



BREAKING  
INTO THE  
CORPORATE  
SUPPLY CHAIN

Too few small businesses become suppliers to the nation's largest corporations; helping more of them make this leap could give small firms a much-needed boost and spark an economic recovery

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# BREAKING INTO THE CORPORATE SUPPLY CHAIN

IN THE WAKE OF THE GREAT RECESSION, THE NATION'S POLICYMAKERS have been struggling in an increasingly partisan atmosphere to identify and implement actions that will stimulate economic growth. Proposals to increase government spending on infrastructure and cut taxes for small business seem stalled, yet an alarming number of Americans remain out of work and each month's national employment report continues to reflect either one step forward or one step back.

Policymakers have long tried to boost small businesses by helping them identify, bid on and win procurement contracts with the government. But while government purchasing is being leveraged to help small businesses grow, there have been hardly any efforts nationally or in New York—a hub of Fortune 500 companies—to increase the number of small firms that become suppliers to the nation's largest corporations.

It is time to give this a shot. Major corporations in the United States spend hundreds of billions of dollars a year on suppliers, purchasing everything from software and office furniture to catering and graphic design services. This is an enormous potential market for small businesses. In fact, our research shows that breaking into the supply chain of a large company is often a springboard for growth. Most of the small firms we interviewed for this study have more than doubled their revenues and added a significant number of jobs in the time since first becoming a supplier to a large corporation.

However, this report also shows that strikingly few small firms are tapping into this opportunity. There are sound reasons why large firms tend to hire other large firms, but as we detail in the pages that follow, it is eminently possible to expand the number of small firms that become corporate suppliers. Doing so right now could provide a key spark. Indeed, even a minor increase in corporate spending towards small businesses would provide a much-needed boost to these traditional engines of growth and serve as a catalyst for economic recovery.

With so many Americans now unemployed and the economy still struggling to get into second gear, the country badly needs small businesses to work their magic. Small businesses created roughly two thirds of all new jobs in the United States over the past 15 years, but they are also the nation's turnaround specialists: Small firms almost single handedly sparked the economic recovery during the nation's two previous recessions. For instance, coming out of the 2001 downturn, firms with fewer than 20 employees created loads of new jobs while companies with 500 or more employees continued to shed them.

But this time, small firms are struggling, too.

President Obama and Congress have tried to aid small businesses through a number of initiatives, from efforts to open up the credit markets to providing tax credits to firms that hire the unemployed. These efforts undoubtedly help, but surveys of small firms suggest that what they need most today are customers. In fact, when asked for the biggest reason for their firms' woes in a recent survey by the National Federation of Independent Businesses, reduced sales was cited by seven times more small businesses than those that mentioned tight credit.

If new sales are what small firms need, then corporate supply chains are an obvious place to look. Though this promising opportunity has gone largely unexamined by policy experts and government officials, we find that becoming a corporate supplier provides small firms with a measure of financial stability and valuable new revenues that often enable them to hire new employees, undertake a marketing campaign, add new equipment or pay down the debt. It also opens doors to additional supplier opportunities, which can catapult their business to another level. Moreover, accessing capital from banks becomes far easier for those small firms that have a large corporation for a customer.

Indeed, as we show in this report, breaking into the supply chain of a large corporation can be transformative for small businesses. "You can make a quantum leap," says Ira Davidson, director of the Pace University Small Business Development Center in lower Manhattan "The upside potential is tremendous."

"It really took us to a different level," adds Garry Castro, president and CEO of LogistiCorp, a Dallas-based supply chain management and logistics company that has grown significantly since landing Texas Instruments as its first corporate customer in 1998. Castro's firm initially won a relatively small contract to provide a shuttle service between Texas Instruments' corporate

campus and Dallas-area rapid transit stations. But after performing well for a year-and-a-half, TI gave LogistiCorp a four-year contract for additional service worth \$1.5 million a year—doubling the small firm's revenue at the time. "We were able to get additional contracts, larger contracts. That provided us with additional infrastructure that allowed us to go to AT&T and provide supply chain management for them."

Not every small business is ready to make the leap that LogistiCorp did. There are clear risks for small businesses that take on a corporate client without proper preparation. And for many, becoming a supplier to a very large corporation will never make economic sense. But there is little doubt that significantly more small businesses could be tapping into the supply chain of large corporations—and not only providing a valuable service but greatly enhancing their own business potential as a result..

While there are approximately six million businesses in the United States, a scant 10,500 suppliers received 80 percent of Fortune 500 spending in 2008, according to a report by CVM Solutions, a Chicago-based company that helps large corporations analyze their supply chains. Only 110,000 suppliers accounted for 95 percent of the total spend. Unfortunately, since then, the numbers have been falling. Jon Bovit, chief marketing officer at CVM Solutions, said that the number of small and minority- and women-owned businesses supplying a sample of Fortune 1000 companies plummeted by more than 25 percent between 2008 and 2009.<sup>1</sup>

Other studies have come to similar conclusions. A 2009 survey of fast-growing businesses in urban areas by the Institute for a Competitive Inner City (ICIC) revealed that fewer than 25 percent of these firms counted large corporations or institutions as a primary customer base.<sup>2</sup>

Sadly, "B-to-B" has too long been largely the province of Big Business to Big Business. "Too few small businesses become suppliers," says Davidson.

Several other small business experts interviewed for this report agree with that assessment. "More small businesses could benefit," says Molly Brogan, vice president of public affairs at the National Small Business Association. "But I think a lot of them are trying. [The corporate supply chain] is hard to break into."

As we detail in this report, small businesses face a number of significant hurdles that make it difficult for them to become suppliers to large corporations.

Part of the problem is that, as corporations have be-

come more global over the past 25 years, so have their supply chains. The procurement of goods and services has become more standardized and more systematized across sprawling enterprises, creating a preference for larger suppliers who can satisfy the needs of multinational corporations at a global level in a “one-stop shopping” relationship.

While these global economic forces may be inexorable, our research shows that small firms have also been stymied by other more basic obstacles. For instance, several of the small business owners we interviewed noted that it is a challenge even to find the right people in corporations to pitch their products to, let alone to establish the kind of on-going relationships that allow for sales opportunities to develop. Countless small firms can’t access the growth capital they need to scale up their business to meet the supply chain needs of large corporations. And many promising small businesses are deterred from even trying because each corporate client insists on its own, often time-consuming application process. “Corporations need to streamline the process and reduce the amount of paperwork,” says Brogan. “The easier you can make the process, the more small businesses you’ll have that are interested in doing it.”

Simplifying the application process would clearly benefit small businesses, but large corporations also stand to gain from expanding their supply chains to include more small firms. Smaller businesses generally have the advantage of being more nimble than larger companies, and in many cases they are better positioned to bring innovative solutions to the corporate customer. At the same time, as consumers have become more aware of the impact that corporations have on their communities, they have demanded that companies hire and do business with the people that are part of their local communities. “Large corporations want their supply chains to look like their customer base,” says Robert Handfield, a professor of supply chain management at North Carolina State University and the director of its Supply Chain Resource Cooperative.

Handfield says that diversifying a corporation’s supplier base is not just the “right thing to do,” but has become a key component of doing business. “Corporations increasingly recognize that growth in the economy is going to come from small business,” he says. “With a broader, deeper supply chain that represents the geographic and cultural diversity of its customer base, their suppliers are more likely to become their customers.”

## Background and Methodology

This policy brief explores the opportunities and challenges for small businesses to increase their participation in corporate supply chains. It details the many ways that becoming a corporate supplier impacts small businesses and highlights the obstacles that small firms face in breaking into corporate supply chains.

