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# The Growing Business Imperative for Supplier Diversity



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Until now, the strongest force behind supplier diversity programs was the U.S. Federal Government, which continues to be the single largest customer for minority and small, disadvantaged businesses.

Increasingly, however, global brands are recognizing the strong potential for supplier diversity programs to help them grow their businesses—whether through increased market share among emerging customer bases, stronger share price, faster innovation cycles or more intangible measures such as brand awareness and loyalty.

At the same time, the field of managing supplier diversity programs is still in its infancy—with little or no agreement or standardization of best practices, processes and systems.

Given that there are many different models for building supplier diversity programs, and even more for measuring the value, what's behind today's groundswell around these initiatives? For most companies, the move beyond corporate social responsibility drivers for supplier diversity programs comes down to a combination of factors—almost all boiled down to the simple fact that it makes good business sense.

Consider this: According to the U.S. Census Bureau one in three Americans was a member of a minority group. This trend is expected to continue and is behind a growing business imperative for inclusive sourcing that's grounded in the idea that one way to successfully attract and keep customers in these segments is to be invested with the growing number of suppliers with similar demographic profiles.

Regardless of where a company is in terms of maturity with developing and managing supplier diversity programs, there are common experiences around value and a growing knowledge base about how to make these programs successful for all parties. As companies look to expand engagement with a diverse supply base, this brief shares insight into:

- The business drivers behind the growing call for supplier diversity programs
- Immediate opportunities and value found in partnering with women-owned businesses
- Best practices in using business insight to manage diverse supply bases

### **Shifting Economic Power**

*The Census Bureau estimates that minorities, both arriving from abroad and born in the United States, will account for nearly 90 percent of the total growth in the U.S. population from 1995 to 2050.*

*\$3 trillion is the number being reported as 'Buying Power' of African American, Hispanic American, and Asian American-owned businesses.*

*6.1 million women-owned businesses have \$3.6 trillion in sales, a revenue growth of +436%.*

## Moving Beyond Mandate-Driven to Business-Driven

It's understandable that many companies are not further along the path toward strong frameworks for establishing supplier diversity programs—and for measuring the tangible value that these programs deliver. It's only in the past 20 years that industry giants such as MasterCard, Coca-Cola, Ford, P&G, and The Walt Disney Company have all taken steps to actively engage diverse suppliers—including minority- and women-owned suppliers—to provide a wide range of goods and services.

But even while the U.S. Federal Government continues to be the largest customer for diverse businesses, there's a compelling business argument for private enterprise to more aggressively advance supplier diversity strategies for their own organizations.

The Billion Dollar Roundtable which promotes and shares best practices for supply chain diversity excellence, with Professor Leonard Greenhalgh, of Dartmouth College's Tuck School of Business, posits three business-centric drivers for supplier diversity:<sup>1</sup>

- **Competition has changed:** Today, rivals fight for their share of rapidly evolving global markets rather than a share of stable domestic markets. As ethnic minorities and women increase as a proportion of the population and participate in greater numbers in the entrepreneurial economy, minority and women-owned businesses will form a greater part of the value chain.
- **Markets have changed:** Major companies that once sold to homogeneous customer bases now sell to diverse markets with multiple segments.
- **Success depends on strong national economies:** A burgeoning minority population that contributes fully to gross domestic product creates a stronger economy. And minority-owned enterprises are the largest employers of minority workers: if minorities earn wages, they spend money and energize the multiplier effect.

When framed within the context of competitive advantage and brand building, supplier diversity programs take on a new role within the company: driving new revenue opportunities, cultivating customer loyalty and finding new champions across many levels of the organization.

*“World-class procurement organizations commit close to 30% more, or more than 13% of total spend, to diverse suppliers, versus 10% percent for typical companies.”*

*The Hackett Group Supplier Diversity Report, 2008<sup>2</sup>*

## Measures of Success with Supplier Diversity Initiatives

At the simplest level, the value of working with diverse suppliers has traditionally been measured by contracts won or lost based on a company's ability (or lack thereof) to comply with government or industry mandates.

But according to the Hackett Group, while business-to-business companies are focused on meeting supplier diversity requirements of customers and/or government contracts, business-to-consumer companies generally focus on the market value that supplier diversity offers:<sup>3</sup>

- in increasing market penetration in diversity markets;
- driving social and economic benefits in targeted communities; and
- improving corporate image.

In large part, these efforts depend on remaining relevant with a target audience. Doing this requires not only offering the right products and services to meet an audience's needs, but accurately representing the target audience in the product as well.

Within the context of corporate social responsibility programs, working with the right suppliers can make a big difference in the operation of the value chain, as well as the company's standing with its local community and workforce. Companies that hire locally and are good corporate citizens tend to be favored by the communities in which they do business.

