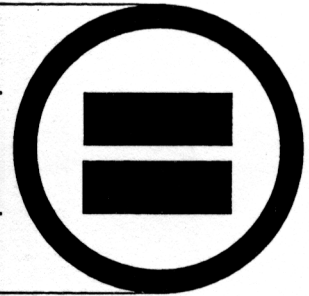


CHICAGO URBAN LEAGUE



Building Minority Businesses

Part Two

Selling to Corporate America

James H. Lewis

Department of Research and Planning
Chicago Urban League

This research was supported by grants from
AT&T and the Polk Bros. Foundation

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1997

This research was supported by grants from
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Acknowledgments

Members of the Executive Service Corps who conducted firm interviews and assisted with survey development included:

Clyde Brenner • Bill Davidson • Herb Gordon • Ron Holmberg • Ray Hoffman • Frank Kreuz • Ernst Kaufmann • Henry Kusher • Burt Lasko • Ann Markowitz • Mark Pollack • Alan Stone • Jim Weiss

Lou Lampley assisted with survey development and firm interviews.

Chicago Urban League project staff also included:

Nik Theodore • Anthony Williams • Cynthia Jordan-Hubbard • Mary Ann Manning

Executive Summary

This report addresses questions related to strategies minority-owned businesses (MBEs) have found most successful for procuring contracts. The report focuses on three simple messages.

1 Affirmative action programs by government and large corporations are clearly important for helping minority-owned firms secure contracts.

- Minority construction firms reported that being an MBE helped in 94 percent of their largest contracts obtained.
- Minority manufacturers reported that being an MBE helped in only 37 percent of their largest contracts obtained.
- Firms that sold most to government, where the strongest affirmative action programs exist, were twice as likely to credit being an MBE with helping obtain a contract than were firms that sold primarily to the private sector.
- Formal bidding processes with MBE participation requirements are an effective means of enhancing minority business opportunities.

2 Inside contacts with companies are extremely important for securing business. Both purchasing corporations and MBEs must work to surmount information barriers that may be inhibiting opportunities for MBEs.

- 37 percent of large MBE contracts were secured through utilization of inside contacts. Latino businesses averaged 47 percent.
- Utilization of inside contacts is most prevalent in service industries.
- Utilization of advertising is most prevalent among manufacturers.
- Minority manufacturers and services firms report receiving less than 5 percent of large contracts through bid processes.
- Minority firms report that word-of-mouth information about contract opportunities and direct contacts with user departments are the most effective means of making sales.
- Minority firms report that placement on company minority bid lists, direct mail, and response to published notices are the least effective sales strategies.

3 Minority and small firms would benefit from increased utilization of cooperative strategies such as joint ventures, mentor-protégé agreements, and other approaches that would help them to leverage their strengths and overcome weaknesses.

- Over half of minority firms have secured a sale by performing as a subcontractor on a larger contract.
- About one-third of minority firms have participated in a joint venture or mentor/protégé arrangement.
- Only 44 percent of surveyed minority firms reported utilizing a matchmaking conference to make a sale.
- Cooperative strategies are utilized frequently in the construction industry and rarely in manufacturing and transportation.
- Minority firms whose primary market is selling to large corporations were most likely to utilize cooperative strategies.

Introduction

This is the second of two reports analyzing factors affecting the growth of minority-owned businesses (MBEs) in the Chicago area. Research utilized in these reports stemmed from a random survey of 128 minority-owned businesses operating in the Chicago area, and an in-depth analysis of the procurement processes of seven large Chicago-area corporations.

Given the need for minority-owned businesses to develop and grow within minority communities, this report reviews current levels of utilization of a variety of business development strategies, and how minority-owned businesses perceive their effectiveness.

Our survey of MBEs found them to be highly supportive of continued affirmative action programs; however, with respect to their impact on contracting opportunities in the private sector, survey respondents questioned whether they were operating as effectively as they might be. Many MBEs reported that they felt that corporate buyers lacked incentives to work with MBEs and that corporations were not committed to MBE development programs. However, the survey data clearly show that where such programs do operate, they result in contracts for minority vendors. Minority survey respondents reported that, of the largest contracts they received through a bidding process, in an overwhelming number of cases being identified as an MBE *had actually helped*. It remains clear that in both the public and private sectors, affirmative strategies that assist minority-owned businesses to generate business opportunities must remain in place and be strengthened.

Research by the Urban League has shown that personal contacts with the buyer strongly enhance the seller's chances of making a sale. That contact may be with a purchasing agent, an end user of the product or service, an engineer, or management. There are many reasons for this. Buyers want to trust in the quality, dependability, and responsiveness of their suppliers, and their comfort level is greatly enhanced through an ongoing relationship. In many

high-end technical fields, there is often collaboration between user or engineering departments and suppliers and consultants in development of supplier products. Vendors who have worked closely with the purchasing company to meet a unique need hold the most favorable position to make future sales of the product. In order to minimize costs of quality control, purchasing corporations seek to certify vendors both formally and informally. Having invested time and resources in assuring quality control, they seek long-term relationships with the vendor. Most companies communicate their buying needs to a relatively narrow group of potential vendors, particularly in high-end manufacturing and professional services. Clearly, being personally known to a buyer is important in gaining access to this process.

