

To: Members of the President's Council on UVA-Community Partnerships  
Members of the Local Economy Working Group

From: President James E. Ryan  
Executive Vice President and COO Jennifer (J.J.) Wagner Davis  
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Subject: Local Economy Working Group Report: UVA Academic Division Response and Next Steps

Thank you for the robust Local Economy Working Group Report and for the tremendous efforts of the working group chaired by Stephen Davis. As promised, the UVA Academic Division writes to provide an update on our evaluation of the report and the implementation of recommendations. Please note that our response is limited to the Academic Division of the university, which includes the University's construction and renovation activities. Increasing engagement and spend with small and diverse suppliers in the local community, particularly with minority-owned businesses, is of utmost importance, and we are excited to share next steps based on the working group's report.

Primarily, Procurement and Supplier Diversity Services and by extension UVA Finance accept the report's recommendations as they are proposed. The content below is divided into two sections:

- Section 1: A summary of recent efforts that contribute to the Local Economy Working Group's recommendations.
- Section 2: An in-depth analysis of how the Local Economy Working Group's recommendations will be fulfilled.

## **Section 1**

There already have been several developments that will support the implementation of the actions identified in the report.

1. The University hired a new Director of Supplier Diversity in January of 2022. Additionally, a business analyst with a background in economic development and strategy was added to the team.
2. We have already met with many local entities aligned with improving economic opportunity among the minority community including the United Way, the Minority Business Alliance, New Hill Development, the Community Investment Collaborative, City of Charlottesville Office of Economic Development, and the City of Charlottesville Procurement Office.
3. We joined the Carolinas Virginia Minority Supplier Development Council, a regional affiliate of the most impactful organization advocating for economic opportunity for Black business owners in the U.S. We also joined the Virginia Asian American Chamber of Commerce.
4. We are in discussions with a local, Black-owned digital media and marketing firm to design a high visibility campaign/survey to assess the capacity and capability of local SBSD (Small Business and Supplier Diversity) certified firms. The firm will also present a proposal for the rollout of the supplier diversity champion initiative.
5. We engaged with the UVA Foundation to set aggressive diversity goals for the affordable housing initiative.
6. We met with the new SBSD leadership team in Richmond for an extended conversation on small, women-owned, and minority-owned (SWaM) business certification. We were assured that the average certification period had been reduced to 45 days and learned that a new regional SBSD representative will gladly walk all interested suppliers through the certification process.

## **Local Economy Working Group Report: UVA Academic Division PSDS Response and Next Steps**

### **Page 2**

7. We have begun meeting with the leadership of all the large construction firms that typically work on Grounds to reemphasize our expectation that they will aggressively support our supplier diversity initiatives.
8. A member of the supplier diversity team will provide the SWaM score in the RFP (Request for Proposal) evaluation process to facilitate consistency.
9. The supplier diversity director met with Kevin McDonald to talk about opportunities for collaboration and support. Discussion included and will most likely result in Hosting a community supplier diversity summit.
10. For the first time since 2019, SWaMfest will be in-person in Richmond in October. Jointly hosted by the members of VASCUPP, SWaMfest averages 600 attendees and is the signature networking event for SWaM businesses in the Commonwealth of Virginia. SWaMfest will provide an opportunity for the entire UVA academic buying staff to interact with potential suppliers face-to-face.

We have attached a more detailed analysis of each recommendation to provide insight into how we may prioritize and implement other recommendations suggested by the working group.

Following the establishment and maturation of these new initiatives, we will evaluate and prioritize additional recommendations from the report for mid- to long-term implementation. We will continue to engage the President's Council on University-Community Partnerships and will keep the Council apprised of our progress and priorities as we work through the implementation.

We are deeply grateful for the tremendous effort and incredible thoughtfulness that members of the working group put into the development of their report. This work will make a difference in enabling the University to engage small and diverse suppliers more fully in the local community and maximize economic impact.

## **Section 2**

### **Local Economy Working Group Report Analysis**

#### **BACKGROUND AND METHODOLOGY**

The charge of the Local Economy Working Group (LEWG) was to explore how UVA can increase the utilization of local businesses across the university's supply chain. The group first sought to better understand the current role of local, small, and diverse businesses in the University's supply chain, as well as the barriers that preclude these businesses from accessing a greater share of procurement opportunities. Additionally, the group analyzed peer institutions to identify best practices in local business inclusion.

