

# Supplier Diversity



# What is supplier diversity?

**SUPPLIER DIVERSITY** is the practice of including small and diverse-owned businesses into an organization's supply chain. It includes the business processes established to enable and secure the inclusion of diverse groups in the procurement strategy.

## Common categories of diverse suppliers:

- Minority-owned businesses
  - Small businesses\*
  - Women-owned businesses
  - LGBT-owned businesses
  - Veteran-owned businesses
- Diverse suppliers are typically certified through third-party certification organizations, for companies to record and report the diverse spend.

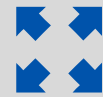
*\*Note: Many organizations choose to exclude small businesses in their diversity program. It is up to each organization to understand which policy is best based on their circumstances.*

# Why is supplier diversity important?

Many organizations view supplier diversity simply as a required activity designed to benefit selected groups without adding value to the bottom line. However, supplier diversity can provide a number of benefits to the buying organization as well:



Gain access to new and creative ideas to enable innovation via collaborative partnerships



Provide multiple channels from which to procure goods and services



Drive competition (price and service levels) between suppliers



Acquire unique market insights from diverse suppliers



Showcase the company's commitment to the economic growth of all communities



Increase exposure to new demographic segments



Gain access to new technology and tools



Improve corporate culture, support social responsibility; retain and attract top talent

# The current state of supplier diversity programs

## PROGRAM OBJECTIVES AND SUPPORT

- 75% of diversity programs are primarily US-focused.
- CPOs are the highest level of leadership support for 37% of supplier diversity programs.
- Key program objectives include supporting corporate diversity culture, reputation management and investing in local communities.

## DIVERSE SUPPLIER IDENTIFICATION AND CHARACTERISTICS

- Leveraging diverse organizations is the most effective way to uncover new suppliers.
- Organizations value diverse suppliers that understand their business and can offer flexibility, lower costs and innovation.
- 40% of sourcing teams cannot easily identify diverse suppliers with their internal sourcing tools.

## PROGRAM PERFORMANCE AND MEASUREMENT

- Dedicated program leadership, data integrity and explicit performance targets are most effective for ensuring program success.
- Other common value metrics: total diversity spend, supplier development, community impact, internal customer satisfaction, savings.
- Performance for most program metrics is short of reported targets.

## DIVERSE SUPPLIER PERFORMANCE

- Diverse suppliers provide a high level of overall satisfaction, and 99% meet or exceed the expectations of the business.
- Customer service, flexibility, collaboration and personal commitment are the most frequently cited areas where value from diversity suppliers has been identified.

## DIVERSE SUPPLIER DEVELOPMENT

- Supplier education, networking events, knowledge-sharing and partnering programs are the most effective tactics for developing local suppliers.
- Organizations are setting clear goals and requirements with Tier 1 suppliers in order to expand Tier 2 diversity spend.

# 2019 Supplier Diversity Study Key Takeaways

## Program Objectives and Support

- Traditional objectives are the primary drivers for diversity programs, but many organizations also consider business value-related drivers to be very important.
- CPOs are the highest level of leadership support for 37% of supplier diversity programs.

## Diverse Supplier Identification and Characteristics

- Organizations value diverse suppliers that understand their business and can offer flexibility, lower costs, innovation and a true commitment to adding value.
- 40% of sourcing teams cannot easily identify diverse suppliers in their internal tools.

## Program Performance

- Current performance is short of reported targets, including 'diversity spend as a percent of total spend'.
- Dedicated program leadership, data integrity and explicit performance targets are the most effective practices in ensuring the success of supplier diversity programs.

## Measuring Program Value

- Program value is most often measured as the increase in diversity spend and diverse supplier usage.
- Some procurement organizations are also measuring value in terms of supplier development, community impact, internal customer satisfaction and savings.

