



GIVING SMALL FIRMS THE BUSINESS

Our survey of nearly 200 small businesses shows that becoming a corporate supplier typically leads to significant revenue and job growth—but breaking into the corporate supply chain is a huge challenge for many small firms

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GIVING SMALL FIRMS THE BUSINESS

The economy is finally awakening from its long slumber, but the recovery is unlikely to shift into high gear without a major spark from small businesses. These firms have created a disproportionate share of new jobs in recent decades and served as the primary catalysts coming out of past recessions. Today, however, too many small businesses are foregoing expansion plans and simply trying to hang on in an environment where consumer spending is still lackluster and credit remains extremely tight.

Thus far, most of the discussion around reinvigorating small businesses has focused on public sector initiatives, from easing access to financing to providing targeted tax credits. However, the nation's corporations should be a big part of the solution as well.

Last September, the Center for an Urban Future released *Breaking Into The Corporate Supply Chain*, which documented that while the nation's largest corporations spend hundreds of billions of dollars a year on suppliers, only a small share of this spending goes to small businesses.

This study goes one step further. Our survey of nearly 200 small businesses in New York and 14 other states shows that becoming a corporate supplier is typically a springboard for growth. Indeed, 70 percent of businesses that responded to our survey reported noteworthy increases in revenues and jobs between the year before and two years after becoming a corporate supplier.

With more than two-thirds of the firms responding to our survey not currently supplying large corporations, the challenge is clearly getting a lot more small businesses to tap into this market. We believe this is achievable, and the pages that follow highlights how it can be done.

KEY FINDINGS

Respondents who were successful suppliers to large corporations demonstrated higher revenues overall and significant revenue and employment growth. The trick for some small businesses, though, is guarding against growing more quickly than can be sustained—especially if a handful of corporations are a major part of their customer base or revenues.

- Small businesses that supply corporations have higher current revenues. Nearly two-thirds (63 percent) of corporate suppliers earn more than \$500,000 annually, whereas more than three-quarters (77 percent) of non-suppliers have current revenues of \$500,000 annually or less.
- Small businesses experience impressive revenue growth after becoming suppliers to large corporations.

Respondents who were suppliers to large corporations reported revenue growth of more than 250 percent (266.4%), on average, between one year before and two years after their first sale to a large corporation.

- 70 percent of respondents who supply large corporations went up at least one revenue category between the year before and two years after becoming a supplier to a large corporation. Many experienced significant growth: 33 percent of the respondents increased revenues by at least two categories and 11 percent saw revenues increase by at least four categories.
- Only 4 percent of the respondents who supply large corporations moved into a lower revenue category.
- 26 percent of respondents stayed in the same revenue category in the year before and two years after becoming a supplier to a large corporation.
- Small businesses add jobs at a rapid clip after becoming corporate suppliers.
 - Employment of respondents who supply large corporations increased, on average, by more than two-and-one-half times (164 percent).
 - 70 percent of respondents who supply large corporations increased their employment between one year before their contract and two years after. Over half of these growing firms (and 37 percent of all suppliers who responded to the survey) more than doubled their employment.
 - Only 2 percent of respondents reported a decline in employees after becoming a corporate supplier.
 - 28 percent of respondents reported no gain or loss in employment.

- Corporate contracts can offer quick opportunities to grow. While 40 percent of survey respondents indicated that their first contract with a large corporate customer represented less than one-tenth of their previous year's revenues, for a significant minority (22 percent) of firms, it more than doubled their revenues. In 7 percent of cases, it was at least a five-fold increase
- However, small businesses run the risk of having a relatively small number of major customers make up too significant a portion of their sales. Nearly one-quarter of small businesses reported that large corporations made up half or more of their customer base, raising concern that these firms might be endangered if a relationship a corporate customer was lost. More concerning is that one-third (33 percent) of respondents indicated that it made up half or more of their current sales revenues.

The Supply Chain Bump: Changes in Employment for Small Firms After Becoming a Corporate Supplier		
Employment Increases	One year before becoming a supplier	Two years after becoming a supplier
Median Number of Employees	3	5.5
Average Number of Employees	6	9.8

The bulk of small businesses we surveyed have not broken into the corporate supply chain, and those that have successfully done so tend to be more mature companies.

- Nearly two thirds of all respondents (64 percent) reported that they have not supplied a large corporation.
- The median small firm that is a corporate supplier has been in business for 17 years; the median non-supplier has been around for 3.5 years.

