Best Practices, Opportunities and Strategies for Competitive Bidding: A Focus on Diversity and Inclusion

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Executive Summary

The Massachusetts Port Authority and Massachusetts Convention Center Authority opened a Request for Proposal seeking bids for the development and operation of the so called Headquarters Hotel Project in the Seaport area of the South Boston’s Waterfront area (Massport RFP, 2014). Successful proposals were evaluated on four criteria: 1) demonstrated ability to successfully execute the project, 2) plan that minimized public financial support, 3) design and program and, 4) comprehensive diversity and inclusion. More specifically, each criterion was weighted as 25% out of a 100% value. One core aspect of the proposal, diversity and inclusion, focused on promoting engagement with diverse investors from various ethnic and racial groups as well as Minority and Women Business Enterprises (MWBE’s) across the four criteria (Massport RFP, 2014). This brief analyzes past proposals submitted with a diversity and inclusion component that exhibit complementary requisites with the Port Authority proposal. It begins by outlining the Port and Convention Center Authority’s requirements for submitting a successful project proposal. The brief documents the increase of minority populations and provides a synopsis of current state spending on supplier diversity programs. Following, it details information about the number of minority and women owned business in the state. Next, it focuses on the importance of economies of scale for minority and non-minority firms as a tool for economic security. It then discusses three examples of best practices and strategies for drafting competitive bid proposals from a diversity and inclusion perspective. Also highlighted are key elements of competitive advantage that are integral to leveraging economic opportunity for minority businesses to curtail economic disenfranchisement and building shared prosperity. Lastly, it focuses on contrasting three competitive proposals for diversity and inclusion with the merits of Massachusetts’ Port and Convention Center RFP.

Criteria of Massachusetts’ Port and Convention Center RFP

There are four main categories and points for consideration that the Request for Proposal (RFP) uses to determine what a successful bid looks like. 1) 25 points are awarded based on an organization’s capacity and skill to successfully complete the project, 2) 25 points are given to proposals that show a limited reliance on public assistance, 3) 25 points are issued to a bidder that includes a rigorous diversity and inclusion plan in the development, financing and participation of the project and 4) 25 points are awarded to bidders who exemplify a plan that
includes a brilliant design and program structure (Massport RFP, 2014).

First, under project completion the proposal outlines that organizations and team participants should describe the strengths of their finance plan while discussing sources and uses of various debt, equity and capital structures. It also calls on bidders to outline the hotel brand characteristics and the operator’s role in complementing the execution of the project. Second, limiting the amount of required public assistance entails defining a favorable ratio of private to public investment while establishing streams of rental value to Massachusetts’ Port Authority. Third, the diversity and inclusion component calls for bidders to detail programs and training that promote multiracial investment opportunity, workforce development, secure minority firms as parties to the design and professional roles and identify diverse contractors and subcontractors who would work on and bring their workforce to the project. This third section also describes the importance of having community involvement in the process as a precursor to strengthening individual commitment to the project. It also requires a proactive approach to reducing labor strife and hiring Boston residents for construction who are classified as MWBEs.

Finally, the design and construction element focuses on prior records of excellence in hotel construction and design; intelligible architectural plans; conceptual understanding of how to best maximize use of the land parcels and an outline describing a long term view of the project’s feasibility and stabilization (Massport RFP, 2014).
The Nature of Minority Owned Firms

Minority owned firms represent a growing share of the United States (U.S) economy. They are responsible for nearly $1 trillion in financial output and create over six million jobs annually (NMSDC, 2014). Minorities make up 35 percent of the population and by the year 2043 they are expected to be the majority population (NMSDC, 2014). The changing characteristics of the business economy and climate are essential in leveraging the growth of the U.S economy. Likewise, the demographic compositions of business owners provides an understanding of how to measure and absorb the economic potential and well being of a nation’s economic output and investment potential (Lichtenstein 2014).

Massachusetts recognizes the importance of leveraging diversity and inclusion amidst the changing demographic profiles of the country. In 2010, the state established the Supplier Diversity Program (SDP) to promote economic growth, equal opportunity and business vitality for Minority and Women Owned Business Enterprises (MWBEs) in public contracting (SDO, 2015). Since 2012, Massachusetts spending on goods and services to support MWBEs has increased. In 2014, spending rose to $38.6 million, which represents a 5 percent increase from 2013 (See Graph 1 below Massachusetts Supplier Diversity Expenditures).
Massachusetts Supplier Diversity Expenditures

<table>
<thead>
<tr>
<th>Year</th>
<th>MBE</th>
<th>WBE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$578,854,638</td>
<td>$243,338,712</td>
</tr>
<tr>
<td>2013</td>
<td>$554,177,590</td>
<td>$229,169,152</td>
</tr>
<tr>
<td>2014</td>
<td>$574,818,148</td>
<td>$247,150,817</td>
</tr>
</tbody>
</table>

Source: Operational Services Division, Supplier Diversity Office 2014 Annual Report

As of 2014, there were 1,817 women owned certified businesses and 1,114 minority owned business in the state (See Graph 2 Massachusetts Number of Minority Firms). Of the 1,817 women owned businesses, 306 were MWBEs (OSD, 2014). To encourage the growth and opportunity in public contracting, Massachusetts provides MWBEs in both the private and public sector with pre-certification workshops to advance work opportunities with the state.

