Chapter 11

Supplier Diversity
Supplier diversity is an area of expanding interest for corporate America, non-profits, and the government. Corporations are setting ambitious goals for themselves to reach out to businesses not traditionally included to a large extent in the supply chain. Gaining executive commitment from the CEO and others in leadership is essential for the success of the overall supplier diversity program, and as a result, CEO and executive interest, as well as Board review of supplier goals, have increased significantly in the past decade.

Many corporations spend millions—even billions—of dollars a year on goods and services. Yet historically, women-owned business enterprises (WBEs) and minority-owned business enterprises (MBEs) have been left behind in terms of securing supplier contracts with large organizations. In response, supplier diversity programs have sprung up in companies of all industries and areas, and today, some companies are going beyond MBEs and WBEs by also considering LGBT-owned business and veteran-owned businesses in their procurement process. Although many of these programs were formed to promote a positive public image, many corporations are now realizing that maintaining diverse suppliers can also help the company improve its bottom line in countless ways.

Additionally, government and nonprofit groups are increasingly monitoring the percentage and of contracts awarded to minority- and women-owned firms. U.S. laws give corporations major incentives to use small business suppliers when contracting with US federal, state, or public agencies. Large businesses also must administer a “subcontracting plan” that specifies activities related to small business suppliers. And in some instances, the sub-tier large business suppliers of a prime contractor may also need to have such a plan.

In most cases, the supplier diversity function reports to the vice president of purchasing with a dotted line to the senior diversity officer and/or executive diversity council. But as more diversity officers report at a higher level, and not through HR, many of the companies have the function reporting directly to the diversity and inclusion officer.

In this chapter, we will explore the following questions:

• What are the current trends in supplier diversity?

• How should companies report supplier diversity progress? What should be included on a supplier diversity checklist?

• What are some corporate examples of supplier diversity goals and achievements?
Increasing Pressure for Supplier Diversity

For most companies, the commitment to minority- and women-owned business purchasing is goal-focused and measured. Pressure for more supplier diversity initially may have been created by affirmative action or other suits; however, most companies now see the positive side. Small businesses, women, and minorities are their markets and communities, and government contractors, for one, know the importance of supplier diversity as a differentiator to winning contracts.

Companies often have large staffs, large budgets, and large dollar amounts devoted to supplier diversity. For example, roughly 97% of the Fortune 500 companies set percentage or dollar goals on supplier diversity.

Staffing for supplier diversity is growing, with an average of approximately two to three individuals assigned to the function. Sometimes as many as 10-15 people are assigned to support supplier diversity throughout the company. As budgets have increased so has personnel, programs, advertising and marketing, training, conferences, and seminars.

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Approximately 80% of executive Diversity Councils and CEOs at U.S. corporations with supplier diversity programs are involved in setting the policies and goals for purchasing diversity. This high-level leadership makes a difference. According to a new survey by the Women’s Business Enterprise National Council, 93% of companies with active CEO involvement maintain a list or database of women-owned business enterprise (WBE) and/or minority-owned business enterprise (MBE) suppliers. Ninety-one percent (91%) have a written company policy that specifically includes WBE/MBEs.

In the meantime, support programs are expanding. Ancillary programs, such as mentor-protégé and training, are growing as more companies seek to help minority suppliers gain more training and access to contracts. Purchasing-based association advocates are also gaining clout. The Minority Supplier Development Council, the Women Business Enterprise National Council, the Women Business Development Council, the National Association of Women Business Owners’ Women Business Owners Corporation, the Minority Business Round Table, and the Latin American Management Association, among others, are gaining influence with corporations.

But as more money is spent with suppliers, pressure will increase as interest groups send report cards to corporate CEOs, diversity councils, and Boards. The government and media pay attention to supplier diversity programs, and awards and recognition in this area are on the rise. The following page offers a basic checklist to consider when beginning to track the effectiveness of your company’s supplier diversity program.
Reporting on Supplier Diversity – A Sample Checklist

**Total Dollars Per Year**
- ✓ Dollars spent last year
- ✓ Percentage of total procurement

**Executive Support**
- ✓ CEO
- ✓ Executive Diversity Council
- ✓ Board of Directors

**Structure and Staffing**
- ✓ Provide the staff leadership
- ✓ Provide the structural support

**Communicate the Goals and Results**
- ✓ Publish the goals and results
- ✓ Use internal and external publications as well as the Internet
- ✓ Highlight some of your suppliers

**Ensure Accountability for Meeting or Exceeding the Supplier Diversity Goals**
- ✓ Measure results
- ✓ Award performance
- ✓ Penalize deficiencies and goals not reached
- ✓ Link to performance evaluations
- ✓ Provide periodic reports

**Encourage Special Programs**
- ✓ Matchmaking
- ✓ Mentoring
Conclusion

In this chapter, we:

- Examined current trends in supplier diversity.
- Considered how companies should determine supplier diversity goals.
- Shared corporate examples of supplier diversity goals and achievements.

Best-practice companies constantly evaluate vendors to find the industry experience, knowledge, and capability needed to deliver products that reflect the diversity of their customer base. A significant component of these efforts involves cultivating relationships with typically underutilized businesses, and working to incorporate these companies into their network of vendors whenever possible.

Growing a diverse supplier base only makes sense given the increasingly diverse markets that most companies serve in this global age. Partnering with a diverse range of suppliers to provide products and services that meet or exceed customer needs enables a company to serve its consumers to the best extent possible. Those companies that combine outstanding supplier diversity initiatives and outcomes with other best-in-class diversity and inclusion programs will maintain a competitive advantage, win new business, retain customers, and reinforce their brand around the world.
Corporate Examples

Bank of America

With 9 percent of Tier II procurement spent with minority- and women-owned suppliers, Bank of America has a clear connection to its multicultural communities. The bank has training/mentoring for MBEs and WBEs, provides financial assistance for them and includes supplier diversity in its RFPs.

