

# **Philadelphia Anchors for Growth and Equity: Applying the Lean Startup Methodology to Build a Financially Sustainable Anchor Collaborative**

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## **Abstract**

As poverty and inequality continue to plague American cities, universities and hospitals are looking for ways to leverage their role as community anchors to address these issues. Local procurement programs have emerged as one way for institutions to build local wealth and create jobs. In order to increase the impact of individual institutions, many cities are creating place-based collaboratives to amplify the impact of individual anchors. However, because collaboratives focus on systems-level change, which can take many years to achieve, they frequently struggle to raise and sustain necessary levels of funding. This article outlines how the principles of a Lean Startup methodology, an approach that focuses on gradual growth using validated learning, can be utilized to build financially sustainable anchor collaboratives and identify the most effective strategies for local purchasing. The article provides an overview the Philadelphia local purchasing landscape. The author defines the Lean Startup methodology and looks at the application of the methodology through the lens of Philadelphia's local purchasing collaborative, Philadelphia Anchors for Growth and Equity at the Economy League of Greater Philadelphia. The goal of this article is to share a strategic planning framework that could be useful in creating effective local purchasing collaboratives.

**Keywords:** strategic planning; local purchasing; collective impact; best practices; case study

## **Introduction**

Although Philadelphia has been experiencing population and economic growth for the last 10 years, more than a quarter of its population still lives in poverty (Pew Charitable Trust, 2017). One of the reasons that economic growth has not seeped into pockets of poverty is that new jobs are largely concentrated on opposite poles of the skills spectrum: low-wage and low-skill positions or high-skilled, white-collar positions, which are out of reach for Philadelphia hard-to-employ residents. Largely absent are middle-skill jobs with a career path.

At the same time, Philadelphia's economy is anchored by a robust sector of large, nonprofit 'eds-and-meds' institutions. With a few exceptions, these institutions are located in ZIP codes characterized by high rates of poverty and unemployment, anchored in place by campuses and state-of-the-art medical buildings. For many anchor institutions, addressing Philadelphia's poverty not only aligns with their mission, but also could lead to improved community relationships, easier employee attraction, and increased safety. Collectively, these institutions spend billions of dollars on an array of goods and services, mostly outside of Philadelphia. Channeling a fraction of this spend locally, could catalyze the growth of local businesses and the creation of jobs that could provide a pathway out of poverty.

In 2018, the Economy League of Greater Philadelphia launched Philadelphia Anchors for Growth and Equity (PAGE). The League created a partnership between the Economy League, the City of Philadelphia and more than a dozen Philadelphia-area institutions. This alliance works to capture a portion of this procurement spend locally in order to grow Philadelphia businesses, strengthen the local economy, create middle-skill, living wage jobs, and build wealth. Preliminary research completed by the Office of the City Controller informed the initiative.

This article summarizes the preliminary research that provided the momentum for the launch, provides an asset and gap analysis of the Philadelphia landscape, explains the Lean Startup methodology and outlines the strategic plan for scaling up PAGE. This strategic plan serves as a case study for applying the framework of the "Lean Start Up" methodology to developing sustainable anchor collaboratives. Although the landscape analysis in the early part of the report is particular to Philadelphia, others can easily apply a similar approach, used here to complete the landscape analysis and create the strategic plan, to many other initiatives and municipalities. The Lean Startup approach provides a path for starting a project on a limited budget and defining clear metrics to guide the project's growth in terms of scope and resources.

### **Preliminary Research: Defining the Opportunity and Assessing Feasibility**

As a first step, it was critical to establish whether an adequate localization opportunity existed prior to investing resources into a new initiative. It was also critical to determine whether anchors were ready, willing and able to participate in the work.

The Philadelphia City Controller's Office took the lead in studying the potential of a local anchor procurement strategy for Philadelphia. In 2014, the City Controller concluded that local hospitals and universities purchase a total of \$5.3 billion in non-salary spending, but only 52% of that amount is spent locally (Office of the City Controller, 2014). However, one cannot assume that the remaining \$2.8 billion can be localized. For example, an MRI machine can cost over a million dollars, but no MRI manufacturers exist in Philadelphia and starting up a new manufacturer borders on the impossible. For this reason, the Controller's 2015 report used actual purchasing data from local anchor institutions and compared it to the survey of local manufacturing capacity. The report concluded that out of \$531 million in funds available in sectors where Philadelphia had capacity (food, medical services, medical and surgical appliances, building services, among others), only 19% was spent locally (Office of the Controller, 2015). Increasing this spend by just 25% could result in over 5,000 direct and indirect jobs (Office of the Controller, 2015).

Having demonstrated the size of the local purchasing opportunity, a central question remained. Would local anchors be willing to participate in this initiative? In order to answer this question, the Controller's Office began convening quarterly meetings with procurement directors from several of the major non-profit education and healthcare institutions to discuss ways that they could increase local purchasing. Early results exceeded expectations. The institutions demonstrated willingness to commit staff time, share information, and think creatively about ways to localize their purchasing. The Controller's team also learned that there could be a strong business case for local procurement; for example, many hospitals send all of their medical laundry out of state, resulting in unnecessary fuel costs and increased risk of interruption to the supply chain. A local

medical laundry would not only create local jobs but could also reduce costs for anchors. These early meetings confirmed earlier research findings and encouraged the Controller to move forward with implementation.