Finding out about the corporate customer is the biggest challenge. Small firms who were eventually successful in selling to corporations overwhelmingly cited a lack of information about their target clients as the biggest obstacle they had to overcome.

- Nearly half (48 percent) of small business owners who are corporate suppliers said that finding out whom to contact at a corporation to make their pitch, or reaching that person once he or she was identified, was the biggest obstacle.
- More than one in ten (11 percent) of successful corporate suppliers cited not being able to find out what their potential customers' needs were as the single biggest barrier before they were successful.

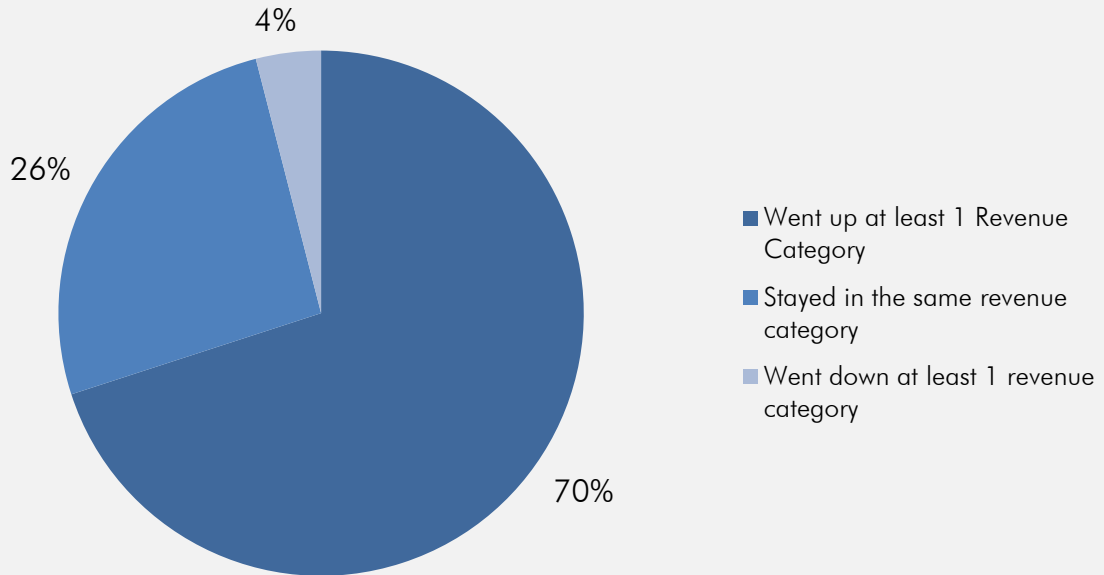
Taken together, that is nearly two-thirds of small business owners who cited a lack of information as their biggest challenge. (By comparison, technical barriers were a problem for relatively few respondents: completing the paperwork to become a qualified vendor, or having the right billing systems in place, were cited by just under 5 percent of small businesses as their biggest problem.)

As we learned in our *Breaking Into The Corporate Supply Chain* report, many large corporations insist that they provide clear guidance on their websites to prospective vendors about how to apply. Or, they say, it is up to vendors to understand the customer's needs; it is not the responsibility of the customer to explain it to a prospective vendor. That's a valid argument. But if well over half (59 percent) of the survey's respondents still cite a lack of information—or access to information—as the biggest challenge, and if corporations are serious about creating additional opportunities for small businesses without compromising competitiveness, it would appear that there is still much corporations can do to help telegraph to small businesses the needs of corporate customers and the process for selling to them.

