Bill Jones was apprehensive as he prepared to meet XYZ Company’s executive team.

As the company’s Director of Procurement, Bill had urged the chief operating officer (COO) last year to expand the company’s network of minority suppliers. Bill believed a more proactive stance for working with diverse suppliers would result in greater cost savings and also boost revenue by attracting a larger number of diverse customer groups. But he was overruled by the COO, who said the company should wait until it finished rolling out a new ERP system.

Then the sales force had called with an urgent request to provide a list of minority suppliers for a major bid. Bill worked all weekend to come up with a comprehensive list, but XYZ still lost the bid to its top competitor. One of the reasons: the client found XYZ’s network of minority suppliers lacking.

Now the executive team demanded an explanation. Bill dusted off his proposal from last year, revising it to define the business case for the organization. He hoped that would be enough for them to accept the proposal and move forward. Or would they blame him for losing the business?

The door opened. Bill swallowed and entered the conference room.
2 | 5 insights for executives
Supplier diversity is a business imperative

In the late 1960s, the US Government passed regulations requiring government agencies and their contractors to work with minority-owned companies and to report the results. Since then, the federal government and many local government organizations have broadened the reporting requirements to help ensure that small or minority-owned suppliers receive equal and fair access to purchasing opportunities and supply contracts.

What started out as a government-driven initiative, however, has become a business imperative. Increasingly, more organizations — in addition to the federal government — now require proof that the companies they do business with have supplier diversity programs in place. As a result, a number of third-party organizations have been established to verify the status of minority-owned businesses and reduce incidences of fraud and misrepresentation. Minority-owned businesses are typically defined as those owned by minorities, women, lesbian, gay, bisexual and transgender people, disabled veterans and people with disabilities.

As companies continue to expand globally, those at the top of the Fortune 500 list — including Procter & Gamble, Starbucks and Apple — fully recognize the importance of maintaining and establishing a diverse supply base, within the US as well as in overseas markets. Accordingly, they have made these programs a key part of their business plan.

Many companies also recognize that supporting local suppliers, many of whom are more likely to be diverse, helps to improve economies in new and emerging markets, where many companies realize their highest growth rates. Local suppliers are likely to create more jobs, stimulating purchasing power among consumers in those markets.

Supplier diversity can affect buying decisions

Minority-owned businesses and cause-related issues have become an established part of the business landscape. According to a recent survey by Dun & Bradstreet and American Express, women-owned and minority-owned businesses are outpacing the growth of other middle-market companies. The number of women-owned and minority-owned middle-market companies grew by 23.6% and 22.1%, respectively, from 2008 to 2014.

With this increasing focus on minority suppliers, companies need to do more than just include them in the bidding process. They also need to be able to document those efforts and to report that minority suppliers play an important role within their overall supply chain. Companies also need to measure the potential for stronger revenue generation that comes by leveraging diverse suppliers.

The ability to track and report on the volume of business with minority-owned suppliers plays an increasingly important role in the buying decisions of many companies. According to a report commissioned by Minority Supplier Development UK (MSDUK), 54% of the corporations responding said there’s a “strong link” between supplier diversity and new business development.
More diverse suppliers means higher ROI

Companies with effective supplier diversity programs achieve significant returns on their investment in terms of access to new customer groups and stronger, more productive relationships with their suppliers. In addition, companies that embrace a supplier diversity program are also fulfilling a key social responsibility by helping to level the playing field for small businesses.

Strong, well-planned and sustainable diversity programs also lift the economies of local communities. This translates into a win-win for both the companies and the suppliers, by creating more jobs for local suppliers and expanding the potential pool of consumers with enough income to buy their products and services.

