Supplier Diversity:

Moving Beyond Compliance Drive Meaningful Value

The Hackett Group

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Drive Meaningful Value

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Abstract and Learning Objectives

The Hackett Group will share the results of our 2019 Supplier Diversity study along with key insights into how organizations are managing their supplier diversity programs. The study focuses on measurement, objectives and value from supplier diversity programs. In this session, we will highlight practices diversity leaders are employing to drive more value from a diverse supply base and make a positive impact.

Participate in this session to:

▪ Learn about the critical enterprise objectives that supplier diversity programs support and the key elements of successful program design
▪ Gain insights on how organizations are measuring the value delivered by their supplier diversity programs
▪ Understand the top characteristics companies consider when engaging new diverse suppliers
▪ Learn more about the extent to which organizations are explicitly focusing on diverse supplier development and making a positive impact
Today’s Presenters

**Senior Procurement Advisor and P2P Program Leader**

Ms. Fong is an Advisor for The Hackett Group’s Procurement Executive Advisory program. She has 17 years of experience in both industry and consulting with a focus on procurement, supply chain and organizational effectiveness. She has considerable experience in managing complex global supply chain partnerships, sourcing, supplier performance & relationship management, outsourcing evaluation and implementation, sourcing and cost improvement for the North American, Asian, and South Pacific markets. Ms. Fong holds an MBA from Vanderbilt University and a BS from Syracuse University.

**Principal – Strategy and Business Transformation**

Geoff Peters is a Principal specializing in Procurement Transformation, Strategic Sourcing, Procure-to-Pay Operations, Benchmarking and Strategic Cost Reduction, and Expense Management. He combines extensive industry management experience with over 20 years of consulting to global enterprises - resulting in pragmatic solutions to complex operational issues. In industry, Mr. Peters and his team have been responsible for a diversified spend portfolio exceeding $7 billion annually – and he has extensive experience in both performance management and driving significant cost economies when consolidating operations. He has an MBA from the Kellogg School at Northwestern University and has served as a Sourcing and Category Management trainer for multiple organizations around the globe.
2019 Supplier Diversity Study Results

- Intro and Study Objectives
- Program Structure and Support
- Diverse Supplier Identification
- Program Performance and Value
- Supplier Development and Tier 2 Spend
- Key Takeaways
What is Supplier Diversity?

SUPPLIER DIVERSITY is a business strategy that ensures a diverse supplier base in the procurement of goods and services for any business or organization. It emphasizes the creation of a diverse supply chain that works to secure the inclusion of diverse groups in the procurement plans.

What Is a Diverse Supplier?

- There are approximately 16 categories used to identify diverse businesses. Common examples are small businesses, minority- and women-owned businesses.
- In order for an organization to record and report diverse spend, it is important to ensure its suppliers are certified through third-party certification bodies.
- Diversity certification is an important milestone in the life of a supplier because it authenticates that the business is owned, managed, and controlled by a qualifying diverse group. Certification also opens the door for opportunities to contract with the federal government, which has a mandate to increase the number of diverse suppliers within an organization’s supply chain.

Source: CVM Solutions
Why is Supplier Diversity Important?

A common misconception is that diversity is a quota system or social program designed to benefit selected groups while adding little to no value to the bottom line. A supplier diversity commitment benefits a company because it:

- Promotes innovation through the entrance of new products, services, and solutions
- Provides multiple channels from which to procure goods and services
- Drives competition (on price and service levels) between suppliers
- Displays an organization’s commitment to doing business in diverse markets
- Showcases the company’s commitment to the economic growth of all communities

Source: CVM Solutions
2019 Supplier Diversity Study Objectives

The 2019 Supplier Diversity Study focused on several key objectives that we felt would be valuable for our clients:

1. Learn about the critical enterprise objectives that supplier diversity programs support and the key elements of successful program design.
2. Understand the top characteristics companies consider when engaging new diverse suppliers.
3. Compare the performance of your supplier diversity program against key metrics and best practices and identify improvement opportunities.
4. Gain insights on how organizations are measuring the value delivered by their supplier diversity programs.
5. Learn more about the extent to which organizations are explicitly focusing on diverse supplier development and making a positive impact.
2019 Supplier Diversity Study Results

- Intro and Study Objectives
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Compliance is no longer the sole reason for pursuing diversity. In fact, it doesn’t even fall in the top three most important supplier diversity objectives.

