

Beyond Compliance: Top Supplier Diversity Programs Aim to Broaden Value Proposition

Boosts to quality, brand, market share within program objectives

By Patrick Connaughton and Laura Gibbons

Executive Summary

Supplier diversity is evolving from a check-the-box, corporate social-responsibility requirement to a strategic enabler for the procurement function. Top-performing organizations studied by The Hackett Group apply supplier diversity tenets to new areas such as supplier partnering, reputation management and global expansion. Our research has found that the most successful organizations take their cues from high up in the company, where commitment to enterprise-wide diversity begins. We have also identified several trends in supplier diversity where procurement organizations have significant opportunity for added benefit.

Key takeaways:

- 99% of diverse suppliers meet buyers' expectations; nearly a quarter of them consistently exceed expectations.
- Currently, over 75% of U.S.-based procurement organizations' diversity programs are domestic only; 40% of these plan to expand their program globally in the next two to three years.
- The most common tactics used to develop local suppliers are knowledge-sharing (by 42% of procurement organizations) and partnering programs (32%).

A Narrow Set of Objectives Can Limit the Potential Benefits of Supplier Diversity Programs

Respondents to our 2016 Supplier Diversity Study say their company emphasizes only a narrow set of supplier diversity objectives: improving the corporate image in the marketplace; supporting corporate culture around diversity and social responsibility; and complying with regulatory requirements (**Fig. 1**). However, more companies are beginning to realize that they cannot maximize benefits from supplier diversity programs if their objectives stop there. By expanding the goals and activities of supplier diversity programs, they can gain access to new markets and more beneficial supplier partnerships. Survey respondents indicated the importance of a well-developed supplier diversity program in meeting revenue goals. Case in point: up to 10% of sales come with supplier diversity requirements, suggesting that the lack of such a program can result in lost revenue.

On the other hand, there are high hurdles to obtaining the necessary support to invest in a supplier diversity program. Often, business leaders worry that dedicating resources in this area means sacrificing procurement savings or even quality. However, our research suggests that not only do procurement organizations with top-performing supplier diversity programs experience no loss in efficiency, but they extract even more benefits