Comerica Bank

Comerica Bank's supplier diversity is outstanding, with 14.2 percent of Tier I procurement going to minority-owned business enterprises and 11.1 percent going to women-owned business enterprises. Of Tier II, 7.3 percent goes to MBEs and 2.1 percent to WBEs.

Ford Motor Co.

Ford maintains a five-year business plan for MBE and WBE suppliers. Spend objectives are contained in the global purchasing scorecard and assessed in the CEO's biweekly business-plan review with his direct reports.

Health Care Services Corp.

Health Care Services Corp. has accelerated its supplier-diversity efforts in recent years, with 5.6 percent of Tier I procurement now going to minority-owned business enterprises and 4.6 percent to women-owned business enterprises. Of Tier II, 39 percent goes to MBEs and 42.5 percent goes to WBEs.

Henry Ford Health System

Forty-one percent of Henry Ford's philanthropy budget goes to multicultural groups, most in the Detroit area. Henry Ford also spends 7.3 percent of its Tier I procurement with minority-owned suppliers.

IBM Corp.

IBM was one of the first companies to reach out to LGBT suppliers (who are certified by the National Gay and Lesbian Chamber and Commerce). Of its Tier II procurement, 12.4 percent goes to LGBT-owned businesses. The company has excellent metrics to assess supplier-diversity success and strong relationships with external certifying organizations.
Marriott International

Marriott had already nearly doubled its goal to spend $1 billion with minority-business enterprises by 2010.

MGM MIRAGE

In 2008, MGM MIRAGE dedicated one employee to coach suppliers and obtain Tier II reporting. This included spend threshold and propensity to include diversity in the supply chain.

PG&E

PG&E spends 11.8 percent of its Tier I procurement budget with minority-owned business enterprises and 5.1 percent with women-owned business enterprises. The company audits its supplier-diversity numbers and integrates supplier diversity into its overall business strategy. In addition, PG&E has strong metrics to assess its supplier-diversity success, including: diversity as percentage of total spend; the number of diverse suppliers; revenue growth of diverse suppliers; recognitions received for supplier-diversity success from outside organizations; and savings as a result of contracting with WMBEs. The company also ties procurement-management compensation to supplier-diversity success.

Xerox Corp.

The company reports that of its Tier I (direct contractor) procurement, 13.2 percent goes to minority-owned business enterprises (MBEs), 19.3 percent goes to women-owned business enterprises (WBEs) and 0.1 percent goes to gay- and lesbian-owned business enterprises. Of its Tier II (subcontractor) procurement, 7.6 percent goes to MBEs, 6.8 percent goes to WBEs and 1 percent goes to gay- and lesbian-owned business enterprises.
Case Study: OfficeMax, Inc.

When most consumers walk in to an office supply store, they are not thinking about buying a pen or a printer purchased from a historically underutilized business (HUB). Luckily, someone is thinking about it. OfficeMax, Inc., a leader in business-to-business and retail office products, is one of the only office supply companies to receive awards for its support of minority and women-owned businesses.

OfficeMax has been leading the way in supplier diversity for over 30 years. When the company first implemented a corporate supplier diversity policy, it did so without any government or customer mandates. Moreover, OfficeMax was a founding member of the National Minority Supplier Development Council in 1972 and continues to be an active, corporate member today. In 1992, it launched its Supplier Diversity Program, the industry’s first marketing program for minority- and women-owned business enterprises (MWBE) products. OfficeMax continues to be the leader in resale of office products from MWBEs. It also supports the economic development of companies owned by veterans and firms with employees who are developmentally or physically challenged (PCs).

But OfficeMax never takes credit for these products. It purchases the inventory from the MWBEs and PCs and then markets it for resale to customers and other businesses. Its catalogs clearly mark which supplies come from MWBEs and PCs. This icon also helps OfficeMax track purchasing patterns to identify any potential for increased MWBE and PC purchases. Its commitment to a diverse supplier base has paid off tangibly. At the end of 2004, OfficeMax’s Supplier Diversity Program included 142 suppliers: 42 were minority-owned, 64 employed blind or severely disabled workers, and the remaining 36 were owned by women. These practices benefit OfficeMax itself as well as the suppliers and customers.

Having such diverse suppliers provides OfficeMax customers with highly competitive prices, one-stop shopping, quality products, and supplier certification. Supplier diversity also brings innovation and flexibility in to the office supply realm as small companies are more flexible than large suppliers. Suppliers also benefit from working with OfficeMax. They get nationwide sales and distribution at no cost; they have access to corporate customers usually off-limits to small suppliers; they get fast payment and flexible advertising amounts; and they receive assistance with product development. Supplying OfficeMax as a MWBE or PC provides an opportunity for unprecedented growth and expansion.

Beside the effect of having their products on shelves, OfficeMax offers further support and assistance to MWBE and PC suppliers. It sponsors scholarships for multicultural suppliers to attend Tuck School of Business at Dartmouth College. There are quarterly Webcasts with managers and business experts to promote best practices and provide coaching and mentoring.
However, there are challenges that exist with supplier diversity. It is difficult to encourage customers to abandon brand knowledge and buy products made by small or disadvantaged companies. OfficeMax is aware of this challenge and now instructs customer service representatives to push MWBE- and PC-made products as well as reminding customers of OfficeMax’s continued commitment to diversity.

Maybe, with the help of employees and suppliers, customers will eventually walk in to an OfficeMax searching for a pen made by a woman-owned company or a printer purchased from a veteran-owned organization.