

Utilizing Supplier Diversity to Achieve Business Goals

**Patricia J. Richards, Manager
Corporate Supplier Diversity
Shell Oil Company
713/241-8925; Patricia.Richards@Shell.com**

**Steve Ballenger, C.P.M.
Strategic Supplier Performance
Lockheed Martin
817/762-1687; Steve.C.Ballenger@lmco.com**

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Abstract. Corporations are increasingly reliant upon Supply Chain Management (SCM) organizations to help achieve business goals and objectives (increase profitability, improve processes and quality, achieve cost reductions/containment, etc). The complexity and size of SCM organizations have also increased. Today's challenges include sourcing for global business operations, deploying new procurement models, technology applications, skilled workforce, and social responsibility. Supplier diversity is a process that seeks to identify diverse supply partners and systemically integrate inclusive practices. How can buyers and leaders at all levels of the organization deliver on the promise of supplier diversity and sustaining a competitive advantage? By introducing new suppliers that offer different ideas on value creation and problem solving, we embrace the concept of supplier inclusion, proactively promoting and engaging in Minority and Women-owned Business Enterprise (M/WBE) utilization and development, and finally holding ourselves accountable.

Overview on Diversity – a changing world. It is a recognized and much heralded fact that our world is changing. Leading demographers speak of the “browning of America” and the continuing shift between white and non-white populations. Technology has helped create globally connected markets with the rapid diversification of the major cities of the world. This diversity has economic, political and social implications for businesses today. The Selig Center for Economic Growth (2000) estimates that over the next twenty years minorities will constitute close to 20 percent of the total population, and by 2050 they are projected to comprise almost 50% of the U.S. population. Selig also reports, “in 2009 the combined buying power of African Americans, Asians and Native Americans will be more than triple 1990 levels...and will exceed \$1.5 trillion. Hispanic Americans will count for an additional estimated \$992 billion in 2009.” Minority and women entrepreneurs are a recognized emerging market and key source for wealth building, and community contribution through job creation opportunities. Corporations are quick to grasp the realities of needing to be responsive to an ever-growing list of stakeholders and shareholders. One area of responsiveness is sustainable development and a commitment to manage resources as responsible corporate stewards.

Corporate Social Responsibility and Business Drivers. “The concept of social corporate responsibility includes the openness or transparency of companies as well as taking into consideration the will and expectations of their stakeholders. According to the idea generally accepted nowadays, companies function best when they merge their business interest with the interest of their stakeholders” (Juholin, 2004, p. 2). The business case for supplier diversity has

evolved from addressing only social responsibility issues to now also encompassing elements of business driven interests. Communities expect, and rightfully so, that marketplace strategies predicated on extracting maximum consumer utility should have fully articulated participation strategies as well. A key component for Supply Chain Management (SCM) professionals is identifying and using innovations and other strategies to maximize the value-chain for the corporation. Paul Novak C.P.M., APP, and CEO of ISM, explains, “only purchasing can make a meaningful contribution to the company’s costs while at the same time making a tremendous contribution to the company’s impact on issues of socially responsible behavior.” He goes on to say, “Our supply selections can create paying jobs that can infuse the community with newfound wealth”(Inside Supply Management, 2004, p. 2).

But lets talk more about the specific business drivers impacting corporations and why the business case for supplier diversity should be embraced. SCM is now a recognized part of strategic planning and depended upon to develop processes that mesh with local, regional and global corporate operations. Companies are looking for ways to increase their profitability. This can be achieved through increased sales, decreased costs, more quality and creation of improved efficiencies—whatever can positively impact the bottom line. Identifying suppliers who can provide a higher quality product/service (shorter service cycle/delivery times, products with greater reliability or new processes to hasten time to market) that serve to drive the entire business process forward faster. Corporations are finding M/WBEs are able to contribute to the overall procurement delivery process.

Operating within safety and environmental tolerances is a strategic enabler in creating greater efficiencies. Corporations who have developed strong supplier inclusion practices have realized they can achieve a competitive advantage including heightening brand, image and reputation. Those corporations with the ability to articulate these strategies and demonstrate a desire to embrace diversity at all levels (marketing, supplier and workforce) will be successful and operate with impunity in diverse communities.

Procurement Delivers

New Sourcing Models. Sourcing strategies and their models have changed dramatically over the last 20 years. As the rate of technology change has exponentially increased, business models and sourcing strategies have continually evolved to better meet corporate objectives. The days of making sourcing decisions based on competitive price alone are long gone and have been replaced with a strategy of total cost / total best value. Reverse auctions, email,



and interactive intranet web sites have all played a big part in transforming sourcing models. Strategic sourcing processes have been developed to incorporate M/WBE strategies (see above model developed by Waste Management).