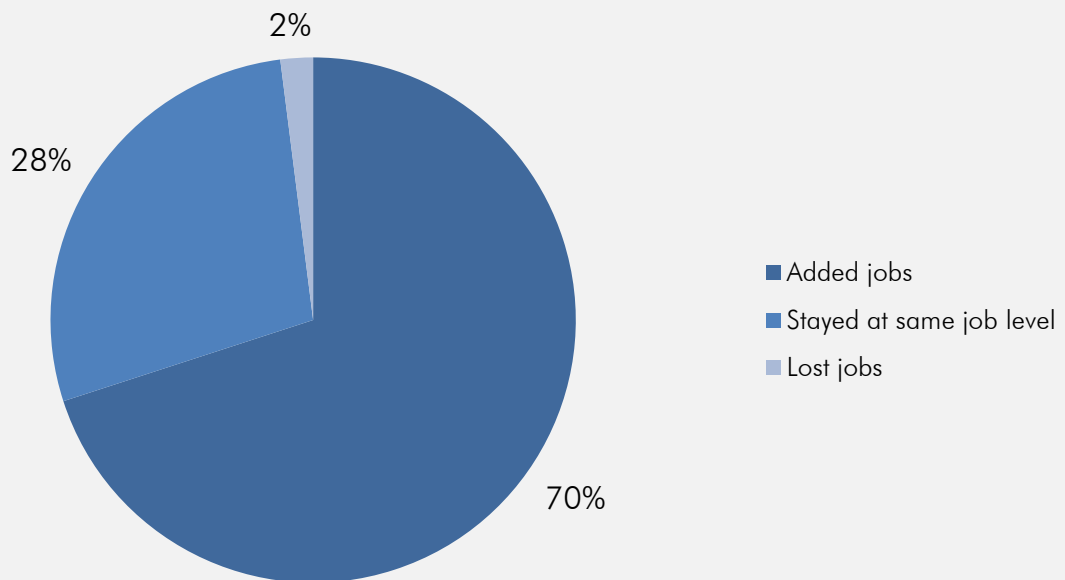
We asked those firms that were serving as suppliers to corporations what strategies mattered most. Some strategies seemed to work better than others for respondents, and point toward opportunities for both policy makers and large corporations.

- Start small and leverage quicker wins. Nearly one-third (32 percent) of small businesses said having an opportunity, or being encouraged, to bid on smaller contracts than they initially planned was an important strategy for breaking into the corporate supply chain. It's easy to see how that is closely related to another one-third (37 percent) who said that gaining referrals from other large corporations was key. In this way, a clear strategy that works—assuming one can find the way to break in—is to focus on small wins and use them to build a portfolio of corporate clients.
- The first sale opens doors quickly. In a separate question, small business owners validated in nearly two-thirds (63 percent) of the cases that having a large corporate customer helped them to land other corporations and buyers. Three-quarters (76 percent) of those respondents said it was either because having another corporate customer enhanced their reputation (52 percent) or lead to direct referrals from the previous customer (24 percent). This seems to indicate that if corporations can find opportunities to get more promising small businesses into the door more quickly, those suppliers' success will speak for itself. This doesn't necessarily mean slackening criteria from purchasing from vendors as much as it does facilitating ways for promising vendors to get opportunities more quickly.
- Partnering. By comparison, relatively few (19 percent) indicated that partnering with another supplier was a useful strategy for gaining a toehold in the corporate supply chain. And requiring so-called Tier 1 suppliers to partner with smaller firms was cited as something corporations did well by only one in ten respondents, on average (12 percent). Yet partnering is described by corporate purchasing executives as one of the most successful routes for aspiring small suppliers. It would appear more work could be done here to educate small firms who are would-be corporate suppliers that this is an important strategy—and to facilitate those partnerships where possible.

Change in revenue from 1 year before becoming a corporate supplier to 2 years after



Change in jobs from 1 year before becoming a corporate supplier to 2 years after



- **Advice.** While small suppliers gave corporations relatively high points for offering advice (23 percent indicated that it was an important factor in their corporate interactions), very few respondents (10 percent) said their corporate customers offered technical assistance or mentorship to help prospective vendors learn the ropes in a corporate setting.
- **Cash flow & pricing.** Nearly half of respondents (44 percent) said that being slow to be paid for invoices was the primary challenge they faced with corporate customers. Another substantial group (26 percent) said they felt their corporate customers put pressure on them to reduce their prices to unprofitable levels. However, a notable number of respondents, though still a small proportion (10 percent), said their corporate customers agreed to pay their smaller vendors in advance.
- **For those businesses that qualify, there is an advantage to being registered as a diverse supplier.** Only 36 percent of corporate suppliers who responded to our survey indicated that they were part of a supplier diversity group. But of those, more than two-thirds (69 percent) said it played an essential part in their successfully becoming a corporate supplier.

OPENING DOORS

Patrick Weir is the owner of MyDigitalDoorman.com—a New York City-based company that designs and distributes Web-based software to track incoming package deliveries for large multi-tenant buildings and corporate mailrooms. Weir originally designed the program four years ago to help him track packages coming into his brick-and-mortar mail and parcel store. It saved him time by automatically notifying customers about their packages. But he soon saw its utility for large institutions and corporate mailrooms. Figuring out how to sell the software to corporations and other large institutional buyers wasn't easy, but he finally succeeded and MyDigitalDoorman.com has taken off.

