



**Supplier Diversity Programs:  
A Strategic Approach to  
Maximize Value**

**Background**

With today's challenging economic climate, businesses are assessing their staffing requirements as well as the suppliers who help them meet their contingent workforce needs to ensure maximum return on talent investment (ROTI). Companies are also facing increased political and social pressure to do business with suppliers that are women, minority or disabled/veteran-owned – organizations that are defined as “diverse suppliers.”

Government agencies, and companies who conduct business with the government, are required to seek out and purchase supplies and services from diverse suppliers. Typically, a certain percentage, which can range from 20 to 40 percent, of their total purchasing spend is reserved for transactions with such entities.

There is also a growing trend among U.S. corporations to support diverse enterprises, and although not mandated, many U.S. organizations adhere to diversity spend goals, increasing opportunities for

diverse enterprises. As an example, according to the National Minority Supplier Development Council (NMSDC),<sup>1</sup> PepsiCo spent \$900 million in 2008 on certified minority businesses, which despite a down economy, was an increase over the prior year.

Historically, supplier diversity programs were developed as socially responsible initiatives. Over the years, they have evolved into solution-oriented programs that can drive the success of businesses. According to NMSDC, corporate purchases from certified minority suppliers have increased from \$86 million in 1972 to over \$100 billion today.

These trends and data illustrate that corporations across America are committed to purchasing services and products from diverse suppliers. Many companies mandate that a certain percentage of their total spend be reserved for purchases from such suppliers. A corporation's diverse spend can be accomplished in two ways:

- **Tier 1 Spend.** Directly purchasing from and paying a diverse supplier is considered tier one spend.
- **Tier 2 Spend.** Occurs when a direct purchase is made from a non-diverse supplier and that entity in turn pays a diverse supplier for the purchase.

Some companies apply credit towards their diverse spend goals based on both Tier 1 and Tier 2 spend. Other companies rely wholly on tier one transactions to credit their diverse spend goals.

### Supplier Diversity Programs – Key Challenges

To accomplish their diversity goals, companies are increasingly implementing supplier diversity programs. These programs are typically established by securing executive sponsorship, establishing policy, dedicating resources and finding suppliers. While these steps are essential, they are frequently not sufficient to avoid the following challenges and issues.

Corporations often place a sole focus on meeting their diversity spend goals which can be risky. Companies, especially those with mandated diversity spend objectives, often sacrifice quality, efficiency and cost in an effort to meet their spend objectives. The reasons are multi-fold and include the following:

- The pool of diverse suppliers from which to choose lacks experience, resources, market coverage, diversity certification, technology and overall business acumen.
- To meet spend objectives, companies must partner with and manage a high volume of suppliers, resulting in inefficient and time-consuming processes.

**A diverse supplier** is a for-profit enterprise which is owned, operated and controlled by diverse group members. Ownership by a diverse group means the business is at least 51% owned by individuals who are deemed diverse, or in the case of a publicly-owned business, at least 51% of the stock is owned by one or more such individuals. The management and daily operations are controlled by those diverse group members.

Diverse group members include individuals that fit the following categories.

- Ethnic Minority Owned Enterprises (MBE): U.S. citizens who are Asian, Black, Hispanic and Native American
- Women Owned Enterprises (WBE)
- Veteran Owned Enterprises (VET)
- Service-Disabled Veteran Owned (DVBE)
- Lesbian, Gay, Bisexual, and/or Transgender Owned Business Enterprises (LGBTBEs)
- Small Businesses <sup>2</sup>

<sup>1</sup> "The National Minority Supplier Development Council provides a direct link between corporate America and minority-owned businesses. NMSDC is one of the country's leading business membership organizations. <http://www.nmsdc.org/nmsdc/>.

<sup>2</sup> "The Small Business Administration is an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation. [www.sba.gov](http://www.sba.gov).

- Because the pool of truly qualified suppliers is narrow, certain suppliers are able to charge above-market prices, resulting in decreased cost-effectiveness.
- Lack of quality control and inconsistent processes increase the threat of risk.

As a result of the above, businesses often do not realize the full value of their supplier diversity program. Not only do businesses have a need to meet their diverse spend objectives; they need to do so in an expert manner that emphasizes efficiency, cost-effectiveness, quality and risk mitigation.

**It is critical that organizations find the right talent; at the right time; and at the right cost while also meeting their diversity spend goals.**

### A Strategic Supplier Diversity Program

Today’s business environment requires a supplier diversity program based on a strategic approach that addresses the current and future workforce needs of organizations and integrates all available resources to ensure success.

A strategic supplier diversity program involves the coordination of multiple parties in the organization including procurement, contracts, program managers and senior leadership. It is also important to focus on effective sourcing practices, enhanced risk mitigation, and process quality and control. These critical elements can ensure supplier diversity goals are met, a robust supplier pipeline is established and only qualified talent is employed to help the business succeed.