The League's survey of MBEs validated all of these trends in the MBEs' experiences. Across all industry groups, MBEs reported that the sales strategies that brought them the most direct contact with buyers and their companies were the most effective. This finding is not surprising given the intensity of competition between vendors and the importance of negotiation in many private-sector transactions. The challenge, therefore, would seem to be to find new ways for MBEs to make effective contacts with key decisionmakers in corporations so that products and services can be tailored to corporate needs and a maximum opportunity is afforded to make effective sales presentations.

The first of these two reports, *The Structure of Corporate Purchasing*, focused on systemic changes taking place within the corporate procurement process that affected the ability of large firms to operate minority business purchasing programs. These factors included reductions in the number of vendors, increasingly close and long-term relationships with preferred vendors, increasing pressure for quality and certifications, greater need for responsiveness, and increased use of electronic communications. Minority firms surveyed felt that ra-

cial bias limited their access to contracting opportunities, but many of their problems were also a function of their smaller average size.

A variety of strategies including mentor/protégé agreements, partnerships, corporate buyer consulting or assistance, and enhanced communications are available both to purchasing corporations and MBEs as tools to accommodate these emergent trends in corporate procurement. The League's survey indicated that MBEs had varying levels of experience with these cooperative strategies but that such strategies were underutilized.

Cooperation among businesses is coun-

terintuitive to many entrepreneurs because American capitalism is founded on competition. Cooperation can be extremely difficult because of the potential need for sharing confidential proprietary information. Yet, in many industries strategic partnerships are becoming increasingly important for development and delivery of advanced technologies or delivery of large volumes of materials. The world's largest corporations routinely enter into a wide range of creative agreements, and Chicago-area MBEs can enhance their competitiveness through partnering with other MBEs or with majority-owned firms, from which mutual benefit may accrue.

1 Affirmative Action — When Being an MBE Can Help

The results of surveys of minority-owned businesses by the Chicago Urban League produced a highly telling paradox: MBEs reported that they thought their race made doing business more difficult. Yet, they also reported that identification as an MBE had helped them obtain many of their largest contracts. The resolution of the paradox lies in the importance of affirmative action programs in the public and private sectors.

MBEs operate in a highly segmented marketplace where they have access to contracts in selected industries where affirmative action programs have opened up opportunities. It is no accident that minority ownership is greatest in the construction and business services sectors. However, many MBEs in other industries lack access to opportunities because affirmative action programs have worked less effectively.

A majority of MBEs surveyed believed that being identified as a minority-owned business could be detrimental to a firm's chances for obtaining business opportunities in the absence of affirmative programs designed to counteract effects of historical discrimination and lack of access to established business pathways.

38.2 percent of surveyed MBEs strongly believe that discrimination limits their ability to secure contracts.

- 44.7 percent of surveyed MBEs strongly believe that discrimination limits the ability of MBEs in general to secure contracts.

These perceptions are strongest among service firms. Over half of the service firms we surveyed believe that discrimination limits MBEs in general and has limited their own firm. This perception is probably stronger among service firms because they are less subject to bidding processes and specifications that may afford greater protection to construction, manufacturing, and wholesale firms. Consistent with this, minority service firms, more than minority-

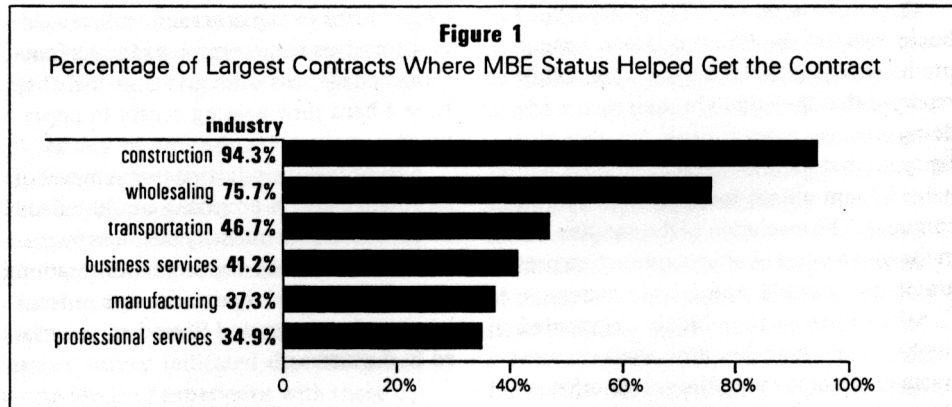
owned firms in any other industry, consider themselves to have trouble bidding (one-third believe this strongly) and feel they have a hard time gaining access to opportunities.

