleum and Coal Products Manufacturing	\$263,344,795	\$15,989,643
511 Publishing Industries (Except Internet)	\$14,440,905	\$13,670,040
518 Data Processing, Hosting, and Related Services	\$10,414,970	\$10,405,898
221 Utilities	\$13,620,198	\$9,629,253
531 Real Estate	\$9,375,255	\$9,309,195
532 Rental and Leasing Services	\$10,277,423	\$7,835,191
517 Telecommunications	\$8,626,796	\$7,673,024
484 Truck Transportation	\$7,567,633	\$6,890,931
562 Waste Management and Remediation Services	\$7,284,165	\$5,711,969
Total Spend Top 15 Industry Sectors	\$615,720,359	\$340,244,844
Total Spend for All Industry Sectors	\$749,813,662	\$384,870,561
Percentage of Spend for the Region for Top 15 Sectors	82.12%	88.41%

Source: IMPLAN. 3-digit NAICS aggregations for Hennepin and Ramsey Counties, 2019

Notably, the only sector of government spend where the majority of procurement activity occurs outside the region is petroleum and coal manufacturing, which accounts for only 6.1% of government spending in the region. For all other industries, the average government spending in the region is 89.9%.

Moreover, interviews with public agencies noted growth in procurement and contracting opportunities in the next three years in construction, infrastructure and professional, technical, and administrative management services, in alignment with economic industry data detailed above. Public agencies offered the following projects and work types as key areas for public contract opportunities:

Upcoming Opportunities Reported by Public Agency Interviews

Construction	Professional, Technical, and Administrative
Public Works Construction	Communications and Outreach
Parks Construction	Graphic Design
Water Treatment Plants	Marketing
Demolition	Real Estate Development
Housing and Redevelopment Authority Projects	Design
Lead Pipe Replacement in Residences	Technology and Information Services
Carpentry, welding, skilled labor, etc.	Garbage Hauling and Recycling
Infrastructure projects (MSP was noted as one of the largest urban development zones in the nation)	

Interviewees also noted other areas of opportunity available among public agencies, including general office supplies, catering and food service, and healthcare.

PUBLIC SECTOR GROWTH

Unlike private sector, public sector growth is a function of the local/regional tax base and demographic changes, including population size, employment, and personal income trends (e.g., per capita and household income, etc.). Notably, the MSP region is projecting population growth, and Hennepin and Ramsey Counties have projected population growth of 18.6% and 18.2% respectively by 2035.⁵

ARPA delivered \$8.5 billion in funding to the State of Minnesota. Of these funds, \$246 million in ARPA funds is allocated directly to Hennepin County, and \$107 million is allocated to Ramsey County. Moreover, of the nearly \$90 billion dollars authorized for public transit in the IJJA, Minnesota is expected to receive \$820 million to fund Metro Transit, suburban transit systems, and Greater Minnesota transit agencies across the state. The total amount of federal dollars includes a significant amount of money that will go toward competitive grant programs that will be available to local transit agencies to support system and fleet upgrades, and for service expansions to underserved areas. It is estimated that Minnesota will receive over \$260 million in airport funding, and for federal highway programs. \$4.5 billion in highway funds is anticipated, of which \$302 million is slated for bridges. To meet the Biden administration's goals for climate resilience, Electric Vehicle Charging Stations is a new funding program in IJJA, and Minnesota is expected to receive \$68 million. The state is also expected to receive \$680 million from the EPA funding for drinking and wastewater systems.⁶

Notably, many of the competitive grant programs in the IJJA require state or local dollars as a match for federal dollars. The good news is that Minnesota officials recently announced a significant surplus of state funding, projected to be \$7.7 billion. As such, Minnesota lawmakers have the opportunity to use some of their surplus funds to maximize the amount of federal dollars coming to Minnesota for transit, biking, walking, and rolling transit and transportation infrastructure projects, including \$4.8 billion for roads and bridges in Minnesota.⁷

Goals, Utilization and Attainment

Across the region's public sector spending efforts, generally, procurement goals are race neutral and focused on good faith efforts to include businesses owned by people of color, rather than compliance. For example, if an agency sets a broad CERT goal, the attainment of that goal includes different types of certification categories. Those categories may include "diverse" targeted businesses such as businesses that are owned by white women and white men in addition to racial and ethnic minorities. Most public agencies have not broken broader diversity inclusion goals down into more intentional, race-conscious, measures.

Moreover, when contracts are awarded, few agencies track compliance related to the attainment of a diversity-related goal. Contracts that do have goals, in most cases, are awarded before contractors have demonstrated both capacity and intent to meet the goal throughout the life of contracts. Rather, for most public agencies, after an award, a contractor may "register" or submit an outreach or inclusion plan as a demonstration of good faith. Therefore, there is rarely any formal commitment to attain the goal through the utilization of businesses owned by people of color.

In general, the capacity and commitment to attaining diversity-related goals over the life of awarded contracts was often described as "aspirational". Further, monitoring the utilization of racially and ethnically diverse contractors and vendors is primarily in the form of tracking post-award outreach and subcontracting. Since good faith efforts remain central to a goal, rather than enforcement and sanctions tied to compliance, goals stay aspirational only, and the inclusion of businesses owned by people of color remains relatively low across the region. For agencies that enforce goals, the intended utilization (as submitted in outreach and inclusion plans) is evaluated and monitored with electronic software such as B2GNOW.

Public Contracting Environment

SUPPLIER IDENTIFICATION

Generally, public agencies in the region utilize website and supplier portals to connect registered business with email notifications based on NAICs code; however, the primary notification for information on public opportunities is going to an agency website or being registered on their platform (or word of mouth).

One concern expressed related to this was that it may require targeted businesses to be technologically savvy to better register, find solicitations, navigate, and submit within the various web-based platforms. Further, agencies noted the relevant need for the education of vendors and managers on issues like insurance and contracting requirements' impact on racially and ethnically diverse businesses, sheltered market opportunities, and how to

use the CERT database to find businesses owned by people of color. Vendors also felt that contracts were only awarded based on who you know in the City. It was also generally expressed that businesses engaged in work with certain opportunities tend to maintain political connections.

AWARD DECISION

Across the public agencies, targeted inclusion has been accomplished through extending opportunities for business' participation within sheltered markets. During the qualitative interviews with public agency personnel, it was expressed that sheltered and targeted opportunities can lead to more participation by businesses owned by people of color. This tool provides specific contracting opportunities where businesses may no longer be competing with larger businesses. This tool also limits the participation by businesses owned by people of color to smaller contracts.

Some interviewees also noted a distinction in the "lowest bidder" system vs. "best value" method when making selection criteria and evaluations.

REPORTING

In general, the agencies that monitor and report on utilization of businesses owned by people of color do so internally and, in some cases, to a county board or entity. Internal reporting can support the agencies' capacities to benchmark where they are falling short or exceeding diversity inclusion goals. Agencies can build on this by providing better public reporting and transparent data on utilization of businesses owned by people of color and attainment of inclusion goals, especially because many public agencies and departments can be somewhat decentralized in procurement and spending.

In addition to more transparent reporting, some agencies engage with the public. For example, during the qualitative interviews it was expressed that community feedback currently is leading to procurement modernization and review of existing standards and norms, such as simplifying documents, assessing risks, insurance, support, technical assistance, etc. to help overcome concerns being expressed in the community's feedback.