Our research was informed by interviews with more than two dozen small business owners from several different sectors who have had a variety of experiences selling their goods and services to large corporations. Many of those we spoke with have had years of experience sup-

plying major companies, while some have only recently become suppliers and still others have not yet managed to secure a corporate contract. We also spoke with supply chain executives from more than half-a-dozen corporations about what barriers they face in increasing the number of small suppliers. Finally, we interviewed roughly a dozen supply chain and small business experts who shared data or object lessons concerning the opportunities in this market. A majority of those interviewed are based in New York City and its surrounding region, but we also spoke with several individuals from other parts of the country.

# A Big Break for Small Businesses

Fortune 500 companies spend hundreds of billions of dollars on suppliers; even a modest increase in the share going to small firms could have a huge impact

It doesn't take a lot of imagination to grasp that corporate supply chains represent an enormous growth opportunity for small businesses. The nation's largest companies spend hundreds of billions of dollars a year on suppliers. Although precise data on corporate spending is not easy to come by, one report from 2005 found that Fortune 1000 firms spent an average of \$1 billion each on third party services.<sup>3</sup> The six large corporations that shared data for this report all spend between \$5 billion and \$48 billion each year on suppliers.

To be sure, large businesses will probably always turn to other big companies for the bulk of their supply chain needs. After all, large firms often have the capacity and experience—not to mention deeper pockets and ability to get bank financing—that give corporations peace of mind that their suppliers will deliver on their contracts with consistency and quality. It's also unlikely that major corporations will contract with small businesses that are new to the corporate supply chain for core portions of their firm's line of business. If a supplier is critical to a corporation's production line, that supplier will have to be one that has already earned its stripes with the company; these are not ideal places for new small suppliers to begin selling to corporations.

However, there are real opportunities for small firms to penetrate corporations' supply chains. In our conversations with supply chain managers of several large corporations, we heard that small businesses could easily compete with bigger firms to deliver goods and services that support the corporation's core business lines. These are areas for which there might be a greater tolerance for taking a chance with a smaller, less tested supplier. For instance, Bank of America recently identified advertising, furniture, cleaning, courier service, home inspections, legal services, landscaping, maintenance, photography, security and software as ripe opportunities for smaller suppliers in its supply chain.<sup>4</sup>

In some instances, small firms may actually have a clear advantage over larger firms. This is often the case

when the small firm can provide a specialized product—perhaps local knowledge of a particular market, or a niche product or service that would be hard to find from a large supplier. Small suppliers are also typically more nimble than larger companies and can quickly deliver a small order or critical service. Large global suppliers often cannot move as fast.

Take Nolej Studios, a small marketing and consulting firm specializing in digital media in Long Island City, Queens. A year ago, a global media and entertainment company approached the firm when it was in a pinch: it was about to submit a proposal to another global corporation that involved launching a Web-based marketing campaign, and they wanted Nolej Studios to help design and create the platform. But they needed to turn it around almost immediately; the client gave Nolej Studios just nine days to create something before a big meeting.

Nolej rallied and delivered the proposal on schedule, earning a feather in its cap in the process. Alejandro Crawford, the firm's CEO and co-founder, believes that Nolej's small size is what made that possible. "We did in a few days something that takes even us weeks and sometimes months to do," Crawford says. "A company of any real size could not have turned it around as quickly. A big company would have to do all the right steps in the right order. Plus all the approvals they would have to go through every step of the way. It couldn't have happened. We were able to improvise."

Gwendolyn Turner, who directs Pfizer's supplier diversity program across the globe, says that there are many times when it doesn't make sense to have a global contract for something they can source locally. "In many of our locations, it may make more sense to source something locally," Turner says. "A smaller company may be more flexible and responsive if we need something very, very quickly. If I call at noon and say, 'Can you be here by 1 pm?' that's the kind of service that smaller businesses can offer."

# Opening Doors to Growth

Becoming a corporate supplier gives small firms new revenue streams and financial stability—and paves the way for additional growth

While becoming a corporate supplier for the first time doesn't come without risks for small businesses, the payoff can be enormous. The benefits aren't the same for every firm, but almost to a tee, the more than two dozen small business executives we interviewed told us that breaking into the supply chain of a large company was a seminal moment in their firm's history—providing increased stability, heightened credibility and a platform for growth.

"It was a life-changing event for the company," says Gene Waddy, the CEO of IT staffing firm Diversant, speaking of his company's success in becoming a prime vendor for Bank of America in 2009. According to Waddy, Diversant earned revenues of \$36 million a year prior as recently as 2009. But this year, even amidst a tough economic environment, he expects the firm to report \$60 million in revenues—with at least \$12 to \$15 million of the increase a direct result from becoming a supplier for Bank of America. Waddy says that the firm's full time workforce has also spiked since being awarded business from Bank of America, going from a staff of 36 people to 60.

Most large corporations say that when they do work with small suppliers, they will start out with relatively small purchases in order to test their mettle. But if the small supplier delivers successfully, orders can grow quickly. These sales may represent tens or even hundreds of thousands of dollars in new business that, for a small firm, can represent a substantial increase in revenues.

This jump in revenue is particularly meaningful for small businesses. So many of them operate with razor thin profit margins and lack the deep pockets of large corporations to be able to weather periodic dips in business. Costs also tend to be higher for each unit of product or service sold by small firms, since they usually can't purchase materials in bulk or take advantages of economies of scale the way larger companies can. And because accessing credit is much more difficult for small businesses, they typically achieve growth not

from major investment financing but by increasing volume and profitability, and then accumulating enough case to expand their operations.

In addition to the increased revenue, corporate contracts can also provide a huge measure of stability. Since they often span several years, smaller firms can confidently hire employees, pay down existing debt, and reinvest in their business by purchasing new and better equipment.

Take the example of Thinkso, a New York City-based design and marketing firm that launched in 2006 with three partners and a couple of freelance designers. After landing the global bank UBS as its first big corporate client a year after opening, Thinkso nearly doubled in size. But the growth was not just from the amount of revenue UBS brought in. The bank put Thinkso on a monthly retainer for its design work. That was key, says Amanda Neville, one of Thinkso's partners, because it provided a predictable revenue stream that a small, growing firm craves while it is getting its footing. "It allowed us to make staffing decisions with confidence—to hire people on a permanent basis," she said. "That, in turn, helped us to build capacity to serve more customers."

The firm now has eight full-time staff members and expects to earn \$2 million in revenues this year. Neville is confident that Thinkso would have become just as successful without a big bank as a customer, but that contract allowed the firm to grow more strategically. "It stabilized the business, and allowed us to do more planning," she says. "It also allowed us to be more selective about the additional business we chose to pursue."

A successful sale to one large corporation can also lend instant credibility to small firms that were previously unable to get in the doors of other large clients. Going in as a client of Citigroup, Bank of America or IBM often means that similarly sized clients will take a small business seriously, opening additional doors. "It does lead to other business," says Lucille Wesnofske, director of the Farmingdale Small Business Development

Center on Long Island. “Once you’ve landed one large company, it will help you get other large companies. A lot of time when you bid on these jobs, the first question they ask you is ‘Have you ever done this before?’ And it helps when you can say ‘I’ve been supplying IBM for a couple of years now in a reliable way.’”

Every small business that we spoke with that had a successful experience with a large corporate customer indicated that it paved the way for other large corporate contracts, either in the same company or in other companies.

One example is Coast Sign, a sign making company based in Anaheim, California. In 1999, Coast Sign was earning around \$7 million a year servicing small customers in the southern California region. Coast’s sales have grown sevenfold since then, and much of the firm’s meteoric expansion can be attributed to winning a contract with Bank of America to manufacture signs in two of the bank’s regions. A few months after their breakthrough, Bank of America asked them to assist with two other regions on the East Coast whose completion timelines were lagging. After that, winning additional corporate business was relatively easy—especially in an era of corporate mergers, which often result in a need for new signage. “All we had to do was go to the next meeting and say ‘We did Bank of America,’ and then we were doing Cingular and all the rest. Now we’re a \$50 million a year company, and that has a lot to do with Bank of America.”