Survey results indicated that removal of affirmative action programs would indeed be detrimental to minority business opportunity. The survey captured information about 237 of the largest contracts entered into by minority-owned firms that responded to the survey.

- Among contracts obtained through bids, firms reported that in 78 percent of cases being identified as an MBE helped land the contract.
- Among contracts obtained through inside contacts with the purchasing entity, in 36.6 percent of cases being identified as an MBE helped land the contract.
- Among contracts obtained through advertising or soliciting, in 46.1 percent of cases being identified as an MBE helped land the contract.

Put another way, if you got the contract through a bidding process you were more likely to think that having been identified as an MBE helped you than if you got the contract through some other process. This indicates the importance minority firms attach to affirmative action programs.

The extent to which being an MBE was perceived as helping to get contracts varied by the industry (Figure 1). Because of the strong presence of affirmative action programs in construction, minority-owned firms reported that being an MBE helped in obtaining over 90 percent of their largest contracts. Firms operating in services and manufacturing, areas where affirmative action programs are less strong, tended not to believe that being an MBE had helped them land a contract. Particularly



in government, personal services contracts that utilize professional service firms are often not bid. Thus, they escape the MBE requirements applied to bid contracts.

Most public-sector construction projects include goals for utilization of minority firms. Affirmative action goals are also common in large, private-sector construction projects. The bulk of commerce takes place, however, in private-sector transactions outside of construction, where most firms utilize minimal affirmative action goals.

Affirmative action programs have historically been stronger in government than in the private sector, and this tendency was reflected in the survey results. Doing business with government corresponded to reporting that being identified as an MBE had helped land the firm's largest contracts.

- MBEs doing over half their business with private-sector firms reported that identification as an MBE helped on about one-third of their largest contracts (39.3 percent).

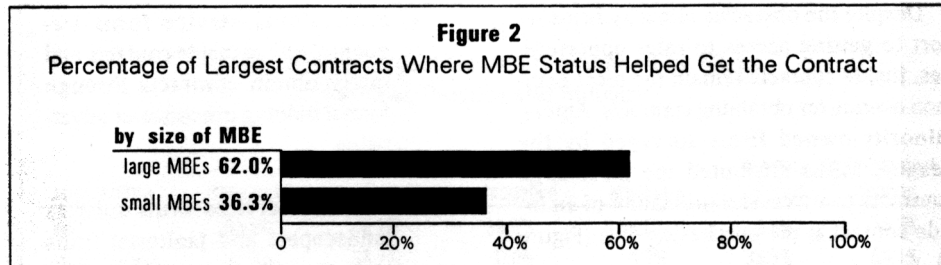
MBEs doing over half their business with government or with other MBEs reported that being identified as an MBE helped on two-thirds of their largest contracts (66.7 percent).

The survey also indicated a correlation between the percentage of business a firm did

with government and the extent to which the firm felt that being an MBE helped it land contracts (Pearson .309, statistically significant).

Overall, surveyed firms reported that in half of their largest contracts, being identified as an MBE was helpful. The major reason was the presence of MBE programs in government, but also among many private-sector firms. Clearly this was the case in instances where contracts were landed because of successful bids. Both private sector firms and units of government may require minority participation on a contract bid or add points for minority participation in the award decision-making process. In the case of contracts landed because of advertising or solicitation, some minority firms believed that the business relationship was enhanced when the purchasing firm learned that they were MBEs and that this would help the purchasing firm reach its affirmative action goals.

- Among minority-owned firms that do most of their business with white-owned firms, less than 10 percent of their largest contracts were obtained through bids.
- Among minority-owned firms doing large amounts of business with government, almost one-third of their largest contracts came through bids.



The largest MBEs tended to report more large contracts that were helped by their being identified as an MBE (Figure 2).

Running an Effective MBE Program

Whether they are discussing affirmative action or minority business development, interviews with purchasing management of Chicago-area corporations indicate that corporate commitment is essential to developing minority business opportunities. Leaders of large corporations have become increasingly aware that MBEs may be difficult to find in many vendor lines and that they may not be found among purchasing departments' preferred vendors. Thus, there is wide recognition that affirmative efforts are necessary to substantially increase purchases from minority-owned firms.

There is also wide agreement that corporate commitment to these affirmative measures must come from the top. Strategic goals of the corporation come from top management. Purchasing staff take their cues from messages, both formal and informal, that originate with top management. Absent these directives, purchasing agents lack incentives to reach beyond their traditional methods of obtaining vendors and bids. Companies with the strongest programs have internal goals that are closely monitored, tie achievement of goals to individual performance evaluations, and have systems for recognizing buyers who achieve or exceed minority purchasing goals.