By developing a more strategic approach, companies can successfully manage their supplier diversity goals while also better meeting their human capital management objectives. “By sharpening and strengthening the foundations of diversity programs, companies can foster supplier sustainability and strategic integration like never before.”<sup>3</sup> For example, a spokesperson for UPS, winner of the NMSDC’s prestigious “Corporation of the Year” Award in 2007 states that, “utilization of diversity suppliers helps us to broaden our access into different markets and helps to foster our brand recognition both domestically and abroad.”<sup>5</sup>

### Implementation of a Strategic Supplier Diversity Program

The first priority is to establish goals and metrics for the program. Integrating the diversity best practices published by NMSDC<sup>4</sup> can help you determine the appropriate high level goals for the program. To determine measures for success, George Atchison, lead contract/sourcing specialist with AT&T Services, recommends the following questions to consider.<sup>5</sup> This is only a sample of what can be measured. Additional measurements specific to your industry should be considered.

- Identify specific goals and objectives to obtain a specific outcome.
  - What are you trying to achieve and why? Is it a compliance mandate issue or in response to community pressure?
  - How will you define success once your diversity/inclusion strategy has been launched?

**Successful, mature supplier diversity programs demonstrate a deep strategic understanding of their organizations’ sourcing needs and the role they play in identifying opportunities for diverse suppliers.<sup>3</sup>**

<sup>3</sup> Sharma, Raj and Russ Witt, [Driving Value Through Supplier Diversity](#), Contract Management, November 2008.  
<sup>4</sup> “The National Minority Supplier Development Council has developed a common set of standards, [Best Practices for Minority Supplier Development](#). These are certain building blocks, tasks, practices and processes that NMSDC’s corporate members report are necessary for successes in minority business development.”  
<sup>5</sup> Staffing Industry Analysts, [Diversity Suppliers](#), Contingent Workforce Strategies Magazine September 2008, September 2008 Issue, Posted On: 9/11/2008.

- Once you have launched your diversity/inclusion strategy how do you measure it?
- Gear your measurements to the expected outcome.
  - Are you trying to increase revenue within a specific demographic?
  - Expansion of global services through utilization of your diversity suppliers?
  - Reduction in overhead and staffing?

Once your goals and metrics have been established, take your supplier diversity program to the next level by implementing a strategic approach that includes the following components and processes:

- **Community outreach** through memberships with nationally recognized diversity organizations, event sponsorships/participation and by supplier recognition events help organizations identify diversity suppliers and demonstrate their commitment to diversity initiatives.
- **Vetting** suppliers using a standard and thorough qualifications process establishes a qualified and capable supplier base to help your business succeed. A standard approach supports a level playing field for suppliers.
- **Performance and program management** begins with collaboratively establishing terms and conditions, including performance measures. An automated registration system enables quick identification of qualified and capable suppliers for strategic sourcing initiatives. In addition, transparency is increased to gain total visibility of diversity workforce spend throughout the organization for more effective resource decision making.
- **Mentorship** programs provide an opportunity to support diverse suppliers in the areas of business growth and operational excellence. It enables a company to share best practices and provide the guidance needed for procurement, business development and operations processes. This form of partnership facilitates and promotes the success of both entities.
- **Web-based Supplier Portal** is a collaboration tool that helps manage supplier registration, renewals and documentation. It can improve communication throughout the organization by utilizing one central repository for all supplier information that can be accessed easily to find qualified suppliers as business needs arise.

A supplier portal can be developed with or without the support of a consulting company or purchased from an outside vendor and should include the following minimum supplier management capability:

- Registration system and profile management
- Contract and document management
- Real-time alerts for expired documents
- Communications tools
- Robust reporting capabilities
- **Vendor Management System (VMS)** is an internet or web based mechanism for a business to manage and procure staffing services. It can track supplier performance and facilitate performance reviews. It also tracks diversity spend to confirm if goals are met. This information allows users to make performance and spend adjustments as needed to ensure goals are achieved.

Below is an illustration of a staffing supplier diversity program model with integrated technology. Following is the rationale behind the strategies within each component.



## Community Outreach

Implementation of a community outreach program includes sponsored events, corporate memberships and participation in community activities. These vehicles are an effective way to identify and encourage community participation with the diversity program.

Corporate memberships with such organizations as the National Minority Supplier Development Council and Women’s Business Enterprise National Council (WBENC) <sup>6</sup> or their regional affiliates offer opportunities to connect with qualified minority-owned and women-owned suppliers. Event sponsorship and local participation are ways to learn from industry experts and demonstrate your organization’s commitment to supplier diversity while establishing relationships with potential diverse suppliers. Hosted events serve as a forum to recognize high performing suppliers and nurture existing diverse supplier relationships.