Heightened Accountability. Supplier Diversity should be more than a buzzword tossed around by the SCM organizations. Accountability is critical to ensuring supply chain professionals are delivering on their commitment to supplier diversity, and that diverse suppliers are effectively providing the best value in a highly competitive environment. The two perspectives concerning accountability are (1) looking internally - how well your organization identifies and uses diverse suppliers, (2) looking externally to gauge how well existing diverse suppliers are performing in comparison to non-diverse suppliers. Senior management serves a vital role in demonstrating corporate commitment to inclusion through their actions within all business operations. For example, Shell's senior management analyzes quarterly M/WBE results across all business streams looking for continuous improvement in performance metrics. Therefore, SCM departments must do their part in creating and maintaining internal supplier diversity goals that support customer requirements and higher level company objectives. Usually these goals are based on procurement dollars placed to the various types of diversity suppliers as a percentage of total dollars placed. This data can be collected and broken down to levels that make accountability easily attainable. Another important measurement used to help improve accountability is to measure the performance of diverse suppliers. Typically, diverse suppliers will maintain a higher level of performance in most areas of contract requirements compared to their larger competitors. Product or service delivery performance, quality performance, administration, and overall delivery of value may be better but these must be measured as objectively as possible. Lockheed Martin Aeronautics Material Management continues to identify higher levels of performance from their Small and Small Disadvantaged Businesses (SDBs) serving to heighten accountability and promoting the value of inclusion. There are a number of excellent tools in the marketplace that assist corporations in gauging accountability in supplier diversity processes including an instrument developed by the Houston Minority Business Council called "Levels of Excellence."

Inclusive Integrated Practices. Larger companies who are committed to inclusion of diverse suppliers have created and applied procedures and guidelines to make sure professionals include Supplier Diversity as a basic part of their daily activities for both transactional and strategic tasks. Making this as smooth and simple as possible is the best way to assure inclusive integration. Lockheed Martin Aeronautics uses a "rule of one" as a basis for diverse supplier inclusion in the sourcing model. The "Rule of One" states that with each new product sourcing exercise the procurement professionals must include at least one or more Small or SDB in the bid package. Of course, whenever these firms are excluded adequate justification is required. This is just one example of instituting a process to integrate inclusion into every day procurement tasks.

Deploying New Technologies. The use and deployment of new technologies by larger Original Equipment Manufacturers (OEM) may seem like a stumbling block when it comes to the increased inclusion of small diverse suppliers. With smaller businesses both diverse and non-diverse, there is always a potential lack of available funds to invest in meeting the demands of new technologies. Nonetheless, many small diverse suppliers have stepped up to grasp the opportunity to interact with the larger OEMs. In a recent Purchasing Magazine article, "Take a walk on the Cyber Side", David Hannon shares many testimonials from major

OEMs that explain the rewards of using new communication tools to help diverse supplier inclusion. Use of email, web sites, and online registration tools has greatly increased the flow of information associated with finding and including diverse suppliers in the procurement process.

Problems of inclusion also exist with many larger OEMs who manufacture or service high-tech products. Reaching internal goals of inclusion become very difficult in certain areas of high-tech spend. These high-tech industries typically have very few diverse suppliers primarily due to a need for big investment dollars to enter these high-tech industries. There are programs available (Mentor Protégé) to small/diverse companies that help with funding and technical support but it still takes a considerable resource commitment on the part of the diverse supplier to adequately compete and participate with larger corporations.

Demonstrating the Competitive Advantage of Inclusion. Competitive advantage can be defined as having one or more processes within an organization that are lean, world class, continuously improving, and producing best value so as to become an advantage in the race to meet and exceed company goals (increase value / revenues, lower total cost, increase profits, etc.) Over the last 20 years, the strategy of larger corporations has been to streamline operations by focusing on the basics of what they do best. This strategic transition has increased the need for outsourcing and increased the value of SCM departments to the corporate bottom line. Along with heightened view of procurement as a center for value and cost savings, top management has realized the importance of the supply chain as a competitive advantage. He who has the best supply chain wins! Although SCM can be very complicated and has a variety of aspects to consider, the inclusion and use of diverse suppliers throughout the supply chain can become a competitive advantage for any company willing to purposefully build a process for maximum inclusion. A significant competitive advantage of inclusion is that diverse suppliers have the leanness and responsiveness enabling them to maximize customer satisfaction. They exhibit a flexibility that is typically not present in midsized or larger companies.

North Carolina State University, College of Management, hosts a consortium, which provides research yielding a wealth of information on Supply Chain Management. One of their latest student projects, completed Fall of 2004, was to interview various companies across different types of industries about their Supplier Diversity programs. Assessments consisted of questions concerning leadership, resources, results, processes, and information flow. There were several objectives defined with the last objective being to provide a comprehensive list of recommendations for future actions. This list of recommendations essentially becomes a list of "world-class / best practices" that any company can use to demonstrate a competitive advantage for inclusive supplier diversity programs.

The following recommended Best Practices were documented.

- Including Supplier Diversity Program goals in performance reviews
- Providing web based portal and central database for Supplier Information & Resources
- Instituting Second-tier Diversity Spend targets adds value to the program
- Establishing well defined and structured Mentor Programs
- Increasing awareness within the firm, make the program a priority
- Actively participating in regional and national Supplier Diversity meetings

- Investing in education and training for minority suppliers
- Holding minority forums and seminars that involve top management to enhance corporate commitment and publishing newsletters to increase awareness and participation
- Transitioning from a focus on supplier acquisition to a comprehensive strategy for supplier development
- Requiring inclusion of diverse suppliers at some level of procurement
- Integrating diverse supplier information into the procurement function

Although not totally comprehensive this list provides a basis for building a solid supplier diversity program resulting in creating a competitive advantage.

