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# Buying Local on a Large Scale

From Cleveland to Tempe, economic developers are convincing institutions with big spending power to shift more dollars to small businesses in their communities.



“Buy local” campaigns normally encourage consumers to shop at small downtown stores—the funky café, indie bookseller, or boutique grocer. Getting big institutions to switch to local suppliers has rarely been part of the equation.

But small business groups and economic developers are beginning to push big buyers like governments, universities, and hospitals to see what goods and services they can purchase locally. Advocates say a small shift in spending by these organizations can yield a profound benefit for small businesses in their communities.

In Cleveland, some of the city’s largest institutions have committed to buying more of their goods and services from local suppliers. The plan, five years in the making, aims to build new businesses, jobs, and long-term wealth in the low-income neighborhoods that surround the Cleveland Clinic, Case Western Reserve University, and University Hospitals, a four-square-mile area known as Greater University Circle. Together, those institutions purchase \$3 billion annually in goods and services, and most of that money leaves the neighborhood where their campuses are. Redirecting 10% of that spending into neighborhood businesses would inject \$300 million into an area where the median household income is \$18,000 a year.

## WORKER-OWNED CO-OPS

Economic developers from the nonprofit Cleveland Foundation approached these so-called anchor institutions in 2005 to see what it would take to steer more spending to local businesses. “We realize that in this neighborhood right now there are not businesses that have the capacity to meet these needs,” Lillian Kuri, a program director at the Cleveland Foundation, recalls saying. Working with the anchors, the Cleveland Foundation developed ideas for a series of environmentally friendly, worker-owned cooperative businesses they could start in the inner city to serve neighboring institutions and others in the region.

Each venture aims to get a commitment of about half of its target revenue from the anchor institutions at the outset. The first of these, Evergreen Cooperative Laundry, opened in October to clean some 12 million pounds of bed linens and towels from hospitals and nursing homes each year. (The Cleveland Clinic alone does close to double that each year.) The business was capitalized with \$5.8 million in funds from the city of Cleveland, bank loans, and contributions from the Evergreen Cooperative Development Fund. That was set up by the Cleveland Foundation and the anchor institutions to seed the co-op businesses, which, once profitable, must return 10% of their profits to the fund to create future ventures.

The worker co-op model helps employees build long-term wealth through equity in the company. The green aspects of the businesses appeal to clients' interest in reducing carbon emissions—a priority for many institutions like colleges and hospitals. (The laundry, for example, uses energy-efficient washing, drying, and ironing systems and occupies a LEED-certified building.) Two other nascent ventures follow the same model. Ohio Solar Cooperative installs rooftop solar panels, and Green City Growers, to launch this year, will farm local food in a hydroponic greenhouse on 10 acres in Cleveland. When fully running, they're each expected to employ 50 people recruited from the neighborhood. Plans for other businesses are in the works.

### **Competitive Bidding Factor**

Evergreen Cooperative Laundry is on track to turn a profit within 18 months of launching, says CEO Jim Anderson. Everyone involved agrees that the enterprises must be profitable to succeed.

"This isn't a charity program, and I think if it was, it wouldn't be sustainable," says Steven Standley, chief administrative officer for University Hospitals.

Standley says the hospital group tries to use local vendors whenever possible. In a \$1.2 billion construction project that began in 2005, 90% of the funds have been spent in northeast Ohio. University Hospitals uses competitive bidding to award contracts, but Standley says factors like a higher level of service, the location of a supplier, or a commitment to diversity can sway a contract toward a vendor that doesn't have the absolute lowest price.

That consideration is growing at other institutions as well. "Where one provider may be very close in price to another, then we might look to our broader interests," says Oliver Henkel, the Cleveland Clinic's chief government relations officer. "There are residual benefits to us that can't necessarily be quantified."

Officials at all three institutions involved in the Cleveland project point out that it's in their interest to foster new businesses, jobs, and wealth in their communities. Economic development can make the neighborhoods more attractive places for staff to live, and, in the case of hospitals, improve the health and security of the people they serve.

### **LOCAL OFFICE SUPPLIES**

It's not just nonprofits embracing the idea, either. Last year, Arizona's largest electrical company, APS, sought a new office-supply provider in an effort to lower costs.

The \$1.5 million contract went to Wist Office Products, a family-owned Tempe firm with 60 employees and \$15 million in revenue. Wist outbid national competitors like OfficeMax (OMX), Office Depot (ODP), and APS's previous vendor, Corporate Express, which is now part of Staples (SPLS).

APS, the main subsidiary of publicly traded Pinnacle West Capital Corp. (PNW), spends \$1.5 billion annually on outside purchases, and one-third of that goes to 1,500 vendors in Arizona, says Tammy McLeod, vice-president and chief customer officer at APS. "The tangible benefit of making a local business more successful is they probably become a better customer of ours," McLeod says.

In addition to the APS contract, Wist is doing brisk business with dozens of school districts and municipalities that want to buy from local firms rather than the single supplier available through Arizona's statewide contract. "We have to be lowest or most cost-effective, so there's no favors given, but in the grand scheme I believe they ... say this is a good thing for our community," says Ian Wist, the company's general manager.

Such principles support the long-standing practice of giving public contracting preferences to businesses owned by women, minorities, veterans, or other disadvantaged groups. Some 27 states also have preferences for using local vendors, according to a 2009 survey by the National Association of State Procurement Officials. More states and local governments have adopted such policies during the downturn in efforts to bolster their economies, says Jack Gallt, NASPO association director. Local purchasing preferences can backfire, however, when companies try to land out-of-state contracts. "They're penalized for not being an in-state company somewhere else," Gallt says.

Indeed, contracts going to the Evergreen businesses in Cleveland have to come from somewhere else. But as long as the businesses offer competitive value vs. their existing suppliers, the Greater University Circle institutions would just as soon spend their money in their own backyard. John Wheeler, a former corporate lawyer who is now vice-president for administration at Case Western, says he fully supports the plan but was skeptical of the idea at first. "Do you think a bunch of do-gooders can create entrepreneurs in these neighborhoods? I've got to see it to believe it," he says. "To the extent it can be a success, it is truly a formula for providing a dramatic amount of economic development. ... The capacity here for a market is huge, absolutely huge."