



A Strong Supplier Diversity Program Increases Corporate Revenues

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Investment in a strong supplier diversity program is a key component of increasing a corporation's revenues. Such a program is widely recognized for highlighting corporate responsibility. Minority-owned suppliers typically train and hire from minority communities, reducing crime, unemployment, and poor education while increasing tax revenue and community involvement. In an Institute for Supply Chain Management survey of 380 corporate participants, the most cited reason for having a diversity program was "Our organization thinks it's the right thing to do."¹ While the social impact is true and critical, this paper will demonstrate the economic impact of a strong supplier diversity program. Finding and supporting minority-owned suppliers generates a positive return for a corporation's bottom line.

Reflections of the economic impact of a strong supplier diversity program appear:

- In a widely published survey: A 2006 Hackett Group survey of 50 manufacturing and service companies found that companies focusing "heavily on supplier diversity" generated \$3.6 million in revenue for every \$1 million in procurement costs, a 133% greater return than realized by those who did not.²
- In market trends: All ten of Warren Buffett's top ten recommended dividend-paying stocks for 2016 have supplier diversity programs with dedicated staff and separate webpage exposure.³
- In experience: Ed Weil Reyes, former supplier diversity program manager for Life Technologies Corporation, said in *IndustryWeek*, "There are actually investment groups out there that want to invest in companies that have supplier diversity programs and have good citizenship programs, so our supplier diversity program is reported in our annual citizenship report."⁴

A heavy investment in supplier diversity is a critical contributor to generating revenue through:

1. providing intelligence and inroads to new domestic markets;
2. extending culturally sensitive assistance into international markets;
3. solidifying a reliable and nimble domestic supply chain amidst changing demographics; and
4. developing a strong base for bidding on corporate and government contracts.

1. NEW DOMESTIC MARKET INROADS

Buying from Minority Business Enterprises (MBEs) is a key to selling products and services to the minority market. Minority purchasing power expected to reach 45% of the total purchasing power in the United States by the year 2045.⁵ With their dollar value surpassing \$2 trillion spent in 2015 and \$3 trillion by 2030,⁶ the market is large:

- In 2013, African Americans controlled \$1 trillion in buying power, projected to reach 1.3 trillion by 2017.⁷
- In 2015, Hispanic-Americans controlled \$1.3 trillion in buying power, projected to reach of \$1.7 trillion by 2020.⁸
- Asian Americans have \$770 billion in buying power which is expected to increase to \$1 trillion by 2018. From 2002 through 2014 their buying power increased 180%, nearly triple the increase in buying power for non-Hispanic Whites.⁹

It is no wonder, then, that companies pursue the minority market and incorporate the opinions of MBEs in their efforts. McDonald's Corporation, for example, solicited the feedback of its minority franchisees in creating its "minority-shapes-majority" marketing strategy. This strategy, which relied on MBE committee member input, included more minority actors in ads, new restaurant décor and an expanded menu to appeal to ethnic minorities. This campaign resulted in a 1.5% increase in sales in the first three months of 2010.¹⁰ Moët Hennessy, as another example, started focusing on reaching the minority market by partnering with MBEs to sponsor minority focused events.¹¹ MBEs provide perspective and access to networks that support marketing to the increasingly important minority market.

MBEs also give buying corporations direct access to the minority market. MBEs are more likely to be located in their local communities.¹² MBEs are also more likely than Caucasian owned businesses to hire minorities, and have been increasingly hiring.¹³ While the average growth for US firms overall was two percent from 2007 to 2012, the number of businesses rose above the national average for each of the major minority groups:

- African American owned businesses rose 34.5% to 2.6 million, employing over 975,000 people in the US;
- Asian American owned businesses rose 23.8 percent to 1.9 million, employed over 3.5 million in the US;
- and Hispanic American owned businesses increased 46.3 percent to 3.3 million, employing over 2.3 million.¹⁴

Each employee and each employee's family is a potential customer. By contracting with an MBE, the corporation puts its name within the desired community and in front of desired consumers.

Data suggest that committing to an MBE through contracting engenders the right kind of exposure to facilitate sales to new customers. A 2011 Nielsen survey of over 250,000 households revealed that African Americans tend to be brand loyal, answering with a stronger likelihood to “always buy the brands they trust” (46% agree/strongly agreed versus 36% for White Non-Hispanic).¹⁵ A 2011 Newlink Research survey of 1,100 households highlighted that 67% of Hispanics would be more inclined to buy products from companies that have demonstrated a real commitment to the Hispanic community and 65% are highly likely to remain brand loyal.¹⁶ These surveys show that minority communities are more likely to be receptive to a corporation that demonstrates a commitment to them and/or the causes that concern them.