**Top three supplier diversity objectives**

- **SUPPORT CORPORATE DIVERSITY CULTURE**
- **REPUTATION MANAGEMENT**
- **INVEST IN LOCAL COMMUNITIES**
Organizations collaborate with key stakeholders, engage executives directly and effectively market diversity program value to obtain leadership support.

**Common initiatives to obtain senior leadership support**

- Collaborate with enterprise diversity team to establish importance of supplier diversity: 75%
- Executive level champion identified for supplier diversity program: 63%
- Supplier diversity events actively supported and attended by senior management: 60%
- Articulating how supplier diversity can help business stakeholders meet objectives: 58%
- Support from senior leadership for diversity organizations and external events: 54%
- Business unit / department advocates exist to drive diversity program objectives: 52%
- Written CEO statements, visible on your Annual Report, company website, etc.: 46%
- Clearly established business case with ROI for supplier diversity program: 44%
- 2019 Supplier Diversity Study Results
  - Intro and Study Objectives
  - Program Structure and Support
  - Diverse Supplier Identification
  - Program Performance and Value
  - Supplier Development and Tier 2 Spend
  - Key Takeaways
While many tactics are used, over 50% of companies rate collaboration with other peers and use of diversity organizations as highly effective to identify new suppliers.

### Top 10 tactics to identify and recruit diverse suppliers

<table>
<thead>
<tr>
<th>Tactical Approach</th>
<th>Highly effective</th>
<th>Somewhat effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborate with other companies to identify diverse suppliers</td>
<td>56%</td>
<td>22%</td>
</tr>
<tr>
<td>Supplier diversity organizations</td>
<td>53%</td>
<td>29%</td>
</tr>
<tr>
<td>Supplier database outside of sourcing tool</td>
<td>38%</td>
<td>32%</td>
</tr>
<tr>
<td>Participate in trade fairs, workshops, seminars, and industry events</td>
<td>36%</td>
<td>37%</td>
</tr>
<tr>
<td>In-person matchmaker events</td>
<td>35%</td>
<td>31%</td>
</tr>
<tr>
<td>Local and/or national trade associations and councils</td>
<td>31%</td>
<td>36%</td>
</tr>
<tr>
<td>New suppliers identified as part of RFx process</td>
<td>31%</td>
<td>47%</td>
</tr>
<tr>
<td>Supplier network/list in sourcing tool</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>Supplier diversity trade fairs</td>
<td>29%</td>
<td>44%</td>
</tr>
<tr>
<td>“How to do business with us” events</td>
<td>27%</td>
<td>29%</td>
</tr>
</tbody>
</table>
### Tools used in diverse supplier identification

Databases and tools save time in supplier identification

<table>
<thead>
<tr>
<th><strong>SOURCING TOOL-BASED SUPPLIER NETWORKS</strong></th>
<th><strong>THIRD-PARTY SUPPLIER DATABASES</strong></th>
<th><strong>THIRD-PARTY SUPPLIER REGISTRATION</strong></th>
<th><strong>SUPPLIER DISCOVERY TOOLS</strong></th>
<th><strong>COMPANY SUPPLIER DIVERSITY PORTAL</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier networks are available as part of sourcing solution provider’s functionality</td>
<td>Providers enrich a company’s supplier spend data and identify diversity spend, which can be leveraged for future diversity spend activity</td>
<td>Diversity information is captured at the time of onboarding/registration using supplier portals which can be used to identify diverse suppliers for future needs</td>
<td>Supplier portals and software used to easily identify diverse suppliers, offered by both supplier diversity-specific software and other general supplier discovery tools</td>
<td>Company diversity program website/registration portal used to capture new diverse supplier information to support future procurement needs</td>
</tr>
</tbody>
</table>

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The Hackett Group, Supplier Diversity Study, 2019
40% of sourcing teams cannot easily identify diverse suppliers for a category using their internal sourcing tools
Supplier diversity teams use various practices to drive use of diverse suppliers; typically working with category managers and sourcing teams over budget owners.