Ben Harnett and his partner Toni Hacker had a similar experience. They run Hayden-Harnett, a firm that designs and sells handbags and accessories. Not long after they opened five years ago, they leveraged their sales at a few dozen boutiques, including their own shop in Greenpoint, Brooklyn, to begin selling to national retailers. The first to pick up their products was retail giant Anthropologie. “That was important to us,” he says, “because it helped us with name recognition, and to get our brand out there. The following year, we sold to Nordstrom and Barneys.” Eventually, Target licensed from the couple a limited edition line designed exclusively for the chain. That visibility, Harnett says, has helped them to grow their direct-to-consumer sales year after year.

While breaking into a corporate supply chain gives small firms credibility with other corporate clients, it also strengthens their relationship with lenders. Accessing financing is typically one of the greatest obstacles for small businesses, but getting a loan or line of credit gets a lot easier when a small firm can point to steady business from a Fortune 500 firm. “Banks will look more positively toward the client base,” says Catalina Castaño, director of the Brooklyn Small Business Development Center. “Underwriters will take a look at who their clients are and whether their clients are reliable. Having a major corporation as a client will help.”

## Unlocking the Doors to the Supply Chain

Small businesses face a number of obstacles on the path to becoming a corporate supplier, from navigating the application process to accessing financing

With the benefits of selling to big corporations clear for small businesses, why aren’t more of them supplying this potentially huge base of customers?

Our discussions with corporate customers, suppliers and supply chain experts revealed a number of factors that put small businesses at a disadvantage when trying to break into the supply chains of large companies. These include everything from the increasingly

global nature of supply chains, which naturally favors large suppliers that have the ability to give customers the scale and price they demand, to the growing difficulty that small firms have in simply identifying the right person inside a multinational corporation to contact about becoming a supplier—much less developing a relationship with him or her. A host of other problems—from accessing the capital they need to scale up

# The Risks of Becoming a Corporate Supplier

Selling to large corporations can be an incredible, business-changing opportunity for a small firm. But it also comes with potential pitfalls, which if not well managed, can be business-changing in a negative way. Small businesses that choose to go down this road should do so with open eyes, and with a sense of where the dangers might lie. Without proper planning, small firms can find themselves worse off from the experience.

One of the risks for small firms is that they may become overly reliant on a single large customer, making them vulnerable should anything happen to that corporation, or should something change in their relationship. Or small business might become too enamored of their great new contract with steady revenues and, as a result, slack off on marketing to other potential clients. “They shouldn’t over rely on one client,” says Catalina Castaño of the Brooklyn Small Business Development Center. “If something happens in their relationship, that’s a major setback for the company.”

Another common problem occurs when small businesses try to expand too quickly to meet the needs of a large client. If the scale is significantly different from what the firm is used to, it may not have in place the proper organizational structure, management controls and quality assurance processes needed to produce at that scale. The result is a disappointed new customer, and probably disappointed loyal customers. “A lot of businesses take on more than they can chew,” says Lucille Wesnofske, director of the Farmingdale Small Business Development Center. “They may take on expenses and expand quickly without a plan, only to realize that they didn’t have the cash flow to make it work. If you’re going to take on a large corporation, you need to plan ahead of time: know where you’re margins are, know where you’re getting your goods and don’t ever stop marketing to bring in other companies.”

Planning is essential in part because many large corporations don’t pay their suppliers until 30 or 60 days after receiving a good or service. If a small business does not have sufficient access to credit, or a significant cash reserve, it may not be prepared to bridge its cash needs between delivering the product—including paying its own staff and suppliers—and getting paid by its corporate customer. “Very often [small businesses] will be putting out goods and services and not being paid for 60 days,” says Wesnofske. “But you have to pay your suppliers, your employees.”

Many of the small suppliers we interviewed also say that one of the downsides of dealing with large companies is the constant pressure to lower prices. For example, Michael DiMarino owns Linda Tool & Die, a precision machinery shop in the Red Hook section of Brooklyn that employs about two dozen people. He is excited about a large contract his firm just received from a global aerospace company, but he’s also leery about it remaining profitable in the long term based on his experiences with other large customers. “They give you a job, a large contract,” DiMarino says. “Then after you’ve been doing it a little while they say, ‘hey, you’re getting pretty good at that, why don’t you lower your price for us?’ But my costs aren’t going down.”

At that point, DiMarino says, he’s faced with a choice many small suppliers face. Do they reduce their prices, even if it cuts into their profit margins considerably, to keep a big, steady customer happy? Or do they walk away and try to make up the business elsewhere? It’s a tough call.

Ben Harnett, who owns the Brooklyn-based handbag and accessory design firm Hayden-Harnett with his partner Toni Hacker, had a similar experience early in the process of selling their products to large national retailers. “You feel like you have to play by their rules because this is your one chance,” says Harnett. “When you’re a small business, you’re not going to say ‘no’.” But during the doldrums of the economic slump last year he says, “Nordstrom sent out a letter saying anyone with 30 day terms, you will now be paid at 45 days,” referring to the length of time the retailer would take to pay its suppliers. “I wish I could send that letter out!”

In the beginning, Harnett says, selling to national retailers helped them to grow, through both sales and exposure for their brand. “But it also puts pressure on you to grow more,” he said, describing a line of credit he and his partner had to take out to cover working capital needed to ramp up and deliver their first big orders. That, in turn, required them to sell even more to cover loan payments, just as the economy was souring and national orders began to lag. Faced with declining orders, they had to refocus efforts on their direct sales to make up the difference. “There’s no loyalty from them,” Harnett says of the big retailers. “So when the economy tanked, we were vulnerable. They can come and they can go. You want that business, but you don’t want to be dependent on that business.”

their businesses to the time-consuming application process—often dissuades small firms from even applying to become a corporate supplier.

### The Global Supply Chain Structure

Modern day supply chains are complex, fully integrated global systems whose logistical demands create inherent barriers for small suppliers looking to enter these markets. Many goods and services are now demanded on such a wide scale and in such large amounts at precise moments for production that small businesses are effectively eliminated from the competition.

Since the 1980s, many corporations have grown larger and vastly more global, especially through mergers with former competitors. As part of this consolidation process, corporations have sought to take advantage of their global scale in different ways: For example, by combining and standardizing operations to eliminate duplication and streamline processes, and by purchasing their goods and services globally and in greater bulk whenever possible, demanding that suppliers lower prices in exchange for the promise of bigger, more consistent orders. They have also slimmed down the number of suppliers they use, relying on an ever more exclusive group of companies who can compete for that business at lower prices. “Our big challenge with the acquisitions we’ve gone through over the last five years has been supply chain consolidation,” says one procurement executive at a large corporation. “This has disproportionately hurt small- and medium-sized businesses. The issue for us is: how do we balance the desire to work with smaller firms with cost issues?”

In this highly competitive global economy, corporations increasingly expect their suppliers to compete on price and product selection, but small firms often aren’t at the right scale to do that as easily. Smaller firms—even those offering niche products and specialized services—have been forced to lower their prices and offer a wider range of products so corporate customers can have a “one-stop-shop.” This, the thinking goes, reduces costs for customers by driving down the price for producing and delivering a products and services; and it enables corporate procurement staff to manage fewer vendor relationships, which, in turn, creates administrative savings.

