



CAMSC

Inclusive Procurement Leadership

Kellogg Company - Case Study

**Business Case and
Executive Support**

“Kellogg is very strategic in its approach to forming real partnerships with its suppliers.”

Kellogg's

LEADING PRACTICE:

Business Case and Executive Support

Kellogg's

Kellogg Company has a robust North American supplier diversity program that encourages and facilitates the purchase of goods and services from companies owned by ethnic minorities, persons with disabilities, LGBT individuals, service-disabled veterans, and women. It is housed within strategic sourcing. First launched in the 80's, the program was expanded in 2007 to Canada to embrace growing the company's North American diversity spend as a whole. In 2014, Kellogg spent \$399 million, or 6.7% of its total North America spend, with first-tier diverse suppliers. Kellogg believes that a diverse supply chain will allow it to remain globally competitive through innovation, flexibility and cost savings.



In 2014, Kellogg Spent \$399 million, or 6.7% of its Total North America Spend, with First-Tier Diverse Suppliers.

KEY PRACTICES AND PROCESSES



Business Case to Align Supplier Diversity to Top Corporate Goals

- › Emphasizes the business case to align supplier diversity to top corporate goals to secure continued executive support.
- › Executive commitment demonstrated from the allocation of a full-time SD resource, SD performance goals from the CEO level on down, ongoing sponsorship of diversity organizations, coupled with diverse supplier outreach and education.
- › Utilizes diverse suppliers to spur innovation and to deliver performance, flexibility, quality and cost-savings.
- › Requires sourcing managers to meet both a financial goal and a supplier development goal related to supplier diversity.
- › Introduced a zero- based rating system to score Tier 1 suppliers on pricing, delivery, innovation and supplier diversity.
- › Invested in new, state-of-the-art Tier 2 reporting system that goes above and beyond customer expectations.
- › Measures program successes with a variety of metrics
- › Regular reporting on program goals and progress via an supplier diversity dashboard.
- › Adapts supplier diversity language and discussions to meet local perspectives in Canada and other countries.



Measures Program Successes with a Variety of Metrics

A CLOSER LOOK

Kellogg first launched its supplier diversity initiative over 20 years ago in response to a customer request. In 2002, it was relaunched with some substantive changes (i.e. funding and resources) and continued to see considerable progress since that time.

The key aspects of the business case for supplier diversity that resonate most across Kellogg include:



Key Aspects of the Business Case for Supplier Diversity

- › **Spurs innovation.** One of the strengths of supplier diversity is how it brings diversity of thought which helps spur innovation.
- › **Strengthens supply chain.** Diverse suppliers, in addition to delivering on innovation, deliver high-quality performance, adaptability, flexibility and cost savings and as such corporations with supplier rating systems are discovering that diverse suppliers rank better than average.
- › **Aligns with Corporate Social Responsibility.** Sourcing from diverse suppliers often creates jobs and wealth in historically underutilized communities. Understanding this impact of supplier diversity on the community and on job creation is particularly important as part of Kellogg's CSR commitment.
- › **Supports socially responsible investing.** Supplier diversity adds another dimension beyond sustainability and ethical sourcing when looking for stocks of companies that demonstrate strong CSR commitments.
- › **Contributes to brand loyalty.** There is growing evidence that minorities and other diverse groups are more inclined to purchase from corporations

A CLOSER LOOK CONT'



Acts as a
Revenue Enabler

that support their communities with programs like supplier diversity. For example: The genesis of the 'act intentionally' campaign, a WBENC sponsored program, is to offer reciprocal support, by encouraging certified women enterprises to endorse businesses that have shown commitment, engagement and support to them.

- > **Prepares for changing demographics in North America.** In recognition of the rapidly growing diverse demographics, Kellogg's strives to have a diverse supply base that is reflective of its employees, customers and consumers.
- > **Helps attract and retain a broader array of diverse talent.** Today individuals thoroughly research potential employers that are aligned with their values and Kellogg's, supplier diversity program serves as an attractive feature to them.
- > **Acts as a revenue enabler.** Supplier diversity represents a true business practice, not a social program.