### **Gap Analysis: Assessing the Assets and Gaps in the Philadelphia Landscape**

In order to develop a plan for Philadelphia's local purchasing initiative, the Controller's staff compiled a list of elements and best practices necessary for creating anchor purchasing collaboratives from institutions such as the Democracy Collaborative, Initiative for a Competitive Inner City and the Anchor Institution Task Force. This list was used to assess the local business landscape (supply-side), anchor institutions (demand-side), major suppliers such as Aramark, Staples, Vizient or Premier, which can represent as much as 80% of an institution's spend (supply chain integrators) and the presence of any convening or backbone organizations. Overall, Philadelphia has most of the key ingredients to implement a successful local procurement initiative. The most notable gap was the absence of a local backbone organization. Because of the landscape analysis, the City Controller's staff began a search for a suitable nonprofit to serve as an anchor collaborative backbone organization, resulting in PAGE's relocation to the Economy League of Greater Philadelphia. The following section provides a detailed look at the gap assessment.

#### **Local Business Landscape (Supply)**

The first step was to establish and quantify the business opportunity within industries utilized by anchor institutions. As was mentioned previously, there is at least \$530 million of capacity within Philadelphia's existing manufacturing sector (Office of the Controller, 2015). In particular, the Controller's report identified eight sectors with capacity to serve anchors: HVAC products, electrical equipment, furniture, facility commodities, medical equipment, laboratory equipment, paper products, and office supplies. Subsequent work with anchors has identified food and medical services as additional opportunity spaces.

Finding capable businesses is an important first step. However, using local purchasing to catalyze new business growth could produce an even deeper impact. The next part of the landscape assessment looked at technical assistance and capital provision, both critical to the creation and growth of businesses. Philadelphia is rich in resources when it comes to capacity building. The city is home to a variety of support structures for growing businesses. These range from university-based small business development centers to nationally recognized nonprofits. Just a few of them are The Enterprise Center, Philadelphia Industrial Development Corporation (PIDC), The Reinvestment Fund (TRF), Local Initiatives Support Corporation (LISC), and Finanta to business groups such as the Greater Philadelphia Chamber of Commerce (GPCC), the Delaware Valley Industrial Resource Center (DVIRC), and the Sustainable Business Network (Office of the Controller, 2015).

These organizations offer a variety of programs to help small businesses working with large, institutional clients: advising businesses on questions of legal structure, bonding and insurance, writing an RFP, and managing cash flow. However, the biggest service gap was the fact that no

programs connected businesses to new contracts, upon completion of their programs. A backbone organization or a local purchasing collaborative could fill that gap.

As with technical assistance, there are many sources of funding in Philadelphia. This, however, does not mean that there is sufficient funding. Generally, Philadelphia tends to lag other major cities in terms of funding. According to a survey done by Daily Business News, respondents considered lack of access to funds to be the number one barrier to small business success in Philadelphia (Uzialko, 2016). According to the Sustainable Business Network (2011), an average Philadelphia CDFI has \$4 million in loans available to businesses, compared to the national average of \$12.5 million. According to a more recent report by Pew, Philadelphia ranks thirteenth in the nation for venture capital invested, despite being the 6<sup>th</sup> most populous city (Pew Charitable Trust, 2017). Without a comprehensive capital scan, one can make only general statements about business funding in Philadelphia, but there is sufficient reason to expect that access to capital will be one of the challenges in the anchor procurement space.

#### Anchor Institution Landscape (Demand)

There are 34 traditional anchors (hospitals and universities) located in Philadelphia, with a total annual operating budget of about \$14 billion, of which about 38 percent, or \$5.3 billion, is non-payroll spending and therefore represents procurement opportunities for which a local vendor might be utilized. Of that \$5.3 billion in annual procurement opportunities, according to a 2014 report by the Philadelphia Controller, currently about 52 percent, or \$2.7 billion, goes to goods and services from local vendors (Office of the Controller, 2014).

In terms of community engagement, there is a significant range, based on interest, mission and available resources. Although University of Pennsylvania's community engagement efforts have been the most widely recognized, almost every hospital and university in Philadelphia has made efforts to connect with and serve their neighborhoods. The Controller's report detailed many examples of local engagement by Drexel University, Temple University, Thomas Jefferson University Hospital, and the Community College of Philadelphia, among others (Office of the Controller, 2015). More recently, Children's Hospital of Pennsylvania opened the South Philadelphia Community Health and Literacy Center, an innovative health, literacy and recreation center in 2016, providing another example of anchor investment in the local communities (Sapatkin, 2016).

Since the publication of the Controller's 2015 report, the most critical development in terms of anchor procurement has been the launch of Philadelphia Anchors for Growth and Equity, with funding from the City of Philadelphia, Children's Hospital of Philadelphia, Drexel University, University of Pennsylvania and Health System, Temple University and Health System, and Thomas Jefferson University and Health System. The institutions' early willingness to support financially the PAGE initiative clearly demonstrated their investment in local procurement work. Other institutions participating in PAGE include the Community College of Philadelphia, Einstein Healthcare Network, La Salle University, Peirce College, Saint Joseph's University, Salus University and the University of the Sciences.