Vigdis Eriksen, for example, is the owner of a Brooklyn-based translation company who grew her firm by offering specialized technical translations for manufacturing customers in certain languages. She says that when she launched the firm 20 years ago,

there were between 40 and 50 translation providers serving global corporations, each of which specialized in different languages or offered expertise in particular subjects, such as medical or engineering translations. Now, she says, corporations typically hire one of the five or six biggest translation firms that offer every language, even if these larger suppliers now lack the customer-specific subject matter expertise.

“We have to grow to survive,” Eriksen says. And, like the larger corporate suppliers, she’s looking at doing just that—increasing her staff, and looking to partner with other translation firms her own size who specialize in other language groups. In that way, they can perhaps pool their resources and still bid on large corporate contracts. (See *Lost In Translation*, Page TK.)

Some of these consolidated suppliers have so much business tied to their corporate customers that they link themselves strategically—becoming exclusive suppliers of certain classes of goods and services, making it harder for another supplier to break in. This makes it especially difficult for a smaller firm that may offer innovative solutions to a corporate customer’s problems, but not at a scale sufficient to satisfy that customer’s global needs. It crowds out competition on any point other than price and, arguably, also reduces opportunities for innovation.

The global nature of supply chains also appears to have deepened the perception among corporate customers that small businesses—even those that have a proven track record over years of operation—are less reliable than larger firms. “Large businesses tend to want to deal with other large businesses,” says Bill Drewes, a business consultant and member of the board of directors of the New York chapter of the Institute for Supply Management, a trade group for corporate procurement professionals. “They need to be sure their suppliers are going to be around for awhile to service their contracts. Corporate customers view bigger companies as more sophisticated suppliers, and the thinking is they’re not going to go out of business.”

While it is true that start-ups and young businesses are generally at greater risk of failing, leaving customers with missing links in their supply chains, large corporations often just assume that all small businesses are an equally high risk. In the process, they eliminate from consideration many established small firms and miss out on opportunities to go with new suppliers that, in many cases, are capable of bringing innovation and higher quality goods and services.

### Meeting the Need for Modern Supply Chain Systems

Another hurdle for small businesses is that modern supply chains are highly automated, and large corporations today expect their suppliers to be able to access and use technologically enabled systems. These systems streamline the processes of inventory management, quality assurance, invoicing and payment processing for corporate customers. But for suppliers, the cost of acquiring and deploying the technology required to work within these systems is an added expense. Small businesses have a harder time absorbing those costs than larger firms.

Elliot Fread, the founder and CEO of Bimmy's, a Long Island City, New York-based wholesaler of high-end sandwiches, quickly learned that he had to accommodate modern supply chain logistics if his firm was going to sustain a relationship with one of the nation's largest corporations. Fread's 16-year-old company has grown steadily by adding more and more small corporate customers to its rolls, including food service providers in several local airports, and about a dozen outlets of the regional drug store chain Duane Reade. But it had to adapt to new systems when the firm's successful experience with Duane Reade led to an opportunity to supply Walgreens, the nation's largest drug store chain and Bimmy's first direct experience with a truly national retailer.

One big difference was that, like many other national retailers, Walgreens expects its suppliers to purchase and register dedicated Universal Product Codes (UPC)—barcodes—for each product in order to be part of the retailer's national inventory system and supply chain. Every product—or in Bimmy's case, each different type of sandwich it sells to Walgreens—requires its own code. "When we started working with Walgreens, we had to go out and purchase UPC codes," says Fread. "I never knew that was needed—or possible. It cost me time and a couple thousand dollars to research what was needed. Then it cost \$600 or \$700 to purchase and register the codes."

Fread was lucky in that he was able to absorb those costs in order to work with Walgreens—a potentially lucrative customer. Fread followed a well-worn path: he started small, worked with slightly bigger customers—in this case a regional chain—and then broke into a national market. At each point along the way he was able to scale up his investment incrementally to deal with the needs of larger customers. But that may be a harder path to follow in the future. With increasing corporate consolidation, smaller businesses will have

fewer opportunities to sell their products to medium-sized customers, an opportunity that allows them to increase revenue and scale-up their business without necessarily meeting all the technological demands of national and international corporations. In fact, today it might not have been possible for Fread's company to do so; Duane Reade was recently acquired by Walgreens.

In other words, thanks to volume and automation, many costs have been driven out of the supply chain, but so has any tolerance for delivering and receiving products in anything but a very precise way. To deliver physical goods at lower cost, supply chains have eliminated many points along the line with human interactions. The result is a process that relies on computer algorithms and mechanization—robotic pick-and-pack warehouses, for example, and automatic barcode scanning for pallets and goods—which can present a challenge to small suppliers who aren't yet able to access those shipping and handling modes, or who are still learning the ropes. If they fail to adhere to procedure, suppliers will typically receive an automatic deduction of some portion of the purchase price by the customer.

"It used to be, you didn't need to be a rocket scientist to ship products to a customer," says Nancy Hansen, owner of Message Teddy Bear Company in New Jersey and Queens, New York. "Now, because of charge backs, you do. A company might tell me, 'Each box you send us must have a shipping label that is six inches by ten inches.' But let's say I only have labels that are six inches by eight inches, which I use instead. Now I get a charge back of a dollar or two on every box. On a big order that adds up."

### Relationships Count

However, before a supplier even gets to the point of worrying about conforming to the structural requirements of modern supply chains, that firm has to have had an opportunity to sell a corporation on its product or service. The essential approach to any sales pitch is reaching out to a buyer and making a personalized business case for your product or service. But because the purchasing decisions in modern supply chains are so routinized, it can be hard for small suppliers find out whom they should contact to make a pitch.

Any would-be supplier selling a product—particularly niche products or services that address specialized needs—must do two things to close a deal. First, he or she must define their value proposition to the customer by answering the question: why is their good or service superior to a competitor's? Perhaps they can deliver the

# Lost in Translation

A compelling example of the benefits and challenges small businesses face when selling to large corporations is the Brooklyn-based firm Eriksen Translations. Launched in 1986 by Vigdis Eriksen after she left a staff position at another translation company, Eriksen Translations has grown to have 36 full-time staff and about 800 contract linguists around the world. It has satellite offices in San Diego and Córdoba, Argentina. Last year it reported revenues of over \$5 million. By any measure, she is a home-grown small business success story. And it's thanks largely to her corporate customers.

"Our client base is mostly large corporations," Eriksen says, ticking through a list that includes JPMorgan Chase, General Electric, Bristol-Myers Squibb, Marsh & McLennan and Skype.

Eriksen's breakthrough in the large corporate market came in 1991, when her firm was just five years old. A former colleague referred her to an American-based Fortune 100 manufacturer of construction equipment that sought to translate the technical manuals for its products into Scandinavian languages. Eriksen visited with the company several times before finally winning the contract. "It didn't quite double the size of our company," she says. "But they were our biggest client."

Perhaps even more importantly, Eriksen began to see an increasing number of corporate clients get added to her firm's roster after winning that first contract. "They were a reputation enhancer for us."

Eriksen's firm maintained a steady relationship with that original corporate client for an impressive 15 years. In that time, she created an infrastructure to support the client, hiring staff with the technical expertise to serve the particular needs of a construction equipment manufacturer. "It was challenging," she explained, "to find translators who were fluent in Scandinavian languages and in excavators. But we did it—and we did it well."

Then, in 2009, she heard that her firm would be losing the contract.

In Eriksen's telling, after years of being one of several dozen smaller firms providing specialized translation services to this company, the corporation decided to slim down its supplier list to the five or six biggest firms in the translation industry. Used to interfacing with specialists in translation services at the manufacturing firm, she was then introduced to a new procurement contact at the corporation who, she says, was brought in with the intention of improving the reliability of its translation suppliers.