#### **KEY FINDINGS AND STAFF COMMENTARY**

##### ***1. Developing an inventory of local businesses and identifying opportunities for inclusion.***

As mentioned above, a key undertaking of the LEWG was to understand the supply of local businesses. The group used a selection of 52 ZIP-code areas that mirrored the Charlottesville Metropolitan Statistical Area (MSA) as its basis for this analysis. The group hoped to identify opportunities for local business inclusion from this inventory.

## Local Economy Working Group Report: UVA Academic Division PSDS Response and Next Steps

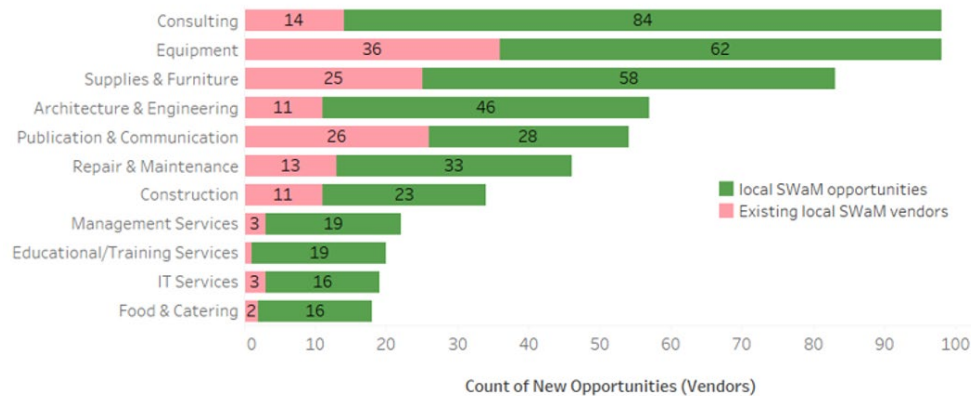
### Page 3

The group identified 410 state-certified small, woman-owned, and minority-owned (SWaM) businesses local in the Charlottesville MSA. It is important to note that this represents a subset of the region's small business supply as many qualifying firms are not certified. Historically, the Commonwealth of Virginia's certification process has been rife with inefficiencies. Moreover, the state's certifying agency -the Department of Small Business and Supplier Diversity- struggles to enunciate the value SWaM certification brings to individual businesses. Nevertheless, the Commonwealth of Virginia's SWaM certification is the University's standard for qualifying and reporting spend with small and diverse businesses.

Procurement staff analyzed the role of local businesses across the University's supply chain during fiscal year (FY) 2019 to inform this endeavor. A total of 678 businesses (16% of UVA's FY 2019 vendor portfolio) located in Charlottesville MSA received \$93 million in university discretionary spending (17% of FY 2019 discretionary spending). Local construction firms accounted for the majority (61.7%) of FY 2019 local discretionary spending. This was unsurprising considering that construction accounts for a considerable portion of the University's overall discretionary spending.

UVA engaged with 102 (25%) of the 410 SWaM-certified businesses located in the Charlottesville MSA in FY 2019. These businesses received approximately \$30 million in spend during FY 2019. Small businesses received the vast majority of this spend (95%); meanwhile, woman-owned, and minority-owned businesses received 3.1% and 1.9%, respectively.

Procurement staff analyzed the 308 SWaM-certified businesses located in the Charlottesville MSA that did not receive spend during FY 2019. The following graph details these businesses by category.



It is difficult to benchmark the University's performance regarding local business utilization. Businesses must operate at a certain scale to be able to satisfy the requirements of many University procurements. Moreover, not all industries are reflected in the University's supply chain, such as many personal care and service industries and areas of consumer retail. A robust calculation of local business utilization would filter businesses that did not operate at the necessary scale and/or belonged to industries that did not participate in the University's supply chain. It is particularly challenging to assess the scale of individual businesses. Headcount and sales volume are traditional measures of capacity; however, they do little to inform a business' compatibility with the University's sourcing requirements. These challenges are exacerbated when considering small businesses as: (a) there is limited information on these businesses from public or proprietary data sources; and (b) there is tremendous variability in the capacity of small businesses in general. As such, it is difficult to say whether UVA's FY 2019 performance in local business inclusion is poor, fair, or good.

It is similarly difficult to assess procurement opportunities from the analysis that accompanied the final report. In many cases, the framework for understanding procurement opportunities is “what has been.” In other words, procurement staff tend to analyze past purchase data to inform discussions around future opportunities. While this approach provides insight into recurring business streams, it is largely incompatible with analyzing opportunities for the niche and/or “one off” purchasing that SWaM firms are more likely to absorb. A more reliable framework for understanding these opportunities would speak to “what is to come,” such as a pipeline of upcoming purchases.