Documenting Success.

Accountability

- BBN Technologies, a technology and research development firm, supports supplier diversity. The company's corporate management, department managers and staff all advocate supplier diversity. All Departments cooperate in the program. The President, General Manager and Vice President of Contracts/Purchasing are involved with the program and receive activity reports. The President or Vice President send out an annual message to all requisitioning departments explaining the importance of the program. Performance is measured against established annual goals. ~ *John Forcucci, Purchasing Mgr., BBN Technologies*
- BB&T, a North Carolina based bank, was recently selected by KLD Research and Analytics, Inc., (an independent investment research firm) for corporate social responsibility demonstrated in the area of procurement – "FY 2002 the company placed approximately 10% of its total contracting for goods and services with women-owned and minority-owned companies, BB&T demonstrated a strong commitment to employee education and training and has strong representation of women and minorities on its board." ~ *Brenda Fulmore A.P.P., Asst. V.P. Supplier Development & Certification Manager, BB&T*

Cost reduction/savings/innovation

- Recently BBN Technologies (BBNT) upgraded a large amount of computer equipment. BBNT worked with the factory and selected a minority owned business supplier that has the capability to image and install new computers. "The company placed the purchase order for delivery and installation of the computer equipment with the minority supplier. The supplier is local and has expertise in the imaging and installation of this type of equipment, which means lower cost for service and installation. As a result, BBNT purchased the equipment from the minority supplier at the same price they would have received directly from the factory. The value added by the minority supplier is a real benefit to BBN Technologies." ~ *John Forcucci, Purchasing Mgr., BBN Technologies*
- Waste Management of Michigan's purchasing professionals are tasked with reducing the supply base and cutting costs while continuing to support their organizations diversity goals. Waste Management of Michigan recently achieved this task by not just looking to conventional commodity sources, but also to the janitorial service industry. The initial

sourcing project was comprised of four locations, each being serviced by a different non-minority certified supplier with a total annual spend of \$147,000. Waste Management of Michigan proudly awarded Developers Diversified Services, a division of Omni Facility Services the contract for all four sites. Thus reducing the supply base, achieving over \$88,000 in cost savings and contributing to Waste Management of Michigan's commitment to minority business spending. ~ *Ericka Utz, Buyer, Waste Management*

Integrated practices

- BBN Technologies has a process whereby each proposal or contract that is valued at \$500,000 or more requires a subcontracting plan. This subcontracting plan sets out the total dollars that will be spent on suppliers in order to perform the contract. Each subcontracting plan contains negotiated goals as to how many dollars will be spent overall with small businesses, women owned small businesses, minority-owned small businesses, small businesses located in Historically Underutilized Business (HUB) zones and small businesses owned by veterans. ~ *John Forcucci, Purchasing Mgr., BBN Technologies*
- Waste Management Procurement always includes M/WBE requirements in their contracts as part of their strategic sourcing process. There is specific contract language that encourages "continuous improvement on the percentage of M/WBE participation/utilization that is expected in every year of the agreement." ~ *Matthew Agosto, Strategic Sourcing Manager, Waste Management Inc.*

Quality

- BBN Technologies informs MWBEs of quality ISO requirements for projects that BBNT works on. Most MWBEs are on board with this requirement. We conduct site visits at our potential suppliers when required to do so. ~ *John Forcucci, Purchasing Mgr., BBN Technologies*
- Shell, in an effort to consolidate suppliers, protect the use of the US trademark and increase representation of Tier 1 M/WBEs, recently rebid and awarded the licensing of promotional branded products to a preferred list of suppliers. Of the six selected licensees four are certified M/WBEs. This move cut costs immediately on promotional products by as much as 20% on an estimated \$12 million annual spend across Shell in the United States. Shell utilized the Beanstalk Group, a licensing firm, to conduct an evaluative process that included benchmarking against best practices of US corporations and measured rankings of supplier capabilities and performance against weighted criteria. ~ *Michelle Herskowitz, Brand Communications & Trademark Licensing, Shell Oil Company*

Support Organizations. Over the past thirty years, city, state, and federal government, private enterprise and business and community organizations have created a rich legacy of dedicated and cooperative efforts to tap into the rich vein of economic power offered by small business and minority and women owned businesses. Today, supplier diversity has received renewed emphasis in corporate, academia and community circles. ISM has taken a strong stance in support of supplier inclusion through the national Minority and Women's Business Development Group (MWBDG), an organization dedicated to bringing best practices in supplier diversity to the SCM profession, and by its inclusion in the new Social Responsibility charter. The National Minority Supplier Development Council (NMSDC) and the Women's Business Enterprise National Council (WBENC), as well as their respective regional affiliates

are among the most respected and vocal advocates offering certification and business opportunity connections between corporations and minority and women owned businesses.

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