



# Council Perspectives™

Insights from The Conference Board Supplier Diversity Leadership Council

## The Supplier Diversity Value Proposition

What Every Organization's Important Stakeholders Need to Know about Supplier Diversity

by The Conference Board Council on Supplier Diversity

Alignment with an organization's overall business strategy and C-suite and board support are critical to the success of a supplier diversity program. As companies look to emerging economies, diverse populations, and a changing customer base for growth, now is the time to review your supplier diversity program, refresh its value proposition, and rejuvenate organizational enthusiasm for it as a source of competitive advantage.

As the global market economy undergoes rapid change, companies need to reevaluate how they do business, especially in light of the dramatic demographic shifts underway in the United States and throughout the world. More than half of U.S. population growth between 2000 and 2010 was due to the increase in the Hispanic population.<sup>1</sup> In the last decade, the black population increased by 15 percent, and it is now 14 percent of the U.S. population.<sup>2</sup> By 2042,

the U.S. Bureau of Census estimates that ethnic and racial minorities will represent a majority of the U.S. population. Minorities now hold more social, economic, and political power than ever before. Their decisions about the products they purchase and the corporations they trust will ultimately determine the success or failure of many organizations.

1 *The Hispanic Population: 2010*, Census Briefs, U.S. Department of Commerce Economics and Statistics Administration, U.S. Census, May 2011 ([www.census.gov/prod/cen2010/briefs/c2010br-04.pdf](http://www.census.gov/prod/cen2010/briefs/c2010br-04.pdf)).

2 *The Black Population: 2010*, Census Briefs, U.S. Department of Commerce Economics and Statistics Administration, U.S. Census, September 2011 ([www.census.gov/prod/cen2010/briefs/c2010br-06.pdf](http://www.census.gov/prod/cen2010/briefs/c2010br-06.pdf)).



On the gender side of the equation, women-owned businesses have gained market share and purchasing power. Women's share of total U.S. firms increased from 26 percent in 1997 to almost 29 percent in 2007, while men's share dropped from 55 percent to 51 percent. The most recent data from the Small Business Association Advocacy Office indicate that the share of businesses owned by both women and men also declined.<sup>3</sup>

According to the annual *Multicultural Economy* report from the University of Georgia's Terry College of Business and Selig Center for Economic Growth, "Although the Great Recession has hit Hispanics and Asians particularly hard, their buying power is expected to grow rapidly over the next several years... Despite the recession, the underlying growth trends for Hispanics and Asians in the United States are still very strong."<sup>4</sup>

Internationally, the change is just as dramatic. By 2025, according to the consulting firm McKinsey & Company, more than 50 percent of the nearly one billion households with earnings greater than \$20,000 a year will live in the developing world. McKinsey also predicts that just seven emerging economies—Brazil, China, India, Indonesia, Mexico, Russia, and Turkey—are expected to contribute about 45 percent of global GDP growth in the coming decade.<sup>5</sup>

Taking all this into consideration, a commitment to building and sustaining supplier diversity programs is needed to ensure the buying power of all minority groups and women is represented in the global economy.

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3 *Developments in Women-owned Business, 1997-2007*, Office of Advocacy, U.S. Small Business Administration, September 2011 ([www.sba.gov/sites/default/files/rs385tot\\_0.pdf](http://www.sba.gov/sites/default/files/rs385tot_0.pdf)). The material contained in this report represents the latest and most comprehensive business data sets released by the U.S. Bureau of the Census from its 2007 Survey of Business Owners.

4 *The Multicultural Economy*, University of Georgia, The Selig Center for Economic Growth, July 2011 ([www.terry.uga.edu/selig/buying\\_power.html](http://www.terry.uga.edu/selig/buying_power.html)).

5 Yuval Atsmon, Ari Kertesz, and Ireena Vittal, "Is your emerging-market strategy local enough?" *McKinsey Quarterly*, April 2011 ([www.mckinseyquarterly.com/Strategy/Growth/Is\\_your\\_emerging\\_market\\_strategy\\_local\\_enough\\_2790](http://www.mckinseyquarterly.com/Strategy/Growth/Is_your_emerging_market_strategy_local_enough_2790)).

## What Is Supplier Diversity?

Simply stated, supplier diversity means formal programs committed to the inclusion of minority-, women-, and veteran-owned businesses as an integral part of a company's overall supply chain strategy. While this definition is intended to be broad in nature, the essence of a world-class supplier diversity program relies on several key elements: illustrating the ROI of your program through metrics, building supplier diversity into your corporate culture, and understanding the nuances of your industry.

The success of a supplier diversity program within an organization probably relies more on the "how" than the "what." For example:

- How is it supported by the C-suite?
- How is it communicated internally and externally?
- How is it organized and resourced?
- How well is it respected based on its ROI?