The decentralized nature of UVA’s procurement apparatus, however, makes the development of such a pipeline difficult, if not impossible. For example, the pipeline maintained by central procurement is, in most cases, limited to awards greater than \$200,000. These procurements tend to be complex and require a considerable amount of planning. While some local businesses operate at the scale required to meaningfully compete for these large procurements, data suggest that the majority of small, women-owned, and minority owned-businesses do not. Rather, SWaM businesses tend to be more successful in accessing smaller-dollar procurements. Small dollar procurements, however, are virtually “invisible” to central procurement before a purchasing decision is made.

## ***2. Procedural and de facto barriers to local business inclusion.***

The LEWG investigated procedural and de facto barriers to local business inclusion present in the University’s business practices, in addition to understanding the supply of local businesses. The group uncovered that the University’s sourcing requirements—especially bonding and proposal requirements specific to construction procurements—posed immediate challenges to local business inclusion. Moreover, the LEWG contended that increased local business utilization would prove difficult if University purchasers did not adopt a mindset that duly considered these businesses for small or large procurements.

It is difficult to balance the necessity for formalized business practices and conditions that protect the University’s interests with the actual or perceived barriers they create for local—and especially SWaM--businesses. Whether true or otherwise, there is a belief that the complexity of the University’s sourcing requirements precludes small business engagement. A certain degree of scale and capacity are required for vendors to meet the requirements of University procurements; this is unavoidable.

However, the risk-averse nature of procurement paired with the density of large suppliers in UVA’s portfolio more than likely inflates the minimum requirements set forth by the University. Considering that upwards of 85% of the University’s supplier portfolio is composed of medium-to-large scale businesses, small suppliers may be expected to perform to a standard that is neither typical of businesses at this scale nor feasible. These de facto sourcing requirements may prove the hardest to overcome as the purchasing mindset that is favorable to small businesses oftentimes conflicts with the traditional procurement values best delivered on by large suppliers.

## **RECOMMENDATIONS**

The table on the following page details the recommendations created by the LEWG as well as the feasibility of each recommendation and information regarding any added resources required to deliver each recommendation.

UVA can support the recommendation		
Requires further analysis (legal, feasibility), caveats apply, or an area other than UVA Finance needs to be consulted.		
Not feasible at implementation		
Committee Recommendation	Feasibility	New Resource Needed?
1. Double the percentage of local and minority-owned businesses selling to the University from FY 2022 to FY 2025		Yes. New resources will be requested in the FY24 budget cycle to deploy and oversee outreach both on and off Grounds
2. Increase the percentage of UVA’s spend with local businesses by 10% from FY 2022 to FY 2025.		Yes. New resources will be requested in the FY24 budget cycle to oversee outreach both on and off Grounds
3. Endorse the Procurement Strategic Plan developed in 2021.		No
4. Set aggressive and achievable goals related to local SWaM business spending, including a focus on increasing spend with minority and black-owned businesses.		Yes. New resources will be requested in the FY24 budget cycle to oversee outreach both on and off Grounds
5. In the next 18 months, pre-screen by commodity codes the approximately 300 local and state-certified businesses with which we currently lack a business relationship, seek out capability statements, and evaluate ways to engage with these suppliers.		No
6. In the next 18 months, review the spend with the existing 102 local and state-certified businesses and identify specific opportunities to increase spend with them.		No
7. Make it easy for schools and units to search and find local, woman-owned, and minority-owned businesses. Develop a local supplier search tool and feature these businesses in UVA PSDS economic impact analysis.		No
8. Be intentional in efforts to simplify and shorten the certification process for vendors. Engage in open and honest dialogue with the Department of Small Business and Supplier Diversity (SBSD) and share suggestions for improvement. Track certification timelines using Salesforce.		No
9. Look for opportunities to increase spending with local and Black-owned businesses regardless of their SWaM certification status.		No
10. Continue to invest in getting better data to identify opportunities on both the Health System and Academic Division side. Invest in specific resources to create and maintain a holistic dashboard of key metrics.		No
11. Make doing business with local and historically disadvantaged businesses a priority at the school and unit level. Tailored impact plans should be developed with the President’s Office or COO’s Office, making a point to track progress among each of the school/unit leaders. Create a supplier diversity champions council across Grounds to advocate for supplier inclusion at the school/unit level and provide quarterly reporting to school/unit leadership.		Yes. New resources will be requested in the FY24 budget cycle to oversee outreach both on and off Grounds