By integrating a community outreach program, businesses can enhance their supplier diversity program in the following ways:

- Establishment of an effective sourcing method to secure a qualified supplier pipeline
- Formation of relationships with new suppliers and reinforcement with existing suppliers
- Enhanced supplier diversity knowledge
- Recognition within the community as a socially responsible organization and supporter of diversity

## Vetting Suppliers

A standard qualifications review and selection process for suppliers is a key component of a strategic supplier diversity program. This review should incorporate internal and external standards and support a level playing field among suppliers. Organizations can streamline the supplier registration and renewal process by implementing an automated supplier portal.

During the review process, organizations should vet suppliers for the following:

- Verify suppliers are truly diverse suppliers according to predefined standards. As noted earlier, to claim diversity status, a business must be at least 51 percent owned, operated and controlled by a minority, woman or a service-disabled veteran.
- In order to assure the diversity status of diverse-owned businesses, several associations offer certification programs. Although there is no one standard certification program in the industry, the

<sup>6</sup> “The Women’s Business Enterprise National Council is the nation’s leading advocate of women-owned businesses as suppliers to America’s corporations. [www.wbenc.org](http://www.wbenc.org).”

following associations are deemed note-worthy providers of diversity certification:

- National Minority Supplier Development Council for MBEs
  - Women’s Business Enterprise National Council for WBEs
  - National Women Business Owners Corporation for WBEs
  - Association for Service Disabled Veterans for SDVBEs
  - National Gay and Lesbian Chamber of Commerce for LGBTBEs
  - City and State Agencies
- Conduct a series of a series of standard background checks to confirm supplier viability (financial, reference checks, certifications and insurance).
  - Confirm supplier services match end-user needs (service sectors, locations).
  - Assess supplier capabilities related to functions such as ordering, invoicing and management to help reduce future process problems.
  - Secure Tier 1 and Tier 2 diversity supplier compliance.
  - Select only qualified diversity suppliers in order to build a strong supplier pipeline; this will help address any immediate needs while also proactively prequalifying suppliers for future opportunities.

By establishing a standard qualifications review and selection process for suppliers, businesses can:

- Select suppliers based on a full assessment of supplier capabilities and viability versus selection based on only the fact that the vendor is a diversity supplier
- Establish a qualified and capable supplier base to quickly find suppliers as business needs are identified
- Develop a second tier program that expands opportunities for diverse businesses.
- Improve productivity of internal resources and all contracted suppliers

### Performance Reviews

A performance review process provides suppliers with the ongoing information and direction needed to enhance their capabilities for a successful diversity program and staffing of qualified talent. It enables organizations to measure performance based on results, benchmark achievement of diversity goals, and identify additional opportunities for business growth and development.

Key components of a performance review include:

- Performance metrics established collaboratively with suppliers.
- Shared goals and methods to measure outcomes that confirm supplier capability
- Measurable outcomes for monitoring inclusion and utilization to ensure diversity spend goals are continuously met or exceeded
- Tracking and monitoring performance to gain quantitative data on the utilization and effectiveness of diverse suppliers

Businesses should consider an automated system for performance tracking and reporting. A vendor management system helps track supplier performance, monitor diversity spend, streamline communications and enhance reporting capabilities.

A performance review process enables companies to:

- Create an environment of accountability and tracking for proactive management of diversity spend
- Monitor performance and identify additional opportunities to better leverage resources
- Integrate supplier diversity and workforce planning into the sourcing process
- Ensure business decisions throughout the organization are based on quality information Identify coaching opportunities through an ongoing exchange of feedback with suppliers
- Reveal expansion opportunities for increased revenue
- Improves supplier relationship management through periodic supplier audits and reviews

## Program Management

Program reviews, conducted on a periodic basis, can help fine tune your supply diversity program and reveal opportunities for improvement, further development and adjustment to changes in environment and compliance. A program review should incorporate establishment and review of the following components:

- Proper controls for managing suppliers to establish a consistent and documented approach; terms and conditions for compliance and risk mitigation
- Program benchmarks and a continuous improvement plan to ensure quality of service and process efficiency for talent acquisition
- Surveys of key internal stakeholders to confirm diversity goals are met or exceeded
- Definition of the type of suppliers that will be considered diverse suppliers for reporting purposes and to avoid double-counting
- Regular internal communications to sustain supplier diversity momentum throughout the organization

A program review enables businesses to:

- Align the supplier diversity program with the organization’s strategic objectives
- Maintain senior management involvement and support
- Integrate supplier diversity best practices and measure program success at specified intervals
- Identify further opportunities for strategic and proactive talent acquisition

## Mentorship Programs

In a mentorship program, company executives provide business and operational guidance to diverse suppliers to help them grow their business, better serve end-users and increase their ability to compete. In turn, by increasing collaboration with diversity suppliers, companies are able to better maximize business opportunities and utilization of suppliers.

