

The Inclusive Supply Chain – A Competitive Advantage Strategies for Minority and Women Business Sourcing

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Abstract. Through focused strategies, corporations can work with large prime suppliers, minority and women business councils, government agencies and others to insure that diverse suppliers add value and provide mutual competitive advantage. ChevronTexaco's Procurement Organization's vision is to leverage the Company's worldwide spending power – spending money smarter, without compromising quality and service. The goal of this organization is to elevate ChevronTexaco's procurement business processes to achieve a sustained worldwide competitive advantage among its peers. Supplier Diversity is an integral part of ChevronTexaco's long term business plan because diverse suppliers contribute to the company's overall vision of sustained performance, provide innovative cost – effective solutions and processes and strengthen the company's overall position with respect to changing demographics of its customer base.

This paper will provide information on (a) emerging trends in supply chain management that impact diverse supplier inclusion and development (b) proven processes for engaging prime suppliers and partner organizations in the growth and development of diversity suppliers and (c) examples / success stories that exemplify diverse supplier sourcing strategies.

Background. ChevronTexaco Corporation, one of the world's largest integrated petroleum companies is involved in every aspect of the petroleum industry, from exploration and production to transportation, refining and retail marketing, as well as chemicals manufacturing and sales. The company is active in more than 180 countries and employs 53,000 people worldwide. Strategies that include diverse suppliers are important to ChevronTexaco's success in domestic markets and in international locations where local content issues are important business drivers. These strategies are embraced by the Company's executive leadership, the supplier diversity team and business units who are ultimately responsible for direct expenditures with suppliers.

Supply Chain Management Trends – Impacts on Supplier Diversity. Supply chain management tools, trends and initiatives have evolved rapidly as organizations strive to exact greater value from relationships with customers and suppliers. Some recent trends that have impacted the inclusion of diversity suppliers in supply chains include (a) strategic sourcing (b) advances in technology, e-sourcing and e-procurement (c) strategic partnerships and alliances and (d) outsourcing.

Strategic Sourcing is a disciplined and systematic process that helps to reduce the total cost of purchasing while maintaining quality and service. Strategic sourcing and supplier management and integration decisions must be aligned with corporate mission and vision, have direct operating company involvement and must be based on a well-defined business case.

Procurement's role in delivering bottom line value through effective strategic sourcing was demonstrated following the merger of Chevron Corporation and Texaco Corporation. In this merger, significant amounts of near term savings were generated through the procurement and supply management function. ChevronTexaco targeted and achieved \$1.8 billion in savings by strategically sourcing and evaluating over 30 key commodity areas (1).

Specific processes to include diversity suppliers were deployed as this strategic sourcing process was executed (2). These included:

- Insuring that diverse suppliers were included in early source lists
- Selecting sourcing strategies that aligned with supplier diversity strategies
- Negotiating aggressively with diversity suppliers following RFI /RFP stages
- Developing supplier management and integration processes and metrics to insure successful and sustainable inclusion of diversity suppliers following the strategic sourcing process

The impact of technology on supply chain management cannot be ignored. Information technology professionals have found ways to apply systems knowledge to manage relationships with suppliers and track expenditures through sophisticated Enterprise Resource Planning (ERP) platforms. E-procurement processes allow suppliers and customers to exchange information, purchase goods and services, and execute payments with ease.

Economic trends in 2002 produced a sharp decrease in telecommunications revenues and a corresponding loss of diversity suppliers. However, a recently released report, *Revitalizing the Supplier Diversity Value Proposition Through Supply Chain Effectiveness*, outlined 21 recommendations to insure that diverse suppliers remain an integral part of the telecommunications industry supply chain (3). Some of the recommendations included:

- Implementing effective sourcing strategies for supplier diversity (early inclusion in strategic sourcing processes)
- Conducting "readiness assessments" for supplier diversity partners prior to entering into new supply chain arrangements
- Improving access to capital for diversity suppliers
- Creating cross functional implementation teams that use quality processes to guide new supply chain arrangements

While not a new phenomenon, outsourcing is a trend that has received increased attention in procurement departments. The primary reasons for outsourcing are to reduce costs, increase efficiency of operations, improve customer service etc. Outsourcing allows companies to remove processes where they lack expertise from their supply chains and focus on areas of core competency. For example, some companies are considering outsourcing their entire logistics operations. Outsourcing has created opportunities for diverse suppliers in several key areas – business and real estate services and information technology staffing services. As additional lines of business are evaluated for outsourcing opportunities, sourcing strategies should involve a process to insure that diversity suppliers are considered for the outsourced service roles.

Engaging Prime Suppliers and Partner Organizations. Strategic partnerships and alliances have been used by successful companies to increase the effectiveness of their supply chains.

Effective supply chain management involves leveraging relationships with prime suppliers and key stakeholder organizations. Federal government subcontracting requirements for small business as well as non-regulatory 2nd Tier prime supplier relationships can become key drivers for engaging prime suppliers and partner organizations. ChevronTexaco's CEO, David O' Reilly recently stated *"The accomplishments of ChevronTexaco often tend to be measured through our financial performance. But our operations success is founded on being a valued member of the communities where we operate - in other words, how we partner. Through our Supplier Diversity/Small Business Program, we reach out to diverse communities of suppliers and seek competitive businesses who can partner with us."*

In FY 2003 through individual company efforts as well as jointly sponsored activities, ChevronTexaco engaged more than 150 prime suppliers, encouraging them to identify strategies to cost-effectively source goods and services from diversity suppliers. While internal company resources were used to deploy this process, affiliates of the National Minority Supplier Development Council, the Women's Business Enterprise National Council and regional offices of the US Small Business Administration assisted in the engagement process by providing expertise, meeting space, program content and momentum for this process. For example, in January of 2003, the Houston Minority Business Council, the Women's Business Enterprise Alliance, ChevronTexaco and local corporations invited prime suppliers to a workshop to explore ways to increase the diversity of their supply chains (4).

Success Stories- Driving a Competitive Advantage. Procurement strategies that drive value for supply chains – strategic sourcing, e-procurement, outsourcing, and strategic alliances do not automatically spell negative results for supplier diversity. Strategies to insure that supply chains are inclusive can be built upon a solid business case and drive mutual competitive advantage for all suppliers. A few success stories are described below:

Small business sourcing – In FY 2003, ChevronTexaco increased spending with small business to 27% of its domestic expenditures on goods and services. This was accomplished during a period of overall decreased spending, aggressive strategic sourcing, outsourcing of selected information technology and financial services and the introduction of e-procurement strategies in key domestic and international locations.

Minority business sourcing - ChevronTexaco achieved savings in excess of 40% in its commercial printing through the use of strategically sourced suppliers – one of whom was chosen as the Houston Minority Business Council's Supplier of the Year. This small, minority, woman owned business was also recently awarded the Council's Emerging 10 Award for outstanding business practices.

Woman owned business sourcing - Following a rigorous strategic sourcing effort, ChevronTexaco outsourced its travel services to Carlson Wagonlit. Carlson Companies won the bid based on quality, service, and overall total cost management.

These successful diversity suppliers will continue to deliver sustained value to the Company's supply chain. The partnership will generate value for the suppliers as well through increased volume and innovative best practice sharing. The expectation is that the partnership will in fact insure a competitive advantage for ChevronTexaco and its value added partners

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(4) Houston Minority Business Council, Women's Business Enterprise Alliance, The Value of an Inclusive Process, Supply Chain Management Workshop - ChevronTexaco Heritage Plaza, 1111 Bagby Street Houston, Texas, January , 2003

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