In order to understand procurement from the anchor institutions' perspective, the City Controller's Office distributed a survey to all of the anchors listed above to learn about barriers, motivations and steps that anchors have taken to localize procurement. The survey yielded several interesting findings.

### *Barriers*

First, even when anchors are willing to participate in local purchasing, they face a variety of barriers external and internal, including a perceived lack of local companies with sufficient capacity, decentralized purchasing practices, high insurance, and bonding requirements required by their legal departments. Furthermore, the practice of issuing contract bids and RFPs to a small pre-screened group of companies excludes many potential local vendors. Moreover, managers had already encumbered up to 80 percent of an anchor's expenditures in long-term contracts with supply chain integrators, which are major companies such as Aramark or Staples that aggregated products and services from many smaller vendors. This places an intermediary between the institutions and their suppliers.

### *Benefits to Anchors*

While anchors participate in local procurement as a social impact initiative to improve the economy of their surrounding neighborhoods, the survey sought to identify specific benefits that anchors might receive from participating. In this regard, the vast majority (82%) stated that this work helps them become the 'provider of choice' for their community. Other benefits included meeting community-engagement goals, addressing the social determinants of health, increasing the number of competitive RFP bids and introducing flexibility into supply chains. Fifty-four percent of anchors surveyed also see local purchasing as a way to meet the diversity and inclusion requirements of certain federal grants.

### *Best Practices Implementation*

When it comes to local purchasing, most anchors have made significant headway in implementing national best practices. Most have completed a spending analysis, engaged all levels of staff and leadership, and improved some part of their bidding processes. However, areas for improvement persist. These include setting concrete goals, adding local purchasing staff and continuing to improve the bidding process. The following is a summary of findings from the best practices survey:

- **Defining Local:** 55% of anchors consider the City of Philadelphia as local, 27% use a "concentric" approach, with greater preference given to location closer to the anchor, while 18% have another approach, such as an immediate neighborhood.
- **Analyzing Spend:** 91% of respondents completed an independent purchasing analysis.
- **Local Targets:** Only two anchors reported setting specific local purchasing goals.
- **Leadership Buy-in:** Half of the survey respondents say that either executive leadership (25%) or senior management (25%) is championing local procurement. 31% of respondents say the role falls to middle management, while staff is the driving force for local purchasing at 19% of institutions.

- **Staffing Changes:** 36% of anchors created a new position in the procurement or the diversity and community outreach departments, 18% performed training with existing staff and 45% made no changes.
- **Engaging Staff:** When it comes to engaging employees who are not actively working on local or diverse purchasing, most respondents have no plan or resort to passive information sharing, rather than the more effective approach of training. To maintain staff engagement, 30% use communication such as announcements or newsletters, 30% perform ongoing training, while 40% do neither.
- **Incentivizing Localization:** 36% of anchors use only cost-reduction benchmarks to incentivize their staff. Forty-five percent use qualitative metrics, while the rest use a different approach. Nine percent reported changing performance metrics to accommodate for local procurement. However, some respondents pointed out that in cases where supervisors use qualitative criteria to evaluate performance, incentives may not be a barrier to local purchasing.
- **RFP Processes:** Modifying the bidding process to create room for local companies is critical to promote local purchasing. Philadelphia anchors report accelerating payment processes (18%), adding requirements to include local firms in every bid (18%), or ensuring that RFP announcements include local participation (9%). 55% did not amend the process. Several commented that they also include requirements for local subcontractors in RFPs.
- **Other Actions:**
  - Thirty-six percent adjusted current IT systems to support local purchasing.
  - Another thirty-six percent organized seminars for local businesses about the RFP process.
  - Thirty-six percent also collaborated with other organizations to promote local purchasing initiative (e.g. other anchors, local chambers of commerce, capacity-building nonprofits).
  - Twenty-seven percent made announcements to the local community to increase awareness and solicit bids.
  - Nine percent created or funded targeted capacity building programs for local suppliers.

The fact that most Philadelphia anchors have begun to implement many local purchasing best practices is the survey's most encouraging finding. Institutions are engaging staff and thinking creatively about ways to bring in more local companies. Next, institutions should continue building on progress in areas such as staff training and modifications to the bidding process, while addressing larger gaps, such as encouraging anchors to add dedicated staff, adjust incentives, and set concrete goals. A capable backbone organization might reliably provide some of these functions.

#### Major Suppliers Landscape (Supply Chain Integrators)

The anchor survey showed that frequently the majority of an anchor's spend is not direct, but rather channeled through supply chain integrators (SCIs). A comprehensive local purchasing strategy will need to engage SCIs in local purchasing efforts.