PROMISING PROCUREMENT PRACTICES

Some public agencies note difficulty in meeting broad (race-neutral) diversity goals in competitive procurement opportunities for varying conditions such as a limited number of available businesses owned by people of color in the construction industry sector. However, others report relatively greater success in other scopes of work, such as professional services, engineering services, or community engagement projects under \$200,000 in value. Agency representatives advised that there are potential areas for growth and improvement, such as matching racially and ethnically diverse subcontractors and vendors with other businesses owned by people of color that do business with public agencies, breaking up larger projects into smaller scopes of work for targeted opportunities in specific NAICs areas, and developing prequalification lists of available vetted vendors.

Agencies expressed interest in and efforts to build relationships and connections with the small-business community. From outreach programs to services and special events, public agencies engage in an array of practices, including hosting meet-and-greet sessions with suppliers, businesses, and purchasing staff, as well as public transparency through website "look-aheads" of upcoming projects. Concerted efforts have begun to create additional access points for equity-related agency goals.

ECOSYSTEM RESEARCH AND ANALYSIS

In this section of the report, recommendations for strategies and priorities for The Center are offered, to align with the findings of and gaps in the ecosystem of business development and business support providers in the MSP region.

For demonstrable impact on economic inclusion through supplier diversity, a “top-down, bottom-up” strategy is needed to both support businesses owned by people of color’s growth and development and move the diverse spend “needle” in procuring companies. The Center is well placed as a facilitator of the multifold efforts required for cross-sectoral progress in MSP. The recommendations provided target all levels of this strategy, including how The Center can act as a multiplying force in producing supplier diversity impact across the region. The following section provides a summary of key recommendations for The Center for Economic Inclusion, public and private sector leaders and institutions, and the broader ecosystem regional business development, services and resources providers.

Recommendations for the Center

As a facilitator between public agencies, procuring companies, businesses owned by people of color, and fellow support organizations, The Center can consider intertwined activities that serve to connect and build capacity across each of these groups:

ECOSYSTEM STRUCTURE AND COORDINATION

Among the first findings of the 2017 Joint Disparity Study is the “need for a broad combined effort by participating entities and other partners to address the effects of race and gender discrimination.” As an equity intermediary dedicated to inclusive economic growth, The Center’s work across the public and private sector in the MSP region and the suite of data tools and equity consulting products the organization offers provide a platform for convening public agencies, private corporations, and ecosystem organizations around a strategic agenda for economic equity and inclusive growth.

- The Center should use the Project Vanguard resources to build the capacity of the ecosystem to provide services to support small-business growth, beyond new business development and start-up activity that is supported by the current ecosystem resources. This includes technical assistance and capacity building, as well as investment and debt capital. Black and Latino business owners and business development and support organizations acknowledge that the small-business ecosystem in the region, while well resourced, is duplicative and designed for new, early-stage, and start-up businesses. As such, the ecosystem is not structured to support all stages of business activity or to support growth.
- The Center could serve as a connector or network builder between procuring companies and businesses owned by people of color in the region. Procuring companies in the private sector perceive a lack of availability of businesses owned by people of color and are actively seeking ways to build supply chain resiliency through supplier diversity priorities.
- The Center could serve as a convener that fosters collective accountability, promotes transparency, and facilitates the creation of private sector supplier diversity standards and best practices. Procuring companies are often working in isolation, and diverse spend accountability is low across industries (in absence of robust supplier diversity standards or public regulation).
- The Center could serve as conduit to grantmaking and lending organizations that bolster businesses’ financial capacity. There is a need for The Center to deploy capital and serve as a conduit, supporting accelerated business growth, spin-off businesses, and business acquisition efforts in the region.

There are near-term opportunities (see Section IV) where businesses owned by people of color exist and supply chain demand is high. The Center could consider how to provide targeted support that will strengthen the ability of these racially and ethnically diverse businesses to access and win contracting opportunities in these sectors.

BUSINESS CLIMATE

This section discusses the business climate in the region, including spending, growth and racial disparity.

Regional Growth

The Greater MSP region is the 16th-largest MSA in the US and the third-largest MSA the Midwest, with a population of 3,690,261 at the 2020 Census. The larger 21-county MSP MN-WI combined statistical area, also ranks as the 16th-largest, and is noted as having a population of 4,078,788 at the 2020 Census. The table below identifies key descriptive facts related to the local population, race and ethnicity, and the number of companies in Ramsey and Hennepin Counties. The two counties represent the focal geographic area for qualitative outreach and quantitative analysis on the economy and local ecosystem.

Key Selected Demographic Information: 2016-2021

Census Fact	Ramsey County, Minnesota	Hennepin County, Minnesota
Population Estimates, July 1, 2021	543,257	1,267,416
White alone, percent	67.10%	74.20%
Black or African American alone, percentage	12.90%	13.80%
Hispanic or Latino ⁸ , percentage	7.50%	7.00%
Asian alone, percentage	15.30%	7.50%
American Indian and Alaska Native alone, percentage	1.00%	1.10%
Native Hawaiian and Other Pacific Islander alone, percentage	0.10%	0.10%
Two or More Races, percentage	3.70%	3.30%
White alone, not Hispanic or Latino, percentage	61.10%	68.40%
Foreign-born persons, percentage, 2016-2020	15.70%	13.80%
Language other than English spoken at home, percentage of persons age 5 years+, 2016-2020	23.30%	18.10%
Total employer establishments, 2020	13,417	40,395
Total annual payroll, 2020 (\$1,000)	18,298,978	63,765,366
Total nonemployer establishments, 2018	39,771	110,717
Men-owned employer firms, Reference year 2017	5,847	17,863
Women-owned employer firms, Reference year 2017	2,194	6,600
Minority-owned employer firms, Reference year 2017	981	2,547
Nonminority-owned employer firms, Reference year 2017	8,151	25,105
Nonveteran-owned employer firms, Reference year 2017	8,423	25,817

Ramsey County is approximately 67.1% white, 12.9% Black, 15% Asian, 7.5% Latino, 1% American Indian and Alaska Native alone. For Hennepin County, approximately 74.2% of the population is white alone, 13.8% is Black, 7.5% Asian, 7% is Latino and 1.1% American Indian and Alaska Native alone. The population of these counties also includes 15.7% (Ramsey) and 13.8% (Hennepin) foreign-born persons. Further, the geographic region has diverse indigenous communities represented, including 23.3% (Ramsey) and 18.1% (Hennepin) speaking a language other than English at home.

The region is touted by local and regional economic development organizations as “one of the most diverse economies in America,” as the home to 16 Fortune 500 companies; 22 Fortune 1000 companies; 35 companies with revenue exceeding \$1 billion annually; national accelerator programs in retail, food, fintech and health; and more than 20 corporate research centers.⁹ According to an MSP regional economic development partnership, the annual gross regional product and the annual job growth rate is 0.8%, with over 71% labor force participation, and many jobs paying family-supporting wages throughout the region.

MSP is a dynamic and competitive economy, with a mix of growth industries and established industries with large local supply chain spend. However, there is a notable lack of diverse business ownership, with the share of businesses owned by Black and Hispanic or Latino residents below national averages and the share of population. Further, the racial wealth gap is noted as 32.7%, and the racial employment gap as 9.1%.¹⁰

RACIAL DISPARITY

The MSP Metro Area, anchored by Hennepin and Ramsey Counties, is a large economy with an estimated 1.7 million jobs and over \$197 billion in annual GDP.¹¹ Headquarters for national and global companies in finance and insurance, healthcare, medical technology, professional service, and other industries are located here and represent some of the fast-growing industry hubs in the country. These companies rely on a dynamic supply chain of goods and service providers in and outside of the region. In 2019, total supply chain spending was more than \$127 billion.¹²

The U.S. Census Bureau Annual Business Survey (ABS) reports just over 2% of business with Black ownership, although, according to The Center, Black individuals comprise almost 9% of the population. Further, Native American and Latino individuals are also significantly underrepresented, and only make up approximately 0.3% and 0.9% of business ownership, respectively. Yet, combined, these racial and ethnic groups make up nearly 15% of the population of Hennepin and Ramsey Counties.¹³ These trends remain below national averages for business ownership and below the Black and Hispanic or Latino share of population in the region.¹⁴

DISPARITY STUDY

On March 8, 2018, the Minnesota Joint Disparity Study was released by a consulting team led by Keen Independent Research. The study examined spending with businesses owned by people of color and women for the following public and quasi-public entities: Minnesota Department of Administration, Minnesota State Colleges and Universities (Minnesota State), Minnesota Department of Transportation, Metropolitan Airports Commission, Metropolitan Mosquito Control District, Metropolitan Council, City of Minneapolis, City of Saint Paul, and Hennepin County.