<table>
<thead>
<tr>
<th>Practice</th>
<th>Category Managers/Sourcing Professionals</th>
<th>Budget Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonuses or merit-based incentives</td>
<td>31%</td>
<td>11%</td>
</tr>
<tr>
<td>Use of supplier discovery tools</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Presenting category-specific portfolios of diverse suppliers</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Training sessions</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Support on category development initiatives</td>
<td>67%</td>
<td>62%</td>
</tr>
<tr>
<td>Early involvement and support during sourcing events</td>
<td>62%</td>
<td>33%</td>
</tr>
<tr>
<td>Reports on diversity performance</td>
<td>71%</td>
<td>36%</td>
</tr>
<tr>
<td>One-on-one meetings</td>
<td>71%</td>
<td>44%</td>
</tr>
</tbody>
</table>

The Hackett Group, Supplier Diversity Study, 2019
Organizations value diverse suppliers that understand their business and can offer flexibility, lower costs, innovation and a true commitment to adding value.

### Importance of supplier characteristics when determining which diverse suppliers to do business with

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Very important</th>
<th>Somewhat important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides lower costs for goods/services</td>
<td>78%</td>
<td>18%</td>
</tr>
<tr>
<td>Offers new and creative ideas to drive innovation</td>
<td>73%</td>
<td>22%</td>
</tr>
<tr>
<td>Understanding of business strategy, positioned to help achieve goals</td>
<td>86%</td>
<td>7%</td>
</tr>
<tr>
<td>Flexibility and adaptability to meet changing needs</td>
<td>82%</td>
<td>11%</td>
</tr>
<tr>
<td>Has a clear focus on value add</td>
<td>77%</td>
<td>16%</td>
</tr>
<tr>
<td>Ability to go above and beyond contractual requirements</td>
<td>57%</td>
<td>36%</td>
</tr>
<tr>
<td>Can provide access to new technology and tools</td>
<td>58%</td>
<td>31%</td>
</tr>
<tr>
<td>Demonstrates broad diversity within their organization</td>
<td>38%</td>
<td>44%</td>
</tr>
<tr>
<td>Can provide exposure to new demographic segments and markets</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td>Ability to show level of influence within target market</td>
<td>22%</td>
<td>49%</td>
</tr>
</tbody>
</table>
2019 Supplier Diversity Study Results

- Intro and Study Objectives
- Program Structure and Support
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- Key Takeaways
The median diversity spend as a percent of total spend is 11%, but this varies notably when looking across all organizations.
Current performance for most metrics is short of reported targets, including the most commonly used metric of ‘diversity spend as a percent of total spend’

<table>
<thead>
<tr>
<th>Current and target performance for key program metrics</th>
<th>Less than 5%</th>
<th>5 -10%</th>
<th>10 -15%</th>
<th>15 -20%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percent of annual spend</strong> with diverse suppliers as a percent of total spend</td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
</tr>
<tr>
<td>Diverse suppliers as a <strong>percent of total active suppliers</strong></td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
</tr>
<tr>
<td>Percent of annual spend with <strong>small businesses</strong> as a percent of total spend</td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
</tr>
<tr>
<td>Percent of <strong>annual sales</strong> attributed to your company’s supplier diversity program</td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
</tr>
<tr>
<td>Percent of annual sales for which evidence of supplier <strong>diversity program was a requirement</strong> (US-based)</td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
</tr>
<tr>
<td>Percent <strong>increase in market share</strong> attributed to your organization’s supplier diversity program (US-based)</td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
</tr>
<tr>
<td>Percent of <strong>spend awarded to local suppliers</strong> (US-based)</td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
<td><img src="triangle_blue" alt="Current Value" /></td>
<td><img src="triangle_green" alt="Target Value" /></td>
</tr>
</tbody>
</table>
Program value is most commonly measured as the increase in diversity spend and diverse supplier usage.