Graph 2

Massachusetts Number of Minority Firms

- Minority Women Businesses: 306
- Minority Owned Businesses: 1,114
- Women Owned Certified Businesses: 1,817

Source: Operational Services Division, Supplier Diversity Office 2014 Annual Report
Building Strategy and Beneficial Economies of Scale

Strategic relationships are integral in ensuring that bid proposals are effective. These relationships encompass an array of partners in the financial, design, construction and supply operations side of the hotel industry. When conducted appropriately, strategic relationships result in significant cost savings for private and public commercial developments (Pattini 2006).

Another reason the relationships are important is because the company or organization conducting the bidding or formulating the contract will gain a degree of competitive advantage over an organization that does not employ strategically sourced relations (Pattini 2006). Notwithstanding, MBEs have a higher rate of loan denials and pay higher interest rates than white owned businesses even in cases of favorable credit status (Robb and Marin 2013). Minority and women businesses have less capital on hand at the start of their business and in subsequent years than their non-minority counterparts (Robb and Marin 2013). This makes strategic relationships crucial for MWBEs. The benefits of strategic relationships and sourcing activity are realized in diverse supplier systems with quality products, services and affordable pricing, which are garnered through shared cost mechanisms and the pooling of debt, equity and capital investments to manage fixed and variable costs (Robb and Marin, 2013).

Similarly, strategic sourcing with a focus on maximizing MWBEs, results in promoting transactional buying power. Transactional buying power refers to the daily purchasing of materials to conduct hotel operations and leveraging the delivery of products and services (Pattni 2006). The inclusion of MWBEs that have a lower cost operating tangent compared to large firms promotes differentiated centers of cost and profit margins (Pattni 2006). Therefore, strategic sourcing of MWBEs functions as a systematic supply chain that incentivizes planning among partners, supply managers and strengthens organizational objectives, which contribute to optimizing construction and integrating service operations (Pattni 2006).

Positive Practices and Attributes of Competitive Bidders

Companies that exhibit competitive traits of successful bids have a pattern of integrating elements of strategic sourcing in common. There are three main bids that showcase a comprehensive approach to fostering diversity and inclusion in the construction industry: 1) Wynn Resorts LLC, 2) The Live! Hotel and Casino Project in New York and 3) the Hollywood Casino and Hotel in Springfield MA.
Wynn Resorts LLC proposed a $1.6 billion project in Everett Massachusetts. The benefit to the community includes 4,000 jobs at the time of construction, 4,000 guaranteed jobs for the hotel operations and a further 1,800 indirect jobs. Wynn Resorts hopes to generate millions in capital contributions to boost transportation and infrastructure improvements (Wynn LLC 2015).

Wynn’s approach to incorporate diversity and inclusion is positive. Their proposal includes promoting opportunities for Minority, Women, and Veteran Business Enterprises (MWVBE). For example, they define a “qualified spend” to be allocated to MWVBE firms outside Wynn’s construction team. Another strong factor in Wynn’s proposal is that they limit their partnerships to recognized and certified MWVBE’s like: Massachusetts Supplier Diversity Office (SDO), Greater New England Supplier Development Council (GNEMSDC), Women’s Business Enterprise National Council (WBENC) and the Minority General Contractors Division of Licensing for Veteran Business Affairs (Wynn LLC, 2015).

Wynn LLC supports a strategy that identifies consultants, unions, architects, contractors and sub contractors from local communities while championing the inclusion of a minority workforce. Two examples of their strategy include: defining diversity tenets for their contract agreements and conducting oversight and reports to meet specified objectives. For example, they establish a diversity coordinator who reports to the project lead, local community members and certified partner MWVBE agencies (Wynn LLC 2015). In the same way, they proactively struck a partnership with the Boston Metropolitan Building Trades Leadership Council to devise strategies for recruitment, training and outreach for MWVBE’s in the construction trades (Wynn LLC 2015). Below is a table showing Wynn’s target hiring for MWVBE’s in the design and construction phase.
Table 1: Wynn LLC Design, Construction and Workforce MBWVE’s goals

|                        | Consultant/Contractor Participation | Contractor Participation/Construction | Workforce Participation %
|------------------------|--------------------------------------|--------------------------------------|------------------------
| Minority Business Enterprise | 7.9                                  | 5.0                                  | 15.3                   |
| Women Business Enterprise   | 10                                   | 5.4                                  | 6.9                    |
| Veteran Business Enterprise     | 1                                    | 1.0                                  | 0                      |
| **Total Percentage**     | **18.9**                              | **11.4**                             | **22.2**               |