The report found significant disparity between the availability and utilization of businesses owned by people of color and women throughout the state. For the state of Minnesota, Division of Administration, utilization of businesses owned by people of color and women was 14.47% for the 2011 through 2016 study period, while availability of these forms was 22.32%. Compellingly, this trend was consistent across sectors including construction, professional services, supply of goods, and other services. The findings for all of the agencies participating in the study revealed disparities:

Agency	Utilization	Availability
Hennepin County	10.61%	17.68%
Metropolitan Airports Commission	11.60%	19.95%
Metropolitan Council	5.76%	16.56%
Mosquito Control District	2.96%	7.29%
Minnesota Department of Transportation	6.98%	20.50%
City of Minneapolis	11.17%	17.60%
Minnesota State	7.46%	19.85%
City of St. Paul	16.24%	21.09%

SOURCE: 2017 Disparity Study

Of the nine public agencies that participated in the Disparity Study, five were interviewed as a part of this study and questioned about the Disparity Study findings and subsequent implementation of the study’s recommendations. Notably, all of the entities acknowledged participation in the study and/or awareness of the findings; moreover, all acknowledged the intent to participate in a future joint study being discussed this year. However, when asked which of the recommendations from the Disparity Study had been implemented, none of the agencies reported having implemented any of the recommended practices or policies. In spite of the findings of disparity in spending with businesses owned by people of color, few of the Disparity Study recommendations were reported to have been implemented by the participating agencies.

In general, the commitment to inclusion is only as strong as the policies and programs that guide such efforts. Most agencies express strong intentions and aspirations for inclusion of businesses owned by people of color,

and express that there is top-level buy-in. However, confusion, limited staffing, and lack of know-how seem to remain as barriers impacting the achievement of these goals. While departments and managers understand they will be held accountable if projects go over budget or do not meet timelines, accountability to any race-conscious goals and performance is relatively weak. Further, inadequate data collection results in a limited capacity to track, assess, and reward the attainment of diversity-related business inclusion goals.

As agencies seek to set up more robust programing and resources for small businesses (technical support, financing, marketing, and services like free consulting, legal, finance, bonding, etc.); set up better coordinated ecosystem resources that address business start-up, development, and growth; and implement modernized procurement processes, policies, and practices for economic inclusion, the conditions and opportunities for businesses owned by people of color should advance across the region.

In addition to the recommendations identified in the analysis of public sector agencies, given the depth and breadth of the Disparity Study research and findings, it is prudent here to call out some of the key recommendations from the study that align with the findings of this research and that offer opportunities (or potential risks) to businesses owned by people of color looking to participate in government contracting.

- Consider narrowly tailored race- and gender-conscious supplementary measures to bolster the SBE program.
 - o The Disparity Study acknowledges that race-conscious measures, narrowly tailored to level the playing field for people of color and women, is an option for agencies operating in a race-neutral legal environment. Recommendations for contract-specific goals, based on an availability analysis and factoring capacity in the market, provides a legally defensible strategy for achieving equitable outcomes in government contracting. The study also recommends creating additional small purchase opportunities, which, as a stand-alone measure is counterintuitive and may do more harm than good, limiting the growth capacity of businesses owned by people of color in the region. Agencies should consider targeted small purchase as one strategy, but not the only strategy, for economic inclusion and utilize contract goals on large projects to better ensure that businesses owned by people of color can participate at all levels of opportunity in the public sector market in the region.
- Better communicate procurement opportunities, coordinate outreach efforts, build a joint bidders list, and find other ways to reach out to MBE/WBEs and other small businesses.
 - o The number of different agencies, certifications, and procurement practices creates a barrier to participation by small businesses, many of which lack the dedicated administrative and marketing staff to conduct the level of environmental scan needed to identify and respond to opportunities in the public market. A joint bidders list across public agencies offers an efficient tool for reaching ready, willing, and able businesses owned by people of color for both public and private opportunities. However, while the Disparity Study lists outreach as a major recommendation for improving access to contract opportunity for businesses owned by people of color, it is also important to note here that compliance is equally important as, if not more important than, outreach in achieving equitable outcomes.
- Streamline certification, create a one-stop intake portal, and pursue reciprocity or joint certification when possible.
 - o The research revealed nine different certification programs utilized across the government entities in the region. A single portal and reciprocity where appropriate can streamline the process and share the administrative burden of certification across the agencies in the region. However, it is important to note here that reciprocity must also factor in the diversity, equity, and inclusion (DEI) goals of the organization. For example, programs targeting businesses owned by people of color can accept certifications from programs for women or veterans, assuming that the women and veteran owners of these business meet the eligibility requirement as a minority-owned business.
- Similarly, while programs with high personal net-worth and business-income requirements can accept the certification of agencies with a lower threshold, the reverse is not the case. This is particularly the case for the federal DBE program of the US Department of Transportation, which, while race- and gender-based, includes size standards for the business and net-worth limits for the business owner.
 - o A formal collaborative for aligning certification processes, developing or identifying an electronic portal, developing shared costs and responsibilities, and even shared processes and decision-making for decertification is recommended. The efficacy of a one-stop portal, policies, and practice for reciprocity is clear. However, these tools, policies, and practices must be designed to support the equity outcomes of the specific government program.
 - o Lumping all DEI certifications into a race-neutral eligibility requirement could do more harm than good. Certification is not a one-size-fits-all process and must be tailored to meet the specific economic inclusion goals of the agency. However, even with this caveat, streamlining and reciprocity processes can

make the program more accessible to businesses owned by people of color.