The first two recommendations enunciated by the LEWG reflect overarching goals born from this endeavor: increasing UVA spend with local businesses by 10%; and doubling spend with local minority-owned businesses. UVA’s ability to achieve these two broad goals will require alignment with commonwealth, macroeconomic conditions, and major stakeholders. Procurement staff organized the LEWG’s recommendations into a three-phase scope of work. The following sections detail how

procurement staff will operationalize and ultimately deliver each of the above recommendations. Please note that this work is highly iterative; findings from each phase will inform the next. As such, the procurement staff has a limited capacity to identify the individual strategies it will employ to achieve the group's two broad spending goals at present.

***Phase I: Supply Analysis***

Phase I will focus on understanding the supply and capacity of local UVA suppliers and non-supplier local as well as the barriers these businesses face in accessing and/or delivering UVA procurements. The first phase of this work delivers on the following recommendations set forth by the LEWG.

- Recommendation 5: In the next 18 months, pre-screen by commodity codes the approximately 300 local and state-certified businesses with which we currently lack a business relationship, seek out capability statements, and evaluate ways to engage with these suppliers.
- Recommendation 6: In the next 18 months, review the spend with the existing 102 local and state-certified businesses and identify specific opportunities to increase spend with them.
- Recommendation 10: Continue to invest in getting better data to identify opportunities on both the Health System and Academic Division side. Invest in specific resources to create and maintain a holistic dashboard of key metrics.

Procurement staff will begin Phase I work by analyzing the role that local UVA suppliers play in the University's supply chain. Procurement staff will analyze spend data to understand the specific goods and services these firms provide. Procurement staff will explore trends related to current local supplier utilization across individual UVA units. Procurement staff will pay special attention to how the implementation of Workday can be leveraged to increase visibility into spending across the Health System and Academic division. While data used to analyze past spending will be housed on the current system; staff will investigate how Workday can be used to deepen our understanding of spend across these two entities, especially as it relates to local spending.

Next, procurement staff will begin targeted outreach to both the 102 SWaM-certified local businesses that participate in the University's supply chain and the 308 SWaM-certified local businesses that do not have a business relationship with the University. Procurement staff will be intentional in the qualitative data it collects during this outreach. Outreach to existing local UVA suppliers should inform business' capacity/interest to expand their share of university spending as well as their perceived barriers and challenges in doing business with the University. Procurement staff should take a similar approach in outreach to non-supplier businesses, with a particular focus on their ability to meet UVA sourcing requirements and the perceived barriers and challenges in accessing UVA procurements. Staff will also collect feedback regarding the state's certification program from both groups of local SWaM businesses.

Staff has not identified a vehicle for collecting this qualitative information, although a mix of surveying, interviewing, and focus groups is anticipated. If additional resources are required to deliver this portion of the scope considering both the workload of coordinating outreach and the innovation/expertise required to meaningfully engage disadvantaged businesses, they will be provided from existing one-time funds in FY23 and/or requested through the FY24 budget cycle.

***Phase II: Opportunity Analysis***

Findings from Phase I will serve as the foundation for subsequent phases. During the second phase of this work, procurement staff will explore opportunities for both increasing spend with local UVA suppliers and opportunities to include non-supplier local businesses in the University's supply chain. Additionally, procurement staff will explore opportunities to optimize the state's certification program based on feedback collected during Phase I. Staff will also begin work on the across-Grounds supplier diversity champions program during Phase II. The second phase will deliver the following recommendations set forth by the LEWG:

- Recommendation 8: Be intentional in efforts to simplify and shorten the certification process for vendors. Engage in open and honest dialogue with the Department of Small Business and Supplier Diversity (SBSD) and share suggestions for improvement. Track certification timelines using Salesforce.
- Recommendation 9: Look for opportunities to increase spending with local and Black-owned businesses regardless of their SWaM certification status.
- Recommendation 11: Make doing business with local and historically disadvantaged businesses a priority at the school/unit level. Tailored impact plans should be developed with the President's or COO's Office, making a point to track progress among each of the school/unit leaders. Create a supplier diversity champions council across Grounds to advocate for supplier inclusion at the school/unit level and provide quarterly reporting to school/unit leadership.