Through committing to a deep investment in sourcing and maintaining MBE suppliers, a corporation will see returns from market intelligence and direct substantive links that key access to the growing minority consumer market.

2. INTERNATIONAL MARKET INTELLIGENCE

Contracting with MBEs reduces the risk corporations absorb in expanding internationally. Of the 82,000 minority-owned US manufacturing firms, about 14% generate sales from exports. As such, minority-owned manufacturing firms are more likely to have global operations compared to nonminority-owned manufacturing firms.¹⁷ More broadly, minority entrepreneurs, in doing business with their ethnic heritage countries, have competitive advantages that others do not. MBEs are more likely to have familiarity with the language, culture, officials, and market of the foreign country.¹⁸

MBE connections and knowledge of distributors and government officials can inure a corporation to the challenges that bedevil foreign expansion. Consider this quick sampling around the world:

- **New regulations in China.** After three years of investment, Uber agreed to sell its China business to rival Didi Chuxing Technology. Uber started its business a year before Didi, but lost out after new ride sharing regulations. “There’s no question that the government has and is increasingly putting its thumb on the scales to benefit Chinese companies,” said Jeremie Waterman, executive director for greater China at the U.S. Chamber of Commerce. Uber lost to Didi, the local favorite, both in relations with local governments and in the media.¹⁹
- **Government action in Argentina.** Fintech Advisory, an American advisory group with Argentine holdings, planned to buy Telecom Argentina and experienced how Argentina’s government can shift favor. As their relationship with the government soured, the government stripped one of the company’s holdings of its broadcasting rights and passed a law aimed at breaking up the company.²⁰

- **Working through logistics in Vietnam.** In an emerging market like Vietnam, products might inexplicably get lost or damaged as they go through customs. A corporation may successfully ship goods to the country, but old road and choked local traffic conditions mean goods can take longer than expected to get from one place to another.²¹
- **Labor challenges in India.** Analysts estimate that India will need about 90,000 aerospace and defense factory workers in the coming decade. “India doesn’t have a labor shortage, it has a skilled labor shortage,” says Tom Captain, global aerospace and defense industry leader at Deloitte Touche Tohmatsu. A significant investment in India is subject to finding the required skilled staff.²²

Add in the more mundane challenge of identifying distributors capable of developing markets,²³ and the value of MBE connections is evident. Pactrans Air and Sea, Inc., a ChicagoMSDC certified MBE, supplied small parts to GE. GE had a challenge that machinery exported to China was subjected to an excessive inspection upon arrival. When this caused the inspection to conclude late, GE had cargo transferred and held in Shanghai. As a result of the move, the China Customs office requested GE to send back the shipment. Pactrans, with its extensive network, was able to lobby the Customs office to do their own inspection on-site. Pactrans also utilized their own relationships with the China Trade Bureau to expedite results and acceptance of GE’s petition. In the end, Pactrans saved GE from a four month delay (and related operational impacts) and saved them \$35,000 in freight, storage, and customs costs.

MBEs extend a network to foreign government contacts and other officials and leaders who could overcome the inevitable challenges that add cost or even derail investment in foreign markets.

3. SOLIDIFYING THE DOMESTIC SUPPLY CHAIN

Investing in a strong supplier diversity program brings the benefits of a secure, nimble domestic supply chain. A domestic supply chain is preferred for simplified shipping and communication logistics,²⁴ enabling a corporation to shorten lead times and quickly bring products to market.²⁵ The Journal of Applied Economics found that in the year a corporation begins domestic outsourcing of some of its production process, the firm experiences an increase in its level of productivity. A firm’s output is higher the higher the intensity of subcontracting.²⁶ Given the changing United States demographics, sourcing MBE suppliers is critical to maintaining domestic outsourcing.

The U.S. demographics are shifting to proportionally more minority citizens than non-Hispanic white citizens by 2050, and the proportion of MBEs is following.²⁷ Exiting majority-owned firms is leaving a void for minority-owned firms to fill. In 2007, a gap existed where the minority adult population represented 31.5 percent of the US population but the 5.8 million minority-owned businesses accounted for only 21.9 percent of all classifiable firms. These figures are beginning to balance according to the 2012 census that showed the number of minority-owned businesses rose to 8.0 million, or 28.98 percent of all firms.²⁸

THE CLOSING ENTERPRISE GAP

- After the number of minority-owned firms grew at a pace more than four times that of non-minority firms from 2002 to 2007,²⁹ minority-owned firm numbers rose 40 percent from 2007 to 2012, while non-minority numbers decreased 4.67 percent.³⁰
- Over the past 10 years, minority-owned businesses have grown at approximately double the rate of all firms in the U.S. economy.³¹

The desire to source product and services domestically is constant. In January 2013, Walmart began investing more than \$70 million in US manufactures and promoted a commitment to buy an additional \$50 million worth of domestic products. Bill Simon, President and CEO said, “There are long lead times and we have to make a commitment for the following year before any of the current year’s merchandise has sold. Making the furniture closer to point-of-sale will be better for our planning and better for our customers.”³² As US demographics change, minority-owned firms are the new constant supplier.