- Allow more use of alternative delivery methods for construction projects. Give points for participation in best-value procurement.
 - Recent trends in government procurement and contracting indicate a move from low bid to best value in the contractor and supplier selection criteria. The term “best value” in government acquisition regulations refers to the expected outcome that an acquisition will afford substantial and significant benefit in response to the material requirements of the product or service being procured. Put simply, you get more benefits than the dollar value of the product or service. Unlike traditional low-bid procurement methods, best-value contracting affords an opportunity for government agencies to incorporate their values for equity and inclusion in the contractor selection process and advance racial equity and economic inclusion outcomes of government-funded projects.
- Alternative delivery methods such as design-build and construction management at-risk allow public agencies to use best-value procurement practices; to buy the products that maximize the creation of quality jobs; to hire the contractor that commits to inclusive procurement and utilization of the local supply chain; and to contract with the private sector partner that commits to transparency, accountability, and community voice. Compellingly, the \$1.2 trillion IJA encourages and enables alternative delivery methods in implementation of federal infrastructure projects.
- Consider the elimination of self-performance as automatic program compliance.
 - Self-performance requirements that have a higher threshold for disadvantaged businesses than for nonminority businesses create a barrier to equitable participation and can be discriminatory in effect. If the intent of the program for DEI is to level the playing field for disadvantaged businesses, then the self-performance requirement must be fair. Allowing majority prime contractors to self-perform only 20% of a contract but enforcing 50% or even 100% self-performance requirements on disadvantaged businesses places a higher physical and financial burden on the disadvantaged business.
 - Self-performance requirements are generally imposed on disadvantaged businesses as a mechanism for preventing “pass-through” contracts and fraud. However, the federal guidelines for USDOT require a self-performance standard of only 30% for certified disadvantaged businesses, a threshold that is deemed as high enough to discourage fraud and abuse and low enough to be considered a level playing field for disadvantaged businesses.
- Modernize insurance requirements and allow more flexibility in other provisions.
 - The research did not indicate that the insurance requirements were more stringent for or unobtainable by disadvantaged businesses. However, interviews with public agencies revealed that many of the certified businesses were unaware that the insurance costs could be passed on to the federal agency as an allowable expense. Clearly, education of disadvantaged businesses around allowable expenses in pricing government contracts is needed. It is equally important to note here that in many cases it is only the disadvantaged businesses entering into direct contracts with government entities that can pass on the cost of insurance and even the cost of bonding to the government agency. Subcontractors do not always have this option. A policy consideration that allows subcontractors to invoice for and be paid mobilization funds at the start of the project for insurance, bonding, and other administrative costs (the same as the prime contractor can) provides a remedy.
- Continue to carefully consider whether there are subcontracting opportunities before setting a contract goal. There are three requirements for supplier diversity goals to have a measurable impact of utilization of businesses owned by people of color.
 - 1. The goal must be attainable based on an availability analysis of certified businesses. Aspirational goals are generally a misrepresentation of the marketplace and are not enforceable. As such, subcontracting goals should be used only when there are subcontracting opportunities.
 - 2. The good faith efforts policy for procurement activity with a supplier diversity goal cannot be arbitrary and must meet the reasonable man standard. The reasonable man standard requires more than cursory activities and requires bidders to demonstrate that everything that could be done for attainment of the goal has been done.
 - 3. Attainment of the goal or demonstration of good faith efforts that meet the reasonable man standards must be a qualifier for consideration of a public agency contract. As such, a bidder that does not meet the goal and did not demonstrate good faith efforts that meet the reasonable man standard cannot be considered for contract award, even if the bidder is the lowest cost or the highest quality.

- Evaluate the advantages and disadvantages of its current regulations concerning the timing of meeting a contract goal.
 - Bid shopping is an unethical practice that occurs when a prime bidder for a project discloses the bid price of subcontractors or suppliers to other businesses or competitors in order to get a lower bid or worse, to pressure subcontractors into lowering their bid price. This practice is generally unethical and is most egregious when used by general contractors to force small businesses and businesses owned by people of color to operate at cost, or in some instances to lose money, on government contracts.

As a best practice and in alignment with requirements of the USDOT for federally funded transportation projects, bidders should be required to submit with their bid, as a matter of responsiveness, the list of all disadvantaged businesses that will be utilized on a project, including the scope of work and the price. The contractors should then be required to enter into contracts with and utilize the subcontractors submitted with the bid. The contract between the public agency and the contractor should make failure to utilize the subcontractors submitted with the bid as a material breach of contract.

- Periodically update the City’s overall goals for MBE and WBE participation if it chooses to retain MBE and WBE overall annual goals.
 - As discussed above, attainment of goals to advance equitable procurement requires that the goal is realistic and attainable based on the availability of businesses to participate and the availability of subcontracting opportunities within the procurement activity. Consider for example that the diversity goals for procurement of architectural and engineering services can be achieved through subcontracting opportunities with businesses owned by people of color, while the diversity goals for the purchase of gasoline cannot. The overall goals should examine all aspects of procurement; must factor contracting, professional services, and goods and services; and must include an updated availability analysis that accurately reflects the market of businesses owned by people of color that are ready, willing, and able to participate on government contracts.
- Enacting a price and evaluation preference program for prime contractors and vendors similar to the State of Minnesota Targeted Group program.
 - The State of Minnesota Targeted Group program allows certified economically disadvantaged and veteran-owned businesses to receive a pricing preference of up to 6% for the sale of goods and services to the State. The program also has the authority to set goals for targeted businesses for construction and professional services projects. However, the State’s Targeted Group Program is race- and gender neutral and does not appear to have resulted in equitable outcomes for businesses owned by people of color.
- Expand the tracking and disaggregated reporting of results on MBE/WBE/SBE participation.
- In the main, current tracking and reporting of diversity outcomes of the MSP public agencies combines participation of women, people of color, small businesses, and veterans in a single outcome. As such, the public agencies cannot be accountable to diversity, equity, and economic inclusion if they have no disaggregated data on their diversity, equity, and economic inclusion outcomes. A closer look at the procurement outcomes indicates that even in agencies that are attaining their economic inclusion goals, the attainment of the goal in many instances is attributable to participation of businesses owned by nonminority women or white male veterans. Commitment and accountability to DEI requires disaggregating the data by race, ethnicity, and gender. We measure what is important to us, and it follows that failure to measure racial equity signals a lack of commitment to racial equity.
- Maintain efforts that enforce nondiscrimination in employment as well as further training, employment, and advancement for women and people of color in certain industries.
 - Community benefits and community workforce agreements, disadvantaged worker programs, first source hiring, priority referrals, and joint labor-management community engagement practices provide an opportunity for intentionality in hiring people of color for capital, infrastructure, and economic development projects. In addition, public agencies and private corporations in the region can significantly advance more equitable place-based economic outcomes through local hiring targets, incentivizing and rewarding companies that commit to creating better paying jobs, and fully enforcing the federal requirements of the Equal Employment Executive Order 11246 for hiring people of color on federally funded projects.

REGIONAL ECOSYSTEM

This section provides an overview of the regional ecosystem and examines the availability of businesses owned by people of color in the region. In addition, a scan of ecosystem resources, gaps, and best practices outlines potential access to resources in the region as well as future opportunities to expand support to both new and established businesses and owners.

Businesses Owned By People Of Color

The availability analysis compares the total number of certified businesses owned by people of color to the economic census data that provide the total number of businesses in Ramsey and Hennepin Counties. The analysis disaggregates the data by race, ethnicity, and location and catalogs information on Black and Latino businesses, Black- and Latinx- women-owned businesses, and certified businesses in Ramsey and Hennepin County.

A comprehensive compilation of certified businesses is compared to a more global list of businesses, segregated by NAICS Code. The U.S. County Business Pattern (USCBP) 2020 - 2018 Economic Census data for the region, with specific attention to Ramsey and Hennepin County comparisons is used to determine the general market population of ready, willing and able businesses. Newly released 2020 Census market data was primarily utilized for this update; however, for instances in which the 2020 data was not available, 2018 Census data was utilized.

The data reveal that of the 3,375 certified businesses in the public sector databases, approximately 576 are Black-owned and 156 are Latino-owned. For businesses owned by Black and Latinx women, the totals are 199 and 44, respectively. Many businesses are certified in multiple commodity and NAICS codes.