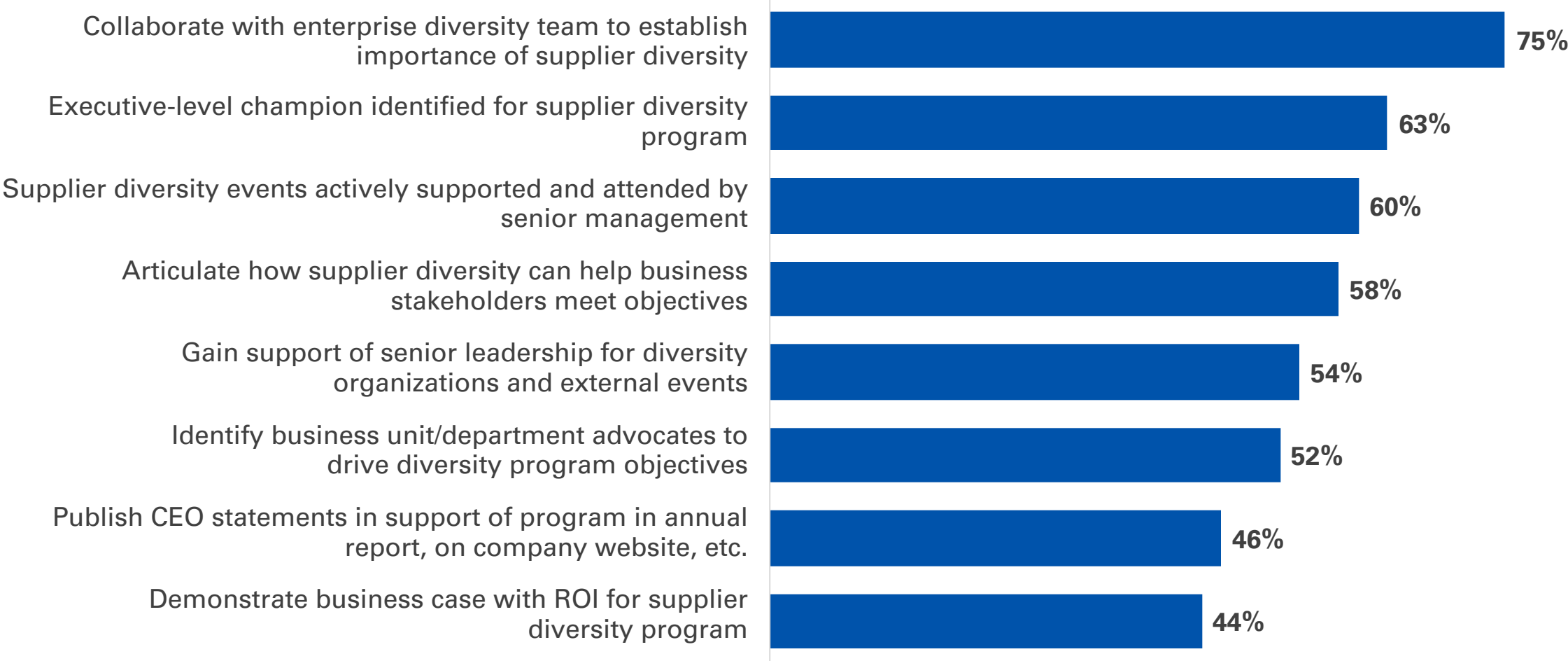
## Diverse Supplier Development

- Study respondents developing diverse suppliers are focused primarily on increasing business capacity, providing education/training and supporting networking events.
- Organizations are setting specific sourcing and reporting requirements to expand Tier 2 diversity spend.