Similarly, the Live! Hotel and Casino proposal in New York shares elements of Wynn’s intent to cultivate equal opportunity through identifying construction and supplier vendors in the construction phase of the project (NY, 2014). The hotel project identified two companies to serve as joint ventures, Cordish and Penn National Gaming (NY, 2014). The two firms were chosen for their exposure and experience in working with diverse population groups, specifically MWVBE’s to enhance economic development nationally (NY 2014). One unique aspect of the New York Plan was the formulation of an incentive based program with Live’s construction management entity. The project provides a proportionate fee and a base fee if the construction firm meets goals such as finishing the project on time and budget, but also in comprehensively creating and overseeing a rigorous diversity plan (NY, 2014). The project requires using MWVBEs that have been certified by the state of New York (NY 2014). However, the involvement of minority firms is not solely contingent on state certification. The Casino proposal recognizes federal or national certifications to create investment avenues for quality focused neighboring minority firms regionally and nationally.

Moreover, it establishes strategies to increase partnerships and opportunities for MWVBE employment prospects. For example, it describes an educational plan to inform stakeholders about construction opportunities with local business organizations; creates mentoring outlets with its contracted construction firm; builds efficient pay systems to reduce cash flow delays with small participating minority businesses and offers support in the
application licenses and certifications to ensure legal compliance (NY 2014). Since the project includes a casino, the proposal describes a joint partnership with New York’s Gaming Commission to develop an affirmative action plan and a diversity committee made up of local residents, MWVBE’s, project and construction managers (NY 2014).

Both the Live Hotel and Wynn proposals serve to create new partnerships that promote awareness among working firms and in the process socialize individuals and organizations to diversity initiatives. The interaction of firms on culturally diverse platforms engenders positive and distinct characteristics of job design and intergroup collaboration (Richard, 2000). As a result, controlling and eliminating biases while building minority perspectives, will revitalize business systems, industry standards and bolster economic growth (Richard 2000).

Furthermore, Springfield Gaming and Redevelopment LLC and the Penn National Gaming Commission put together the Hollywood and Casino project proposal (Springfield 2012). They created a diversity and inclusion plan for construction and operations that stimulated economic opportunities for vendors, suppliers and employees from vulnerable population groups. However, their plan did not include the support of Veteran business and instead focused on Minority and Women Business Enterprises. The plan mentions the appointment of a diversity consultant and creation of a diversity committee comprised of senior construction and procurement officials (Springfield 2012).

In the same way, the Springfield proposal outlines a complementary strategy to the other aforementioned proposals. Their strategy includes four key factors: 1) Construction, 2) Procurement Vendor Purchasing, 3) Employment and 4) Community Involvement. Under the construction component of their strategy, Springfield describes working with the Massachusetts State Office of Minority and Women Business Assistance, Minority Business Development Agency (MBDA) the state Office of Economic Opportunity, SDO, GNEMSDC and other organizations to increase its pool of MBE and WBE contractors and suppliers (Springfield 2012). They call for all contractors seeking to be involved in the project to have a diversity strategy which outlines goals for including MWBE firms (Springfield 2012). The procurement, employment and community involvement requisites touch on enhancing relationships, providing training programs to harness individual skills and professional advancement in the trades, unbiased access to contract bids and purchases and cementing ties with community organizations that represent underserved population groups (Springfield 2012).
Altogether, the three proposals provide a comprehensive rubric for engaging and building opportunities for minority, women and veteran business enterprises. These strategies are geared to creating a constellation of service delivery between public, private business and government agencies. As a result, the strategies proactively ensure that involved parties are meeting proposal requirements and in the process building strong relationships that endeavor to stimulate economic prosperity and opportunity for all state residents.

**Pioneering Supplier Diversity and Competitive Intelligence**

The implicit rationale behind diversity and inclusion is based on promoting economic opportunity for marginalized groups and communities. Consider that women and minority firms have shrinking opportunities to access lucrative construction sector networks (Kymn 2014). Consequently, MWBEs are relegated to operate in lower revenue sectors like retail with barricaded access to financially rewarding social capital networks (Kymn 2014). However, from a business perspective, the recent paradigm shift to include MWBEs means they are poised to enjoy bigger economies of scale in the long run and shared success with larger firms. This is because the process of minimizing differences between firms and sharpening supply ventures in new business opportunities yields creativity that fuels economic growth as cost burdens flatten out (Thomas, 2004). The relationships private and public businesses form with MBWVEs provides an expanded customer set, which allows firms to segment the tastes and preferences on new clients and increase revenues.