CUF: What led you to start selling to corporations and large institutions?

PW: We started by pitching to other small businesses, similar to our own mail and parcel store. And that was going fine. Growth is always slower than one likes. Because we have a Web presence, someone signed up online that wasn't who I expected—a student housing facility. Then I got another as a referral. After that, I decided to start going after that market. Now, about two-thirds of my sales are with big entities—and that proportion is growing. In terms of sales, we're really just focusing just on that market, now.

CUF: What has that meant for business?

PW: We've essentially tripled in size each year we've been in business. Initially we were doing about \$1,500 a month in sales. This year, we're on pace to do \$200,000 to \$300,000 for the year. So it's been good for revenue. But there's another important benefit. We're a small company, but I feel like our product is now on par with Pitney Bowes or SC Logic [his main corporate rivals] and we're about one-tenth the price. If we didn't have those large corporate customers, we wouldn't have had the funds to do the development, nor the impetus to deliver the features they wanted.

CUF: So selling to corporations has been a bed of roses?

PW: In the beginning, we weren't at all set up to deal with the big guys. Our whole model was to charge small businesses monthly by credit card. Big customers want to pay by invoice once a year. We had to create a mechanism for that. And cash flow is a challenge. [Because of the budget timeframes of many large customers]—especially universities—we might have no money coming in from September to December, but then get paid by almost everyone at once in early summer. That can be tough to deal with.

And, in general, it's really slow-going with the corporate guys. The sales cycle is really long—tediously so. It can take over a year to get a sale. If you don't have a stream of potential sales in the pipeline, that slow movement can be absolutely deadly.

ABOUT THE SURVEY

The survey was conducted by the Center for an Urban Future in partnership with more than 20 small business assistance organizations, chambers of commerce, economic development groups and government agencies in New York City and around the country. It was conducted between November 2010 and February 2011. The 180 respondents who completed the survey hail from 15 states, though 85 percent of them are from the New York City area.

Supplier Status	% Yes (n)	% No (n)
Currently Selling to Large Corporations	36.1% (65)	63.9% (115)

Geographic Distribution	% of Corporate Suppliers (n)	% of Non-Corporate Suppliers (n)	% of All Respondents (n)
New York City Area	76.9% (50)	89.6% (103)	85% (153)
Outside NYC Area	23.1% (15)	10.4% (12)	15% (27)
	100% (65)	100% (115)	100% (180)

Note: We wound up with responses from CO, VA, GA, WA, PA, MI, IL, SD, WI, NJ, MO, OR, LA (New Orleans), CA and MA.

Sector	% of Corporate Suppliers (n)	% of Non-Corporate Suppliers (n)	% of All Respondents (n)
Retail	3.1% (2)	10.4% (12)	7.8% (14)
Wholesale / Distribution	9.2% (6)	6.1% (7)	7.2% (13)
Construction / Contracting	7.7% (5)	10.4% (12)	9.4% (17)
Manufacturing	32.3% (21)	20.0% (23)	24.4% (44)
Professional Services	30.8% (20)	26.1% (30)	27.8% (50)
Health	0%	5.2% (6)	3.3% (6)
Social Services	0%	6.1% (7)	3.9% (7)
Leisure / Hospitality	1.5% (1)	4.3% (5)	3.3% (6)
Cultural	1.5% (1)	0.9% (1)	1.1% (2)
Media / Technology	7.7% (5)	7.8% (9)	7.8% (14)
Basic Science	0%	1.7% (2)	1.1% (2)
Other	6.2% (4)	0.9% (1)	2.8% (5)
	100% (65)	100% (115)	100% (180)

MAKING PROGRESS

Until recently, there were relatively few meaningful efforts from either the public or private sector to help small businesses become suppliers to the nation's largest corporations. But in recent months, that has begun to change.

Late last year, IBM put together a consortium of six large companies (including AT&T, Bank of America, Citicorp, Pfizer and UPS) with combined supply chain spending of over \$160 billion annually to provide small businesses that are interested in becoming corporate suppliers with a free online one-stop-shop to make it easier for them. The Supplier Connection is a website helps small businesses more easily become suppliers to all of the participating companies by providing a single, streamlined electronic application form. Developed through a grant from the IBM Foundation, the site also enables small suppliers to learn from, collaborate with, and sell to each other so that they can become more competitive and successful. At the same time, it offers the large companies a mechanism for sharing valuable business information with prospective small and mid-sized suppliers.