Kellogg's experience is that the business case for supplier diversity has a lot of commonality coupled with country specific issues around the globe. E.g Historically disadvantaged people can differ in other countries, which requires adapting the language that is used in explaining what supplier diversity is all about. It is important to note that successes in the U.S. don't always translate across borders.

Gaining Executive Support

It's critical that supplier diversity aligns to changing corporate goals to gain and retain executive support and become woven into the fabric of the organization. Kellogg's initiatives are based on observation and consideration of best practices, thus, securing greater executive commitment. Some key elements to best practice initiatives involve:

- > Emphasizing the business case, first and foremost.
- > Aligning to top corporate goals, such as how utilizing a diverse supplier base can help the company reflect - and market more effectively to - increasingly diverse consumers and can also stimulate job creation in the communities in which it does business.
- > Sharing past successes and how they have brought innovation and business value
- > Enhancing and or modifying world-class best practices as required.
- > Presenting metrics monthly, using a dashboard that shows the goals and how each procurement team (eg. Logistics, Marketing, etc.) is performing to the goals.
- > Sharing the SD dashboard metrics with the CEO such that the data can be utilized at board meetings or other meetings.



Presenting Metrics
Monthly

Practices and Allocated Resources

While Kellogg has laid a strong foundation that demonstrate executive support of its supplier diversity program, the cornerstone of this foundation is its supplier diversity mission statement:

A CLOSER LOOK CONT'

“Key to our Supplier Diversity program are equitable business practices and a commitment to social responsibility. Our mission is to enhance our program through sustainable relationships with diverse businesses, helping us build a world-class supply base that will benefit our customers, consumers, employees and communities where we live and work.”



Sponsorship and
Time Allocation

- › Sponsorship and time allocation. Kellogg sponsors many diversity organizations (including CAMSC) and their events, and takes an active leadership role on their boards and committees.
- › Supplier capacity development and education. This helps suppliers understand the expectations of Kellogg and other corporations and to prepare them to be suppliers of the future.
- › New Tier 2 reporting system. This is illustration of company commitment and represents the need to position from spreadsheets to a state-of-the-art system in order to track spend. In each quarter, Kellogg has over 100 suppliers doing Tier 2 reporting. They are rated above average rating if they use certified diverse suppliers, well above average if they also attend a diversity event, and are recognized as best in class if they also have someone responsible for supplier diversity. One element of the rating score for suppliers includes pricing, delivery and innovation.
- › Annual performance goals. Goal setting is implemented in all levels of the Kellogg organization. As it relates to supplier diversity, the Global VP who is a strong proponent of supplier diversity require that the sourcing managers include financial goals as well as supplier development goals. Supplier development goals may include the following example, such as having two new diverse suppliers in the pipeline and attending at least one diversity event annually.
- › Million Dollar Club for diverse suppliers that recognize those with business exceeding \$1 million with Kellogg. The number currently stands at 48.



Million Dollar
Club for Diverse
Suppliers

*Success
Measurements/
Metrics that Support
the Business Case*

Key metrics used to measure success of the supplier diversity program at Kellogg include:

- › Participation by diverse suppliers in bids. (Requirement of at least one diverse supplier per bid.)
- › Tier 1 participation in supplier diversity, using the zero-based rating system.
- › Dollars spent with diverse suppliers.
- › Identify opportunities to engage with businesses that are having a valuable impact on communities. Impact may be defined by business expansion, number of new hires, and investments in new equipment , etc.