As mentioned above, opportunities—especially as they relate to SWaM businesses—are elusive in both decentralized procurement systems and mature supply chains. Relying on past spend data to identify opportunities paints an incomplete picture. Additionally, identified opportunities must be vetted to ensure that they are compatible with the application of SWaM businesses in mature supply chains. The opportunities identified during this phase must match the capacity of the local supplier base.

Procurement staff will use a mixed methods approach to address these analytical challenges. First, staff will blend spend data with key findings from the first phase of this scope to isolate areas of the University's supply chain that are either inclusive of local suppliers or are compatible with the capabilities of local supplier and non-supplier businesses. Staff will use this information to create utilization reports tailored to key UVA departments. Staff will engage these departments to present findings and compellingly affirm the importance of local business engagement, discuss previous local business utilization, and identify a supplier diversity champion. Once champions are identified, procurement staff will leverage these individuals to gain insight into the upcoming small-dollar procurements that are most readily accessible to local SWaM suppliers and otherwise invisible to central procurement. Procurement staff will also leverage champions to gain visibility into large dollar procurements where SWaM suppliers may have subcontracting opportunities, such as construction.

Additionally, Procurement staff will engage the Virginia Department of Small Business and Supplier Diversity with feedback on the certification process collected in Phase I. Procurement staff will continue to partner with the SBSBD to optimize the certification process and address inefficiencies identified during UVA's outreach to local certified firms.

New resources will be requested in the FY24 budget cycle needed to oversee outreach both on and off Grounds.

***Phase III: Strategy Development, Implementation, and Monitoring, and Evaluation***

Procurement staff will use information and findings uncovered in the first two phases of this scope to develop aggressive and achievable goals related to SWaM spending in addition to the two broad goals set forth by the LEWG. Additionally, staff will craft strategies aimed at achieving these goals and processes to monitor results following implementation. This phase will deliver on the following recommendations set forth by the LEWG:

- Recommendation 1: Double the percentage of local and minority-owned businesses selling to the University from FY 2022 to FY 2025.
- Recommendation 2: Increase the percentage of UVA's spend with local businesses by 10% from FY 2022 to FY 2025.
- Recommendation 4: Set aggressive and achievable goals related to local SWaM business spending, including a focus on increasing spend with minority and black-owned businesses.
- Recommendation 7: Make it easy for schools and units to search and find local, woman-owned, and minority-owned businesses. Develop a local supplier search tool and feature these businesses in economic impact plans.

The LEWG set forth one strategy to foster local business engagement in its final report: a searchable directory of local, certified businesses for use by UVA departments. Other strategies could include match-making between departments and compatible local businesses; revising sourcing practices to address barriers; and creating partnerships between large and small suppliers to make procurements more accessible. Overall, it is difficult to speak to these strategies prior to completing the work that will ultimately guide their formulation.

Procurement staff will create processes and tools to measure and evaluate the effectiveness of these strategies and progress towards these goals. At present, procurement staff track supplier engagement and processes related to supplier diversity—such as certification—in Salesforce. Additionally, staff maintain a tool that enables departments to analyze their spending with local and non-local SWaM suppliers. It is likely that the expertise to create any new processes and tools exists within UVA Finance; relevant team members will be engaged as needed.

New resources will be requested in the FY24 budget cycle to oversee outreach both on and off Grounds.

***Timeline***

The LEWG suggests a timeline of four fiscal years (FY 2022-2025) to deliver recommendations to increase spend with local businesses and 10% and double spending with local minority businesses. It is important to note that the LEWG report was finalized at the close of FY 2022, leaving only three fiscal years to deliver on these goals. Staff acknowledges the need for timeliness; however, it is difficult to expedite an undertaking such as this. Procurement staff suggests the following timeline, culminating in goal setting and strategy implementation by the close of FY 2024:



**Local Economy Working Group Report: UVA Academic Division PSDS Response and Next Steps**

	FY 22	FY 2023				FY 2024				FY 2025			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Phase I: Supply Analysis</b>													
Local spend analysis													
Local supplier outreach													
Local non-supplier outreach													
<b>Phase II: Opportunity Analysis</b>													
Preliminary opportunity identification													
Creation of local utilization reports for UVA departments													
Department engagement and SD Champion identification													
Collaboration with SBSB to optimize certification process													
<b>Phase III: Strategy Development, Implementation, Monitoring and Evaluation</b>													
Additional research and synthesis													
Strategy development													
Implementation													
Evaluation and monitoring													

*(Planning in lighter green, Analysis in medium green and Implementation in darker green)*