Fortune 500 PSEG (Public Service Electric and Gas), based in New Jersey, provides gas and electric service to one of the most diverse areas of the country. From the highest level of the organization, the company is committed to ensuring that all aspects of its business reflect its customers. Working closely with suppliers that are representative of its customers' demographics is a big part of that commitment.

According to Ralph Izzo, president, chairman and CEO, "Working with diverse suppliers not only helps our company meet important business needs, it promotes job creation and stimulates the local economy; its good business for everyone involved."

There are operational advantages as well. Many companies find that engaging with small businesses offers the benefit of diversifying the supply chain, lowering risk. And Mack Trucks speaks for many companies on its site, when it promotes the value it finds in problem-solving with the diverse companies in its supply base: "Diversity invites different perspectives, often niche expertise tailored to problem resolutions."

*The opportunities to do business with diverse populations will significantly increase as growth rates among these communities for entrepreneurial activity grows.*

*The Kauffman Index of Entrepreneurial Activity is the leading indicator of new business creation in the U.S. Between 2005 and 2010, the organization reported the following rates of entrepreneurship among three major minority populations:*

	2005	2006	2007	2008	2009	2010
Latino	32%	33%	40%	48%	46%	56%
Asian	27%	32%	29%	35%	31%	37%
Black	24%	22%	23%	22%	27%	21%

## **Supplier Diversity and Women-Owned Businesses: Opportunity Now**

It's estimated that women-owned businesses make up less than 1% of all domestic and international suppliers to corporations and governments. Given that women make up 50% of the world's population, there's clearly an immense opportunity for companies to invest in and source from women-owned businesses – and according to Elizabeth Vazquez, CEO and co-founder of WEConnect – harness advances in innovation and productivity.

In terms of sheer opportunity, WEConnect is on to something. In the U.S. alone between 1997 and 2011, the number of women-owned firms increased by 50% — a rate 1.5 times the national average, according to a recent American Express OPEN State of Women-Owned Businesses Report.

Vazquez believes that women-owned businesses can offer several strong benefits to corporations seeking stable, loyal and valuable trading partners. These companies typically have lower cost structures, which translates into better business value for the companies they work with. Women also tend to be more brand-loyal – making them good customers as well as good corporate partners.

***“Women represent half of the world population and over 70% of consumer purchasing decisions, yet they are almost invisible as vendors in global value chains. Corporations that want to be relevant in the future must develop more inclusive sourcing policies and practices to reflect their markets and invest in the communities they serve.”***

***– Elizabeth Vazquez, CEO and Co-founder of WEConnect International***

WEConnect registers and certifies firms that are at least 51% owned, managed and controlled by one or more women and connects them with the growing global demand from corporations and the public sector for diverse and innovative suppliers. The non-profit also provides education and training for women-owned enterprises to build their capacity to bid successfully on procurement contracts.

The WEConnect network includes global brands that are true pioneers in supplier development and inclusion and represent more than \$700 billion in annual purchasing power. Members include: Accenture, Alcatel-Lucent, AT&T, Boeing, Cisco, Cummins, D&B, Ernst & Young, ExxonMobil, Goldman Sachs, HP, IBM, Intel, Manpower, Marriott, Microsoft, Motorola, Pfizer, PG&E, United Technologies, Verizon and Walmart.

In 2011, WEConnect International and D&B Supply Management Solutions formed a partnership to expand D&B's best-in-class diversity database of more than 5.8 million socio-economic and diversity classifications from over 400 sources and over 20 million small business indicators, with data from WEConnect International. The women-owned information will aid procurement, finance and vendor management professionals as they establish, track, analyze and manage their supplier diversity programs as well as empower women in established and emerging economies.

## More than Diversity Certification: Choosing the Best Supplier for the Business

The opportunity to expand the value of the supply chain with a more diverse supply base is gaining attention from not only companies, but industry organizations are joining the game as well. In 2010, the Institute for Supply Management (ISM) announced that in response to calls from members for standards that can support the design, development and management of supplier diversity program, it would create professional designations that reflect deep-seated skills and expertise in managing these programs.

In 2009, The Billion Dollar Roundtable found that stability, capacity and adherence to regulations when sourcing suppliers at tier 2 and tier 3 were challenges that its member companies faced in supply chain diversity. These questions are manifested in concerns that a supplier could be overwhelmed by opportunities to partner with large enterprises, ultimately affecting quality, delivery and service as well as the compliance risks exposed by lack of visibility into a supplier's financial and operational condition.

While it may seem obvious, the goal of a supplier diversity program should not just be to identify and source from a diverse supplier, but to find a supplier that is a good partner and brings something of unique value to the supply chain. But doing so is not necessarily easy; challenges include:

- Aggregating information on diverse suppliers
- Finding current and accurate supplier diversity information
- Gaining visibility to diverse spend to make confident business decisions, quickly

To overcome these challenges, procurement organizations need a 360-degree view of a supplier and the ability to evaluate supplier viability at critical points during the relationship. Emerging best practices in managing supplier diversity programs leverage D&B's Supplier Lifecycle Management, powered by Insight, where deep and rich insight into supplier companies is applied to drive decisions from the sourcing stage throughout the lifetime of the partnership.