"He told me, 'We can't rely on one guy who might be fishing when we need service'," Says Eriksen. "Those were his exact words to me.. In more than 15 years of serving them, I don't think we ever missed a deadline."

Looking back, Eriksen believes the real story in the waning years of her relationship with the customer was about reducing costs. "Procurement changed in that time," she says. "As corporations have consolidated [globally] they have needed to do more translations. And as this spending has suddenly appeared on their radar, they've tried to reduce costs. Price competition is really fierce now."

In fact, Eriksen agreed to a pricing structure insisted on by the client that reduced Eriksen's margins year after year. By the end, Eriksen says, "we charged them less than we were charging prime contractors [for other customers] for which we were sub-contractors." But hoping not to lose a large client that provided relatively steady revenues (albeit with declining profits) Eriksen did what she could to meet the corporation's demands, until they decided to drop her firm altogether.

Many small suppliers find themselves in a similar situation with their large corporate customers. Small firms cannot always afford to drive down their prices by taking advantage of economies of scale the way the largest suppliers can. In Eriksen's case, her \$5 million company is hard pressed to drive down its pricing in the way that the largest firms in her industry—with annual revenues between \$400 million and \$600 million—regularly do.<sup>5</sup>

While she continues to support a number of corporate clients by honing her service delivery (and, in the past decade, taking advantage of Eriksen Translations becoming a certified woman-owned business enterprise) she sees the trend toward supplier consolidation continuing. "We've recently lost a number of RFPs," she says, "because we don't have a global enough footprint."

She's trying to stay a step ahead of the trend. She's exploring a joint venture with firms in the United Kingdom, Germany, Singapore, New Zealand and Korea that are roughly the same size as hers. The hope is that, together, they can go after larger contracts with big corporations while leveraging each other's expertise to keep their costs low. "We have to grow to survive," she says. "We are too small to be big, and too big to be small."

product at a lower cost or more quickly. Or perhaps they use a novel technology that can reduce some of the customer's other costs. The point is, the buyer needs to see how the product or service would deliver greater value to their business.

Second, the supplier needs to develop a relationship with the potential customer. Developing a relationship helps the supplier to fully understand the customer's needs, and to hone his or her offering to meet those needs. "Life is simple in the business world," says Harry Siegel, president and CEO of HMS Technologies, a fast-growing IT systems integrator in Martinsburg, West Virginia. "It boils down to relationships. If they like you, they buy."

Ed Abel, a New York City-based entrepreneur who has started, owned and sold more than a dozen small businesses in the last 25 years, believes that building relationships with potential customers not only helps seal the deal; they also help suppliers better understand those customers' needs. "When you are networking with potential clients, not every interaction is a sales pitch," says Abel, who now advises small business owners on how to improve their business operations. "As a small business owner, you are learning about them, telling them about who you are, and how you conduct business. That takes time. You're building a relationship. In the process, you're learning about their needs and determining how you might be able to help them—whether now or in the future."

Virtually every corporate executive interviewed for this report agreed with that assessment. Potential suppliers have to learn about their would-be corporate customers, to find out about their particular needs and to establish relationships that demonstrate how they can meet those needs. I. Javette Hines, the senior vice president in charge of supplier diversity and sustainability initiatives at Citigroup, says, "As a business owner or an entrepreneur with the desire to be a supplier, it's up to them to be clear about what the customer needs. They need to make sure of that before they attempt to do business with any corporation."

Still, even as everyone acknowledges the need for suppliers to understand fully a potential corporate customer's needs, these days small businesses have trouble even finding out whom to reach out to at large corporations to start the conversation.

Jessica Johnson is the vice president of Johnson Security Bureau, a private security firm based in the Bronx. Her business has cut its teeth on its share of municipal government contracts. Now, Johnson says

she's ready to approach large corporations, including department store chains, as clients, but is stymied by figuring out how to go about it. "They're so amorphous that you don't know where to begin," Johnson says of private corporations, in comparison to what she describes as the relatively transparent process of selling to government. "At Macy's, do you call corporate security? The 34th Street store? A buyer?" There's no roadmap or transparent procurement process like you have in government, she says.

John Gilstrap, owner of Urban Building Maintenance near Times Square in Manhattan, is another person trying to break into the corporate supply chain, in his case corporate-managed buildings to whom he can sell his company's cleaning services. "The procurement process is huge and anonymous," Gilstrap says. "You have to be in a database of the target company. A large corporation will typically go for larger firms. And if you're new to the company, it's harder to get turned on to them. It really comes down to being able to establish a relationship with them."

So, in order to foster relationships between large corporations and smaller firms, should the onus be on the seller to figure things out? Or should it be on corporations to open themselves up to a greater degree?

Perhaps the answer is: both.

Bill Drewes, the business consultant, has helped prepare many small firms for their first big customers. "The problem most small businesses have," Drewes says, "is that they have to be able to understand the culture of large business's procurement programs." But he adds that many are not prepared for how much work goes into doing business with large corporations, which, by their nature, are slow and conservative organizations. In their haste to make a sale quickly, he says, small business owners often "don't have the staying power or patience to understand what the corporate customer needs." It takes time and stick-to-itiveness. Fostering more communication between both groups, Drewes believes, is key.

At the same time, it seems clear that major corporations can do more to open themselves up to opportunities with smaller suppliers. Linda Cantwell is a vice president overseeing procurement for internal clients at IBM and one of the leaders in the corporation working to find additional opportunities for small businesses in its supply chain. Part of the gulf, she believes, might be bridged by making the purchasing process more accessible and supplier-friendly. "We spend a lot of time trying to make our website friendly in order to

attract new suppliers,” she says. “But I think that it’s still challenging for companies who are not currently part of our supply base to navigate the size of IBM—to get their 15 minutes in front of the right buyer to promote their goods and services effectively. It can be a challenge to find the right business unit, the right person to call, and to understand what a large enterprise like IBM buys on a regular basis.”

### The Application Process

For many small suppliers, persevering through a lengthy application process that typically features mountains of paperwork or lengthy online questionnaires is another huge obstacle. Corporations require substantial documentation from each potential supplier that describes its size and business history. Corporate customers believe this is essential to evaluate suppliers

The benefits may be high in the end if a deal is reached, but it can require a good deal of up-front work with a big chance that it doesn’t pay off. Robert Davidson, a New York-based entrepreneur who is launching a technology-enabled human resources application for corporate financial customers, says that sales cycles—the time from when a pitch is made to when a deal is inked—are much longer with corporations than small businesses are used to. “I wasted too much time trying to sell to large companies early on,” he says. “Sales cycles were long and expensive.”

The amount of paperwork doesn’t let up after companies become a supplier. Alison Bates Fisher is senior event manager with Main Events, a mid-sized caterer in Washington, DC, that did about \$5 million in business last year. She estimates that about 50 percent of her client base is corporations. “It has taken us a num-

**“A majority of the suppliers we’ve looked at are drastically underfunded. Small start-ups, small mom and pops that are less than \$2 million to \$3 million in revenue don’t have the capacity to grow because they don’t have access to capital, don’t have technology and don’t have the capability to understand and install best practices.”**

not just on the products that they’re offering, but on the ability of the supplier to reliably deliver its product or services over time, and at an increasing scale. But many small firms are deterred by all this paperwork, which can be daunting and incredibly time-consuming.

While large suppliers often have employees—or entire contracting units—who are responsible for filling out these forms, this isn’t the case at many small firms. “At most small businesses, you don’t have someone who works on contracting; you have the business owner, who is also the HR person and accountant,” says Molly Brogan, vice president of public affairs at the National Small Business Association. “It’s going to be taking his or her time from something else. It’s got to be worth that opportunity cost.”