# Obtain senior leadership support

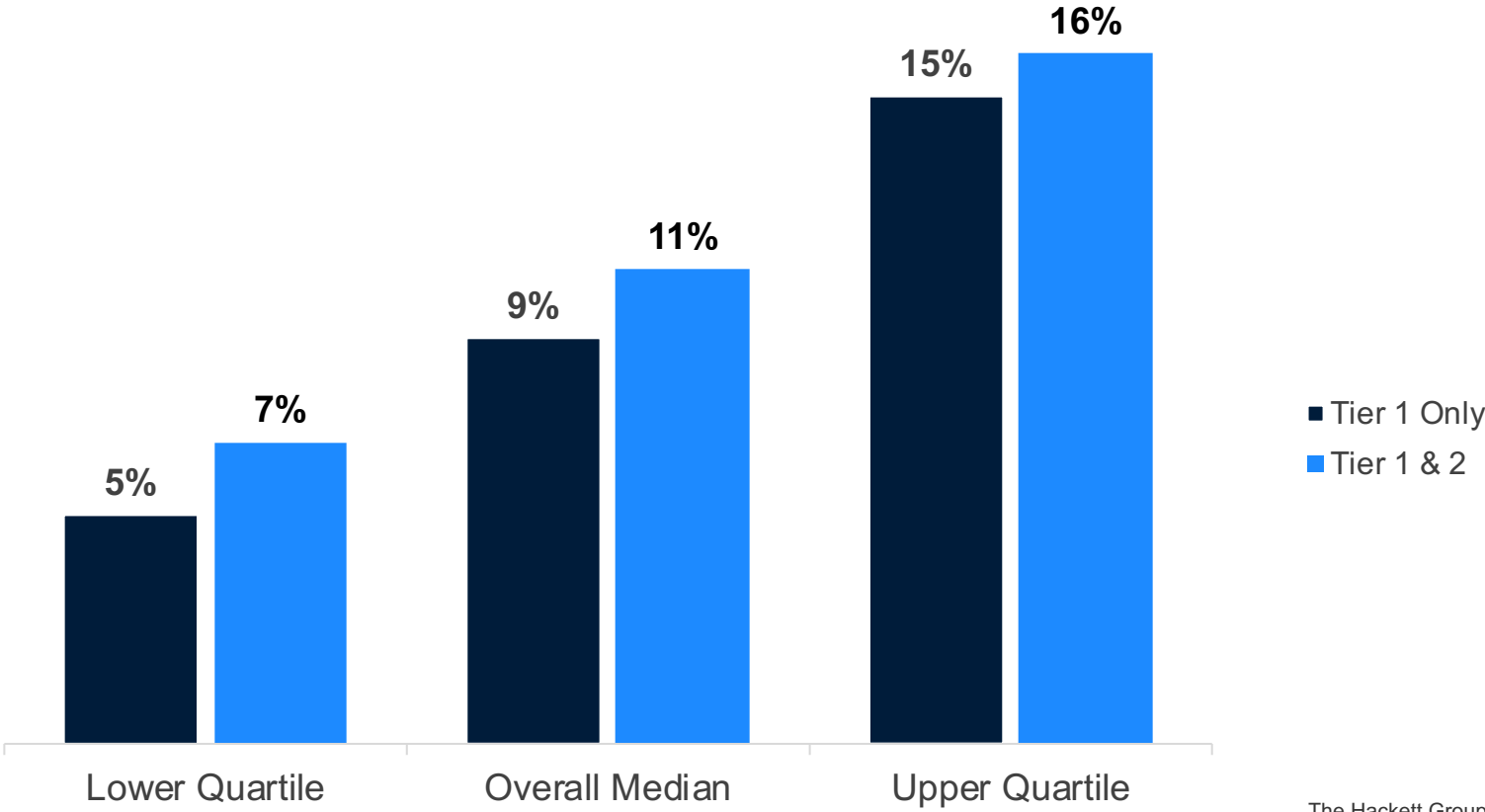
## Common initiatives to obtain senior leadership support



# Organizations with an established supplier diversity program typically direct between 5% and 15% of spend to diverse suppliers

It is important to set specific targets for diversity spend to effectively drive program activity