<table>
<thead>
<tr>
<th>Value Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total diversity spend</td>
<td>80%</td>
</tr>
<tr>
<td>Number of diverse suppliers engaged through diversity program</td>
<td>65%</td>
</tr>
<tr>
<td>Number of suppliers mentored/developed</td>
<td>43%</td>
</tr>
<tr>
<td>Internal customer satisfaction for categories with diverse suppliers</td>
<td>28%</td>
</tr>
<tr>
<td>Impact on local communities</td>
<td>26%</td>
</tr>
<tr>
<td>Savings from diversity program</td>
<td>24%</td>
</tr>
<tr>
<td>External economic impact (i.e. number of supplier jobs created)</td>
<td>20%</td>
</tr>
<tr>
<td>Internal economic impact (i.e. revenue uplift, new market penetration)</td>
<td>11%</td>
</tr>
<tr>
<td>Do not formally measure the program value</td>
<td>13%</td>
</tr>
</tbody>
</table>

Some companies are also measuring value in terms of supplier development, community impact, internal customer satisfaction and savings.
Dedicated program leadership, data integrity and explicit performance targets are the most effective practices in ensuring the success of supplier diversity programs.

**Effectiveness of practice at ensuring success of supplier diversity program**

- **Confirmation of supplier certification**: 50% highly effective, 44% moderately effective
- **Dedicated supplier diversity manager/leader**: 71% highly effective, 16% moderately effective
- **Integrity of diversity spend data**: 52% highly effective, 35% moderately effective
- **Training on supplier diversity program and policies**: 30% highly effective, 50% moderately effective
- **Explicit targets for program performance (spend, number of suppliers)**: 42% highly effective, 36% moderately effective
- **Audits of supplier diversity program performance numbers**: 38% highly effective, 33% moderately effective
- **Existing supplier support to drive 2nd-tier diverse supplier participation**: 34% highly effective, 25% moderately effective
- **Formal mentoring and development programs for diverse suppliers**: 27% highly effective, 27% moderately effective
- **CEO sign off on supplier diversity results**: 31% highly effective, 18% moderately effective
- **Procurement-management compensation linked to supplier diversity goals**: 22% highly effective, 18% moderately effective
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Companies developing diverse suppliers are focused primarily on increasing business capacity, providing education/training and supporting networking events.

**Activities used by organizations to develop diverse suppliers**

- Assist diverse suppliers to increase their business capacity: 40% (Highly effective), 29% (Somewhat effective)
- Clearly established development objectives and goals: 39% (Highly effective), 25% (Somewhat effective)
- Education / training resources: 39% (Highly effective), 33% (Somewhat effective)
- Networking events for diverse suppliers: 36% (Highly effective), 56% (Somewhat effective)
- Expand use of diverse suppliers for categories where underutilized: 36% (Highly effective), 36% (Somewhat effective)
- Formal mentoring programs: 28% (Highly effective), 25% (Somewhat effective)
- Diversity scholarships: 23% (Highly effective), 20% (Somewhat effective)
- Joint teams with diverse suppliers: 22% (Highly effective), 14% (Somewhat effective)
- Provide technical assistance: 22% (Highly effective), 17% (Somewhat effective)
- Formal joint ventures: 14% (Highly effective), 11% (Somewhat effective)
- Mergers & acquisitions: 6% (Highly effective), 11% (Somewhat effective)
Supplier partnering can be the source of added benefits, including cost savings, process improvements and product innovations

**Level of satisfaction with the services diversity suppliers provide today**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Level of Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fostering a collaborative partnership and business alliance</td>
<td>46%</td>
</tr>
<tr>
<td>The ability to go above and beyond contractual requirements</td>
<td>34%</td>
</tr>
<tr>
<td>Offering new and creative ideas to drive innovation</td>
<td>32%</td>
</tr>
<tr>
<td>Providing access to new technology and tools</td>
<td>20%</td>
</tr>
<tr>
<td>Providing increased exposure to new demographic segments</td>
<td>20%</td>
</tr>
</tbody>
</table>
Organizations are setting clear goals and specific sourcing and reporting requirements with their Tier 1 suppliers in order to expand Tier 2 diversity spend.