NAICS Commodity Description	Regional Spend (%)	Regional Spend (\$)	Black and Latino	Black and Latinx Women
42 Wholesale Trade	95.5%	\$62,501,135	62	18
23 Construction	98.5%	\$54,293,503	148	45
541 Professional, Scientific, and Technical Services	92.6%	\$49,092,940	201	68
561 Administrative and Support Services	86.0%	\$35,549,027	110	21
524 Insurance Carriers and Related Activities	87.8%	\$29,507,336	4	1
521 Monetary Authorities-Central Bank	100.0%	\$22,185,758	0	0
324 Petroleum and Coal Products Manufacturing	6.1%	\$15,989,643	2	0
511 Publishing Industries (Except Internet)	94.7%	\$13,670,040	2	2
518 Data Processing, Hosting, and Related Services	99.9%	\$10,405,898	2	3
221 Utilities	70.7%	\$9,629,253	1	0
531 Real Estate	99.3%	\$9,309,195	15	1
532 Rental and Leasing Services	76.2%	\$7,835,191	3	1
517 Telecommunications	88.9%	\$7,673,024	1	1
484 Truck Transportation	91.1%	\$6,890,931	51	15
562 Waste Management and Remediation Services	78.4%	\$5,711,969	9	1
522 Credit Intermediation and Related Activities	99.3%	\$4,425,064	2	1
487 Scenic and Sightseeing Transportation	54.1%	\$4,390,647	0	0
523 Securities, Commodity Contracts, Financial	99.9%	\$3,875,669	1	1
811 Repair and Maintenance	81.3%	\$3,874,899	14	2
486 Pipeline Transportation	70.0%	\$3,299,533	0	0
722 Food Services and Drinking Places	99.6%	\$2,991,235	34	3
485 Transit and Ground Passenger Transportation	81.4%	\$2,446,379	15	0
519 Other Information Services	48.5%	\$2,093,847	0	0
482 Rail Transportation	98.2%	\$1,475,598	0	0
481 Air Transportation	80.6%	\$1,416,279	0	0
93 Non-NAICS	8.6%	\$1,266,832	1	1
332 Fabricated Metal Product Manufacturing	19.1%	\$1,251,410	4	3
9A Government Enterprises	42.4%	\$1,216,526	29	11
311 Food Manufacturing	14.2%	\$1,005,674	3	1

Source: IMPLAN. 3-digit NAICS aggregations for Hennepin and Ramsey Counties, 2019; Combined Certification Databases for MSP Region

While the availability of certified businesses owned by Black and Latinx women located in Ramsey and Hennepin Counties is lower than for all certified businesses in the region, there is some promise for utilization in the construction, professional services, and administrative support sectors of regional government spend.

In terms of relative availability, the construction trades revealed significant availability of Black- and Latinx-owned businesses with overall availability of 11.19% based on the certified ready, willing and able Black and Latinx firms in the public databases compared to the total numbers of firms in Hennepin and Ramsey counties. Construction trades with over 20 certified Black and Latinx firms are detailed below.

Type of Business	No. of Firms	Relative Availability
Commercial and Institutional Construction	48	22.86%
All Other Specialty Trade Contractors	45	15.68%
Residential Remodelers	31	3.74%
Painting and Wall Covering	30	10.91%
Site Preparation	28	25.45%
Finished Carpentry	25	13.74%
Electrical and Other Wiring Installation	23	7.93%

For professional, scientific and technical services, the overall relative availability of Black and Latinx firms is 5.67%. Here again, there are areas with the high concentrations of certified Black and Latinx firms with high levels of relative availability.

Type of Business	No. of Firms	Relative Availability
Administrative General Management Consulting	100	11.68%
Marketing Consulting Services	31	6.18%
Computer Systems Design Services	30	5.22%
Custom Computer Programming Services	27	2.85%
Other Scientific and technical consulting	26	12.62%
Engineering Services	22	5.03%
Electrical and Other Wiring Installation	23	7.93%

Importantly, the economic census data reports over 97,000 businesses in the region of which 2.1% are owned by Black persons and less than 1% by Latinx persons. The availability data, however, looks specifically at businesses that are certified in publicly facing databases, and the research assumes that businesses that publicly certify to do business have offered their goods and services to the public and private sector marketplace (as opposed to direct consumer and retail offerings) and have been vetted by a certifying agency. As such, the underlying assumption of the availability analysis is that these businesses meet the standard of 'ready, willing and able' to participate in the regional supply chain.

ECOSYSTEM MAPPING

Across the region's ecosystem, there are numerous organizations that provide support to the business community. Qualitative outreach, including phone calls, interviews and surveys was conducted to better understand how these organizations may be meeting the needs of businesses and identify service gaps that may impact the region's ability to attract, grow and scale the number of businesses owned by people of color.

Forty-five local, regional, and national organizations were identified as a part of the small-business ecosystem for the MSP region, including chambers of commerce and business and economic development organizations. As the figure indicates, the ecosystem offers significant opportunities for advocacy and networking, a factor likely attributable to the number of chambers of commerce and other membership organizations in the region.

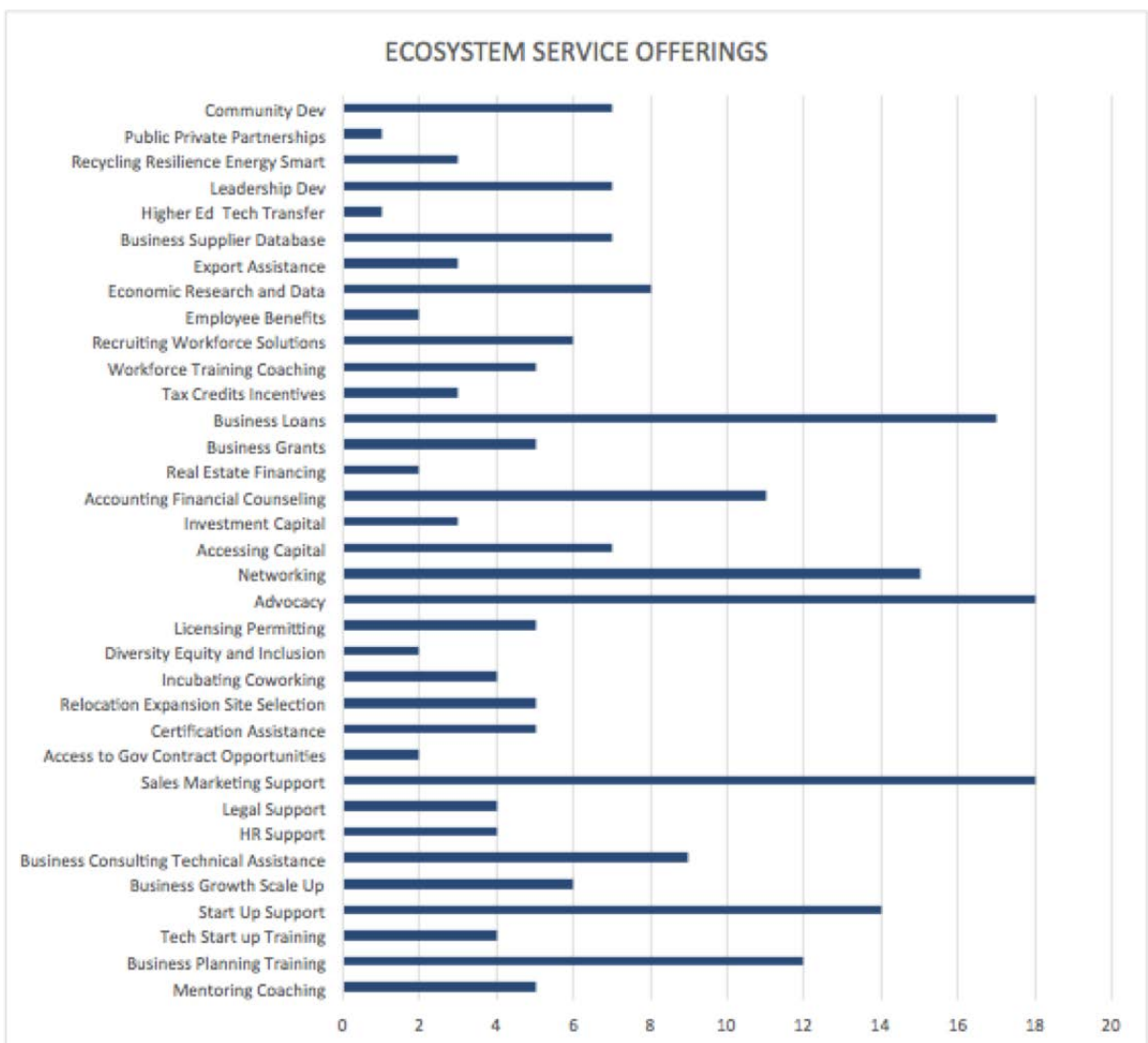
Moreover, almost half of the organizations in the ecosystem offer targeted services for people of color with programs for Black, Latinx, and Native American entrepreneurs and business owners, as well as programs for immigrant communities. However, organizations with programs targeted for businesses owned by people of color did not offer access to some services, namely

- Government contracting,
- Licensing,
- Real estate finance,
- Resilience and energy assistance consultation, and
- Public/private partnerships.