Small companies have to go through a similarly lengthy process each time they seek to become a supplier, since every corporation has their own supply chain application forms. And, of course, there’s no guarantee that merely going through the application process will result in success.

Smaller firms must also adjust their expectations around the time and effort to put into corporate sales.

ber of years to get used to the paperwork,” says Bates, who now has a staff member dedicated to filling out procurement papers. “It’s really not that difficult, but it can take at least a day to do each.” But because she has accepted that paperwork is a part of what it means to access the corporate market, she now has the expertise and capacity in house to meet those bureaucratic challenges.

### Financing for Growth

Small suppliers need to scale up quickly to meet the needs of a large customer, whether it means implementing modern logistics systems, hiring additional staff or purchasing raw materials. But accessing the capital to make these essential investments is no easy task for small businesses.

Catalina Castaño, director of the Brooklyn Small Business Development Center, says that accessing capital is one of the key roadblocks for small firms looking to become a corporate supplier. “Sometimes to get that first contract, they need access to capital,” she says. “You have to buy materials, hire people and start production. Some initial capital needs to be in place.”

Tony Marolda, president of Diversant, the New Jersey-based IT staffing firm, is even blunter. “A majority of the suppliers we’ve looked at are drastically underfunded,” he says. “Small start-ups, small mom and pops that are less than \$2 million to \$3 million in revenue don’t have the capacity to grow because they don’t have access to capital, don’t have technology and don’t have the capability to understand and install best practices.”

Garry Castro of LogistiCorp in Dallas faced this challenge when Texas Instruments upped his first transportation contract. “We had to hire a lot more people and buy new equipment,” he says. “Access to capital was a challenge. Luckily there was a bank in Dallas that had a community-based banking group that was able to provide a loan. That was critical.”

Castro learned from that experience. “We now have bigger financial reserves to address growth opportunities internally to the extent we can,” he says.

Another, similar challenge for small suppliers comes a little later in the process when they have to pay for production—sometimes for several months—before being paid on their first invoices by corporations.

Ben Harnett of the handbag and accessory design firm Hayden-Harnett faced this challenge as his firm ramped up to supply national retailers. The company relied on standard credit terms from their suppliers to bridge the gap between when they placed orders, delivered the product, and got paid by the retailers. After a while, the design firm’s credit needs stretched into the tens of thousands of dollars, just to deliver on existing orders. “We had a nearly \$200,000 credit line,” Harnett says. “If you are dealing with bigger people, you need credit for working capital to be able to operate. You can’t survive on business terms and purchase order credit from suppliers.”

## The Bottom Line for Corporations

Corporations have much to gain from opening up their supply chains to more small firms, but doing so won’t come easily

### Benefits to Corporations

Small businesses would certainly get a boost if the nation’s largest companies committed to expanding supply chain opportunities for small firms. But the corporations stand to benefit as well.

Jon Bovit of CVM Solutions, the supply chain analysis firm, says he believes a good deal of innovation rests with smaller firms because they are more nimble and able to respond to specialized or ad hoc needs, rather than to what’s merely expected. As a result, Bovit says, “small and diverse-owned businesses can help companies’ supply chains to be stronger.”

Smaller suppliers are often also better positioned to provide large corporations with niche or highly lo-

calized services. “A diverse supply base has a handle on the pulse of the needs of local markets,” says Linda Cantwell of IBM. “If we are prime contractor on a customer engagement and we require a deep understanding of customer’s [needs in a new or emerging market], often a small business can be more astute in providing care and attention.”

Michael Robinson, who is in charge of IBM’s supplier diversity programs, points out that small businesses can often be more nimble in providing highly specific goods and services. “If there are products or services you might need immediately,” he says, “small businesses can be more responsive than larger suppliers.”

Elliot Fread, the sandwich maker, shares a similar perspective. “Everyone wants fresh food right now—even in a down economy,” he says. “Larger companies’ larger supply chains don’t allow for easy distribution of fresh perishable food. Smaller companies are able to do it locally more easily, directly to each store.” When asked about the higher costs involved with individualized distribution, Fread responded, “Some may say, ‘Well, it’s a lot easier to buy nationally. It’s cheaper.’ But that’s not what customers are asking for in this case.”

Although there are clear exceptions, the typical large corporation has shied away from small suppliers because of the sense that they are untested, less reliable and more likely to go out of business, leaving a gap in corporate supply chains and impacting production. In fact, in an effort to focus more and more of large corporations’ spending on a smaller number of large, strategic suppliers, corporations may have opened themselves up to greater risk of business interruption in the long run. While, in the near-term working with a shorter list of large vendors may yield lower prices, it is a longer-term risk if one among that handful of suppliers faces economic trouble and drops out of the marketplace.

IBM, in a recent study that surveyed 400 supply chain executives from around the world, recognized this vulnerability. “As supply chains have grown more global and interconnected,” the report says, “they’ve also increased their exposure to shocks and disruptions. Supply chain speed only exacerbates the problem. Even minor missteps and miscalculations can have major consequences as their impacts spread like viruses throughout complex supply chain networks.”<sup>6</sup>

CVM Solutions found in a 2009 report that a mere 16,000 suppliers were common among the half of the Fortune 500 companies with whom it worked. “It appears that years of strategic sourcing and supplier consolidation has created a dangerously small group of suppliers that receive most of the Fortune 500 companies spend,” the report said. Through supplier consolidation, prices have come down for corporate customers, but the stakes have been driven higher. Should any of those suppliers fail or go out of business, they stand to impact dozens, if not hundreds, of corporations’ supply chains and production lines. Diversifying one’s supplier base has the potential to provide a large corporation with a hedge against that risk. It can also be viewed as developing a farm team, of sorts, of potential talent to be exploited later as smaller suppliers mature.

## Challenges for Corporations

While there may be benefits, working with smaller suppliers does not come easily to most large corporations.

Over the past 25 years, many corporations have been strategically slimming down their supply chains in an effort to satisfy demands from shareholders or chief executives to reduce costs. So there is a tension between any effort to increase supplier diversity—which generally requires adding more suppliers to corporations’ vendor lists—and driving costs out of the supply chain which, for a generation of corporate procurement professionals, has meant slimming down vendor lists.

Adding smaller suppliers to their lists not only increases corporations’ unit costs as they procure goods and services in lower amounts from a greater number of suppliers, but it also increases their administrative costs. There are additional supplier relationships to manage, additional entities from whom they receive invoices and whom they have to pay.

There is also a due diligence process in reviewing prospective suppliers that takes time. “The vetting process is key,” says IBM’s Linda Cantwell. “You want to understand their financial ability, what specialized skills they have, the time frames for delivery.” More small suppliers means a greater need for procurement staff to conduct those assessments.

Once on board, there is also a need to evaluate vendors—not just in performing with respect to their supplier agreements, but also to evaluate risk to the corporate supply chain. Many corporations won’t do businesses with a supplier if their order exceeds a certain percentage of the supplier’s current revenues. “We don’t want to put anyone out of business if we need to pull back that order at some point,” one supply chain executive said. However, as we saw in some of the examples at the beginning of this report, it can be those initial big orders that give small businesses their first real taste of success in the corporate supply chain.

Perhaps most importantly, price remains king—especially for basic goods and services. It is simply too hard for most small suppliers to compete on price when their margins need to be higher on each product unit or service to cover their operating costs. Our supply chains are managed on a cost-basis and not on a margin basis,” that same corporate procurement executive shared. “We may have suppliers coming in that are oblivious to real world expectations on price.”

# Recommendations

The size and scale of supply chain spending by the nation's largest corporations presents a tremendous growth opportunity for small businesses, many of whom could clearly use a boost. Though it's unlikely that major corporations will fundamentally alter their spending practices, there is undoubtedly an opportunity to increase the number of small businesses that become corporate suppliers. Even a modest shift could stimulate significant growth and job creation in a sector where innovation and growth is so desperately needed.