Tier 1 and Tier 2 supplier diversity procurement relationships are examples of business relationships that yield positive returns by encouraging minority supplier buying power. A Tier 1 supplier is a company that provides its client company with resources and services (Charles 2015). A Tier 2 supplier is a minority or woman owned enterprise that provides the Tier 1 company with goods and services it sells to its clients. But, the Tier 1 supplier is not necessarily a MBE firm (Charles 2015). The Hackett Group reports that firms who leverage and adopt supplier diversity purchasing structures enjoy a 133 percent return on their total costs. This contributes additional revenue of $3.6 million to their bottom line for every $1 million spent in operational costs (Hackett, 2006). Consequently, the new spheres of influence promote positive frontiers of “constructive disruption” that amplify business strategies and engender lasting economic impact (Thomas 2004, pp. 2-3).
According to the Diversity Best Practices member poll (See Graph 3 Characteristics of Supplier Diverse Firms), organizations and business leading the way in supplier diversity had the following characteristics: 57.1 percent had a global presence, 71.4 percent were a member of the National Minority Supplier Diversity Corporation (NMSDC), 100 percent had a supplier diversity program and 50 percent had a supplier diversity strategy that was intertwined with a procurement plan (DBP 2014).

Graph 3

Contrasting Diversity and Inclusion Practices with Massport’s Approach

Although the three examples discussed above have positive merit in their approaches to promoting diversity and inclusion, Massport’s focus is stronger in conception and practice. Massport’s RFP offers specific targets such as, requiring the establishment of goals and asking that applicants provide timelines and strategies for meeting outlined objectives. They establish a grading point system of equal weight and measure to communicate the importance of each category and define how proposals will be scored. The other proposals do not offer metrics of success. However, only Wynn resorts mentions the inclusion of Veteran business in their diversity objectives. An important characteristic that Massport offers and none of the comparative proposals mention is the ratio of debt and equity as it relates to state public financing. The focus of reducing state public investment encourages teams, organizations and
other applicants to think innovatively about leveraging private investors. The approach works to channel outside investment which adds to strengthening and boosting economic growth in the state. Unlike the other proposals, Massport’s RFP explicitly states that participants of the project must be individuals and business who have been “historically underrepresented” in the past and missed out on large hotel construction bids (Massport RFP 2014).

Nonetheless, there are similar attributes among the proposals and Massport’s approach. All the proposals call for:

- Participation of minority and women firms in the construction and design phase;
- Development and utilization of training programs to encourage skilled workforce development among MWBEs;
- Procurement plans that champion and include engagement with MWBE supplier firms;
- Community and outreach tactics to promote project buy-in and
- Augmenting service delivery between private, public businesses and government agencies.

Despite the minor differences, the proposals seek to promote the six C’s of business supplier diversity. (i) Customers—securing different target audiences aims to broaden business networks by providing new clientele for increased market share. (ii) Competition—the practice of strategic sourcing and cost cutting serves to scale up operations and builds innovative ways of segmenting individual target markets (Pattni 2006). (iii) Community—as more firms become engaged in the market place, they contribute to employment spillovers, economic opportunity and improve the quality of life for people in underserved communities. (iv) Customization—like competition, the interaction of traditional businesses with MWBEs pivots firms to acquire useful knowledge that adds to their operational capabilities and excellence. (v) Compliance—the act of mandated state practices ensures that all businesses involved in the practice of supplier diversity are held to the same standard. This reduces negative backlash in the form of financial penalties and encourages data gathering to evaluate diversity programs (Nielsen 2012). (vi) Costs—the greater the number of diversity firms in the market place, the higher the level of competitive pricing. In turn, businesses enhance their individual bottom line as they are forced to restructure costs and fine tune their operations management (Nielsen 2012).
Conclusion

Encouraging the growth and development of supplier diversity firms in Massachusetts is good for business. The partnerships that long running public and private firms create with MBEs and MWBEs serve to promote business ingenuity as new economies of scale are engendered. Likewise, firms develop important value propositions as they begin to network with diverse suppliers who provide outlets to promising frontiers of customer segmentation. While the leveraging of firms from a perspective of diversity and inclusion provides economic vitality to disadvantaged business enterprises, it also serves to cultivate cultural fit and company stability (Uzpīs, 2013). The increased information sharing and coordination with state run diversity agencies provides accountability and cushion from adopting failed practices and uncompetitive bids. This ensures that all businesses in the state have an opportunity to function optimally as they work to champion economic well-being.
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