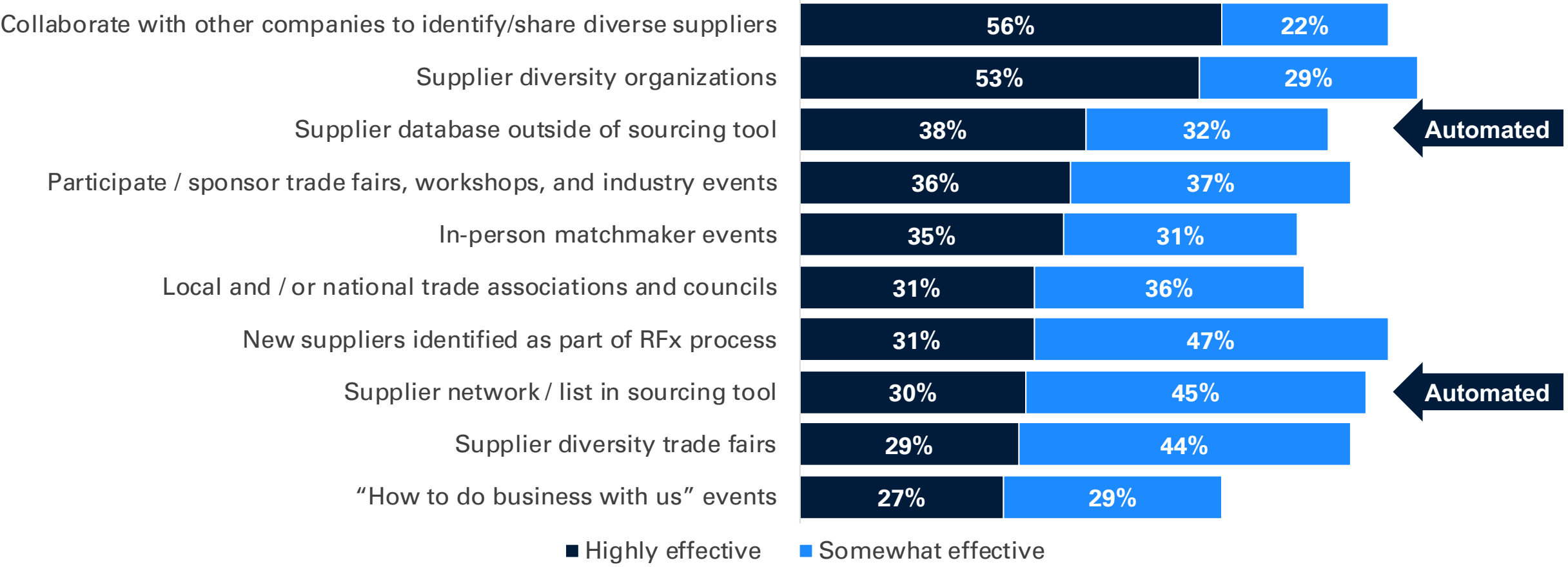
Total US diversity spend as a percentage of total US spend



# Identifying diverse suppliers

Over half of companies rate collaboration with others and use of diversity organizations as most effective approach for identifying new suppliers

The 10 most effective tactics to identify and recruit diverse suppliers





# Tools used in diverse supplier identification

Databases and tools can save significant time in the supplier identification process

## SOURCING TOOL-BASED SUPPLIER NETWORKS

Supplier networks are available as part of sourcing solution provider's functionality

## THIRD-PARTY SUPPLIER DATABASES

Providers enrich a company's supplier spend data and identify diversity spend, which can be leveraged for future diversity spend activity

## THIRD-PARTY SUPPLIER REGISTRATION

Diversity information is captured at the time of onboarding/registration using supplier portals, which can be used to identify diverse suppliers for future needs

## SUPPLIER DISCOVERY TOOLS

Supplier portals and software are used to identify diverse suppliers, offered by both supplier diversity-specific software and other general supplier-discovery tools