Similarly, Bank of America recently committed itself to developing more small suppliers. As part of its plan 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.

While most public sector initiatives have been focused on helping small businesses compete for government contracts, New York City's Department of Small Business Services (SBS) just launched a new program to help small firms go after private sector supply chain opportunities. The Corporate Alliance Program, which began in February 2011, aims to help certified minority- and women-owned businesses enterprises (M/WBEs) connect to contracting opportunities in

the private sector and build their organizational and managerial capacity.

"SBS actively connects M/WBEs with city government contracting opportunities, so why not private-sector opportunities?" SBS commissioner Rob Walsh said recently. "The skill set and capacity required to take on work with a large corporation is very much the same as is needed to work with city government."

The 11 founding partners of the alliance—Accenture, American Express, BNY Mellon, Colgate-Palmolive, Citigroup, Columbia University, Con Edison, Credit Suisse, Goldman Sachs, IBM and National Grid—will help open their supply chains to city certified M/WBEs. SBS is helping these corporations to identify small, minority- and women-owned businesses that supply specialized products or services, or those that can provide them at scale. At the same time, the corporate partners will refer their local suppliers to the City's M/WBE certification program for greater access to government opportunities.

But beyond simply making additional contracting opportunities available to M/WBEs, the alliance recognizes the benefits of actively developing promising suppliers. Competitively selected CEOs from M/WBEs will be matched by SBS to executives from participating alliance partners who will serve as mentors. In addition, the alliance will enable SBS to expand its collaboration with Columbia University to identify more candidate business owners for a two-year management certificate program. That program provides academic training in combination with access to Columbia University contracting projects, on-the-job feedback, and technical assistance. To date, 40 small contractors have graduated and been awarded a combined \$32 million in Columbia and city government contracts.

RECOMMENDATIONS

While public sector efforts to free up credit, provide targeted tax breaks and relax some of the most burdensome regulations will undoubtedly help small businesses, this report shows that major corporations could create their own powerful stimulus for small businesses by making even a slight increase in the supply opportunities for small businesses.

Our survey makes it apparent that becoming a corporate supplier holds incredible promise for at least some of the vast number of viable small businesses that today find themselves on the brink because of tight credit and sluggish sales. As the survey demonstrates, small businesses that break into the corporate supply chain more often than not go on to achieve revenue and job growth, and the initial supply chain success often paves the way for additional contracts and growth opportunities.

But far more small businesses could be taking advantage of these opportunities. That will require corporations to commit to making it easier for small businesses to learn about supplier opportunities and navigate the applications process. Indeed, while small business owners who responded to our survey believe that that sales to corporations hold promise, they also say that becoming a corporate supplier is not as easy as it appears—or, perhaps, as it could be.

Large corporations should to commit to at least making it easier for small businesses to learn about supplier opportunities and navigate the applications process. While no one is suggesting that corporations engage more small businesses by relaxing standards for quality and performance, it may be worth reviewing how corporations engage smaller firms that appear to hold promise as potential suppliers. Our results point to what seem to be relatively easy ways corporations can burnish their relationship with potential suppliers in this regard:

Increase access to specific, easy-to-understand information about what corporations buy, vendor requirements, and customer expectations.

Create opportunities for potential vendors to speak with buyers or otherwise appropriate decision makers during the sales pitching process. Many small businesses describe buyers' contact information as closely guarded secrets among corporations—that is, until those small businesses succeeded in becoming a vendor. Then doors opened much more easily to other buyers and sales opportunities in that and other corporations.

Expand ways of helping small businesses that show promise as potential suppliers to develop themselves to meet corporations' expectations. Giving advice, providing technical assistance and offering mentoring can be expensive and labor-intensive for corporate customers. But if it's seen in the context of developing a diverse supplier base that is better equipped to meet customer needs, it could be seen as an investment. Indeed, many corporations do this now with large, global suppliers in the form of strategic partnerships.

Use successful supplier diversity programs as a model to help more small business owners. Many of these problems have been addressed successfully by reaching out to and engaging minority-, women- and other diverse-owned businesses. Indeed, respondents to our survey that fell into one or more of these categories, and who were successful in breaking into the corporate supply chain, felt their designation was an essential part of their success. Creating a similar category for small businesses could help corporations leverage existing outreach and training programs, and leverage their own internal accountability metrics for driving their corporate spending to our economy's most reliable economic engines.

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