### Practices implemented to expand diversity in Tier 2 supply base

<table>
<thead>
<tr>
<th>Practice</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Require Tier 1 suppliers to include supplier diversity language in RFPs</td>
<td>43%</td>
</tr>
<tr>
<td>Tier 2 diversity spend tracking is part of supplier performance reviews</td>
<td>41%</td>
</tr>
<tr>
<td>Establish Tier 2 diversity spend goals with key suppliers</td>
<td>32%</td>
</tr>
<tr>
<td>Collaborate with suppliers to help find Tier 2 diverse suppliers</td>
<td>27%</td>
</tr>
<tr>
<td>Not currently focused on a Tier 2 program</td>
<td>23%</td>
</tr>
<tr>
<td>Formal training offered to suppliers on how to increase Tier 2 spend</td>
<td>16%</td>
</tr>
</tbody>
</table>
### Program Objectives and Support

- Traditional objectives remain as the primary drivers for diversity programs, but many organizations also consider business value-related drivers to be very important.
- CPOs are the highest level of leadership support for 37% of supplier diversity programs today.
- Organizations collaborate with key stakeholders, engage executives directly and effectively market diversity program value to obtain leadership support.

### Diverse Supplier Identification and Characteristics

- Over 50% of procurement organizations rate collaboration with other peers and use of diversity organizations as most effective to identify new suppliers.
- Organizations value diverse suppliers that understand their business and can offer flexibility, lower costs, innovation and a true commitment to adding value.
- 40% of sourcing teams cannot easily identify diverse suppliers in their internal sourcing tools.

### Program Performance

- Current performance for most metrics is short of reported targets, including the most commonly used metric of ‘diversity spend as a percent of total spend’.
- Dedicated program leadership, data integrity and explicit performance targets are the most effective practices in ensuring the success of supplier diversity programs.
2019 Supplier Diversity Study Key Takeaways

Measuring Program Value
- Program value is most commonly measured as the increase in diversity spend and diverse supplier usage.
- Some procurement organizations are also measuring value in terms of supplier development, community impact, internal customer satisfaction and savings.

Diverse Supplier Development
- Study respondents developing diverse suppliers are focused primarily on increasing business capacity, providing education/training and supporting networking events.
- Organizations are setting clear goals and specific sourcing and reporting requirements with their Tier 1 suppliers in order to expand Tier 2 diversity spend.
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Who participated in the performance study?

Percentage of participants by industry sector

- Financials: 25%
- Consumer Discretionary: 16%
- Healthcare: 15%
- Consumer Staples: 11%
- Industrials: 10%
- Energy: 6%
- Information Technology: 6%
- Materials: 4%
- Other: 7%

Q1.1 What is your company's primary business activity?
Who participated in the performance study?

Q1.2 Please estimate your company’s annual total revenue and spend.

---

**Annual revenue ($US billion) Global**

- Less than 2 billion: 35%
- 2-5 billion: 17%
- 5-10 billion: 13%
- 10-20 billion: 22%
- Greater than 20 billion: 9%
- Greater than 50 billion: 4%

**Annual spend ($US billion) Global**

- Less than 2 billion: 43%
- 2-5 billion: 13%
- 5-10 billion: 13%
- 10-20 billion: 26%
- Greater than 20 billion: 5%
Session information and evaluation how-to’s

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- Your feedback drives SIG Event content
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1. Select Schedule
2. Select Day
3. Select Session
4. Click on Clipboard Icon
5. Complete and submit evaluation

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