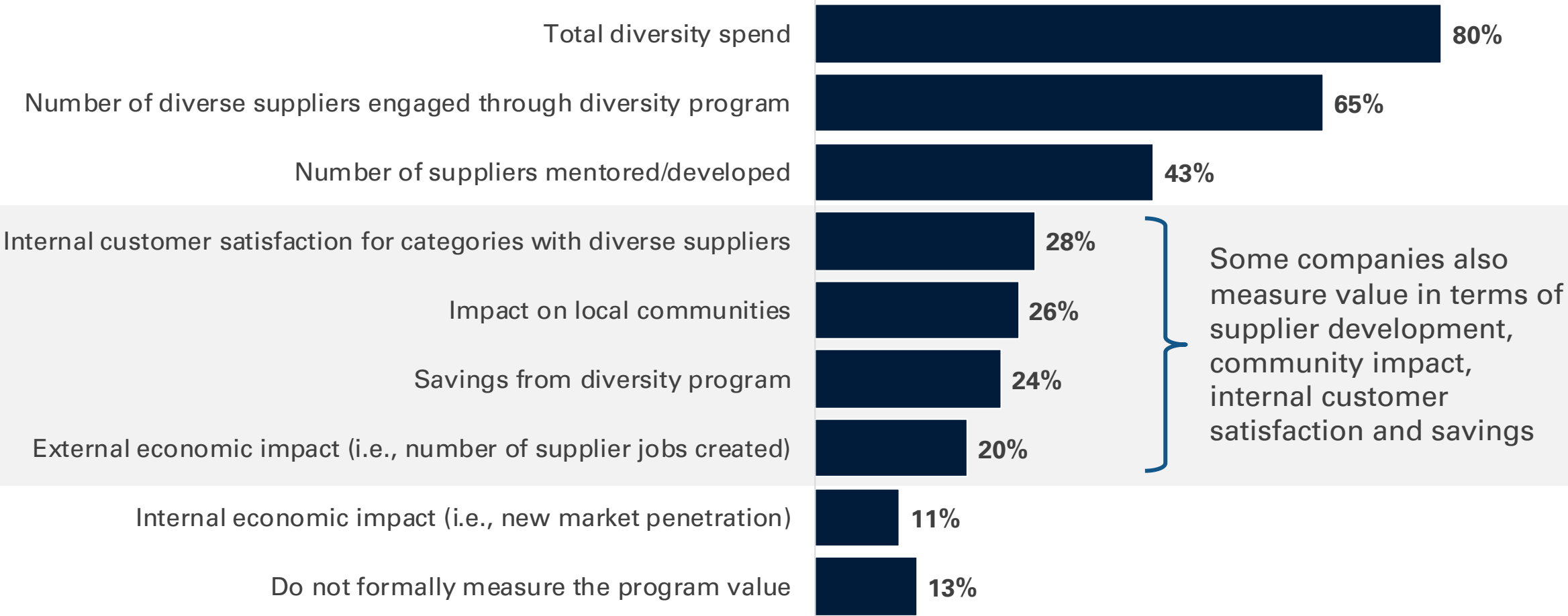
## COMPANY SUPPLIER DIVERSITY PORTAL

Company diversity program website/ registration portal used to capture new diverse-supplier information to support future procurement needs

# Measuring value delivered by supplier diversity program:

Program value is commonly measured as the increase in diversity spend and diverse supplier usage