According to the anchor survey, more than half (55%) of the anchors establish minority/majority partnerships between a local firm that acts as the customer service "middleman" providing services such as desktop delivery and fulfilling emergency orders, with the large national SCI contributing their extensive catalog to the partnership. For example, Office Depot uses a local Tier I distributor, Telrose Corporation. In 2017, EMSCO (a local lab supply company) and Thermo-Fisher Scientific formalized a relationship to serve the University of Pennsylvania. Other common engagement strategies included encouraging SCIs to open a local facility (27%), amending RFP language to require local subcontracts and report on local spend (18%). Only one anchor has reported unbundling contracts (breaking contracts up into smaller pieces to be more accessible to smaller suppliers).

The primary takeaway is that in order to engage SCIs, anchors must invite them to the table. As major clients, anchors wield considerable power; this is another reason why a collaborative structure will produce more impactful results than individual institutional efforts. If an SCI hears that purchasing local is important to several of their clients, rather than just one, they will invest more significantly in developing "Buy Local" strategies.

#### Backbone Organization Landscape (Connecting Supply and Demand)

The biggest gap identified by the landscape assessment has been an absence of a backbone organization to coordinate an anchor collaborative. A backbone organization is a neutral convener that builds a network of anchors, businesses and support organizations; creates a common definition of local; researches and reports on best practices and facilitates matchmaking between the supply of local businesses and anchor demand (Burnett 2013).

Prior to PAGE, there was no operating collaborative in Philadelphia. For several years, the Greater Philadelphia Chamber of Commerce had convened the Supplier Network, which discontinued because of the difficulty of matching up interested small businesses with the right anchor opportunity (Philadelphia Chamber of Commerce, 2017). Two institutes at the University of Pennsylvania, the Institute for Urban Research and the Netter Center for Community Engagement have done research and created toolkits to help anchors engage in the community, but neither has taken an active organizing role (Mott, 2013). The Philadelphia Area Collegiate Cooperative is a proto-GPO, with members negotiating jointly to buy commodities such as bottled water and lab supplies at a lower cost. However, this group purchasing effort aims primarily to reduce costs, rather than any localization efforts (Association of Independent Colleges, 2017). University City District, an anchor-funded special services district, has engaged institutions in the West Philadelphia neighborhood, but not the entire city.

Based on the criteria an effective backbone organization, the Economy League of Greater Philadelphia is a natural for the role of a neutral convener. The Economy League has a long history of addressing critical issues facing Greater Philadelphia by providing impactful research, connecting diverse leaders, and advancing shared solutions. A board of about 60 of the region's leading firms and institutions oversees the Economy League, giving it the staff, experience, reach, and reputation for independence to perform the functions required by a backbone organization. For these reasons, in March of 2018, the Economy League launched Philadelphia Anchors of Philadelphia of Growth and Equity, based on the research and groundwork

completed by the Philadelphia City Controller (Khandros, 2018). The resulting strategic plan guides the development of the initiative within the Economy League over the next several years following the official launch.

### **Lean Startup Methodology**

Philadelphia possesses most of the critical assets necessary for the success of the Philadelphia Anchors of Philadelphia of Growth and Equity. However, by far the biggest outstanding need has been a convening or backbone organization; though several attempts have been made, none have lasted. Local purchasing initiatives face two particular challenges that can result in failure. First, although local procurement best practices are standard, the backbone organizations that implement them are not. For example, in Chicago, the initiators had raised all necessary funding before the launch of Chicago Anchors for a Strong Economy (CASE), while Cleveland did not create the Evergreen backbone organization until after two cooperative businesses had been launched. Each city requires a unique approach and arriving at that approach requires trial and error. This means that an effective collaborative has to incorporate failing forward into its strategy, so that the failure of one approach to local purchasing does not translate into the failure of the whole initiative. The second related challenge is that collaboratives must maintain credibility with their funders as they experiment and, in many cases, fail. The best way to do this is to scale slowly, only growing funding after an experimental strategy has proven to be successful.

Based on these parameters, the Lean Startup methodology proved to be the most fitting management philosophy for PAGE's strategic plan. Lean Startup is an approach that focuses on gradual growth using validated learning and provides a framework for selecting the most productive ideas out of a wide field of contenders.

The Lean Startup methodology, developed by Eric Ries, applies Lean Manufacturing concepts in order to address a staggering 75% failure rate among startups (Blank, 2013). It has revolutionized management thinking about launching new ventures. Prior to Ries' groundbreaking work, many startups followed the 'stealth mode' approach: raise all possible funding, perfect the product in secret, and launch with a big splash. This approach minimized the risk of idea theft, but it left companies vulnerable to assumptions made in their business plans. One wrong estimate could—and often did—spell crushing defeat. Instead, Ries advocates for validated learning by creating several iterations of a Minimum Viable Product (MVP), the simplest version of the product that allows a company to market test its underlying assumptions (Ries, 2011). The MVP can be a 'duct tape and paper clips' solution that does the bare minimum to meet product requirements on the lowest possible budget. The MVP should then be thoroughly vetted with potential customers, to gather feedback and learn whether the product is indeed viable, or if the company should pivot and try again. Using the feedback, the creators can invest more resources to create the next version. This iterative method makes it easier to raise funding at each stage, because each previous step demonstrates the value of the product. Ries (2011) calls this cycle of creating, evaluating and updating a product the 'Build-Measure-Learn' cycle.

