

Core Strategy

By Glenn Stafford

As populations become more diverse, supplier diversity has become an economic imperative.

The growing influence of Latinos, blacks, Asians, women and young people in America is not a new trend—just look at their impact on the last two presidential elections. For years, demographers and data have shown that at some point in the future (current estimates point to 2043), the percentage of non-whites in the population will exceed the percentage of whites. In spite of these trends, however, corporate America is still falling short of targets to increase diverse purchases to better reflect its increasingly diverse customer base.

In many corporations, supplier diversity is still an uphill battle. Why? There are two major reasons: (1) Failure to treat supplier diversity requirements as a serious business initiative for winning business opportunities, and (2) The lack of a commitment on the part of corporate leadership to be involved in, and accountable for, driving supplier diversity initiatives inside their organizations.

Developing a successful supplier diversity program doesn't just happen. An organization's leaders must treat supplier diversity as a strategic initiative and implement it in the same way they would implement a vision for cost, quality, service, or any other area that affects the bottom line.

Johnson Controls (JCI) is recognized as having one of the best supplier diversity programs nationwide. In a speech after one such recognition, JCI's Chairman and Chief Executive

Officer, **Steve Roell**, said, "It is a core business strategy that helps us better understand our customers. It expands our markets and capabilities, and it strengthens our network of suppliers." He went on to say that supplier diversity "also helps Johnson Controls win and retain customers, along with delivering stakeholder satisfaction with employees, advocacy groups, and the government."

JCI treats supplier diversity as a key business initiative—just like cost, quality, service, and technology. This approach places them in a position to exceed customer expectations for supplier diversity performance. It is why JCI purchases approximately 15 percent of its purchased supply value from diverse suppliers, while most companies are struggling to achieve 5 percent. Based on this success, one would think that more corporations would adopt similar strategies for a competitive advantage.

In today's corporate purchasing, almost all business award decisions are based on price, quality, customer service, technology, and diverse supplier content, and almost all corporations have solid processes and strategies in place to dictate everything *but* diverse supplier content. Why? Likely because corporations recognize the problems and lost opportunities associated with uncompetitive pricing, quality, service and technology.

With supplier diversity, however, there is little or no perceived pain

associated with not meeting customer expectations for supplier diversity performance in most cases; indeed, the customer may not have any expectations. As a result, companies make diverse expenditure goals without having solid processes or strategies to drive them toward meeting those goals.

Outlined below are some initiatives corporations can employ to shift the perception of supplier diversity from being the "flavor of the month" to a business strategy that helps expand market reach and leads to improved revenue and profitability.

Top Leadership Commitment

Supplier diversity programs succeed only when they have commitment and involvement from senior leadership, and senior leadership communicates that commitment clearly to the organization with a solid plan and performance metrics. Senior leadership must be educated about supplier diversity and the importance of diversity as a business imperative to increase revenue opportunities, and must, in turn, reinforce this importance through regular communications and activities.

Supplier Diversity Awareness Training for Employees

Corporations must educate employees about supplier diversity business initiatives through training and tie it to business objectives. Employees should understand why the company has a supplier diversity program and

how it is used to win business opportunities. Since the sales staff is the main interface with customers, sales personnel must be trained how to use supplier diversity as a strategic tool to win new business opportunities by understanding customer requirements for supplier diversity performance, and informing the customers about the company's commitment to supplier diversity.

Supplier Diversity Awareness Training for Key Suppliers

Since approximately 95 percent of all products and services are purchased from majority-owned suppliers, companies need to place a greater emphasis on the importance of those suppliers sourcing from diverse suppliers. This is a tremendous opportunity to significantly increase diverse expenditures throughout the supply chain. Corporations that are serious about enhancing supplier diversity performance for key suppliers should provide supplier diversity awareness training to enhance understanding of supplier diversity and why it is important and assist key majority owned suppliers in developing innovative approaches for sourcing business with diverse suppliers. Simply telling key suppliers about meeting diverse expenditure goals is not enough—they must be held accountable for meeting supplier diversity requirements, like they would for cost and quality requirements. **Chrysler Group LLC** uses a two-step process to hold Tier 1 suppliers accountable for meeting supplier diversity performance, ranking it equal to cost, quality, service, and technology as a factor in awarding business opportunities. If a Tier 1 supplier continuously negates Chrysler's supplier diversity objectives, it must develop and present a business case that outlines its supplier diversity initiatives, with plans for achieving the targeted objectives. Companies

that refuse to put these plans in place run the risk of losing future business with Chrysler.

Implementation Accountability

Appoint a person with the skills needed to lead the company's supplier diversity program. This person also should hold a management-level position and be able to work effectively with all levels of the organization. This person should have a strong understanding of contemporary purchasing processes, as well as an understanding of future trends relating to supplier diversity as a business initiative.

Enhance Internal and External Communications

To reinforce supplier diversity initiatives and goals within organizations, corporations must effectively share the organization's performance metrics and identify areas in which support can enhance the program. The company can then communicate results and needs through regular performance reports and newsletters. The company should also recognize employees who make significant contributions to the program. In external communications, let customers know that your organization is serious about supplier diversity by sharing initiatives, processes, and accomplishments.

Things Diverse Suppliers Can Do to Help

Diverse suppliers should be encouraged to buy products and services from each other. As corporations increase their purchases from diverse suppliers, these diverse suppliers should be actively identifying and creating opportunities to increase the circulation of business among other diverse suppliers. In addition, as major diverse suppliers are mentored, they should reach out and mentor a

smaller diverse supplier to pass along the principles they have learned.

Corporations need to accelerate the process for developing full-service diverse suppliers that are positioned to meet shifting customer requirements. This will help continue growth in real opportunities for diverse suppliers. The goal is to develop diverse suppliers with the capabilities required to meet or exceed customer expectations—in other words, to develop good suppliers that happen to be diverse suppliers.

The fastest-growing market segment is minorities, and money spent supporting minority, and women-owned companies improves their economic health, increasing their spending power. Corporate customers reflect current demographics, so your supplier base should also reflect its customers. Companies that make a strong commitment to supplier diversity know that increasing the use of diverse suppliers will give themselves an edge over uncommitted ones. With strong leadership, treating supplier diversity as a core business initiative is an innovative strategy and a necessary element for success.

Is your corporation ready to make the commitment? ◆

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