In speaking with small business owners, corporate supply chain representatives and small business development experts, we identified a number of promising opportunities to remove obstacles from the paths of small businesses that wish to break into the supply chain and prepare more of these firms to succeed in becoming corporate suppliers. The following recommendations and best practices suggest what should be done.

## Corporate Commitment

Fortune 500 companies aren't under any obligation to contract with small suppliers, but as this report shows they can benefit in several ways by doing so. More of these large corporations should commit to at least making it easier for small businesses to learn about supplier opportunities and navigate the often time-consuming application process.

## Supplier Diversity Programs Demonstrate Promise in Creating Linkages

As we describe in the sidebar on page TK, corporate supplier diversity programs have given many strong small businesses an opportunity that they wouldn't have had otherwise. Two important components of supplier diversity programs account for their success: Easier access for certified firms to be able to pitch their products or services to corporate buyers, and, in many corporations, management indicators that track spending rates with diverse suppliers. When companies measure their progress in diversifying their suppliers, they are more likely to create systems of internal and executive accountability that reinforce those

efforts. "Our rigor in tracking, measuring and reporting is driven by mandates," one corporate supply chain executive shared.

To date, though, sourcing and supply chain professionals have been tasked with thinking about supplier diversity in terms of businesses owned by minorities, women and disabled individuals. In these case, a broader definition of supplier diversity should be considered—one that evaluates a business's size in addition to its ownership.

## Supplier Development

Every executive understands the importance of talent development in their own company. But the same could be said for outsourced activities. If more corporate executives took the time to encourage opportunities among their suppliers the way they do in-house personnel, they could develop a pipeline of talent that would benefit the company in the long run.

Some corporations already work actively with suppliers in their diversity programs to build their capacity over time. When promising candidates are found, they may be referred to existing suppliers as potential subcontractors. In the most robust supplier development programs, mentorship opportunities are sometimes offered. Also, a revolving loan fund may exist to help smaller firms find the working capital they need when they get their first big corporate sale. Some programs even create a policy of phased competitiveness, allowing new suppliers to charge a premium in the early stages of a sales relationship while they develop expertise and efficiencies over the first few years. Says one corporate supply chain executive: "We have leeway when we're nurturing companies. We don't demand that they be as price competitive as other large companies at the outset. But the expectation is that, as they mature, they become more and more market competitive."

But there are a lot of large corporations that don't make nearly as much of an effort. In a recent report, Robert Handfield, the supply chain expert at North Carolina State University, found that "supplier development can help reduce costs, streamline operations and improve the quality of products. Unfortunately, many

companies feel they do not have the time or resources to commit to a supplier development program.”

Bank of America has recently committed itself to developing more small suppliers. Ron Tate, the senior vice president responsible for supplier development, says that, as part of its recent announcement to increase spending with businesses that have under \$50 million in revenue, the bank will expand its current supplier diversity program to include small businesses, not just women and minority-owned businesses. “To expand our small business spend,” Tate says, “we’ll look at growing business where these suppliers are having success today, as well as identifying new areas where they can support our operations.”

Bank of America’s supplier development team helps its small and diverse suppliers develop strategies to grow their revenue inside and outside of the company. “Our teams are aligned by line of business,” Tate says. “This allows our supplier development managers to understand our company’s internal business needs as well as the dynamics of the larger industries in which these suppliers compete.”

### **Make Meaningful Matches, Not Promises**

Many corporations, as well as non-profit organizations and government agencies assisting small businesses, sponsor expositions or match-making events that bring small businesses and corporations together for potential sales opportunities. At a time when so many small, would-be suppliers struggle to understand who to contact at a large corporation, much less develop a relationship with that person, these expos are incredibly useful. Corporations that don’t currently offer these events should consider doing so, while most other big companies could expand on their current efforts.

But our research shows that some of these match-making events tend to be more effective than others. The largest of them take place in convention halls and may include hundreds if not thousands of participants. This is often too big for meaningful relationships to develop. And they may be both an unhelpful and intimidating introduction for smaller companies unfamiliar with the needs and culture of corporations. Smaller events that are planned or, in a sense, curated to meet the needs of both customers and vendors appear to be a more useful approach.

The New York chapter of the Institute for Supply Management has one promising approach. Rather than host large-scale events, the chapter queries its mem-

bers—large corporate purchasers—in advance for their specific needs. Vendors that other ISM members have had successful interactions with, and that fall into the appropriate categories are then invited to attend. In this way, says Bill Drewes, the chair of ISMNY’s supplier diversity committee, “if Amex needs additional printers and Pfizer has a few they’ve worked with, then we invite [Pfizer’s printing suppliers] along.” This improves the chances that there will be a match. It also helps ensure that the time spent by vendors and their would-be corporate customers is worthwhile for making sales connections.

It might be difficult for government agencies to fill a similar role; there are real conflicts for public-sector entities in making decisions that could effectively decide winners and losers. But it’s a role that non-profit small business development organizations, or trade groups, could more fully embrace. Indeed, many have already done so with respect to traditional supplier diversity. Adding small businesses to their repertoire is an obvious next step.

### **Streamline the Registration Process for Sourcing**

For perfectly good reasons, corporations vet potential vendors to ensure that they will have the infrastructure to support high quality customer service. This can include information about a supplier’s business history, how its revenues have changed over time, the number of employees it has servicing customers, the ability to expand operations and deliver large quantities of product quickly.

At the moment, each corporation asks for this information from potential suppliers separately. Pulling it together once takes some time, but then packaging it for each separate application—each with slightly different requirements—can be a headache for small business owners with little time and few staff members to spare.

For most corporations, requesting basic information about suppliers’ financial and operating histories is standard, and asked in standard ways. Enabling firms to enter the bulk of this information just once into a central database that could be shared among different business units within a corporation—or even among corporations—would remove a significant burden on potential suppliers. It would also help to standardize the message from corporations to would-be suppliers about what is expected of them with respect to financial performance.

### Better Understanding of Potential Suppliers

It is undeniably important for suppliers to understand their customers' needs, and for them to be able to adapt to the procedures of their customers' procurement systems. But if corporations are serious about opening their supply chains to more small businesses, they must make an effort first to meet small suppliers where they are. This begins with something as simple as corporations thinking about the information that prospective suppliers encounter on their websites. Corporations would do well to consider what is posted there from the point of view of a small business visiting their corporation for the first time, not from the point of view of a sourcing and supply chain professional. Small businesses, at first blush, are looking for information in plain language about what a corporation purchases.

### Access to Capital

As we saw, some business owners, once given a corporate supply contract, sometimes struggle to raise the capital needed to fulfill the order. Typically this happens when the business has to pay for raw materials or increased staff before getting paid on the back end by the corporate customer. This has the effect of freezing out smaller firms who might be qualified to do the work but lack sufficient capital reserves or access to credit.

"Growing companies are consumers of financing," points out Edward Rogoff, chair of the management department at the City University of New York's Baruch College. "If you're going to help a company grow, you have to get them the financial resources they need to grow."

Some corporations like Bank of America have tried to bridge this gap by setting up revolving loan funds. This is exactly the kind of support that should be relatively straightforward for large corporations—especially if they view it as a strategic investment in a business partner. However, many corporations, especially if they are not a bank, will view a revolving loan fund as a non-core function adding to their costs.

This is a good opportunity for corporations to partner with intermediaries who know and understand the small business support world. They might consider working with community development financial institutions (CDFIs) or mission-driven non-profit entities that are in the business of lending money. Other options are local economic development organizations with strong small business backbones, but limited opportunities to expand outside of their market.

