

What is a Supplier Diversity Program?



In today's increasingly diverse and multicultural society, the modern business community recognizes the need for growth-minded businesses to embrace that same diversity in their business practices.

Within the procurement function, building a supplier diversity program supports a range of potential social and financial benefits for savvy businesses willing to commit to inclusion, equal opportunity through a supply chain built with diverse businesses.

How Supplier Diversity Programs Benefit Businesses

In business, as in life, stagnation and homogeneity can lead to decline in productivity, a lack of innovation, and, ultimately, the demise of the stagnating group.

Experts have long acknowledged the boost to profits, reputation, and innovation that accompanies a diverse staff.

But for companies looking to further increase both their social capital and their bottom line, a supplier diversity program is a gateway to even greater success.

By creating a program that actively seeks and incorporates diverse suppliers—including businesses owned by minorities, women, persons with disabilities, armed services veterans, and members of the Lesbian, Gay, Bisexual, and Transgender (LGBT) community—a business gains fresh perspectives and opportunities to penetrate previously untapped markets.

In addition, a diverse supplier base demonstrates a company's willingness to honor the social contract and the obligations of a responsible business in a marketplace made up of consumers from all walks of life.

And while diversity might seem like a hard sell to “old guard” upper management concerned about the capabilities or reliability of diverse suppliers, ignoring diversity can put a business significantly behind the curve set by both governments and corporate leaders such as Disney, Walmart, and Proctor & Gamble.

Organizations like these pour billions into supply chain diversity in search of reputational and financial gain.

In fact, a 2016 study conducted by the Hackett Group found that:

- On average, supplier diversity programs generate a return of \$3.6 million in profits for every \$1 million spent.
- 70% of surveyed businesses viewed supplier diversity as *critically important* to reputation management and profitability; 43% were seeking “unique market insights” from their diverse supplier base, and 40% sought to improve both customer service and internal process efficiency through the use of local and diverse suppliers.
- Nearly all (99%) of diverse suppliers met or exceeded performance and reliability expectations; 23% exceeded those same expectations.
- The more investment is made in supply chain diversity, the greater the return on investment (ROI). Companies allocating 20% (or more) of their spend to diverse suppliers could connect between 10 and 15 percent of their annual sales to their supplier diversity programs, while those spending less than 20% only saw a 5% return on average.
- Supply chains built by world-class procurement teams dedicate **33%**

more of their spend to diverse suppliers as compared to average and underperformers.

These benefits are not exclusive to global megacorporations, of course.

Small businesses benefit on both sides of the supply chain thanks to support from organizations like the U.S. Small Business Administration (SBA), National Minority Supplier Development Council (NMSDC), National Gay and Lesbian Chamber of Commerce (NGLCC), and the Women's Business Enterprise National Council (WBENC).

These entities help minority business enterprises (MBEs), women business enterprises (WBEs), and historically underutilized businesses (HUBs) achieve certification and supplier registration for consideration as Tier I (direct contractor) and Tier II (sub-contractor) vendors.

Additionally, the U.S. government's 8a Business Development Program helps small disadvantaged businesses gain bidding access for sole-source sole-source government contracts.

Certified members of these organizations cast a very broad net of potential suppliers for the business looking to build its supplier diversity program.

As of 2019:

- The WBENC has more than 15,000 registered businesses on its membership rolls.
- The NGLCC reports LGBT-owned businesses generate more than \$1.7 trillion each year for the U.S. economy alone.
- The NMSDC connects buyers with more than 12,000 registered businesses owned by African-American, Asian, Hispanic, and Native American entrepreneurs.

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Implementing a Diverse Business Supply Chain

If your company's focused on building value through a diverse supplier base, implementing some best practices used by world-class procurement teams can help you get there.

- Educate your procurement team, management, and organization as a whole on the massive potential value created a supplier diversity program.
- Build strategic and enduring relationships with local vendors. Partner with those who provide access to new markets or innovative ideas for new goods and services.
- Collaborate with other companies seeking supplier diversity. Attend conferences, roundtables, and other information-sharing events to network with diverse businesses while expanding your own knowledge base.
- Identify and target potential suppliers by connecting with resources such as the WBENC, NGLCC, and NMSDC. Make recruitment and inclusion of these suppliers a priority, including the development and implementation of documentation for potential suppliers such as the criteria, guidelines, and code of conduct for diverse enterprises established by the College Board.
- Leverage social media intelligently to connect with new potential customers, diversity organizations, and diverse suppliers.
- Familiarize yourself with the supplier diversity program(s) established by your local, state, and federal governments, as well as programs from the SBA and other small business-focused organizations. If your business is seeking to land lucrative government contracts in the United States, the federal government requires that a contractors for projects exceeding specific dollar amounts must achieve government-mandated levels for diversity spend and demonstrate a commitment to diversity in their operations, hiring, and corporate citizenship practices.
- Include technology such as a dedicated, cloud-based procurement solution in your overall procurement plan. In addition to process improvements from automation and artificial intelligence (AI), supplier management is

greatly improved with detailed and process-driven supplier registration and evaluation.

In addition, managing your supply chain database with advanced AI makes it much easier to find and connect with those suppliers (both Tier I and Tier II) who meet diversity requirements for government contracts. Finding, for example, a woman-owned business located in rural Georgia is *much* easier with centralized, on-demand data management that incorporates critical diversity-related data such as government certifications, membership in minority business organizations, and third-party certifications from the start.

Make Diversity Part of Your Procurement Plan

A diverse supply chain is a healthy, productive, and responsible source of lasting social and financial value for your business.

Focus on adding diversity to your procurement, and build stronger relationships, a glowing reputation, and greater profits while supporting economic success for all.

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