The ecosystem mapping indicated a broad range of services for business start-up and growth, including

significant opportunities for businesses to access business planning and training; assistance with sales and marketing; start-up support, including tech start-up support; and financial counseling. Notably, 17 organizations in the ecosystem offered small business loans, eight of which offered targeted race/ethnicity-based programming. However, while the ecosystem includes significant access to loan capital, only two organizations report access to investment capital as a part of their offerings to small businesses.

It is also notable that only five organizations note assistance with certification as a service offering, and only two offer assistance with government contracting. As such, support for businesses targeting government contracting is a gap in the ecosystem. This gap is particularly critical given the number of different programs with different certification processes. Similarly, only two organizations in the ecosystem (the St. Paul Chamber and Latino Chambers) offer DEI support for private businesses. Business Bridge is an additional resource developed with the Itasca Job Growth Task Force to facilitate connections and access between small and growing businesses in the region and larger, more established organizations. Below, ecosystem offerings across various providers in the regions is demonstrated, including start up support, sales marketing, advocacy, networking and business loans.



ECOSYSTEM ACCESS AND GAPS

Of the 21 small businesses interviewed, 19 reported that they are certified with public organizations in the region, most noting multiple certifications. When asked to describe barriers to participation in public and private sector contracting, they noted financing, insurance, bonding, capital, and terms of payment as critical barriers for certified businesses. Some businesses noted they have participated in public support programs, including procurement fairs and SBA programs, but most of the interviewees reported that they have not utilized any

of the ecosystem resources and/or do not know where to find them. For interviewees that participated in certain ecosystem programs, while beneficial at the most basic level, it was also noted that the topics across organizations tend to be repetitive.

While the organizations interviewed described the ecosystem as robust with a lot of different actors providing a lot of different programs, they also described it as “disjointed, siloed, fragmented, and unappreciated.” Ecosystem actors expressed the need for targeted assistance as opposed to “cookie cutter programs,” as well as more capital access and support with tax preparation, networking, and outreach in communities of color, triage functions, and coordination across the organizations providing technical assistance and support. Ecosystem actors also noted the need for services to support businesses in growth mode.

When asked about challenges with connecting businesses owned by people of color to public and private sector opportunities, interviewees and survey respondents across the public, private, small business and ecosystem spaces reported lack of access to persons in public and private sector procurement programs who “truly want to help and facilitate a connection.” Compellingly, when asked if the ecosystem serves businesses owned by people of color, responses ranged from no to “we’re doing our best” to “yes, to a certain extent,” and there was general acknowledgment that even among organizations that serve businesses owned by people of color, more is needed and more can be done. Ecosystem actors acknowledged that the opportunities are endless and expressed frustration at the inability to meet the needs of the market.

The overarching finding of interviews with Black and Latino business owners and with ecosystem partners is the duplicative nature of the products and services provided by ecosystem partners. As noted in the recommendations, the technical assistance organizations in the ecosystem provide the training and support needed for new and emerging businesses, but services for growth stage businesses are lacking. This finding suggests a need for coordination across the ecosystem and intentionality in organizing the ecosystem to meet the needs of businesses owned by people of color, not just to thrive, but to grow and prosper.

ECOSYSTEM BEST PRACTICES

While there are a number of reports and resources that can inform the work of The Center for Economic Inclusion and Project Vanguard, the Local Initiatives Support Corporation defines the conditions of an effective ecosystem to include access to capital, technology, customers, space, workers, and supportive networks.¹⁵ Access to training, technical advice, professional services, and targeted support, including marketing and branding, are also identified as key components of the small business ecosystem needed to support entrepreneurs. The ecosystem, then, comprises lenders—both for-profit and nonprofit community development financial institutions—as well as business development organizations, technical assistance providers, workforce development and economic development intermediaries, chambers of commerce, networking organizations, elected officials, public agencies, and private corporations all working in concert to foster inclusive growth.

LISC details the steps in building an effective small business ecosystem. Included among them are recommendations for

- Organizing stakeholders and building trust across the spectrum of ecosystem actors, including small businesses;
- Mapping the ecosystem landscape, and assessing and building the capacity in the ecosystem to provide the capital, technology, customers, space, technical assistance, advocacy, workers and supportive networks needed by emerging entrepreneurs and small businesses;
- Institutionalizing a commitment to inclusive growth in a way that supports the leveraging assets and opportunities;
- Fostering and managing a community of practice that brings diverse actors together in collective learning and action toward the goal of inclusive growth; and
- Developing shared accountability systems across the ecosystem to access the data needed to measure progress and to support continuous improvement of strategies, practices, and outcomes.

Moreover, while the LISC report provides important information on building an entrepreneurial ecosystem, other relevant best and promising practices include Living Cities’ Start-up, Stay Up, Scale Up initiative, which focused on building ecosystems for high-growth entrepreneurs of color and highlights initiatives in New Orleans, Louisiana, and Albuquerque, New Mexico.¹⁶ As well, the Initiative for a Competitive Inner City examined the small business ecosystems in the 10 largest urban markets in America (New York, Los Angeles, Chicago, Houston, Philadelphia, Phoenix, San Antonio, San Diego, Dallas, and San Jose) and identified the six most important actors in the ecosystem: government, small business development centers, community development organizations, financial institutions, lenders, and workforce intermediaries.¹⁷ Finally, Forward Cities identifies the essential building blocks of small-business ecosystems to include: the talent pipeline, mentors, and ecosystem champions

(people); programs for technical assistance, support, and networking (programs); policy, advocacy, capital, and real estate (networks); and data, metrics, and storytelling (narratives).¹⁸

The Kauffman Foundation offers practices from the field; among them is the notion of using a collective impact model as a framework for building an entrepreneurial ecosystem.¹⁹ Notably, the collective impact model involves a common agenda, mutually reinforcing activities, shared measurement, and continuous communications, coordinated and managed by a backbone organization that has the staff, skills, and expertise to coordinate the efforts of the participating organizations toward the attainment of the strategic goals of the ecosystem. The collective impact model was implemented as the ecosystem framework for the City Alive initiative in Albuquerque, acting as the ecosystem backbone. Other practices reported by Kauffman include:

- Using state legislative policy to finance a loan fund (Kansas Center for Entrepreneurship, dba NetWork Kansas) and
- Leveraging existing resources and creating regional partnerships (Forge North—Greater Minneapolis-Saint Paul Regional Economic Development Partnership).

Another example is notable in the in the ecosystem. While most of the service offerings among ecosystem partners were generally expected, an innovation offered in the MSP region is the availability of information, technical assistance, and support around recycling, energy efficiency, and resilience offered by the Minnesota Chamber of Commerce, Neighborhood Development Center, and the Minneapolis St. Paul Regional Economic Development Partnership. Information and assistance around resilience, energy efficiency, and recycling range from energy sales tax exemptions for manufacturing to utility bill analysis and energy savings consultation for savings and rebate programs.