Perhaps the *sine qua non* for affirmatively pursuing minority participation is tracking minority purchases. This is easily

accomplished using lists of minority vendors certified by local governments or the Chicago Minority Business Development Council. Companies that find themselves subject to requirements for minority vendor participation because of government contracts do track their purchases; however, many large corporations without such contracts do not.

The challenge for many firms attempting to improve their record of minority business utilization is to use minority firms not only in their indirect purchases (purchases for the company's own use such as office supplies, food service, landscaping, and temporaries), but also in their direct purchases (materials that go into the product). Minority firms are more common in lines that supply indirect purchases, where concern over quality control and certification is less. Track record and long-standing relationships between seller and buyer count for the most in direct purchase areas where the buyer must be highly attentive to quality control and wants to minimize the risk of working with an unfamiliar business. As our previous report showed, penetration of these areas by minority-owned firms is consequently more difficult. However, industries operating in indirect purchase areas tend to employ the lowest-wage workers such as food service workers, grounds keepers, security guards, housekeepers, and office temporaries. To build a stronger minority economic community, it is essential that corporations utilize creative means for helping develop minority-owned manufacturers.

2 Inside Contacts — The Shortest Distance Between Two Points

Despite the obstacles minority firms report to getting access to sales opportunities, inside contacts remain the most common avenue for obtaining contracts. Among minority-owned firms surveyed by the League, MBEs attributed the most large contracts to successful utilization of an inside contact at the purchasing firm (Figure 3).

As Table 1 shows, minority-owned firms utilize different strategies to obtain contracts depending upon the industry they are in.

Wholesalers and transport firms successfully utilize bid processes but are less likely to utilize inside contacts.

- Construction firms get contracts through bids and inside contacts but find advertising of minimal value.
- Manufacturers are successful with advertisements, but rarely obtain contracts through formal bidding processes.

- Professional service firms frequently utilize inside contacts and rarely obtain contracts through formal bidding processes or advertising.
- Business services firms such as landscapers and janitorial firms were more likely to utilize advertising or solicitation.

Different racial groups displayed different likelihood of obtaining contracts in particular ways. Contracts obtained by African-American and Hispanic firms were most likely obtained through inside contacts. However, nearly half of all Asian contracts were obtained through advertising or solicitation (Table 2).

Strategies for Obtaining Business

The survey suggests that the most successful strategies for generating business for minority-owned firms are methods that bring the firm inside information about business opportunities and direct contact with key personnel in the purchasing process. MBEs in the survey viewed word-of-

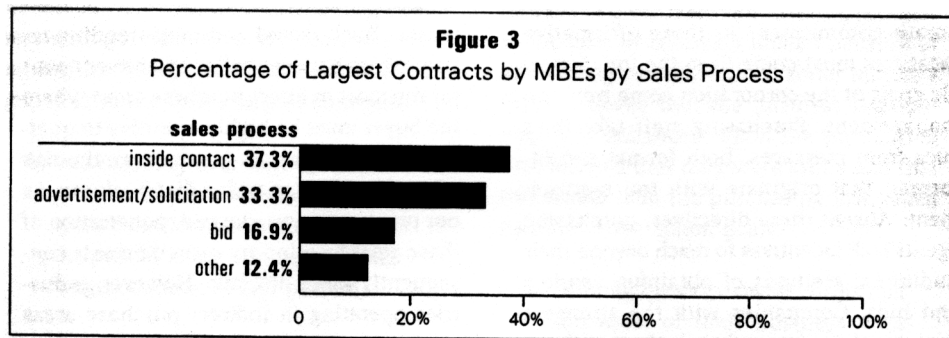


Table 1
Percentage of Largest Contracts Obtained by MBEs
by Sales Process and Industry

sales process	construction	manufacturing	transportation	wholesale	business services	professional services
bid	35.3%	4.2%	33.0%	40.8%	5.3%	5.5%
inside contact	35.3%	36.2%	17.0%	14.3%	33.3%	69.1%
ads/soliciting	11.8%	53.2%	27.8%	32.6%	43.9%	16.4%
other	17.6%	6.3%	22.2%	12.2%	17.5%	9.1%
number of contracts	17	47	18	49	57	55

Table 2
Percentage of Largest Contracts Obtained by MBEs
by Sales Process and Racial/Ethnic Group

sales process	African-American	Latino	Asian
bids	19.9%	13.2%	13.0%
inside contacts	37.7%	47.4%	27.8%
ads/soliciting	30.5%	26.3%	48.1%
other	11.9%	13.1%	11.1%
number of contracts	151	38	54

mouth information about business opportunities as the most effective means of generating sales opportunities. Close behind were direct contacts with the user departments of companies that purchased the product or services. The only other means consistently rated as effective were contacts with companies' purchasing officers.