The four main Lean Startup tenets that drive Philadelphia’s strategy are as follows:

- **Steady growth:** In its final form, the backbone organization will need significant technical and staff capacity to support high levels of local anchor purchasing. However, rather than fundraising to reach that capacity all at once, Philadelphia’s backbone organization should scale up slowly, learning at each step so as not to outgrow available resources.
- **Clearly defined theories:** Each growth phase needs to be associated with learning a specific lesson. Each phase should start with a clear theory to test.
- **Meaningful metrics:** Rather than settling for “vanity metrics”, metrics should accurately demonstrate the success or failure of a particular theory.
- **Disciplined approach:** If an initiative is not producing clear results and sustained growth, the startup should discontinue it. Do not settle for mediocre growth.

## Setting Goals

Ries introduces a valuable concept of distinguishing between “vanity metrics” and actionable metrics when setting goals. Vanity metrics are measures easily made to show an illusion of progress, without communicating meaningful information; in the PAGE context, a vanity metric might be the number of anchors participating in the initiative. In contrast, an actionable metric demonstrates progress towards a goal, such as new contracts awarded to local businesses. To determine the best metrics, one should begin with the end goals in mind.

What is the vision for Philadelphia? Discussions with stakeholders have yielded three general mission-related goals:

- Reduce poverty (via job creation);
- Improve racial equity (via wealth building);
- Improve the bottom line for anchor institutions.

In order to demonstrate its value to funders, supporters and stakeholders, PAGE has to demonstrate its ability to meet these four goals. Demonstrating that ability requires translating the vague goals into actionable metrics that can be impacted by an increase in local purchasing.

### Goal 1: Reduce Poverty

Measuring the creation of living-wage jobs serves as the best proxy for poverty reduction. With a poverty rate of twenty-six percent, approximately 400,000 Philadelphians live below the poverty line, of which roughly 210,000 are working-age adults (Pew Charitable Trust, 2017). To reduce the number of adults in poverty by one percent, the city needs to create 2,100 living-wage jobs. The Philadelphia City Controller estimates that for every \$100 million in additional local spending, roughly 5,200 jobs - or 1,200 direct and 4,000 indirect jobs - will result (Office of the Controller, 2015). Chicago Anchors for a Strong Economy (CASE) estimates that 4 jobs are created for every million dollars in additional local spend. The discrepancy is likely due to the fact that CASE estimates do not include indirect jobs. PAGE will use the average of the estimates by CASE and the Philadelphia Controller (1 new direct job and 1.5 new indirect jobs for every \$150,000 of new local spending) to track its poverty reduction impact.

## Goal 2: Improve racial equity via wealth-building

While PAGE is not able to build wealth in terms of pension or investments, it can do so by supporting minority entrepreneurs with procurement contracts. A simple measure for wealth building is the total contract dollars channeled to certified minority-owned firms. One way to approach goal setting is to compare the number of contract dollars directed to historically disadvantaged enterprises to the number of such "ready, willing and able" enterprises in the MSA. According to the 2017 disparity study released by the Philadelphia City Office of Economic Opportunity, "ready, willing and able" M/W/DSBEs in Philadelphia represented 26.3% of all businesses; that number should be used for setting the minimum purchasing for PAGE, with the potential for setting more ambitious goals as the project develops (Annual Disparity Study, 2017).

## Goal 3: Create sustainability through bottom-line impact

Although the principal reason for most anchors to participate in local procurement initiatives relates to mission, in the long term a successful initiative must wed social and bottom-line impact. An economic downturn or a major legislative change (such as the repeal of the Affordable Care Act) could place significant budgetary pressures on anchors, leaving programs that do not justify themselves on a cost-benefit basis vulnerable.

Thus, in order to ensure sustainability of the Philadelphia Anchors of Philadelphia of Growth and Equity, leaders must make a business case for local purchasing. This can be done in several ways. In the most direct way, this means that every new business added to the supply chain must either improve the anchors' financial bottom line or provide value in another form (for example through better service or increased convenience). To track this goal, as spending data arrives from various institutions, management should compare it against spending prior to the initiative, and against spending amounts afterwards on categories where they connected with local suppliers. Interviews with anchors should supplement this information. The goal, in this case, should be either lower or flat costs for targeted categories. Indirect benefits such as increased safety, improved employee and student recruitment, ease of meeting grant requirements and improvement of neighborhood can also be included in the business case through measures such as reduced security costs, reductions in recruiting and training expenses or administrative expenses.

Each of the four goals has implications for the operation of PAGE. The poverty reduction goal implies the creation of a 'first source' hiring policy that privileges hard-to-employ Philadelphians as new jobs are created. Valuing racial equity means running the localization work in a way that helps, rather than hinders, existing supplier diversity initiatives. Improvement of local economy means that while contracts with local anchors will make a big impact, the longer-term goal is to utilize local demand to create opportunities for local firms to win larger contracts with SCIs, thus resulting in the export of local goods and services beyond Philadelphia. The sustained increase in local purchasing implies that this has to make business sense. That in turn implies that local companies have to be able to compete on the merit of their price, product, and service, and anchor institutions as well as their major SCIs have to embed local purchasing into their standard

business practices. These implications combined with best practices research from national procurement initiatives form the framework for the strategic plan. The backbone organization should monitor these goals and evaluate each initiative against them.