NEXT STEPS

Kellogg continues to identify ways to advance their Supplier Diversity program. Current initiatives in progress include the following:

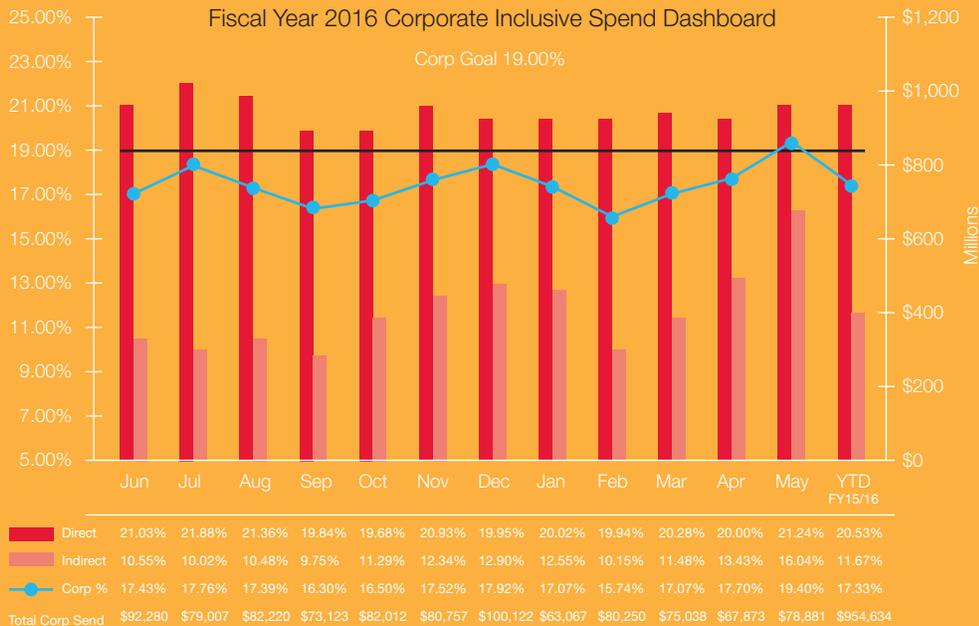
- › Potential utilization of an emerging model to predict the economic impact of supplier diversity on the community.
- › Migration to new Tier 2 reporting with a new software program that allows Tier 1 suppliers to post their Tier 2 spend online and report on their diversity activity undertaken. The information will be available on the Kellogg dashboard, allowing buyers to quickly see how suppliers are performing.
- › Introduction of goals for each buyer to have a diverse supplier in the development phase and for each department to have two new diverse suppliers in the pipeline.

■ Number of High Focus Suppliers

■ Total Spend (167 suppliers)

Results & Impact Enabled

Seen as one of the Kellogg's imperatives, Kellogg's SD program Report is presented to Kellogg's executives via an internal dashboard; first page includes goals and how each procurement team (logistics, marketing, etc.) is performing to the goals; next level - ie. departmental level - can see which suppliers are included in those goals and their certification status and a year over year comparison to see supplier spend. Here is an example of Kellogg's dashboard.



Classification	Grand Total	Main Commodity (Direct Only)	Total Direct Spend (FY to Date)	Diverse Direct Spend (FY to Date)	Diverse Direct %	Upcoming Events
Total YD Spend		International Metals Team	\$177,655,947	\$72,157,331	40.62%	June NeoCon
MBE Total Spend		Assemblies & Hardware	\$95,894,544	\$23,235,554	24.23%	July MIDCo Supplier Diversity
WBE Total Spend		Plastic	\$144,907,450	\$17,664,725	12.19%	Aug MaComb PTAC S.D.
VOB Total Spend		Metals	\$65,895,262	\$9,379,927	14.23%	Sept CEED Conference
MBE %		Fabric	\$22,725,822	\$1,431,870	6.30%	ABA Gala
WBE %		Finishes	\$21,137,738	\$1,420,796	9.72%	Oct NMSDC
VOB %		Wood	\$44,453,402	\$1,345,136	3.03%	
DIS %		Miscellaneous-Glass	\$3,028,587	\$40,695	1.34%	
Total MBE/WBE %		Adhesives/Chemicals	\$2,166,137	\$12,367	0.57%	
		Purchase Complete	\$1,338,777	\$9,111	0.68%	
		Steel-Stampings	\$1,483	\$580	39.11%	

SPOTLIGHT ON SUCCESS

“The example of Baldwin Richardson Foods, a family-owned and -run company headquartered in Chicago and one of the longest-running African-American-owned food companies in the U.S – speaks volumes to the quality and innovative strength of diverse suppliers.”