## Best Practices for Implementing and Sustaining a World-Class Supplier Diversity Program

A comprehensive supplier diversity program includes practices that stretch across all facets of an organization, ranging from corporate-level executives to procurement specialists and communications executives. Such a program should include efforts to:

- Integrate strategy and alignment at the corporate level
- Engage the employee base in the development and growth of the program
- Develop and engage a diverse supplier base
- Benchmark and be an active contributor to the supplier diversity practice
- Communicate a supplier diversity message to the larger customer/consumer communities

The most effective supplier diversity programs are tied to an organization's overall business strategy and have the support of both the C-suite and the board. For supplier diversity professionals, the shift toward flatter organizations and fewer management layers may result in a C-suite

that is supportive but has limited engagement. In these instances, it is even more critical that a supplier diversity program:

- 1 Builds supplier diversity into the overall strategic plan of the company (this will require the support of the C-suite and the board of directors)
- 2 Identifies key internal and external stakeholders and communicates tailored messages
- 3 Uses metrics to illustrate the value of supplier diversity and holds regular business reviews to show its value to business units and the overall organization
- 4 Develops and engages a diverse supplier base
- 5 Implements business development programs to create a strong pipeline of qualified suppliers
- 6 Aligns with corporate sustainability goals
- 7 Benchmarks and becomes an active contributor to the supplier diversity practice
- 8 Documents the history of the supplier diversity program (especially how supplier diversity efforts have progressed throughout the organization)

### Use metrics to boost the maturity of your supplier diversity program

Whether you want to advance an existing program or begin a journey toward a new program, it is important to understand your starting point. An analysis of the maturity of your program in the context of your industry and your company can highlight areas of best practice and pinpoint areas for improvement.<sup>6</sup> If your program lacks maturity, find appropriate metrics to show C-suite members the benefits of the supplier diversity program for the organization. Metrics in the following areas can support or help develop compelling arguments:

- 1 Year-over-year changes in spend with suppliers by diversity spend categories
- 2 Savings attributed to diverse suppliers due to competitive pricing, process, or innovation
- 3 Value of contracts or business with customers requiring supplier diversity reporting

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<sup>6</sup> The maturity of your program will depend more on the nature of its reach than on how long it has been in place. For example, if your program is six years old, but consists of one person and only covers a handful of states, then it is not very mature. Conversely, you could have a two-year-old program that spans four countries outside the United States, which would make it a very mature program.

Lobbying for resources is not an easy task in the current economic environment. Make sure that your business case clearly highlights the value to the organization that develops over time as the program matures. Develop relationships with the industry leaders who embrace these programs, and do not be afraid to invite them to speak with leaders at your company.

### Use your own internal buyers

One issue that can slow the growth of your program is that buyers within your organization may be unaware of diverse suppliers. Take time to help your internal buyers examine their current supplier base and offer to help them identify diverse suppliers from outside associations or from another part of your enterprise. Since they are familiar with the corporate culture and the supplier's qualifications, your buyers are the best allies a diverse supplier will have in developing a winning business strategy.

### Invest in technology and innovation

Breakthroughs in technology are providing ways to automate and streamline tasks that used to be highly time consuming, repetitive, and considered low value. When appropriate, companies should take advantage of online supplier registration portals, internet-based supplier education programs, and outsourcing of data collection and certification to streamline processes and make it easier to source new suppliers. Knowledge management applications and "cloud" technologies allow supplier diversity teams to turn data into meaningful information and insights for faster, more accurate decision making.

### Engage in industry-wide collaboration

Collaboration is essential. Contact supplier diversity organizations at the local, regional, and national levels to help define what your organization seeks in a successful supplier. Industry-specific groups include the National Minority Supplier Development Council ([www.nmsdcus.org](http://www.nmsdcus.org)) and the Women's Business Enterprise National Council ([www.wbenc.org](http://www.wbenc.org)). Organizations can use supplier diversity networks available through social media and supplier diversity events, as well as support provided through government agencies, to stay on top of supplier diversity trends and further develop their program.

## Scale your program internationally

Until recently, formalized supplier diversity programs have largely been a U.S.-based phenomenon to help diverse groups that were traditionally left out of the economic mainstream. Now, as more corporations continue to grow outside the United States, the programs are looking beyond the U.S. borders. “You already have well-established networks, so tap into them and become a resource to small local businesses in other countries where you conduct business, such as China,” says Janice Greene, commercial airplanes program director for supplier diversity strategy at Boeing. A number of companies are using this strategy to target the indigenous population in Australia, lower castes in India, and locally owned drilling companies in Angola.

## Review, Refresh, and Lead

Based on the turnaround in the global economy, many companies are beginning to prepare to grow their organizations. If this is the case with your organization, now is the time to review your supplier diversity program, refresh the overall value proposition, rejuvenate organizational enthusiasm, and actively demonstrate how supplier diversity can help ensure the future success of the enterprise. Proper metrics and relationship building are critical components for demonstrating support and providing results.

It is the role and the duty of the supplier diversity professional to lead any needed change in his or her organization to take advantage of the current economic environment and shifting demographics to develop a robust and diverse supply chain as a vital and integral part of the company’s brand to ensure future success.

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### About The Conference Board Supplier Diversity Leadership Council (SDLC)

Shifting U.S. demographics have expanded the concept of corporate diversity to include supply bases, either as a business requirement or simply as good business. As supply chain executives, we are constantly searching for ways to achieve this goal without compromising fiscal or strategic responsibilities. Among many other topics, we discuss:

- Value proposition, ROI, and benchmarking in supplier diversity
- Branding supplier diversity within the enterprise
- Second-tier reporting
- Developing business opportunities for minority- and women-owned enterprises

Diversity is about more than numbers and political correctness; our candid discussions allow us to share strategies for ensuring that our firms’ supply bases align with the diverse customer bases they serve and the diverse markets they seek.

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