## **A Strategic Plan for Increasing Anchor Procurement in Philadelphia**

The strategic plan's structure conceives of three areas of work. The section that covers the backbone organization discusses how PAGE grew from an informal convening to a formal initiative housed at the Economy League of Greater Philadelphia. The supply section presents strategies that PAGE staff will use to identify capable local businesses and grow new businesses to capacity. Finally, the demand section discusses actions that anchors can take to increase their demand for local goods. Each of the sections roughly corresponds to the Build-Measure-Learn cycle of the Lean Startup methodology.

### **Building a Backbone Organization to Connect Supply and Demand**

**Expectation:** Philadelphia's biggest resource gap has been the absence of an organization committed to working exclusively on localizing anchor procurement. In the first iteration of this project, PAGE began as an informal operation out of the City Controller's Office as an early market test to find out whether local anchors would work cooperatively, share information and shift their procurement practices to create opportunities for local purchasing. If the anchors found this work valuable, they would ultimately be willing to provide seed funding for the launch of the program.

**Process:** PAGE started by convening purchasing officers from Philadelphia's major nonprofit education and medical institutions under the auspices of the City Controller's Office. The earliest evidence of the anchors' willingness to cooperate was the near-perfect attendance at the meetings. Institutions were open, cooperative and creative when it came to making suggestions for ways to localize purchasing. When the City Controller proposed an in-depth study to quantify the potential economic impact of an effective anchor procurement strategy, the largest anchor institutions shared comprehensive purchasing data sets.

**Measure and Learn:** Once PAGE evolved from a research concept to a program, it outgrew the City Controller's Policy Unit and needed to move to a new organizational home, which would require participating anchors to step in as investors in the program. Because the institutions saw value in the approach, the City of Philadelphia's Commerce Department, Children's Hospital of Philadelphia, Drexel University, Temple University and Health System, Thomas Jefferson University and Health System and the University of Pennsylvania and Penn Medicine all financial commitments to PAGE, providing the seed capital to begin implementation.

Following the launch, it will be critical to keep track of the return on investment. Long-term sustainability will require proof that donated funds are translating into local jobs paying a living wage, increased tax revenues, and benefits for participating anchors. It will be tempting to focus on vanity metrics such as membership or website traffic but discipline in evaluating success will be required for long-term viability. The rest of the plan focuses on strategies for PAGE to achieve these goals.

## **Finding, Growing and Building Capable Local Businesses (Supply)**

In order to localize anchor purchasing effectively, PAGE needs to create a steady pipeline of anchor businesses. The first step is to identify capable businesses and connect them to anchor opportunities. PAGE will test several strategies to identify capable businesses. These include identifying and sharing lists of current anchor suppliers and creating a capacity screening mechanism to evaluate businesses that do not have recommendations from major clients. Next, PAGE will look for ways to grow businesses to capacity by creating shared service solutions for hospitals and connecting businesses to capacity building programs. Finally, PAGE will look for ways to catalyze the creation or attraction of new businesses.

### **Capturing Existing Capacity**

*Strategy: Create a database of local businesses with capacity.*

**Expectation:** During informational interviews, several procurement directors expressed a desire to see a comprehensive directory of all qualified, local businesses to facilitate their localization efforts. This phase will test the hypothesis that one of the reasons that anchors do not use local businesses is that they do not have a comprehensive list of capable businesses.

**Build:** PAGE staff will collect lists of existing, local suppliers serving anchors, and compile them into a searchable database. Staff may enhance this list with additional businesses from local business support organization. The ‘minimum viable product’ will be an Excel or an Airtable database, but as the backbone organization grows, the list should expand into an easily accessible online platform.

**Measure:** As far as measurement, businesses with new contracts or new revenue and new jobs are useful metrics of success. Growth and change in database usage patterns will be another indicator of success or failure; for example, if growth plateaus too soon that is a likely indicator that anchors reviewed the database, but ultimately did not find it useful.

**Learn:** Two lessons are critical during this phase. First, the Controller’s 2015 report identified eight industries with capacity to serve anchors by looking at high-level manufacturing data. Compiling a list of actual companies will test the report’s conclusions in practice by determining whether companies with capacity exist and can meet anchor needs. Second, creating a comprehensive list of local companies will test the initial assumption that anchors do not use local businesses due to a lack of information. If sharing this information with anchors does not produce meaningful results, the PAGE team will investigate further barriers to local purchasing.

*Strategy: Screen new companies for capacity*

This structure can also inform the second strategy for identifying capable businesses: developing a capacity screening mechanism for businesses. If the expectation is that a screening mechanism will effectively identify capable businesses, then a higher percentage of screened businesses

should successfully compete for anchor contracts, as compared to those unscreened. The mechanism can be refined over time via the ‘build-measure-learn’ cycle.

### Growing Promising Businesses

*Strategy: Work with existing entrepreneurs to create shared services*

**Expectation:** Anchors are willing to cooperate with each other, but competitive pressures have prevented potential joint projects from moving forward. An external convener will be able to bring competitive institutions to the table over non-competitive or commodity products and services.