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ECOSYSTEM ORGANIZATIONS

- Minnesota Black Chamber of Commerce
- Minnesota Small Business Development Center
- Latino Economic Development Center (LEDC)
- Neighborhood Development Center (NDC)
- African Development Center of Minnesota
- Hispanic Advocacy and Community Empowerment Through Research
- LISC Minnesota Twin Cities
- African Career, Education and Resource Inc.
- Social Impact Strategies Group
- Black Women's Wealth Alliance

APPENDIX A: METHODOLOGY FOR PRIVATE SECTOR QUANTITATIVE ANALYSIS

In developing the quantitative model, RTI identified high-potential private sector industries in Ramsey and Hennepin Counties based on four core criteria, which included:

- Regional growth and competitiveness: industries with positive trends in the region from 2016 to 2021 relative to national trends, assessed via a shift-share analysis of BLS QCEW (Quarterly Census of Employment and Wages) data at the three-digit NAICS level. Shift-share analysis determines the share of regional industry growth attributed to national economic growth, national industry growth, and regional industry competitiveness.
- Local specialization: industries with high regional concentration of jobs, assessed via location quotient. The research team used three-digit NAICS code BLS QCEW data to determine the relative industry specialization based on the regional concentration of the industry in comparison to national industry representation.
- Regional supply chain factor: industries with high levels of total supply chain spending and regional RPC, assessed via 2020 IMPLAN proprietary data on supply chain spending in each 3-digit NAICS industry.
- Overall industry size: industries with a high number of employees and/or total output, determined by IMPLAN.

In its analysis, the research team excluded government ownership (including public education, Federal Reserve Bank, and other local, state, and federal government), industries with no supply chain effects, and industries with under \$500 million in total supply chain spending.

RTI then analyzed the supply chain spending patterns at the three-digit NAICS level for each industry in the two counties, building a quantitative model using intermediate inputs as defined by IMPLAN. This provided

- top industry supply chain demand (spending on goods and services);
- the share of supply chain demand fulfilled within Hennepin and Ramsey Counties (i.e., local share of the market); and
- the share of the supply chain “leakage” (i.e., the share of goods and services procured outside of the two-county region).

The data offered insights into key supply chain trends and procurement patterns by industries in the 20 sectors.

PRIORITIZATION OF INDUSTRIES

RTI used four criteria to prioritize industries for expansion, growth, and long-term growth. Those include and are outlined in the following Section:

- total industry supply chain spend
- existing business ownership by Black and Hispanic or Latino owners
- capital-to-labor ratio
- intent from procuring companies

BUSINESS OWNERSHIP CHARACTERISTICS

RTI then examined current and future potential supply chain spending estimates associated with business ownership demographic characteristics (e.g., Black-owned and Hispanic or Latino-owned).²⁰ The U.S. Census American Business Survey (ABS Program ([census.gov](https://www.census.gov))) provides metro- and state-level data that help identify patterns of business ownership by race and ethnicity. The MSP Industry Spending tool utilizes these data to examine the variation in business ownership across the supply chains of the focus industries. This tool provides CEI with an estimate of the size of the regional supply chain for 20 competitive growth industries in Hennepin and Ramsey Counties, MN, and models the potential for increased business activity with Black-, and Hispanic- and Latino-owned businesses through supply chain purchasing based on private sector industry demand, business availability, and capital-to-labor ratios.

- Within the largest supply chain sectors, Black and Hispanic or Latino business ownership rates are low. In the MSP metro area, Black-owned and Hispanic or Latino-owned businesses make up 4.1% of all businesses. In high-value supply chain sectors, they tend to be low:

- o professional, scientific, and technical services: 2.3%
 - o real Estate: 0%
 - o finance: 0%
 - o administrative support and waste management services: 0.9%
 - o management of companies and enterprises: 0%
 - o construction: 2.9%
 - o wholesale trade: 0.8%
- Black and Hispanic or Latino ownership is strongest in several high-value sectors, including healthcare, professional services, transportation, and construction. These sectors are possible starting points based on current availability.
 - o healthcare: 13.1%
 - o transportation and warehousing: 3.8%
 - o construction: 2.9%
 - o professional, scientific, and technical services: 2.3%
 - Black-owned and Hispanic or Latino-owned businesses have limited presence in areas of large supply chain demand, indicating an additional point of future growth opportunity. These sectors include: real estate (\$8.8 B), finance and insurance (\$13.3 B), and management (\$3.5 B).

The research team combined these data with the availability analysis conducted by Metro-Source on diverse business enterprises in Hennepin and Ramsey Counties registered with the public procurement system to enhance ABS estimates, and utilized Metro-Source’s availability percentages to inform results highlighted in Sections 5 and 8. See Appendix C for more details on this portion of the study analysis.

CAPITAL INTENSITY

To estimate the capital intensity of each three-digit NAICS sector, the research team pulled data from the Bureau of Labor Statistics Office of Productivity and Technology (Productivity Home Page: U.S. Bureau of Labor Statistics [bls.gov]), which captures measures of total factor productivity, comparing growth in output to the growth in a combination of inputs that include labor, capital, energy, materials, and purchased services.

The research team benchmarked the capital intensity by dividing the total capital cost by the total number of hours worked to get an estimate of the capital requirements for each industry. This measure of capital intensity (capital-to-labor ratio) ranged from under \$10 per hour worked (administrative services, food service, repair, and maintenance) to over \$100 per hour worked (chemical manufacturing, data hosting, oil and gas industries). This separated labor-intensive industries like construction, services, and maintenance from capital-intensive industries like utilities, petrochemicals, and advanced manufacturing.

The research team then indexed each indicator by percentile procurement spending, business ownership, and capital cost and prioritized industries based on their total value, existing ownership, and capital costs.

Industry Prioritization: Quotative Criteria

	Total Procurement Spending (\$)	Share of Business Ownership (Highest Count and Share)	Capital-to-Labor Ratio (Lowest Dollars per Hour Worked)
Expansion Industries	Top 30%	Top 20%	Top 25%
Growth Industries	Top 50%	All	Top 25%
Long-Term Growth Industries	Top 30%	All	All

BUSINESS INTENT

The research team, in conducting its interviews with private sector procurers, asked for specifics on how they planned to purchase goods and services from suppliers in the future, identifying industry sectors that represented current and future purchasing opportunities for businesses owned by people of color.

APPENDIX B: ECOSYSTEM MAP

Use the link below to access the Ecosystem Map:

https://www.centerforeconomicinclusion.org/s/Center-for-Economic-Inclusion_Project-Vanguard-Ecosystem-Map.xlsx

APPENDIX C: AVAILABILITY DATABASE

Use the link below to access the Availability Database:

https://www.centerforeconomicinclusion.org/s/Center-for-Economic-Inclusion_MSP-Industry-Spending-Model.xlsx

APPENDIX D: INTERVIEW QUESTIONNAIRES

1. Public Agencies: public entities (i.e. state/local agencies) that require goods/services and pay suppliers for them

- What are the quality control standards for your procurements?
 - What are your insurance requirements?
 - Bonding requirements?
 - Financial capacity requirements?
- For suppliers, what are your just in time delivery standards?
- How do you assess risk in selecting vendors?
 - Contractors?
- Do you have a vendor listing for vendors who want to do business with your firm to apply to?
 - Or a website?
- How else (besides vendor listing or website) do local vendors connect with the procurement opportunities at your agency?
- What is your competitive procurement process?
 - How is it advertised?
 - How are businesses owned by people of color notified of procurement opportunities?
- What is competition like for minority firms on contracting?
 - Are they bidding?
 - How is the quality of their bids?
- Do you have limited competition practices for small businesses?
 - Targeted businesses?
- Do you set subcontracting goals for procurements where there are subcontracting opportunities?
 - Why or why not?
 - If yes, how do you evaluate compliance with attainment of the subcontracting goal in the selection process?
- How do you evaluate compliance with utilization of diverse subcontractors after contracts are awarded?
 - How do prime contractors report compliance with supplier diversity requirements?
 - How often?
 - Are there sanctions for penalties for failure to comply?
- Is attainment of procurement diversity a corporate priority?
 - Is it rewarded?
 - Are resources invested in attainment of supplier diversity?
 - Is there dedicated staff?
 - What activities and practices are used to identify and contract with diverse vendors and suppliers?
- Who are the contractors/vendors/suppliers that you do business with regularly?
 - Contractors?
 - Vendors?
 - Suppliers?