- Fully integrated procurement processes enabled by deploy robust P2P technology that supports the engagement of diverse suppliers
- Playbooks that communicate supplier diversity processes and touch points to end-to-end supply chain strategy
- Global supplier diversity policy, supported by enterprise-wide diversity and inclusion strategy
- Reports that track tier 1 and tier 2 direct and indirect spend in a proactive way
- Measurement systems analysis (MSA) and contract compliance
- Embedded focus on enabling diverse suppliers throughout the organization
- Documented roles and responsibilities for supplier diversity lead, champion and key stakeholder functions
- Clear processes for capturing and monitoring key data
- Supplier diversity management tool (in-house or provided by third party)
- Central source of information for the sales force, marketing group and supply chain group
- Integration to P2P/ERP system to support procurement processes
- Validation of supplier certifications and classifications
- Global supplier registration portal and database
- Reports that track tier 1 and tier 2 direct and indirect spend in a proactive way
- Measurement systems analysis (MSA) and contract compliance
- Documented commitment from procurement and firm leadership
- Supply chain processes and touch points to end-to-end supply chain strategy
- Strategic alliances with diverse businesses
- Procurement Supplier Diversity Advisory Council
- Involvement in diversity councils
Four steps to an effective supplier diversity program

While working with minority suppliers fulfills an important goal for companies seeking to enhance corporate sustainability programs, doing so should not be viewed as a charity project. A sound program needs to follow key business principles. To that end, suppliers’ capabilities must align to corporate business strategy and provide competitive services and products, within the corporation’s cost structure. From a tactical standpoint, suppliers also need to be able to adapt to changing demands and demonstrate strong financial stability and management capability and a willingness to work for and retain the business.

As mentioned earlier, it’s no longer enough for companies to simply include minority-owned businesses in the bidding process. To demonstrate compliance, and reap the full benefits of a diversified supply chain, they need to move forward along the four-pronged approach detailed below:

1. **Determine a business case by performing a gap analysis** to gauge the company’s supplier diversity program against both best-in-class and key competitors. Best-in-class programs typically feature strategic outreach efforts coordinated by the local office, sales and procurement, integrated procurement processes enabled by best-in-class procure-to-pay technology and a supplier diversity team focused on meeting specific, measurable goals.

2. **Integrate processes by implementing** a global supplier diversity policy that applies to all business units and categories of spend. They also need to be ready to move forward with a robust reporting mechanism that tracks spending for minority-owned suppliers across the supply base.

3. **Deploy robust P2P technology** or assess existing technologies for supplier diversity capabilities to capture information and provide vigorous reporting. This system should include a global supplier registration portal and database that allows certified suppliers to register.

4. **Align people within the organization to shift** the company’s strategic focus and embed diverse suppliers that meet or exceed business expectations. This entails clearly documenting roles and responsibilities for all areas of corporate procurement and supply chain management as it relates to supplier diversity.
Supplier diversity offers tangible business benefits

Companies that embrace supplier diversity often realize tangible benefits, both for their bottom line and corporate brand. Introducing diverse suppliers into the supply chain improves a company’s ability to engage with different communities and cultures and also generates a significant return on investment.

In our increasingly interconnected global marketplace, every company relies on a network of business relationships in order to succeed. Companies that limit their supply chain flexibility place themselves at risk for poor performance and potential disruptions. Companies with a great number of money diverse supply chains that include small businesses often deliver stronger results and are better positioned to respond to rapidly changing market conditions.

According to a study commissioned by Cargill, Inc., leading procurement organizations that have a higher adoption rate of supplier diversity programs generate 133% greater return on the cost of procurement operations than average performers. This translates into an additional US$3.6 million to their bottom line for every US$1 million in procurement operations costs.

Given results like that, embracing supply chain diversity programs is not only the right thing to do — it’s the smart thing to do for companies seeking a competitive edge.
Want to learn more?

The answers in this issue are supplied by:

**Niul Burton**  
Principal, Supply Chain & Operations, Advisory Services  
Ernst & Young LLP  
+1 214 969 0787  
niul.burton@ey.com

**Theresa Harrison**  
Diversity & Inclusiveness Procurement Leader  
Ernst & Young LLP  
+1 201 872 1248  
theresa.harrison@ey.com

**Curtis L. Simpson**  
Manager  
Performance Improvement  
Ernst & Young LLP  
+31 88 407 1000  
curtis.simpson@nl.ey.com

For related thought leadership, visit ey.com/5.
We want to hear from you!
Please let us know if there are subjects you would like 5 insights for executives to cover.
You can contact us at: 5series.team@ey.com