**Build:** During meetings in 2015 and 2016, procurement directors identified medical laundry as a potential opportunity for localization. Several of the hospitals were shipping all of their laundry (nearly 20 million pounds) out of state to Maryland and New Jersey, because there are no medical laundry facilities in Philadelphia. This practice added unnecessary fuel costs and risk to the supply chain. Building a local laundry would create as many as 100 jobs and reduce cost and risks for the participating hospitals. A local entrepreneur considered, but eventually passed on the opportunity, and PAGE is currently in the process of identifying a company interested in taking advantage of this opportunity, as well as convening investors, real estate companies and support organizations. The medical laundry will be the first test case for joint projects strategy.

**Measure:** With joint projects catalyzed by PAGE, the measure of success will be whether the project (e.g. medical laundry) goes forward and achieves financial sustainability. Local jobs created will be another measure of effectiveness.

**Learn:** Anchors have already identified several other promising joint endeavors, including a medical supplies sterilization plant, kit and tray assembly, and a local produce processing center. The success of these projects will hinge on the willingness of anchor institutions to commit a critical volume of spending to catalyze the creation of a new project. It will be important to test if, following the initial brainstorming stage, anchors commit resources to the creation of a given project.

*Strategy: Provide capacity building, capital and workforce training to help promising companies reach capacity.*

The landscape analysis demonstrated that many business-support organizations in Philadelphia could provide consulting services, low-interest financing, as well as a trained workforce via a variety of training organizations. If in the process of identifying capable entrepreneurs, the PAGE team finds promising companies that are not yet large enough to serve anchors, the team can connect them to capacity-building programs. The PAGE team should measure the effectiveness of these programs by seeing whether companies reach the requisite capacity upon completing the training.

## Building New Capacity

Expectation: Once existing businesses have connected to anchors, and companies that could and wanted to shift direction have taken advantage of existing opportunities, the remaining step is the creation of entirely new businesses.

Build: There are two possible approaches. First, PAGE may take the approach of Evergreen Cooperatives and facilitate the creation of cooperatives or other forms of employee ownership (e.g. ESOPs) that can source a high volume of cheap commodities or provide basic services for anchors while building community wealth. Another approach would be the one recommended by the Brookings Institution: to use the research dollars and purchasing power of anchors to incubate innovative technology and health start-ups. PAGE could collaborate with The University Science Center to pursue this business-creation approach.

Measure and Learn: At this stage, the PAGE team will test whether PAGE's existing programming can facilitate the creation of new businesses. In the short term, the attraction of entrepreneurs to opportunity spaces discovered by PAGE will indicate success. In the long term, total jobs, years to reach profitability, total new investment dollars and revenues created will help provide the measure of success for the initiative.

## **Shifting the Purchasing Behavior of Anchors (Demand)**

Expanding local supply is an important step to increasing local procurement, but the internal systems work done by anchors will be critical as well. Fortunately, Philadelphia anchors have already shown extensive commitment. The first step recommended by best practices literature, a detailed analysis of institutional spending, most of the anchors have already completed. Additionally, by committing staff time to the Controller's quarterly meetings, anchors have identified several joint projects, shared information about their largest vendors and provided survey data about internal barriers. The institutions have also enabled the continuation of this work by funding PAGE at the Economy League.

To build on this preliminary work, anchors should implement local purchasing best practices to reduce barriers and increase the number of contract opportunities for local businesses. The survey issued by the City Controller can help provide the baseline for policies that they should implement. In the spirit of the Lean Startup methodology, the Economy League has divided best practices into easy-to-implement, medium and challenging. Anchors should begin with the easiest to implement policy changes, to demonstrate their effectiveness, and build up to more complex shifts after securing deeper buy-in with leadership and staff.

## *Setting Goals and Communicating the Commitment to Local Purchasing*

Expectation: The act of setting goals and communicating them internally and externally should yield early results in terms of increased local purchasing.

Build: First, it is critical to build support for PAGE within each anchor institution. Anchors can begin financially supporting a backbone organization through fees or in-kind support.

Next, anchors should set concrete local purchasing goals and share them with all levels of staff, and every purchasing decision maker, including departments beyond procurement such as Information Technology, Facilities and Legal Departments. Securing their buy-in can help further organizational procurement goals. Finally, they could also hire or assign a dedicated staff person to coordinate local purchasing efforts.

Anchors should also communicate these goals externally to current SCIs and other large vendors, via a group letter or meeting. For an added level of accountability, anchors should add local purchasing language into new RFPs.

Measure: Setting concrete spend goals will allow anchors to measure the effectiveness of local purchasing strategies. Additionally, this is the time to develop a policy checklist based on national best practices and to determine how an institution's internal policies compare, and set policy implementation goals as well.

Learn: This phase will serve as a litmus test for internal buy-in, and for the openness of an anchors' major suppliers. If institutional leaders receive considerable push-back, they should use the opportunity to gain a deeper understanding of institutional barriers to local purchasing and develop strategies to address those barriers.

