

Vendor Diversity Program: Why and How To Implement One



A vendor diversity program, also known as a supplier diversity program, is critical for business social responsibility. A diverse supplier is a business that is at least 51% owned and operated by an individual or group that is part of a traditionally underserved or under-represented group.

Common classifications of diverse businesses are minority-owned enterprises (MBEs), small business enterprises (SBEs), and women-owned enterprises (WOEs).

Over time, the definition of diversity has expanded to include businesses owned and operated by other minority groups such as those with disabilities, service-disabled veterans, or lesbian, gay, bisexual, or transgender (LGBT).

Supplier diversity history comes from the Civil Rights Movement of the 1950s and 60s.

After the race riots in Detroit in 1968, General Motors developed what is considered as one of the first Supplier Diversity programs.

Much of the American auto industry followed along. Early companies in the electronics industry such as IBM established supplier diversity programs around

that time.

UPS started its supplier diversity program in 1992 out of its desire to become more inclusive and do the right thing.

The company now spends 2.6 billion dollars a year conducting business with an estimated 6000 small and diverse suppliers with a goal to continue to increase that spend year-over-year.

Part of how UPS accomplishes this goal is through its partnerships with multiple councils and third parties including the Women's Business Enterprise National Council (WBENC), the US Hispanic Chamber of Commerce, and the National Minority Supplier Development Council.

They run mentoring and training programs that support the growth and success of these diverse suppliers.

It includes workshops, matchmaking at Supplier Diversity conferences, management education, and more.

Why You Need a Diversity Program

Working to establish supplier diversity in your organization is the right thing to do.

The supplier diversity program can be a part of your organization's efforts to maintain high ethical and moral standards.

Inclusive procurement delivers societal benefits because it generates economic opportunities for disadvantaged communities.

According to the US Small Business Administration (SBA), there were eight million minority-owned companies in the United States as of 2018.

The National Minority Supplier Diversity Council reports that certified minority-owned businesses generate \$400 billion in economic output which leads to the creation or preservation of 2.2 million jobs and \$49 billion in annual revenue for local, state, and federal tax authorities. Those numbers are continuing to grow.

Many large enterprises encourage, and in some cases require suppliers to develop

their own diversity initiatives to increase the impact. As such, failure to develop a program of your own could cost you highly profitable contracts.

For instance, as of 2019, Target spent \$1.4 billion on goods and services provided by first-tier diverse suppliers and influenced those suppliers to buy more than \$800,000 worth of products or services from second-tier diverse suppliers.

And, it's worth considering that supplier diversity programs are also a selling point when it comes to hiring. 52% of those who responded to a survey conducted for UPS said they want to work for a company that has a supplier inclusion and diversity program.

This can help shape your approach to recruitment because letting candidates know about Supplier Diversity efforts isn't likely something you would consider.

Aside from the moral and ethical concerns, there are plenty of commercial reasons for developing a vendor Diversity Program.

With an inclusive procurement strategy, you have a wider pool of potential suppliers which promotes competition in the supply base.

This ultimately can improve product quality and drive across town. By providing more diverse sourcing options, inclusiveness can make supply chains more agile and resilient which is an increasingly important advantage in these times of uncertainty.

Every successful vendor diversity program comes from a comprehensive strategic plan.

Building the framework upfront helps you align your organization behind common objectives and empowers your program's growth in the future.

Here, we'll explain where to start building your program, and what you should include in your plan.

Develop the Business Case

To get organizational support on your Supplier Diversity initiative, create a strong business case for the program. What parts of the business will the program

benefit? what resources does it need to be successful?

Supplier diversity programs can benefit your business in a variety of ways. For instance, your program may produce a positive economic impact for local businesses, drive vendor competition, improve brand perception, promote innovation, and improve your company's bottom line.

Before you can build your strategy, you have to identify what business drivers are most important to your company and how your diversity program may influence them.

Business drivers can be a condition, resource, or type of activity integral to your company's performance. For example, a business driver could be the price of materials that are used to create your product or customer demand.

Aligning your supplier diversity goals and initiatives with your overall; business objectives and known business driver helps earn the confidence of stakeholders.

Getting the support and establishing this connection early in the process, makes it easier to gain support for new initiatives and access the resources you need to run the program.

Define Scope and Certification Policies

This step is often skipped in an effort to move program development along. However, failing to define the program scope and policies, in the beginning, may result in unnecessary complications later.

At the basic level, defining your program scope means identifying the diverse categories your program will focus on.

For instance, you may opt to focus specifically on women-owned businesses, businesses that support the LGBTQ community, veteran-owned businesses, ethnic minority-owned businesses, or another diverse supplier group.

Eventually, your program may grow to encompass various different groups, but by defining a clear starting point, you can get things running easier.

As you choose your focus, consider your organization's values, goals, and supplier

Industries. Choose diverse categories that align with those factors.

After you define your program scope, outline your certification policy.

- What are the kinds of third-party certifications you will accept?
- What will the search and selection process look like?
- What metrics and guidelines will you use to differentiate between potential diverse supplier partners?
- What factors determine eligibility?

Document the procurement process, establish clear guidelines and outline best practices. This such both your company and your supplier is up for success.

Set SMART Goals

Go back to the key business drivers you established in the first step. Use them as a guide for setting your program's short and long-term goals.

For example, if one of your main business drivers is brand perception, your goals may involve showing your new vendor diversity program in your marketing efforts.

Aim to set specific, measurable, attainable, realistic, and time centered goals to organize your program staff and drive progress. Relying on huge or vague goals can be paralyzing because it doesn't provide clear direction or parameters for success.

The more work you do before launching the program, the more successful your vendor diversity program will be.

Build Your Reporting Framework

After you've clearly identified your goals, think about the metric still used to report on your progress.

If your goal is to increase your diverse spend by 10% at the end of the quarter, for instance, you'll want to track the number of diverse and non-diverse contracts your company earns.

If you're not sure where to start, take a look at popular metrics used by successful vendor diversity programs.

Beyond identifying what metrics to track, outline how frequently you'll report on your progress, and how you'll go about getting the data you need.

If you plan on reporting on tier two diverse spend, how will you get this information from your suppliers on a regular basis?

Establish the Baseline for Comparison

It is impossible to understand how far you've come if you don't have a clear idea of where you started.

Though it may seem obvious, if you don't establish a reporting baseline in the beginning, it's hard to gauge your progress in the future.

Take a look at your existing contracts and record current metrics for diverse supplier base, diverse spend, market share, and other key metrics so you have a baseline for comparison.

Then compare your current numbers to industry benchmarks. Doing this will help you identify clear areas where you want to improve and allow you to gauge whether the goals you set are realistic. If you find that they are not, you can adjust them accordingly.

Develop Your Communication Plan

The vendor diversity program may be run by a few individuals, but you have to have a way of communicating and collaborating throughout your entire organization.

Develop an internal communication plan to help you keep everyone in the company on the same page in regards to the program goals, initiative, and challenges.

This may mean you have to set up regular cross-departmental meetings or training employees on how to use the supplier diversity software platform.

Bring in a Strategic Partner

If you lack experience in building a supplier diversity program, it can be hard to know what you've missed until it's too late.

Bringing in a strategic partner can guide you through each of the steps and ensure that you create a stellar program.

The right partner also helps you build on that Foundation after the program has been established, so you continue to evolve in the right direction.

When working to build your inclusion program, reach out to the Department of Veterans Affairs, along with the National LGBT Chamber of Commerce and other minority business organizations to see a list of businesses you could approach for participation in your program.

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