*In 2010, utility company PSEG used D&B's Supplier Risk Manager, powered by Insight to identify, qualify and analyze approximately 5,000 suppliers as part of a corporate social responsibility initiative to increase the percentage of business it did with certified minority, women and veteran-owned businesses—all the while maintaining tight budgetary control over the sourcing and on-boarding process.*

*Within just five weeks, the team hit its target of 30% of critical suppliers registered, successfully, identifying an additional \$8 million in diversity spend and meeting both its CSR and budgetary goals.*

- **When sourcing:** Integrate supplier-provided information with information received from 3rd-party sources, such as financial data and predictive indicators, business identification and demographics, deeper detail on Tier 2 suppliers, socio-economic information and more.
- **At the very beginning of the partnership:** Among several of the most innovative companies in the field of supplier diversity programs, ensuring the success of the partnership for all parties takes the form of a mentoring program—where the supplier organization works closely with the customer on a wide range of business issues, with the ultimate goal of helping the supplier improve their own business processes to the benefit of all.

Supplementing these valuable relationships with insight helps procurement teams collaboratively track and determine the root cause of potential supplier performance and solvency problems should issues exist or develop over time.

- **In managing the day-to-day relationship:** When managing a diverse supply base, where a wide range of events can have a deep and meaningful impact, understanding conditions—beyond financial stability is essential. World-class organizations are integrating a much wider range of factors indicative of supplier health and viability, including:
  - Changes in management teams
  - EPA violations
  - OSHA violations
  - Quality issues
  - Noticeable lags in response time to inquiries
  - Presence on Government Control Lists
    - for example Office of Foreign Assets Control (OFAC), the Federal Bureau of Investigation (FBI), the Bank for International Settlements (BIS), and United Nations Sanctions
  - Changes in supplier payment trends
  - Risk scores that predict the likelihood of instability or bankruptcy
  - Event indicators including ownership changes, public filings (lawsuits, liens, claims and judgments), natural disasters

- **When there's new opportunity:** Especially in relation to supplier diversity programs, the ability to see and report on spend across diverse suppliers is essential.

By periodically repeating the analysis process of the supply base, companies can begin trending the information month-over-month or quarter-over-quarter, in order to gain a bigger picture as to how suppliers are performing and define acceptable behavior thresholds. That insight can be also used to establish benchmarks for measuring supplier performance and to create a system for collaboration and supplier development.

### **Billion Dollar Roundtable Characteristics that Shape Member Supplier Diversity Initiatives:<sup>4</sup>**

- Close integration with sourcing organization
- Annual objectives coupled with quarterly reports
- Increasing support of Tier 1 suppliers in Tier 2 purchasing activities through focused relationship-building activities
- Expanding reach of performance metrics to increase accountability among team members
- Executive leadership support and involvement
- Establishment of supplier diversity within global purchasing
- Accountability for achieving year-over-year supplier diversity objectives at all levels of the purchasing organization
- Frequent review of supplier diversity performance against objectives

## The Time is Now

Sourcing from diverse suppliers presents companies with a path to accelerate their success by establishing relevancy, economic support and commitment with companies and customers that mirror what Professor Greenhalgh calls the “cosmopolitan milieu”.

Success begins with finding the right supplier; sustained success is fueled by insight about suppliers’ operational and financial performance, helping to ensure that the partnership:

- Fulfills a business need
- Contributes to the top and bottom line
- Enhances a brand’s standing in the market and with its target audience

The U.S. Census estimates that, by 2042, demographic segments classified today as minority populations will be the majority. Now is the time to harness the buying power of these populations and be positioned to serve their needs.

It’s a simple matter of competitive advantage and sustained business viability.

## Supplier Diversity Program Resources

Information on building supplier diversity programs may be found with these organizations:

- [Billion Dollar Roundtable](#)
- [Business Matchmaking](#)
- [Institute for Supply Management](#)
- [The Latino Coalition](#)
- [National Minority Supplier Development Council](#)
- [Small Business Association](#)
- [WEConnect International](#)
- [WBENC](#)

**For more information about how D&B can help you gain insights on your suppliers, and their diversity status:**

- Visit [www.dnb.com/supplymanagement](http://www.dnb.com/supplymanagement) and view our Solutions, About Us and Information Center section
- Email us at [supplymanagement@dnb.com](mailto:supplymanagement@dnb.com)
- Contact your D&B Representative



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<sup>1</sup> Billion Dollar Roundtable, 2009 Policy Paper: “An Integrated Approach to Fostering the Use of Diverse Businesses.”

<sup>2</sup> The Hackett Group, 2008 Supplier Diversity Study.

<sup>3</sup> *Ibid.*

<sup>4</sup> Billion Dollar Roundtable, *op. cit.*