#### *Making Improvements to the RFP Process*

Expectation: The biggest internal barrier and consequently most important change an anchor can make is improving the RFP process.

Build: Following on the changes from the first phase, anchors can deepen their commitment by improving the RFP process. They can start by regularly sharing data with PAGE and providing a forecast of upcoming contract opportunities. They can provide an option for accelerated payment or work with capital provision agencies to ensure cash-strapped businesses have access to bridge capital. Lastly, anchors can commit to adding at least one local company to the list of vendors invited to participate in a bid or making RFPs public. An even deeper level of commitment would be to invite local vendors to participate in shaping the RFP to maximize their chances of meeting the requirements.

Measure: Measures of success for amending the RFP process can include total dollars and number of contracts flipped to local companies.

Learn: PAGE staff have identified many potential barriers to local purchasing. Addressing each of them in turn will allow stakeholders to determine which produce meaningful outcomes and significantly increase local purchasing, and discard the strategies that sound impactful, but do not produce results.

### *Engaging Supply Chain Integrators*

**Expectation:** Supply Chain Integrators (SCIs) are companies that aggregate the goods and services of smaller providers and sell them as a bundled contract. For example, Staples and Office Depot do not manufacture printers, paper and other office supplies; instead, they aggregate products and service offerings from hundreds of small suppliers into a catalog, streamlining purchasing decisions for their large clients. As has been mentioned earlier, a comprehensive local purchasing strategy needs to incorporate SCIs, because they frequently comprise more than half of all purchasing done by anchors. In order to sell to Philadelphia anchors, many local businesses will need to become suppliers for SCIs first.

**Build:** There are three main strategies for engaging supply chain integrators. The first is working with them to establish minority/ majority or Tier I/ Tier II relationships with a local firm. The second is creating joint projects, such as the medical laundry. Finally, local businesses with competitive products and pricing may be able to sell directly to Supply Chain Integrators.

However, SCI can frequently be reluctant to engage in local purchasing work, because of existing relationships with national suppliers or a reluctance to share the revenue from a given contract. For this reason, using the entire collaborative, as opposed to individual anchors, to engage SCIs can be a particularly effective strategy. Anchors can do this by speaking with their sales reps, and by writing local purchasing and reporting requirements into major RFPs. By encouraging all anchors to communicate the value of local purchasing, PAGE amplifies its importance to SCIs.

**Measure:** As with other strategies, anchors should track the number and dollar amount of localized contracts to identify the most effective strategies.

**Learn:** By including local purchasing language into RFPs and continually engaging SCIs, PAGE and anchor staff could discover new localization strategies that they had not even considered. Local businesses could also get the opportunity to ‘export’ their goods beyond the Philadelphia market, if they gain access to SCI catalogs.

### *Completing the Best Practices Checklist*

**Expectation:** The early wins from the first two phases should provide examples that can be used to create a strong business case and social benefit case for local procurement, paving the way towards additional substantive changes.

**Build:** During this phase, anchors should tackle the most challenging barriers. For example, anchors can start moving certain contracts from SCIs to the minority partner business. Alternatively, anchors can disaggregate certain contracts in order to commit more dollars locally. Another barrier to address is insurance requirements; anchors can reduce these for some vendors, or identify partners that can act as ‘umbrella organizations’ to smaller companies. This is also the phase to review the policy checklist and ensure that local procurement plays its part in the incentives, training and values of the institution.

Measure and Learn: The policy indicator developed during the first phase should guide assessment of institutional progress at each stage. Additionally, the anchors should be tracking both the overall increase in local purchasing, as well as the rate at which it is growing, in order to pinpoint particularly successful policies.

## **Lessons**

Following the Lean Startup methodology has helped Philadelphia Anchors for Growth and Equity achieve early wins and gain credibility with funders, stakeholders and supporters. This approach will be critical as the initiative grows and begins seeing both disappointments and results from attempting various localizations strategies. The following are the key lessons from the early stages of PAGE:

- Clearly and credibly defining the value of a local purchasing initiative in terms of dollars and jobs created was the spark needed to catalyze PAGE. The sound methodology of the City Controller’s 2015 report convinced anchors and funders to begin the conversation. The staff still uses the document, three years later.
- No local purchasing collaborative is alike. While best practices documents provide helpful guidance, each new initiative should start with an analysis that identifies their locale’s unique assets and challenges.
- Anchors buy as much as half of all of their products and services with Supply Chain Integrators. Engaging SCIs is critical to any comprehensive local purchasing strategy.
- It is possible to secure early wins without expending many resources. Early meetings conducted by the City Controller yielded ideas, such as the medical laundry, and connection, such as the relationship between EMSCO Scientific and Thermo-Fisher Scientific, that helped produce early results that demonstrated the effectiveness of PAGE.
- When setting goals, it is important to distinguish between “vanity” metrics and actionable metrics, in order to determine the effectiveness of an initiative.
- Including experimentation into a collaborative enterprise’s strategic plan ensures that as certain strategies fail, the overall initiative does not, ensuring resiliency.
- Clearly outlining what the organization hopes to learn from each experiment ensures that every experiment adds to institutional learning and increases the chances of future success.

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