The methods minority businesses considered the least effective were the strategies resulting in the least personal contact: placement on a bid list, direct mail, and responding to published notices of opportunities.

Reliance upon direct contact for business opportunities can, however, be a double-edged sword. To the extent that MBEs are unable to generate business because of pre-existing close relationships of buyers and sellers or because of racial bias, corporate dependence upon individual relationships inhibits opportunity. In the public sector in particular, the use of highly structured bidding processes has provided a way to reduce personal bias in purchasing, as well as achieve the most competitive pricing. Formal bid processes by Chicago-area local governments require firms

to seek waivers should they fail to meet established goals for minority business utilization.

These patterns demonstrate the persistent power of relationships in doing business. Business transactions, particularly in the private sector, are often a process of negotiation. Relationships are important because they allow firms the opportunity to craft a product or service to the needs of the buyer, or simply afford the maximum opportunity to sell. Firms are largely free to utilize formal bidding processes to the

extent they wish and to craft unique purchase agreements with firms of their choosing. Since minority firms may not have the long-standing relationships with buyers that benefit many white-owned firms, it is essential that they obtain access to business opportunities. But even given the difficulty of breaking through the boundaries of established buyer-seller relationships, minority-owned firms consider these relationships the most effective way of generating business when they can utilize that process themselves (Table 3).

Table 3
Minority Firms' Rating of Effectiveness of Sales Strategies

sales strategy	effectiveness on ten-point scale
highly effective	
word of mouth	7.6
direct contacts with user departments	7.0
somewhat effective	
contacts with companies' purchasing officers	5.6
cold calling	4.4
membership in professional associations	4.7
referrals from minority business development orgs.	4.1
advertising	4.1
contacts with company MBE officers	4.1
rarely effective	
placement on company minority bid lists	3.7
direct mail	3.4
published notices	2.4

Some variation in assessment of effectiveness exists based on whether the firm tends to sell to other private-sector firms or to government (Table 4). As one might expect, firms selling to the private sector tended to rate somewhat higher in effectiveness direct mailing, cold calling, and advertising. Firms selling to government trusted more in printed notices of opportunities (which are rare in the private sector), placement on bid lists, contact with MBE officers, membership in professional associations, and referrals from minority business development organizations. An-

other big difference lay in assessed value of direct contacts with user departments. Firms that relied upon sales to government were nearly unanimous in valuing direct contacts. Although formal bidding processes are put in place to help with equity, even minority-owned firms believe that they are helped most by contacts who can either help them through a bidding process or assist them directly in obtaining a contract.

Firms operating in different industries vary in terms of which strategies they find most effective (Figure 4).

Table 4
Minority Firms' Rating of Effectiveness of Sales Strategies,
Selling to Private Sector and Government

sales strategy	effectiveness on 10-point scale	
	firm mainly sells to private sector	firm mainly sells to government
firms selling to private sector rate more effective		
direct mail	3.5	2.2
cold calling	4.5	3.7
word of mouth	7.3	6.9
advertising	3.9	3.5
firms selling to public sector rate more effective		
published notices	1.9	3.8
placement on company minority bid lists	3.1	4.5
direct contacts with user departments	6.7	8.1
contacts with companies' purchasing officers	5.3	5.6
membership in professional associations	4.5	5.1
referrals from minority business development orgs.	3.3	4.5
contacts with company MBE officers	3.5	4.0

Figure 4
Effectiveness of Sales Strategies Rated by Minority Firms in Six Industries

highly effective		rarely effective	
on a 10-point scale			
Construction	Manufacturing	Wholesale	
word of mouth 7.7 prof. assoc. 7.4 contacts/user depts. 7.0 contacts/purchasing 6.8 bid lists 6.4	word of mouth 7.5 contacts/user depts. 7.0 contacts/purchasing 6.3	contacts/user depts. 7.9 word of mouth 7.5 contacts/purchasing 6.7	
advertising 3.9 direct mail 2.9 cold call 2.8 printed notices 2.4	referral 3.7 bid lists 3.5 direct mail 3.3 printed notices 1.8	advertising 3.8 direct mail 3.4 printed notices 3.3	

Construction

Unlike firms in other industries, construction firms rated as highly effective membership in professional associations and presence on bid lists. This finding attests to the perceived strength of organizations such as Black Contractors United (BCU) and Hispanic American Construction Industry Association (HACIA). Construction was the only industry to rate membership in professional organizations as highly effective. Most construction projects involve complex combinations of firms that execute various tasks requiring a prime contractor to subcontract with various firms, a process aided by various forms of association. Most large construction projects are bid, and a significant volume of construction contracting is with units of government. For these same reasons, various forms of advertising do little for construction firms seeking large contracting opportunities.