A formal mentorship program demonstrates an organization’s commitment to the development, utilization and growth of diverse businesses and facilitates the following:

- A continual supply of quality services that foster trust and confidence of suppliers and customers
- Mutually-beneficial business relationships with diversity firms through capacity-building activities
- A satisfied network of quality suppliers that correlates to high levels of client satisfaction

## Benefits

By implementing a strategic approach to a supplier diversity program, businesses can realize significant benefits that help them address challenges and realize the full value of their supplier diversity programs.

A strategic diversity solution mitigates legal, operational, security and financial risks associated with supplier management and talent acquisition. It includes the necessary measurements to determine true ROTI (Return on Talent Investment) and ultimately acquire the quality talent vital to business success. It can also help a company's image and reputation in the community through recognition as a socially responsible organization and diversity supporter.

Significant benefits can be realized throughout the program components. A targeted focus on community outreach can encourage supplier participation in a program and foster relationships with suppliers that lead to mutually beneficial relationships. A standard vetting process ensures supplier qualification and builds a base of qualified and capable diversity suppliers. Regular monitoring of supplier performance can reveal supplier development opportunities and ensure quality services.

A strategic approach allows corporations to sustain supplier diversity momentum throughout the organization resulting in expanded opportunities for diverse suppliers and effective sourcing for quality talent. By standardizing supplier management processes, corporations can implement cost controls for the same positions across the organization having the potential for significant direct and indirect cost savings.

Automated technology such as a web-based supplier portal and VMS enables process efficiency and standardization for more effective supplier management. Technology can enable more effective contract management of a large volume of suppliers ensuring compliance and risk mitigation more accurate tracking and reporting of diversity spend.

Organizations that recognize the importance of supplier diversity and implement a strategic approach will realize these benefits both immediately and over time.

## A Business Success Story

Companies across all sectors can achieve greater value and success from their supplier diversity program by taking the steps previously described. One real-world example is AT&T's award winning supplier diversity program.<sup>6</sup> AT&T has a 40-year history of successfully promoting growth and development of diversity suppliers within its supply chain. Their success is noted in their solid reputation for being the leader and pioneer in supplier diversity spending and development.

In 2007, the company spent \$5 billion with diverse suppliers, representing more than 12 percent of its procurement base. Over the last decade, AT&T spent more than \$27 billion with diverse suppliers, an increase of 283 percent from 10 years ago. In the area of staffing alone, these companies have allowed AT&T the flexibility to increase or decrease needed resources with a minimum of expense and disruption to operations.

AT&T believes diversity programs reflect upon a company's own population and its commitment to the local and national community. They help improve the way a business serves its markets, and represent significant revenue opportunities for buyers and sellers alike. AT&T diversity achievements are well recognized within the diversity community by through having received multiple recognitions from organizations such as Diversity Inc., NMSDC and WBENC.

## Conclusion & Next Steps

Establishing a supplier diversity program can present numerous challenges. The dilemma of choosing how to effectively drive business to the local community within a large organization with many locations is just one issue that can create complexity. Performance management of a large number of suppliers presents additional complexities and challenges. In addition, the spirit of a diversity program can be diluted if a company only focuses on delivering dollars spent versus truly creating an impact that promotes diverse suppliers.

It is possible to implement a diversity solution internally with executive support, buy-in from organization leaders and the right number of experienced resources to establish and maintain the program. However, organizations can derive greater value from their supplier diversity program by using the best practices and strategic approach described in this white paper.

Further value can also be achieved by partnering with an experienced service provider. A service provider that has proven expertise and experience in implementing supplier diversity programs can help businesses implement best practices for effective supplier diversity management and an approach that maximizes the ROTI that a strategic supplier diversity program can deliver.

While evolving, supplier diversity remains a social responsibility and taking a strategic approach makes it an innovative pathway to enhanced return on investment and competitive advantage. More than a matter of the right thing to do, it is the smart action to take for business growth and success.

## Guidant Group Supplier Diversity Commitment

- **Guidant Group** is committed to the development, utilization and growth of minority-owned, women-owned and small businesses.
- **We believe** that the success of society depends on enabling minority-owned, women-owned and small business enterprises to share in the nation's economic growth.
- **Our commitment** is to maximize the participation of minority-owned, women-owned and small business enterprises through the development of mutually beneficial business relationships.

## About Guidant Group

Guidant Group is a management services and consulting company dedicated to developing comprehensive and integrated talent acquisition programs for our clients. We leverage our vast experience in the staffing industry, recruitment infrastructure, valuable sector knowledge, and proven methodologies to deliver a holistic approach to improved talent acquisition.

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