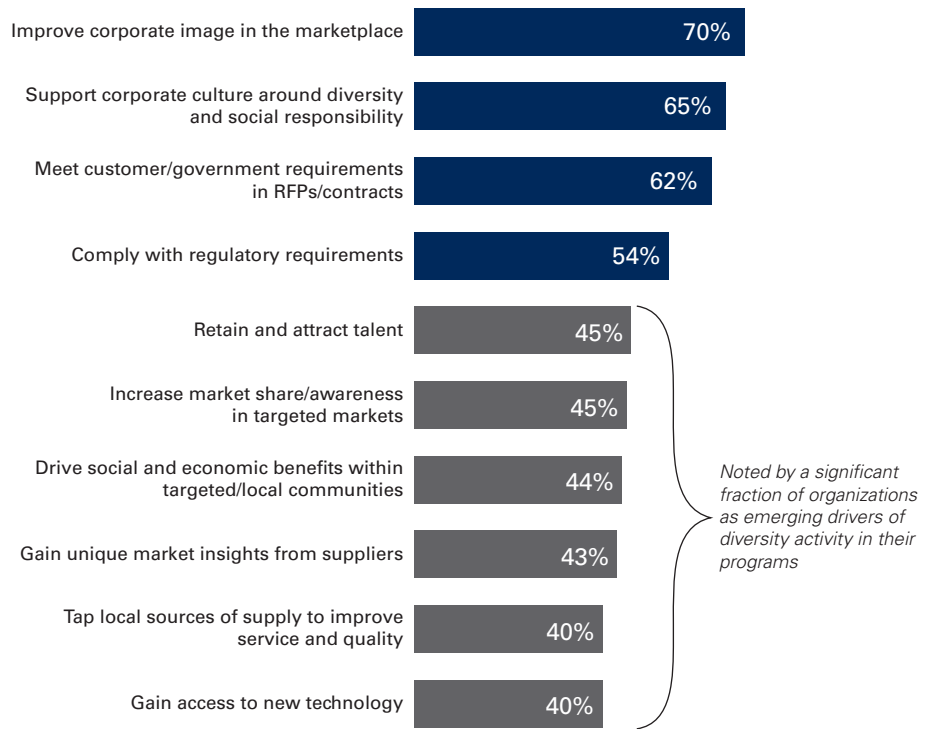
About supplier diversity programs

Supplier diversity programs are meant to encourage use of minority-owned, woman-owned, LGBT-owned, small and other historically underutilized businesses as suppliers. The need for supplier diversity was first recognized in the U.S. in the 1960s and later regulated by the federal government with the founding of the Minority Business Development Agency (MBDA). In the early 1970s, the National Minority Supplier Development Council (NMSDC) was founded and began further developing supplier diversity with a commitment to advance Asian, African-American, Hispanic and Native American suppliers. Since that time, new organizations have been created to foster growth for other diverse business types, such as WBENC and WEConnect International for businesses owned by women.

Common supplier diversity metrics

- Total or percentage of spend with diverse suppliers
- Total or percentage of sales attributed to supplier diversity program
- Number or percentage of diverse suppliers
- Number or percentage of certified diverse suppliers
- Percentage increase in market share attributed to supplier diversity program
- Percentage of suppliers meeting or exceeding expectations
- Number or percentage of diverse suppliers that are strategic partners

FIG. 1 Percentage of diversity program objectives considered by study participants to be “critically important” or “important”

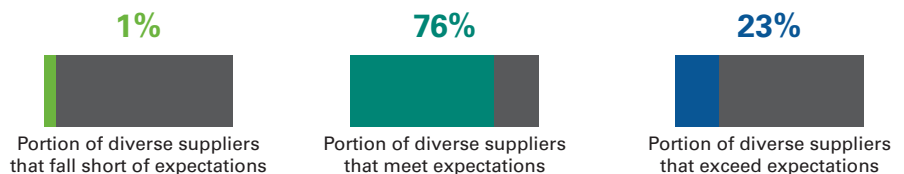


Source: Supplier Diversity Performance Study, The Hackett Group, 2016

from the program. Furthermore, quality does not suffer – in fact, often it improves. But even if procurement gets a green light to launch a supplier diversity organization, leaders may have limited resources or knowledge about the subject, leaving them unsure where to start, what to focus on or even how to measure success.

The most common metric used to monitor diversity programs is the percentage of spend with diverse suppliers. However, this is clearly a limited, compliance-based measure and does not get at the true value of the program. Satisfaction levels, an indirect measurement of value, should also be considered when reporting on supplier performance. For example, our research shows that 99% of all diverse suppliers meet or exceed expectations, dispelling any notion that quality and overall performance suffers. While the majority meet expectations, there is still plenty of room to help more suppliers succeed (Fig. 2). Selecting metrics that are aligned to objectives (see sidebar) and developing both short-term and long-term plans will help steer a growing supplier diversity program in the right direction and ultimately ensure that goals are met. Additionally, tracking market share by demographic can quantify positive revenue impacts from the program, which can be useful when sharing results outside a procurement audience.

FIG. 2 Nearly a quarter of diversity suppliers exceed buyers’ expectations



Source: Supplier Diversity Performance Study, The Hackett Group, 2016

“Some of the most successful supplier diversity programs come from companies that have diversity and inclusion in their DNA. They are making strategic investments in the communities they serve.”

Elizabeth Vazquez
CEO, *WEConnect International*

Supplier certification

To be recognized as a diverse supplier, purchasing groups usually require certification validating 51% or more ownership by a diverse party. Common certifications include:

- Minority-owned businesses
- Woman-owned businesses
- Small disadvantaged businesses
- Disadvantaged business enterprises
- Small businesses, typically certified by the U.S. Small Business Association
- Socially and economically disadvantaged businesses
- HUBZone business enterprises
- Disabled veteran businesses)

Top-Performing Organizations Take a Strategic Approach to Developing Supplier Diversity Programs

Supplier diversity is evolving from a check-the-box, corporate social-responsibility requirement to a strategic enabler providing access to new and innovative products and increased market share. Recognizing this, top-performing organizations have begun working toward achieving a broader range of benefits from their supplier diversity programs. In the near term, they are addressing supplier partnering and reputation management, and over the longer term, globalization (where it makes sense).