- o Why do you think these contractors/vendors get so much of your agency's businesses?
 - o What makes them more competitive than others in the industry?
 - Do you have goals for local business utilization?
 - o For supplier and contracting diversity?
 - o Is your agency held accountable for attainment of diversity goals?
 - o Do you develop reports on attainment of goals?
 - o How often?
 - o For whom -- who looks at the reports?
 - What targeted diversity programs are required by agency policy:
 - o DBE?
 - o MBE?
 - o WBE?
 - o Veteran-Owned?
 - o Any others?
 - Are firms eligible for these programs bidding on the agency's procurement opportunities?
 - o Why or why not?
 - Did your agency do any special programs, provide resources, or offer technical assistance due to covid?
2. Private Sector Firms or Companies: private firms that require goods/services and pay suppliers for them and firms that provide goods/services and are paid to provide these to buyers
- Procurement Trends: Tell me about major procurement trends within your company: what kinds of products and services do you typically procure from suppliers? From local suppliers?
 - o What, if any, shifts in procurement practices have occurred in the past 3 years? (e.g., due to the pandemic, other industry shifts, or specific procurement preferences such as moving from prime-based model of procurement to a multi-contractor model)
 - o Note: context provided for questions on company procurement trends will be tailored to that company's industry trends
 - Supplier Diversity History: Tell me about the history of supplier diversity at your company. For the purposes of this conversation, we are interested in understanding your engagement with businesses owned by people of color (particularly those based in the MSP region).
 - o What, if any, benchmarks for diverse supplier procurement do you have? How long have you had explicit supplier diversity goals? What have been major turning points in the supplier diversity program?
 - o Do you track your company's supplier procurement with businesses owned by people of color apart from other businesses?
 - o Do you track what portion is spent with Latinx and Black women-owned businesses versus non-diverse/female-owned businesses?
 - o Apart from public goals, what is the current appetite within your company related to diverse supplier procurement?
 - Supplier Diversity Successes/Challenges: What approaches or tactics to growing supplier diversity within your company have been successful so far? What barriers and challenges persist?
 - o What are specific factors or decision points within the procurement process that, if changed, would have the greatest impact on your company's supplier diversity goals?

- o Are there external partnerships, sources of support, procurement and reporting standards, technical assistance, or supplier connection support that would further your company's goals?
- Future Supplier Diversity Opportunities: Thinking about the future growth of your company, how do you anticipate that your supplier needs may change or grow?
 - o What, if any, products and services does your company need more or different suppliers?
 - o How might a local supply chain fill in gaps or serve these needs? What, if any, barriers do you perceive might limit local suppliers from meeting these needs?
 - o What specific requirements would you look for in a supplier/vendor to fulfill these needs?
 - o CEI has a goal of partnering with companies that would find additional support beneficial as they expand company supplier diversity efforts [include examples of CEI support]. Would you like to connect with CEI to find out more about their work? If so, can I connect you following our discussion?

3. Small Businesses: selected private sector firms; regional women-owned/minority-owned/Black and Indigenous People of Color (BIPOC) -owned/Disadvantaged Business Enterprise (DBE)-/regionally certified firms/vendors/suppliers

- Is your business certified with the MN UCP and/or other local certification programs?
- What technical assistance does or has your business participated in or have in the past?
- Have you found these types of programs to be beneficial? If so, how?
- How are you accessing and utilizing the current ecosystem of support services?
- What services were provided to small minority businesses due to covid? Did you access any? Did your business get PPP loans, etc.?
- Does your business regularly bid or compete for federal, state or local public contracting opportunities? If so, how often?
- What is your decision-making process in assessing which contracts to bid on? Do you bid occasionally as a subcontractor or subconsultant with a non-certified business?
- Where are the firms primarily located that you do business with? Has this changed over time?
- What barriers to entry have you experienced when seeking to secure contracts in public sector?
 - o Insurance & Bonding Requirements
 - o Financial capacity
- Have you explored diversifying your service offering or product offering to position your firm to compete? If so, in what ways?
- Have you found this to aide in your success?
- Have you participated in a Mentor Protégé Program with a state or local agency? If so,
- What industry sector does your business predominately serve?

4. Ecosystem, Diversity, and Professional Organizations: resources/services providers, chambers, and professional organizations

- How would you define the existing ecosystem for business owners?
- What support or technical assistance do you believe is missing in the current ecosystem for businesses owners or potential business owners?
- Do you think that the ecosystem serves business owned by people?
- What services and supports are provided or available for businesses owned by people of color?
- Where do you see opportunities for existing businesses owned by people of color?
- Where do you see opportunities to establish or grow new businesses owned by people of color?
- What challenges have you identified in connecting businesses to opportunities the private sector? What about public sector

ENDNOTES

- 1 Center+for+Economic+Inclusion_RFP+for+Project+Vanguard+Research.pdf (squarespace.com)
- 2 Defined by 3-digit NAICS codes, except where otherwise specified
- 3 Defined by 3-digit NAICS codes, except where otherwise specified
- 4 IMPLAN. 3-digit NAICS aggregations for Hennepin and Ramsey Counties, 2019
- 5 Home - Minneapolis Saint Paul Economic Development | Greater MSP
- 6 MINNESOTA_Infrastructure-Investment-and-Jobs-Act-State-Fact-Sheet.pdf (rccmn.co)
- 7 Federal Infrastructure Bill Brings Transit Funding to MN, But State and Local Leaders Will Need to Maximize the Opportunity - Move Minnesota (movemn.org)
- 8 Hispanics may be of any race, so also are included in applicable race categories
- 9 Regional Indicators 2021 - Minneapolis Saint Paul Economic Development | Greater MSP
- 10 Regional Indicators 2021 - Minneapolis Saint Paul Economic Development | Greater MSP
- 11 IMPLAN. 3-digit NAICS aggregations for Hennepin and Ramsey Counties, 2019
- 12 Based on 2019 input-output multipliers, the most recent model year available
- 13 U.S. Census Bureau ACS 2015-2020 5-Year Averages Explore Census Bureau Data
- 14 U.S. Census Bureau Annual Business Survey, 2021 Release. Census Bureau Releases New Data on Minority-Owned, Veteran-Owned and Women-Owned Businesses
- 15 072121_ecdev_brief_2021.pdf [lisc.org]
- 16 Cities Using Capital to Build More Inclusive Ecosystems | by Monique Woodard | Start Up, Stay Up, Scale Up | Medium
- 17 Measuring the Strength of Small Business Ecosystems in the Ten Largest Urban Markets - ICIC
- 18 Assess Your Ecosystem | Forward Cities
- 19 Using a Collective Impact Model to Mobilize a City's Entrepreneurial Ecosystem to Boost Economic Recovery [kauffman.org]
- 20 Business ownership is defined as having more than 50% of the stock or equity in the business.