An investment by a corporation in sourcing MBEs is key to maintaining its high level domestic supply chain.

4. SUPPORTING GOVERNMENT AND CORPORATE BIDS

Investing in and supporting MBE suppliers positions a corporation to best compete on government and corporate contracts. Government contracts represent a significant market for corporations. The government purchases nearly \$600 billion a year,³³ awarding about \$91.7 billion to small businesses.³⁴ These contracting opportunities have required MBE involvement since The Small Business Act of 1953.³⁵ The Small Business Act establishes government-wide goals and requires all Federal agencies to negotiate goals annually with the SBA to ensure that small businesses receive maximum opportunity for participation in Federal contracts.

The basic statutory government-wide goals based on the value of all prime contract awards are:

- 23 percent for small business;
- 5 percent for disadvantaged small business;
- 5 percent for women-owned small business;
- 3 percent for service-disabled, veteran-owned small business; and
- 3 percent for certified HUBZone small businesses.³⁶

In 1978, Congress passed The Small Business Subcontracting Program³⁷ which changed the emphasis from voluntary to mandatory and mandated that prime contractors provide the groups listed above maximum practicable opportunities in its acquisitions. For contracts over \$650,000 (\$1.5 million for construction of a public facility) prime contractors are required to submit a subcontracting plan setting out goals for utilizing small business concerns, including separately identified goals for disadvantaged small business and women-owned small business.³⁸

To respond to the mandated disadvantaged businesses involvement, corporations can draw their own trusted MBE suppliers. Some corporations who have failed to adequately source MBEs has been well reported. Recently, the American Small Business League revealed that 151 Fortune 500 firms won government and small business contracts in 2015. Large corporations who competed for contracts meant for small business are published yearly since the Government Accountability Office launched its first investigation into the issue in 2003. The investigations brought unwanted attention to numerous corporations.³⁹ To best perform and stay in compliance, a corporation with a strong MBE supplier base has an advantage.

Developing a viable pipeline of MBE suppliers also enables corporations to produce stronger responses to non-government opportunities. In 2006, AT&T reported \$4 billion in revenue from bids that required diverse supplier involvement. The company turned to its own \$2.4 billion spend with diverse suppliers, about 15% of its total purchases, to find the right MBEs subcontractors. Joan Kerr, executive director of supplier diversity at the time said of having MBE subcontractors, “It’s often a tipping factor” in winning a bid.⁴⁰

Maintaining the deep trusted network of MBEs opens other competitive opportunities as well. Johnson Controls Inc. (“JCI”), a member of the Billion Dollar Roundtable, is committed to supplier diversity. In 2011, JCI drew on its network of MBEs to compete on a GM contract. Knowing GM had minority business related goals, JCI competed under Bridgewater Interiors, LLC, a joint venture with an MBE. Bridgewater won the GM contract and went on to win contracts with other automakers. JCI credited \$6 billion worth of business it received in 2011 to its involvement in supplier diversity.⁴¹

CONCLUSION

A corporation’s committed investment in supplier diversity generates demonstrable revenue returns. MBE suppliers are a resource for perspective into the minority consumer market. Contracting with MBEs introduces a corporation’s brands to the diverse markets of suppliers’ employees and communities. Corporations benefit as MBE employees and their families are known to be loyal to the brands of companies that are committed to them. MBE suppliers are also a culturally aware resource ready to overcome delays, government interference, or other challenges that may arise when expanding into international markets. As the demographics of the United States shift and the number of new Caucasian owned firms slow, it is important to engage the dramatically expanding minority-owned firms. Maintaining a steady and reliable domestic supply chain relies on MBEs.

Lastly, while government contracts require it, other corporation contract opportunities invite MBE participation. Whether through subcontracting or partnering, a corporation can see income from its own diverse supplier network.

So while it is true that a strong supplier diversity program is the right thing to do, investing in a commitment to source minority-owned suppliers is *the most profitable thing to do*.

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