Manufacturing

Minority manufacturers surveyed felt they received the most benefit from direct contact with persons who either made decisions about the purchase or had insider knowledge about possible opportunities. They were among the most skeptical of the value of being on a bid list or having contact with a corporate MBE officer.

Wholesale

Minority wholesalers tended more than minority firms in other industries to give a high rank to all sales strategies.

Figure 4 continues

Figure 4 continued

Business Services	Transportation	Professional Services
word of mouth 7.7 contacts/user depts. 7.2	word of mouth 6.8 contacts/user depts. 6.5	word of mouth 8.0 contacts/user depts. 6.1
contacts/MBE officers 3.5 bid list 3.4 printed notices 2.8	cold calling 3.7 referral 3.2 advertising 2.8 direct mail 2.0 prof. assoc. 1.8 printed notices 0.8	contacts/purchasing 3.7 direct mail 3.3 contacts/MBE officers 3.0 cold call 2.8 bid list 2.6 minority bus. org. referrals 2.2 printed notices 1.4

Business Services

Business services providers were the most likely of minority firms in all industries to rate as effective such traditional sales strategies as advertising and cold calling, although they were the least likely to rate direct mail as an effective strategy.

Transportation

Transportation firms rated all marketing approaches lower than did other firms. Although they still rated direct contacts as the most effective means, they seemed to have less confidence in this strategy. Their list of ineffective strategies was longer, and showed less success, than other industries. Transportation firms were notable in the low effectiveness they placed on membership in professional organizations. The white-owned transportation industry may be among the most difficult industries for minority firms to penetrate.

Professional Services

Of firms in all industries, professional service firms rated word-of-mouth contacts most useful and were most disparaging of the effectiveness of most other means of selling. Professional service firms were more likely than firms in any other industry to acknowledge that they lacked sales personnel. Professional services more than other industries depend upon the professional personnel themselves to generate business, and much of this stems from reputation and personal contacts. Minority professional service firms therefore depend highly on word of mouth and direct contacts for opportunities. Therefore, they are most vulnerable to exclusion through established "old boy" networks.

The Effect of Size and Age

To some extent, the size of the company appeared to make a difference in what strategies MBEs considered most effective. Larger companies rated contacts with purchasing departments, direct contacts, and contacts with MBE officers as more effective strategies than did small companies. It is possible that larger companies are simply more likely to have an inquiry answered or to have a contact taken seriously than are smaller companies.

As Table 5 shows, the age of the firm

has an impact on the types of marketing strategies it will find effective. As minority-owned firms age, they depend less on cold calling and advertising for their sales to other businesses. While both new and mature firms find word-of-mouth contacts and direct contacts to user departments to be the most effective strategies, mature firms find referrals from minority business organizations, contacts with MBE officers, and placement on bid lists to be more useful than do the newest firms.

Table 5
 MBE Ratings of Effective Sales Strategies by Age of MBE Firm

sales strategy	effectiveness on 10-point scale	
	firm age 0-5	firm age 11+
new firms value more highly		
cold calling	5.0	3.9
advertising	5.0	4.0
mature firms value more highly		
placement on company bid lists	2.5	4.4
referrals from minority business development orgs.	2.7	4.5
contacts with company MBE officers	3.0	4.6
published notices	1.4	2.8
contacts with companies' purchasing officers	5.1	5.8
word of mouth	7.2	7.7

3 Cooperative Strategies — Dealing with a Complex Corporate World

Types of Strategies

A number of strategies are available to companies to utilize expertise of other firms that may be in a position to work with them or to utilize the resources of the purchasing corporation.

Mentor/Protégé Programs

A mentor/protégé arrangement exists when an established firm partners with a relatively new firm in order to fill a sales opportunity. The established firm serves as the leader in the partnership and is expected to impart training to the protégé in order that the protégé might grow into a more competitive business. MBEs may benefit from being a protégé by gaining access to a contracting opportunity that might not otherwise be available, but also by obtaining valuable training, experience, and expertise from the mentor. One of the most prominent ongoing programs is the Department of Defense Mentor/Protégé Program established in 1990. The department reimburses mentors for the cost of providing assistance and will credit the protégé contract against the mentor's subcontracting goals.

Joint Ventures

One of the most common tools utilized by the business world at large to maximize business capability is the joint venture. In a joint venture, two or more firms share resources to produce a product greater than any single partner could have produced alone. Joint ventures are used by firms whose capabilities complement one another so as to deliver sufficient expertise or volume of product to a buyer.

Corporate Assistance

One of the ways corporations interested in purchasing from MBEs or other small businesses can facilitate the process is by providing various business services to prospective vendors. These services may include assisting in financing contract start-up or advancing the first payment,

providing technical assistance or consulting, or debundling (the breaking up of large contracts into smaller ones that small businesses can handle).