## Ways organizations measure value delivered by supplier diversity program

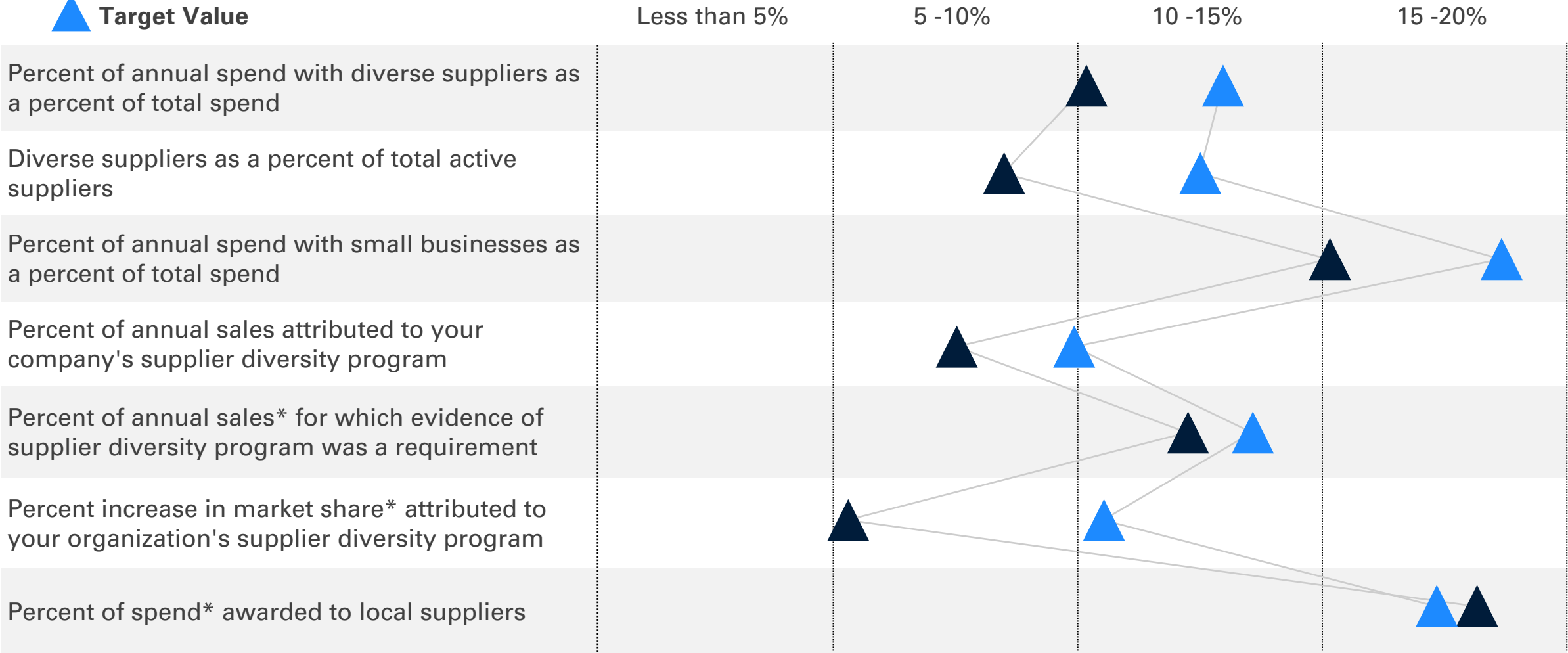


# Set targets and measure program performance

▲ Current Value

▲ Target Value

Current and target performance for key program metrics



\*US-based

# Key insights from Hackett's supplier diversity benchmarking studies

## Value of Supplier Diversity

- Understanding the value proposition for supplier diversity
- Level of satisfaction with diverse suppliers
- Areas where diverse suppliers provide the biggest value
- Ways organizations measure value delivered by supplier diversity program

## Program Performance

- Tier 1 and Tier 2 spend with diverse suppliers
- Insights on measuring program activity vs. value/impact
- Performance comparison against key program metrics, such as: "diverse suppliers as % of total suppliers"; "sales attributed to supplier diversity program"; "sales where supplier diversity was a requirement"

## Program Structure and Support

- Critical objectives driving supplier diversity programs
- Geographic scope of supplier diversity program
- Focus of diversity program on supplier inclusion and/or actual usage
- Level of executive support for program
- Methods to obtain senior leadership support

## Program Reporting

- Reporting and data enrichment best practices
- Level of Tier 1 and Tier 2 spend visibility
- Spend with different diversity groups
- Use of solutions to support streamlined program reporting
- Reporting audience and frequency

## Diverse Supplier Identification

- Tactics most effective to identify diverse suppliers
- Characteristics most important for selection of diverse suppliers
- Practices used to drive internal use of diverse suppliers
- Categories with greatest success of finding diverse suppliers
- Sources used for diversity status validation

## Program Governance

- Best practices to engage stakeholders and expand program influence
- Use of dedicated supplier diversity manager
- Activities supported by supplier diversity manager
- Stakeholder engagement best practices and framework

