“The Business Case for Supplier Diversity”

Presented by
The Council of Supplier Diversity Professionals

May 7, 2014

@ Michigan Minority Procurement Conference
Cobo Hall
The Business Case for Supplier Diversity
Forging a Strong Inclusive Economy

5/9/2014
Current Landscape of Supplier Diversity

Shifting Sands

- Company Mission Focus
- Procurement/Purchasing Budget Priorities
- Sourcing & Purchases
- Mainstreaming Supplier Diversity
Evolution of Diversity ... a Tale of Change

1. Set Aside Era
   - Projects set aside for minority firms
   - Few minority firms to compete
   - "Legislated" inclusion

2. Access Era
   - Access to information
   - Access to technical support/education
   - Access to decision makers
   - "Desired" inclusion

3. Competitiveness Era
   - Expectation of scale, scope, and reach
   - Political/business climate
   - Avoidance of risk
   - Fewer concessions
   - "Aspired" inclusion

Source: Institute for Entrepreneurial Thinking, LTD.
Supplier Diversity: The New Paradigm

- Diversity is a core value for the company
- No longer a “program” but a core function of procurement process
- Commensurate with company’s diverse direct or indirect customer base
- Focus on “inclusion”
- Recruit the “best” suppliers, develop the “best” ideas and enhance brand prominence

Circular effect in Multi-Cultural Economy & Your Diversity Market

Impact on operating Expenses (-/+)

Suppliers Diversity ROI

Innovation and Impact on Other Operations (Sales/HR)
The Multi-Cultural Economy 2013 Report by the Selig Center for Economic Growth (University of Georgia) found that:

- Hispanic market ($1.5 trillion)
- African-American market ($1.3 Trillion)
- Asian market ($713 Billion)
- Native American market ($96 Billion)

are larger than the entire economies (2013 GDP measured in U.S. dollars) of all but thirteen countries in the world.
<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>European Union</td>
<td>$16.6 Trillion</td>
</tr>
<tr>
<td>2</td>
<td>United States</td>
<td>$15.6 Trillion</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>$8.3 Trillion</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>$5.9 Trillion</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>$3.4 Trillion</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>$2.6 Trillion</td>
</tr>
<tr>
<td>7</td>
<td>United Kingdom</td>
<td>$2.4 Trillion</td>
</tr>
<tr>
<td>8</td>
<td>Brazil</td>
<td>$2.2 Trillion</td>
</tr>
<tr>
<td>9</td>
<td>Russia</td>
<td>$2.01 Trillion</td>
</tr>
<tr>
<td>10</td>
<td>Italy</td>
<td>$2.01 Trillion</td>
</tr>
<tr>
<td>11</td>
<td>India</td>
<td>$1.84 Trillion</td>
</tr>
<tr>
<td>12</td>
<td>Canada</td>
<td>$1.82 Trillion</td>
</tr>
<tr>
<td>13</td>
<td>Australia</td>
<td>$1.52 Trillion</td>
</tr>
<tr>
<td>14</td>
<td>US Hispanic Economy</td>
<td>$1.5 Trillion</td>
</tr>
<tr>
<td>15</td>
<td>US African American Economy</td>
<td>$1.3 Trillion</td>
</tr>
<tr>
<td>16</td>
<td>Mexico</td>
<td>$1.3 Trillion</td>
</tr>
<tr>
<td>17</td>
<td>South Korea</td>
<td>$1.03 Trillion</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>$878.1 Billion</td>
</tr>
</tbody>
</table>
Supplier Diversity

Key FACTS

- Minority and women businesses are either direct or indirect consumers of goods and services

- MWBEs and Small Businesses are the backbone of the American economy. They create:
  - 2 of every 3 new jobs,
  - produce 39% of the GNP, and
  - invent more than half of the nation’s technological innovations (SBA)

- Minorities represent 26 percent of the US population, but only 13 percent of the total businesses and 6% of the gross receipts (NMSDC)

- Minorities have in excess of $3 Trillion in purchasing power

- 1 in 3 customers are minority (Selig Center for Economic Growth)
Proof in Numbers....

Minority Population as a % of US Population (1900 - 2050)

2010 Census Data

<table>
<thead>
<tr>
<th>Race</th>
<th>Number of People</th>
<th>% of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caucasian</td>
<td>196,817,552</td>
<td>63.7%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>50,477,594</td>
<td></td>
</tr>
<tr>
<td>African American</td>
<td>37,685,848</td>
<td></td>
</tr>
<tr>
<td>Asian</td>
<td>14,465,124</td>
<td></td>
</tr>
<tr>
<td>Two or more races</td>
<td>5,966,481</td>
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</tr>
<tr>
<td>American Indian or Alaska Native</td>
<td>2,247,098</td>
<td></td>
</tr>
<tr>
<td>Some other race</td>
<td>604,265</td>
<td></td>
</tr>
<tr>
<td>Native Hawaiian</td>
<td>481,576</td>
<td></td>
</tr>
<tr>
<td>Total Population 2010</td>
<td>308,745,538</td>
<td>100%</td>
</tr>
</tbody>
</table>