Assistance with financing is rare, but provision of technical assistance is quite common. Most large corporations will assist, and sometimes welcome the opportunity to assist, a contractor with whom they expect to do ongoing business. Assistance can be in the areas of engineering, production, and management systems.

For many large firms operating in the Chicago area, price is only one of many considerations they use to evaluate the qualifications of a firm they may purchase from. One major area manufacturer reported to the League that it evaluates suppliers on the basis of:

- quality of the product
- capability to supply volume
- timeliness/responsiveness for delivery
- financial position
- reputation in industry
- transportation
- facilities
- quality history
- engineering support
- management support

It is not unusual for a smaller or newer firm (and many established firms) to need assistance in one or more of these areas. Mentor/protégé or joint venture arrangements and technical assistance by the buyer can help firms address these issues.

Second Tier Strategies/Subcontracts

Often in order to allow non-MBEs to assist in meeting MBE goals, a purchasing company will allow a contracting company to count its minority subcontractors toward MBE goals. This strategy is called "second tier" affirmative action. Minority firms can often get contracts by making themselves available to white-owned firms

that in turn have second-tier MBE goals attributable to a contracting opportunity they have.

Matchmaking Conferences

Matchmaking conferences are events attended by companies interested in identifying minority vendors. MBEs have the opportunity to identify themselves and explore potential sales opportunities.

Utilization of Strategies

The construction industry appears to have the highest level of cooperation among the various minority business sectors. It is the area where the strongest minority business organizations exist and where minority firms have worked together most closely in the legislative arena at the state and local levels.

Also in the construction industry, firms have learned to work together most effectively to tackle large contracts. Mentor-protégé, joint ventures, and subcontractual arrangements are most commonly found in this industry. It is no coincidence that the strongest affirmative action programs in the public sector are found in construction and that majority-owned firms have been given the strongest incentives to find ways to work cooperatively with minority-owned firms.

By far the strategy most widely utilized by minority firms is subcontracting (Fig-

ure 5). More than half of the minority firms in the League survey reported having received a contract by engaging in a subcontractual relationship with another firm that had obtained a larger contract. Almost half the minority firms reported utilizing matchmaking conferences where buyers and sellers had the opportunity to discuss contracts. Utilization of cooperative strategies varies by industry (Table 6).

Construction. Construction firms make extensive use of subcontracting arrangements and joint ventures. These strategies are particularly common because large construction contracts are generally organized around a prime contractor who contracts with a number of smaller firms to complete the component tasks.

Manufacturing. Of the five industrial sectors studied, manufacturers were the least likely to utilize outside resources to expand opportunities. About one-third of firms surveyed utilized matchmaking conferences, and almost half had participated in subcontracts. Other tools were rarely utilized.

Transportation. Firms providing transportation rarely reported use of cooperative strategies.

Wholesaling. Wholesalers utilized a wide variety of contracting strategies. About half of wholesalers have participated in mentor/protégé arrangements, joint ventures, matchmaking conferences, or sub-

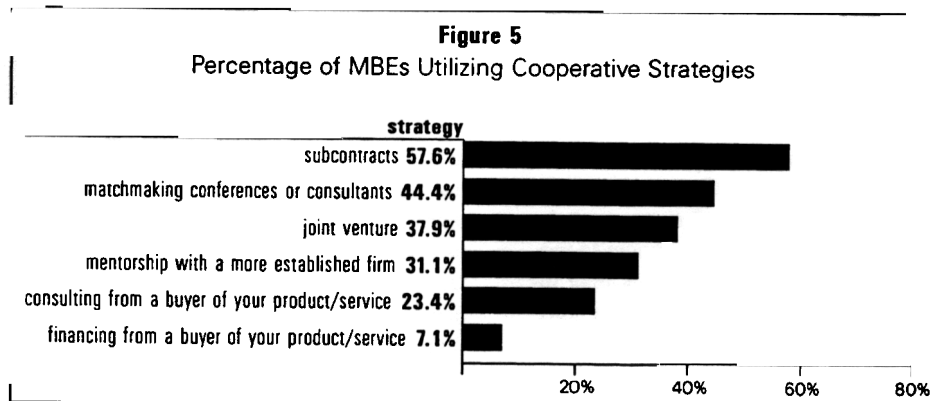


Table 6
Percentage of Firms Reporting Use of Cooperative Strategy by Industry

	construction	manufacturing	transportation	wholesaling	business services	professional services
mentors	44.4%	13.0%	37.5%	50.0%	25.0%	28.6%
joint venture	66.7%	5.0%	25.0%	50.0%	45.2%	33.3%
consulting	44.4%	9.5%	25.0%	27.0%	23.3%	21.0%
financing	22.2%	0	12.5%	0	9.7%	5.3%
matchmaking	55.6%	36.4%	12.5%	56.0%	43.3%	42.9%
subcontracts	88.9%	45.4%	25.0%	66.7%	60.0%	56.5%
number of firms	9	22	8	25	32	21

Table 7
Percentage of Firms Reporting Use of Cooperative Strategy by Race

	African-American	Latino	Asian
mentors	34.3	30.4	19.1
joint ventures	46.5	27.3	19.1
consulting	23.5	23.8	20.0
financing	8.7	9.5	0
matchmaking	47.2	33.3	45.5
subcontracts	54.9	65.2	59.1
number of firms	71	23	22

contracting arrangements. Increasingly, corporations are utilizing large contracts with single vendors in catalogue purchase agreements. In order to satisfy affirmative action requirements, these large suppliers then search for minority suppliers to supply portions of their product.