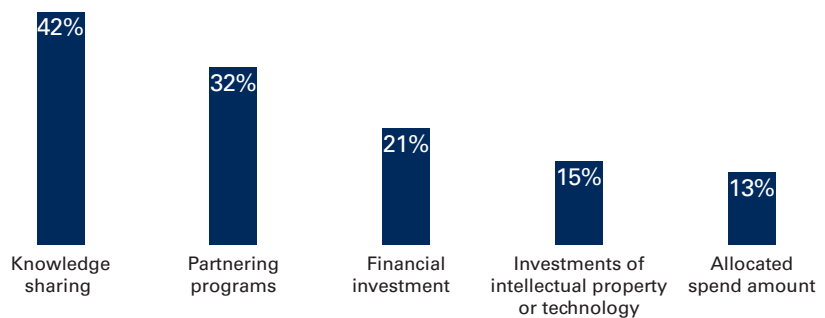
Further, organizations looking to increase market share through supplier diversity programs often start by increasing the amount of diversity spend. Our research showed a strong relationship between high levels of diversity spend and increased market share. For example, companies that allocate 20% or more of their spend to diverse suppliers attribute 10%-15% of their annual sales to supplier diversity programs. Conversely, companies that direct less than 20% of spend to diverse suppliers attribute under 5% of sales to their supplier diversity program.

Supplier partnering

Supplier partnering is the process of developing and enhancing relationships with suppliers. Small and minority-owned businesses can be the source of added benefits, including cost savings, process improvements and product innovations. Organizations with diversity-program partners share the following three practices:

- **Develop and mentor local suppliers.** Knowledge-sharing (the most common supplier development practice) and mentorship programs are commonly used due to their advantages for both buyers and suppliers (Fig. 3). Workshops and other in-person learning options help current and potential diverse suppliers gain a more competitive footing. In turn, the procurement organization wins by discovering and building relationships with local suppliers. At a bare minimum, newer supplier diversity programs need to have strong communication and collaboration skills to ensure that diverse suppliers can obtain the support they need.

FIG. 3 Tactics used to develop local suppliers



Source: Supplier Diversity Performance Study, The Hackett Group, 2016

- **Join forces with suppliers on product innovations.** Supplier-buyer innovation is frequently the most immature area of supplier diversity programs. Today, few companies integrate supplier partnering and innovation into their relationship management goals. Small business suppliers can be particularly successful partners due to their interest in innovation as a strategy for gaining competitive advantage over larger businesses. For example, more-established companies can share access to their technologies with smaller suppliers who are ready to innovate.
- **Share experiences with other companies.** Meeting with companies that have supplier diversity programs is useful for sharing lessons learned (e.g., supplier onboarding success tips, program growth strategies). Experienced supplier diversity program managers we interviewed as part of the study suggest joining diversity organizations or local diversity boards and attending meetings, roundtables and conferences to meet and network with other program leaders.

“A supplier diversity strategy should complement business initiatives and integrate well into daily business activities.”

Jenny Grieser

Senior Director of Women’s Economic Empowerment, Walmart

“Lack of communication between procurement organizations and diverse suppliers is one of the most common challenges. I follow a simple rule to manage it: when they email, I email back. No matter what.”

Jillnell Joiner

Senior Supplier Diversity Manager, American Red Cross

Reputation management

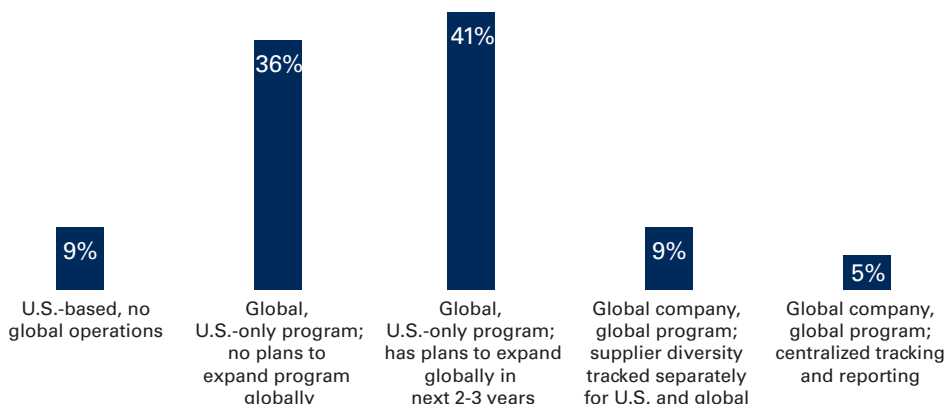
Developing a strong reputation for dedication to supplier diversity can result in increased market share and talent retention. There are multiple channels available to facilitate a clear and positive message regarding supplier diversity, including both internally and externally facing activities. Millennial workers, for example, can be enthusiastic supporters and ambassadors of supplier diversity programs, due to their interest in “giving back” and making a difference in the world. Additionally, procurement groups should look for reputation management opportunities that align with corporate objectives, with the goal of increasing collaboration between groups. Organizations that are strategically approaching reputation management share these practices:

- **Make use of social media to develop customer and employer brand awareness.** Social media provides multiple options to interact with customers, suppliers, and employees. Participation in company or procurement newsletters is a good option to highlight success stories, share interactions with the community, and provide updates on progress and goals. Spreading the message of diversity and inclusion can also help bring in new talent and retain top performers already working in the organization. Create marketing videos to showcase programs on company websites and social networks. Regardless of which social media options are used, it is important to communicate with a broad audience and to keep things brief and informative.
- **Educate procurement stakeholders on the value of supplier diversity.** Communication with the rest of the organization is crucial. Category managers, business leaders and executives should understand the supplier diversity program, including its purpose, operating procedures and goals (at a high level or in detail, depending on role). Stakeholders must accept that supplier diversity is advantageous before they will support cultural changes aimed at maintaining the program. In our survey, 65% of respondents indicated that supporting corporate culture around diversity and social responsibility is either a “very” or “critically” important objective of their supplier diversity program.
- **Interact with local communities of suppliers and consumers.** Attend or sponsor local events, even hosting them on site if appropriate. The goal of this type of interaction is to understand the market, establish relationships and share companywide supplier diversity goals. In addition to reputation management successes, positive supplier and community interactions can also improve broader diversity networks.

Longer term: Global expansion

Supplier diversity programs usually start small and then grow in terms of domestic volume and geographic reach. Our survey found that 76% of organizations have diversity programs that are currently limited to the domestic (U.S.) market. Of this group, 41% plan to expand their program globally in the next two to three years (Fig. 4).

FIG. 4 Supplier diversity programs by company’s geographic scope



Source: Supplier Diversity Performance Study, The Hackett Group, 2016

“Go international before you go global. Understand your market, select a region to start in and roll it out like you would any other program.”

Michael Robinson
*Program Director –
 Global Supplier Diversity,
 IBM*

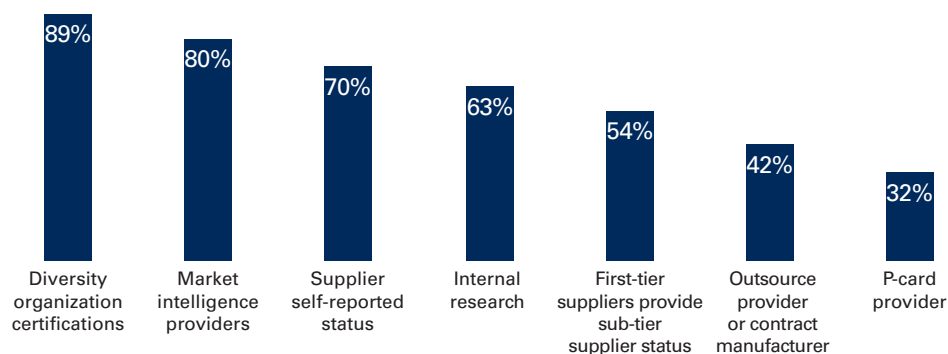
Global expansion of supplier diversity brings further benefits, including investment in global economic development and improved relationships with local suppliers and their communities. In fact, the survey found that 58% of organizations deliberately leverage local suppliers to support economic development of local communities to some degree. Organizations should research the advantages as well as which markets have the most potential before designing a global expansion of their program. Companies with the most successful global supplier diversity programs share the following practices:

- **Manage both U.S. and global programs as a single initiative.** Supplier diversity programs, whether large or small, should have a handful of specific, meaningful goals at their core. Once the program has been established in one market, the same processes, goals and materials can be used for each additional market. This ensures consistency between regions and enables economies of scale. The exception to this practice is when certain regions or countries have different regulations and laws. Research local laws and customs before launching supplier diversity efforts and make any adjustments to the strategy that are necessary.