## Overall Program Insights

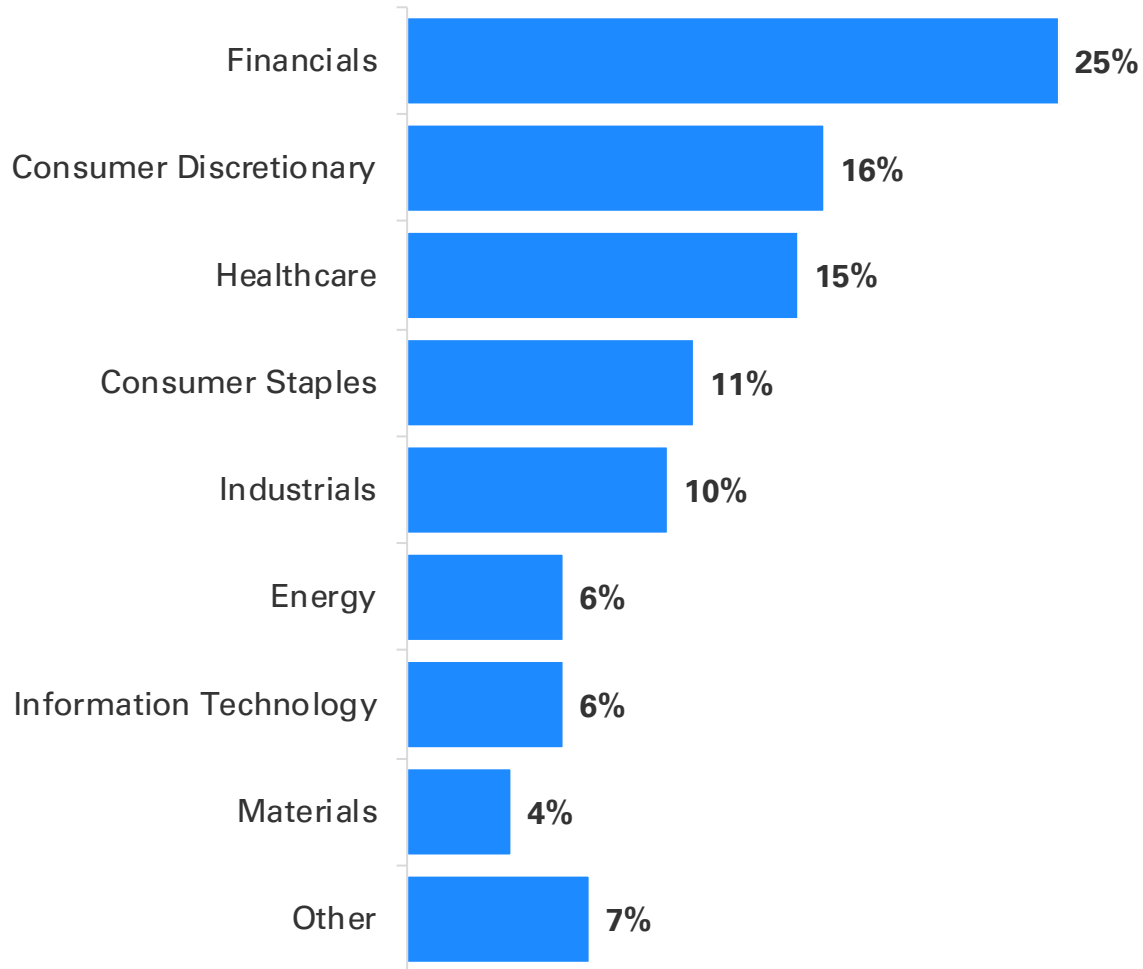
- Comprehensive best practices for supplier diversity programs
- Importance and effectiveness levels of various best practices
- Key challenges affecting supplier diversity programs
- Top trends for supplier diversity programs
- Expected increase of program focus towards diversity group
- Tier 2 program expansion tactics

## Supplier Development

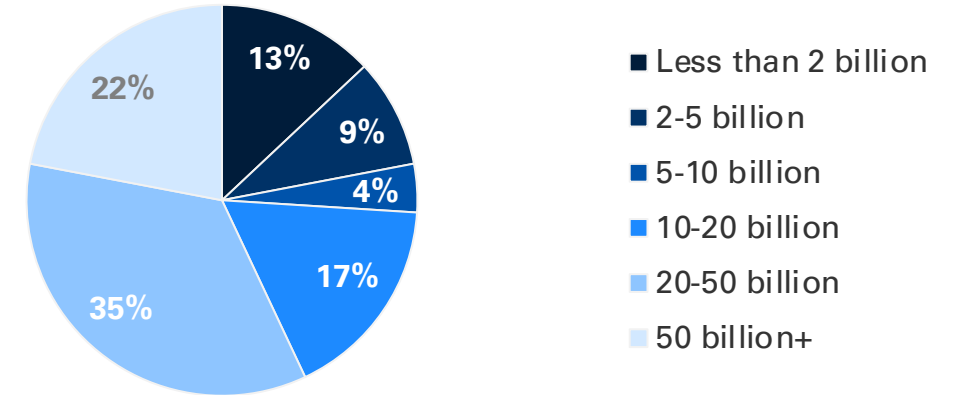
- Importance of supplier development to program
- Adoption and effectiveness levels of supplier development tactics
- Developing supplier diversity mentoring programs

# Who participates in Hackett's supplier diversity study?

## Industry demographics



## Annual revenue (\$US billion) Global



## Annual spend (\$US billion) Global