Services. Over half of minority-owned firms in service areas reported having utilized a subcontracting arrangement. Almost half of service firms utilized matchmaking conferences and/or joint ventures.

Black-owned firms appear more likely to enter into joint ventures than Latino or Asian-owned firms. Asian firms appeared to have substantially less experience in mentor-protégé arrangements and did not report having received assistance with fi-

nancing from a firm with which they were doing business (Table 7).

Firms of all ages and sizes were about equally likely to have utilized these different strategies. The only exception was that firms in business from six to ten years were somewhat more likely to have participated in a joint venture than either older firms or younger firms.

Firms that sold to larger firms appeared most likely to utilize cooperative strategies (Table 8). This is because larger buyers are far more likely to provide consulting or financing to a supplier, and large companies are more likely to attend matchmaking conferences and have concerns about utilizing minority-owned businesses.

Table 8
 Percentage of Firms Reporting Use of Cooperative Strategy
 by Size of Companies Minority-Owned Firms Sell To

strategies	MBE firm sells			
	only to large companies	to no large companies	only to small companies	to no small companies
mentors	31.2%	27.6%	29.4%	29.6%
joint ventures	46.4%	32.2%	33.3%	41.5%
consulting	22.2%	20.7%	11.8%	25.6%
financing	11.1%	0	0	7.5%
matchmaking	43.3%	30%	23.5%	41.9%
subcontracts	53.3%	60%	52.9%	58.1%
number of firms	32	31	18	44

Recommendations

1 MBE development programs must be retained and expanded both in the public and private sectors.

MBEs consistently report that they find themselves shut out of insider circles, yet feel that being identified as an MBE helped them secure their largest contracts. Many MBEs question the effectiveness of MBE programs, but it is clear that they open important pathways to minority business opportunities. Affirmative action programs have fueled many of the creative contracting arrangements found among minority construction companies.

2 Minority firms in manufacturing, wholesaling, transportation, and service industries should follow the example of construction and find ways to pursue cooperative strategies for securing large contracts.

Highly developed minority professional organizations such as BCU and HACIA have helped minority construction firms gain a significant foothold in the industry. Construction firms report greater utilization of partnerships, subcontracts, and mentor-protégé arrangements than do firms in other industries. In an era of increasingly large contracts with preferred suppliers, it is essential for many small firms to enter into cooperative arrangements with other contractors to assure their niche in their market.

3 Purchasing corporations should acknowledge that inside contacts remain an important avenue for development of contract opportunities and actively seek out minority firms with which to negotiate.

Data Sources

Survey

The Chicago Urban League utilized a mail survey sent to approximately 800 firms identified as minority owned through certification with the Chicago Minority Business Development Council (CMBDC) in the fall of 1995. Distribution of the survey was limited to companies that would be expected to engage in large volumes of business-to-business transactions, therefore excluding most retail firms. The distribution also excluded most of the area's minority firms engaged in construction because the League has extensive experience with the construction industry and wished to focus this research on firms in other industries. The League received 128 usable surveys. The survey was developed by staff of the Chicago Urban League, Executive Service Corps, and CMBDC.

Businesses responding to the survey had the following characteristics:

Race

African American	60.2%
Latino	19.5%
Asian	18.8%
Other	1.6%

Number of Employees

1 to 10	56.5%
11 to 20	17.7%
21 to 40	12.1%
41 and over	13.7%

Industry

agricultural services	
construction	9
manufacturing	25
transportation	8
retail trade	26
real estate	1
services	58

Year Started

1948 to 1969	10.4%
1970 to 1979	19.2%
1980 to 1989	47.2%
1990 to Present	23.2%

Corporate Interviews

Project staff conducted formal interviews with purchasing department management and buyers in seven national corporations operating in the Chicago area. Corporations selected represent major industries such as technologies, chemicals, manufacturing, food and professional services. Because several of these companies shared proprietary information with interviewers, the League agreed to in no way reveal the identity of corporations providing information. Nonproprietary information obtained from informal interviews with staff of three additional companies that chose not to participate formally in the study is also utilized in this report.

Project staff also conducted two focus groups with managers and owners of minority firms to discuss issues related to minority business growth and development.

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