Its relationship with Kellogg started in 2001 when it went head to head with some of the best ingredients producers in the world and came out on top to win the contract to supply fruit fillings for Nutri-Grain® bars. Today, Baldwin Richardson is the sole manufacturer of Nutri-Grain® bar fillings for all of North America. It also now supplies fruit and sweet fillings for several other Kellogg brands, including Kellogg’s Mini-Wheats®, Special K®, Kashi® and FiberPlus® foods.

In 2013 & 2015, Baldwin Richardson won the Gold supplier award from Kellogg, which meant it was the highest-performing company globally among its peer ingredient supplier companies (not just among diverse suppliers, but all Kellogg suppliers). In 2014, it won the Silver supplier award.

Baldwin Richardson credits Kellogg’s clarity regarding needs and expectations with helping determine how the supplier needs to invest and where it should focus its R&D so that it can innovate and continuously improve.

“Kellogg is very strategic in its approach to forming real partnerships with its suppliers,”

Erin Tolefree, Vice President of Sales

“For instance, they’ve gotten to know our people and our processes, and they’ve visited our facilities.”



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Baldwin Richardson
Won the Gold
Supplier Award from
Kellogg

LESSONS LEARNED

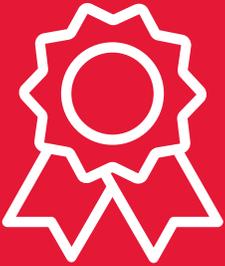
There exists a thirst for a strong business case that can be aligned with a company’s CSR program and ensures accountability to stakeholders. This business case is not seen as static, and there is an ongoing need to revamp and refine the business case such that it is both industry specific and company specific.

The maturity of your supplier diversity program may impact which metrics are used and when it is appropriate to use them. Different metrics should be used initially, such as number of diverse suppliers participating in bids. Introducing diversity spend as a key metric makes sense after a supplier diversity program has been in place for a while. When using cost savings as a metrics, it is important to note that procurement people tend to underestimate the cost savings that are presented when using diverse suppliers.

When companies understand the strategic benefits of supplier diversity such as the innovation, brand loyalty, quality products, competitive pricing, the economic impacts on the community and job creation that it brings, they (companies and their many stakeholders) are more inclined to embrace it. For instance, buyers should consider implementing procurement solutions as portions of a contract for diverse suppliers, who are often smaller and unable to participate in bids.

LESSONS LEARNED CONT'

Be a part of what your company is reporting out in a positive way and make sure that your supplier diversity program is called out in your annual CSR report.



It's Increasingly Important for Brand Protection and Transparency to Ensure that Diverse Suppliers are Certified.

You can be effective getting new processes on board but there are many moving parts to keep a supplier diversity program sustainable. For instance, to ensure the continuity and longevity of the program, it is imperative not just to have the right people, but to have the right policies and procedures in place to ensure the program is not at risk with personnel changes.



CAMSC (Canadian Aboriginal and Minority Supplier Council) is a non-profit organization created in 2004 to advance the economic strength of Aboriginal and visible minority communities through business development and employment. CAMSC's mission is to facilitate business relationships with Canadian corporations dedicated to diversity and supplier organizations owned by Aboriginals and minorities. Since its inception in 2004, corporate members have spent more than \$2 Billion with CAMSC certified Aboriginal and minority-owned businesses. Visit www.camsc.ca