Additionally, a dedicated supplier diversity leader should manage both the U.S. and global supplier diversity programs in order to maintain consistency and ensure that diversity goals are aligned with overall strategy. Eighty percent of study participants currently have a dedicated supplier diversity manager or equivalent role supporting their diversity program.

- **Partner with the corporate diversity group.** There are advantages to partnering with the corporate diversity group, which usually manages workforce diversity. Whether the relationship is informal or formal, the increased level of communication presents opportunities to align goals and performance metrics. Also, duplication of effort can be reduced and leverage increased by sharing materials and best practices.
- **Work with diversity organizations to identify suppliers.** Locating suppliers, even just to participate in RFPs, is a critical success factor but one of the more difficult parts of starting and managing a supplier diversity program. Try engaging third parties that specialize in connecting buying organizations with diverse suppliers. For example, WBENC and WEConnect International are partnering-certification providers for woman-owned businesses. Their corporate memberships provide access to a database of certified suppliers. Similar organizations exist for other underutilized supplier types, such as small or veteran-owned businesses (*see sidebar*). Specialists like these are also where most companies go to validate diverse suppliers (**Fig. 5**).

FIG. 5 Organizations used to validate diversity status



Source: Supplier Diversity Performance Study, The Hackett Group, 2016

Tapping into the hidden benefits of a supplier diversity program

1

Supplier partnering

Supplier diversity organizations can take advantage of significant benefits from strategic supplier partnerships that leverage technology

Development methods for diverse suppliers

42%



Percentage of companies that use knowledge-sharing (e.g., how to participate in RFXs) to develop suppliers

63%

Percentage of companies that find knowledge-sharing with suppliers to be effective

Access to new technology



40%

Percentage of procurement organizations that view gaining access to new technologies as an objective of their supplier diversity program

2

Reputation management

Most supplier diversity programs conduct regular reporting, but can improve interaction with local communities to develop their brand

Progress reports

95%



Percentage of organizations that report on progress to internal stakeholders

61%

Percentage of organizations that report on progress to business lines

Objectives viewed as important for supplier diversity programs

78%



To improve company's image in the marketplace

65%

To support company's diversity and social responsibility goals

3

Global expansion

Supplier diversity programs typically use a consistent strategy for each region, but even more benefits can be achieved with a global outlook

80%



Percentage of procurement organizations with a dedicated supplier diversity manager (or equivalent role) to support program (including global programs)

Global approach to program management

Importance of buying from local suppliers to support economic development

31%

Significant

27%

Moderate

of procurement organizations at companies with global operations

Source: Supplier Diversity Performance Study, The Hackett Group, 2016

Program Objectives Must Come from the Highest Levels of the Company

Top-performing supplier diversity programs are developed and planned with substantial guidance from companies' executive leadership. Many of these programs receive attention and guidance from the corporate level due to a recognition of their potential to boost revenue and empower diverse businesses.

Leaders of supplier diversity initiatives should make it a priority to create a culture that is supportive of diversity and inclusion, not just in procurement, but throughout the enterprise. All diversity objectives, including supplier diversity, workforce diversity, and community and market interaction, should have the same strategic objectives in order to take advantage of a larger network and create a more collaborative workplace. Since supplier diversity programs tend to be newer and thus less mature than other similar initiatives, they should be modeled on more established ones, such as workforce diversity, and ensure collaboration between such groups.

About the Advisors

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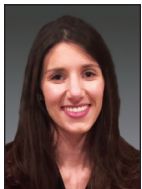
Senior Research Director



Mr. Connaughton leads the development of The Hackett Group's intellectual property in the areas of strategic sourcing and procurement. He has over 15 years of experience in supply chain and procurement research and advisory roles. He has published groundbreaking research in areas like spend analysis, contract life cycle management, supplier risk assessments and services procurement. Prior to joining Hackett, he was principal analyst at Forrester Research, where he focused primarily on helping executives mitigate risk through more effective supplier relationship management. Previously, Mr. Connaughton was a consulting manager at Manhattan Associates and Accenture.

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