Memo: Women 156,842,733 50.8%

By 2035 → 50% of Population Will be Multicultural
In 6 Years → 50% of Children Will be Diverse

Note: Data Source for both charts – Demographics of the United States - Wikipedia
Competencies for Supplier Diversity

1. Diversity Markets
2. Corporate Responsibility
3. Strategic Alliances
4. Reputation Management
Supplier Diversity
Forging a Stronger Economy
Business Case Value Analysis
View from the Top:
Competing more efficiently/effectively on a global scale requires developing a wider variety of workers who will bring to the table a vast array of talents, skills, and ideas.—CEO Report,
Return on Investment (ROI)

Definition:

“A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of investments.”
Supplier Diversity
Sample Value Calculation

$SDROI = \frac{\text{Gain from Program} - \text{Cost of Program}}{\text{Cost of Program}}$

Where:

1. **Gain** = cost savings/cost avoidance/reach into emerging markets/and innovation

2. **Cost of Program** = Supplier Diversity Budget
Diversity Markets and Supplier Diversity

Identifying and leveraging relationships with key external suppliers, vendors, and customers in order to enhance the supply chain, increase market share and brand loyalty

- An effective diversity and inclusion practitioner is required to be a full business partner.
Supplier Diversity Practitioner Role

BUSINESS ACUMEN

- **External Market Knowledge**: possess an understanding of global and local trends, and how these trends affect the organization, its customers, its suppliers and stakeholders

- **Internal Business Knowledge**: know the organization’s mission critical business strategies, and the impact of financial, economic and market drivers on bottom line results

- **Innovation**: offer integrated ideas and solutions from several disciplines and sources on issues important to the organization
“Supplier Diversity activities – identifying and communicating how supplier diversity efforts contribute to the organization mission critical/core business strategies and results.”

- Create insights
- Enhancement of external relationships
- Increase penetration to emerging markets
- Manage business multi-cultural media and relations

*The Conference Board*
Contributing Value

- Determining and communicating how supplier diversity contributes to the company’s mission critical business strategies and results.

- Creating developing metrics that show supplier diversity return on investment.

- Acknowledging that you (in your role as a supplier diversity practitioner) are a key player in the creation and enhancement of your firm’s reputation.
Demonstrating Supplier Diversity Value

- Sales
  - Target Rate
  - Penetration into Emerging Markets
  - Average Sales per Cultural segment

- Market Analysis
  - Market Share
  - Number of Diversity suppliers by Sales Region

- Diversity Supplier Value
  - Cost Savings
  - Cost Avoidance
  - Innovations

- Supplier Diversity & Lead Generation
  - Number of new leads per quarter
  - Costs
“Business Case” for Supplier Diversity

The Supplier Diversity Practitioner –

- Work with other departments (such as HR) to ensure the organization has a sophisticated understanding of its customer base, its cultures, marketplace and competitors and to create cross departmental support.

- Increases awareness that diversity and heterogeneity of customers will increase over time and the inclusion of diversity suppliers will enhance the ability to serve these differences.
Supplier Diversity Impact

- **Marketplace**
  - Products/services, brand differentiation
  - Customer acquisition/retention/satisfaction
  - Job creation/sustainability
  - Community in which you conduct business

- **Shareholders/Members**
  - Revenue and Return on Investment
  - Litigation and negative public relations
  - Corporate responsibility

- **Employees**
  - Competition for talent
  - Organizational effectiveness due to increased productivity
  - Better communications/Affinity Groups
  - Retention
C-SUITE PRIORITIES

- CHIEF FINANCIAL OFFICER
  Focus: Financial Management

- CHIEF HUMAN RESOURCES OFFICER
  Focus: Human Resource Management

- CHIEF RISK OFFICER
  Focus: Risk Mitigation

- CHIEF INFORMATION OFFICER
  Focus: Information Technology Management

- CHIEF EXECUTIVE OFFICER
  • Creating & delivering effective business strategies
  • Growth
  • Driving change w/in organization
  • Expansion of business organically & through acquisitions/alliances
  • Build brand equity
  • Sustaining/growing market share
  • Profitability

FOCUS: BIG PICTURE

- CHIEF MARKETING OFFICER
  Focus: Customer Retention & Growth

- CHIEF PROCUREMENT OFFICER
  Focus: Supply Chain Management

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Focus:
Ultimate Goal

To have a supplier diversity initiative that:

- Positively impacts the supply chain, and
- Provides a competitive edge in sustained and/or increased market share.
- To create a sustainable supplier diversity initiative
Thank You

“IN THE MIDDLE OF DIFFICULTY LIES OPPORTUNITY”

ALBERT EINSTEIN
What’s on Your Minds?

Council of Supplier Diversity Professionals
www.ncsdp.com