### Scaling – And Fostering Partnerships with Second-Tier Suppliers

One way for small firms to take advantage of their position is to leverage nimbleness that comes from being smaller and more flexible. While small suppliers might prefer the predictability that comes from a corporate contract, to get their foot in the door they might offer their services on an as-needed basis in order to develop a longer standing relationship. As Vigis Eriksen claims, it could be a good way to develop a longer standing relationship. "There are some big companies that we were doing a lot of smaller projects with," she says, "which organically grew into master services contracts."

Similarly, many small firms looking to break into corporate sales have done so not by pitching directly to a large corporation, but by working alongside an existing supplier as a sub-contractor. As corporations have reduced their primary supplier lists, they've also increased their outsourcing. This has caused many primary suppliers to draw on the resources of other firms—called "second tier" suppliers—for niche or localized goods and services that. These are exactly the kinds of opportunities that provide a good fit for newer, smaller firms in the supply chain. It gives them a chance to get their feet wet in the corporate world and to grow and build their infrastructure in preparation for other opportunities later on. Michael Robinson of IBM's global supplier diversity program, says, "when we find a promising supplier who doesn't have the capability yet to be a first tier supplier to IBM immediately, we'll introduce them the appropriate first tier supplier within our supply chain. This allows the supplier to understand what is required to provide a product or service to us and also facilitates the growth and development of this specific supplier."

These partnerships, too, would benefit from active matchmaking—whether by corporations or small business development agencies and organizations. While it is already occurring in supplier diversity programs in many corporations, it could be broadened to include many more small businesses.

### Government Can Lead The Way

While most corporations maintain supplier diversity programs as a way to reach into communities and engage new potential customers, several supply chain executives point out that their programs originally developed from Federal rules on government contracts.

“Some of our biggest success in driving spending to diverse-owned businesses has resulted from our public sector activities,” Linda Cantwell of IBM says. This demonstrates that government leading the way on important initiatives has value. Corporations react to what is required. Creating opportunities like this for broader groups of small businesses could jumpstart broader small business spending. The time may be particularly ripe for such action. Consumers are increasingly interested in buying locally, in keeping their money circulating in local economies and supporting products and services that seek to do the same.

### **Bridging the Culture Gap & Aligning Expectations**

Many corporations think a lot of small businesses aren't fully aware of corporate expectations, in particular corporate pricing paradigms and the lengthier sale cycles between when a product or service is pitched and when a deal is inked. This lack of awareness is often the first indication, in the eyes of a major corpora-

tion, that a small supplier may not be ready for prime time.

To address this, Bill Drewes, the business consultant and supplier diversity expert, suggests more intensive education for potential suppliers and more face-time with real-life professionals who staff major corporations' sourcing and supply chain divisions. He's using his role as an adjunct lecturer at Baruch College, in New York City, to formalize just such a program.

“We're exploring a certificate program at the college—an intensive executive program for woman and minority entrepreneurs, largely delivered by a group of corporate procurement folks,” Drewes says. The prospective 5-day program would include a rigorous curriculum that not only helps small business owners understand the systems that corporations use when vetting and selecting vendors, but would also address the important infrastructural issues that confront some small businesses when they first become suppliers to large customers.

## **ENDNOTES**

1. <http://www.cvmsolutions.com/news/press-release.php>. August 10, 2010 release.
2. “Using Procurement To Grow Inner City Businesses: A Resource for Inner City Entrepreneurs,” by the Institute for a Competitive Inner City and the Staples Foundation for Learning. 2009
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4. Bank of America press release: <http://mediaroom.bankofamerica.com/phoenix.zhtml?c=234503&p=irol-newsArticle&ID=1434257>
5. Retrieved from [http://www.commonseadvisory.com/Research/All\\_Users/090513\\_QT\\_2009\\_top\\_30\\_Isps/tabid/1692/Default.aspx](http://www.commonseadvisory.com/Research/All_Users/090513_QT_2009_top_30_Isps/tabid/1692/Default.aspx) on July 24, 2010.
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# A Model for Increasing Small Suppliers

While there have been few meaningful initiatives specifically aimed at increasing supply chain opportunities for small businesses, many large corporations have supplier diversity programs that target businesses owned by members of historically under-represented groups—for instance, ethnic minorities, women and disabled individuals. These programs, whose beneficiaries are primarily small businesses, may provide a model for what large companies can do to assist the larger universe of small suppliers.

Supplier diversity initiatives are an outgrowth of programs initiated by the Federal government in the second half of the 20<sup>th</sup> Century to use its buying power to require that firms receiving large government contracts have a portion of the work conducted by smaller businesses that are certified as being in one of the under-represented groups. Corporations who do significant amounts of business with the Federal government seek out and cultivate a stable of diverse suppliers that can help the corporation to deliver on its contract.

More recently, corporations have started to diversify their supplier bases, regardless of whether or not they have a government contract. Corporations increasingly view working with diverse firms not as set-asides, but as customer development opportunities in the communities in which they work.

Many, though by no means all, diverse suppliers are also small firms, so supplier diversity programs have been a bright spot for small business development in an era of contracting supplier bases. Our research shows that these programs succeed by establishing critical linkages between smaller suppliers and corporate buyers, thereby allowing business relationships to develop. The best initiatives also tend to include mentoring small businesses for future sales opportunities.

Several businesses we spoke with that were certified as women or minority-owned businesses, for instance, indicated that the intensive outreach performed by corporations was key. It got them time with buyers to establish relationships, to learn about customer needs, and to understand the purchasing process in each corporation.

“We conduct “*Doing Business with Citi*” events every year,” says I. Javette Hines, senior vice president in charge of Citi’s supplier diversity program. “At those events, prospective suppliers can find out more about what Citi needs as well as use the opportunity to meet other MBEs/WBEs and investigate the potential for business with one another.”

Gwendolyn Turner, worldwide director of supplier diversity at Pfizer, says that her corporation also creates the right environment for smaller suppliers to strike up relationships. “What we do to foster the interaction,” she says, “is to hold matchmaking events at Pfizer. We encourage our buyers to develop relationships with suppliers, even if there’s no opportunity at the moment. Consequently, our buyers know what suppliers have to offer for when they’re ready to procure.”

One reason that these matchmaking sessions are especially valuable is that Pfizer uses them to reinforce one of the key lessons for potential suppliers: that it is essential to understand customer needs when pitching a product or service, including the customer’s culture and processes. At those events, Turner continues, “we can take time to develop this understanding. Thirty or forty minutes makes a difference. We tell the sellers, ‘this is what we look for when issuing RFPs,’ or, ‘these are the characteristics we’re looking for in our supply chain.’”

What these interactions create is awareness—on both sides—and the potential for sales opportunities. The only special consideration participants get through these programs, both customers and certified suppliers point out, is access and opportunity. “Our selection criteria is the same,” says Citi’s Hines of its MWBE certified suppliers versus other suppliers in its chain. “We have to be clear about what kinds of suppliers we are looking for. From a supplier standpoint, we want to make sure we have certain things in place: pricing, capability, financial stability and adaptability.”

Says one supply chain executive, “this is not corporate social responsibility. This is sourcing.”

Pfizer’s message to its diverse suppliers is the same. Its website describes its program as “neither a social program nor a promise that participating companies will secure business from Pfizer. It is also not a compromise on the quality, cost or service requirements we ask of every supplier. Supplier diversity at Pfizer is not a guarantee; it’s an opportunity.”

So it is clear that owners of businesses that have qualified for and obtained diversity certification have significantly more opportunities to get on the radar screens of corporate buyers. The challenge, though, is what to do if you’re a small business owner that doesn’t fit into one of the historically under-represented categories?

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