

Mega-Trends In Supplier Diversity

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Updated July 2004

Supplier diversity is an evolving field. The tutorial provides an overall perspective on the mega-trends in supplier diversity. This will help provide buyers and diversity suppliers a better perspective of the overall business and economic operating environment.

DRIVERS. There are several “drivers” behind the evolution of the mega-trends in supplier diversity over the last 30 years. First, purchasing is being transformed into a key strategic corporate function that adds value to the organization. Corporations and government agencies are consolidating their supplier bases to reduce costs and improve efficiency. Purchasing has adopted “world class” benchmarks and practices such as the cross-functional sourcing teams, strategic sourcing, and minority supplier development. Second, demographic changes continue to result in the increased growth of the minority population in the United States. Today, minorities (African-Americans, Hispanics, Asian-Americans, and Native Americans) comprise approximately 30 percent of the US general population and command a purchasing power of approximately \$1 trillion – numbers too big to ignore. The growing diversity in the population has been mirrored by the growth of minority businesses. According to the May 12, 1999 edition of The Los Angeles Times, there were 3.25 million minority-owned businesses in the United States in 1997 (a 168% increase from 1987) who generated \$495 billion in revenue and employed nearly 4 million workers. Third, legal and government regulations have contributed to the growth of minority businesses. Public Law 95-507 (enacted in 1978) provided a framework for the federal government program. The intent was to use government contracts as a base to grow minority businesses who could then transition to private-sector contracts. However, this is threatened by a growing “backlash” against affirmative action programs in contracting (and employment) areas. Fourth, as minority- and women-owned business have been building toward a critical mass, they have formed effective national organizations such as the National Minority Supplier Development Council (NMSDC) and the Women’s Business Enterprise National Council (WBENC). These organizations help represent their respective members’ legal, business and political interests. They also conduct certifications to weed out “front” companies.

MEGA-TRENDS. Below are the areas and descriptions of the mega-trends in the supplier diversity area. These reflect the impact of the above “drivers”. The mega-trends are:

- Shift from Compliance to Market Driven Programs. Supplier diversity originally began as a “socioeconomic program” in the 1970s which was designed to comply with customer (primarily government) requirements for minority-business participation. However, the increased size and purchasing power of the general US minority population has forced many organizations to shift away from compliance driven programs. Corporations are now starting to position their supplier diversity programs in their branding strategies to support sales, gain access to new markets, and survive in a changing economy. Companies understand the new market dynamic is their customers consider their diversity track record in their buying decisions. This point was driven home by well-publicized racial discrimination incidents that negatively impacted several Fortune 500 company’s stock prices and market share. Companies also understand having a minority supplier on their team gives them an advantage in the global marketplace since minority-owned firms often have cultural, language, and business ties to their countries of origin. Overall, an effective supplier diversity program helps provide corporations with a competitive marketplace advantage.

- Decline of Government Programs. In the 1970's, the government was a primary force behind the minority supplier development. However, two major court decisions and other legal challenges have reduced the government's role in this area. The Croson v. City of Richmond and Adarand v. Peña decisions, in 1989 and 1995, respectively, imposed new "strict scrutiny" standards before race-based preferences could be used. The practical effect of the Croson decision resulted in many State and local government minority contracting program being dismantled. The Adarand decision required "baselining" to determine if race-based preferences could be used in certain industry sectors and imposed new certification standards for "small disadvantaged businesses". Many eligible minority firms have not been certified under the new federal SDB standards, lowering the pool of eligible minority suppliers that can be considered for government contract work.
- World-Class Standards. Supplier diversity, similar to other mainstream purchasing functions, has developed its own set of world-class standards. These standards were developed by RGMA, a Chicago-based consulting firm. They rank organizational supplier diversity programs into five levels: 1) no program; 2) basic program; 3) traditional program; 4) advanced program; and 5) world-class program. These standards provide a framework for developing effective supplier diversity programs and have been adopted as the de facto benchmark by many major corporations.
- Rise of the Mega-MBEs. Minority businesses have grown not only in numbers but also in size. The National Minority Supplier Development Council established a "Corporate Plus" program with 66 companies (as of this writing) capable of meeting national contract requirements. This growth is also part of the second and third generation of minority business owners. The new generation of owners are often college educated (or better), have corporate experience, embrace technology, and have access to capital to take their businesses to the next level. These mega-MBEs are now regularly documented, e.g., Black Enterprise 100, Hispanic Business 500, and the Minority Business News 100. The February 2000 passage of the NMSDC's "growth initiative" allows for new class of minority businesses that can retain their minority status while accepting equity capital from institutional investors. This special certification program helps minority businesses grow quickly so they can service large-scale contracts.
- The Tent Gets Bigger. Supplier diversity programs have traditionally had their primary focus on minority-owned businesses. Women-owned businesses, to include contracting goals, were gradually added by many corporations. The Federal Acquisition Streamlining Act established a 5 percent goal for women-owned business. In August 1999, disabled veteran-owned businesses had a 3 percent goal established for federal contracts.

- E-Commerce. Electronic commerce is revolutionizing the procurement process. Corporations are using e-commerce to eliminate many inefficiencies in their supply chains by directly linking buyers and sellers. This means traditional “middleman” functions performed by many minority- and women-owned businesses such as distributors are at risk. On the upside, e-commerce is creating a myriad of new technology opportunities in such areas such as Web marketing, electronic publishing, and distance learning. Minority- and women-owned businesses face a “digital divide” when it comes to accessing technology. Technology “incubators” and partnerships are helping to eliminate this problem. Supplier diversity program managers, in order to remain effective, must develop new skills in developing Internet markets that include diverse suppliers and must educate their suppliers on e-commerce in such areas as online business-to-business marketplaces and Internet reverse auctions.
- Globalization of Supplier Diversity. Supplier diversity programs are slowly migrating beyond United States due to similar demographic, economic, and political forces elsewhere in the world. In fact, the April 9, 2000 edition of the Sydney Morning Herald reports whites will be a minority in Britain by the end of this century. In Europe, British Telecom has developed purchasing programs targeted toward Afro-Caribbean and Asian Indian suppliers. South African is looking at US supplier diversity model in a post-Apartheid economy.
- Supplier Mentoring. Supplier consolidations and use of global supply chains has raised the stakes for M/WBE firms. The new imperative is that M/WBE firms must become strategic suppliers, or risk extinction. Buying organizations want fewer suppliers but also don't want to lose their gains in supplier diversity. One way to do this is through the use of M/WBE mentoring. This allows a major corporation and/or their prime suppliers to help protégé firms gain additional capacity, management savvy, and technical know-how in order for them to survive in the era of the strategic supplier.

Implications. The above mega-trends need to be considered when developing the supplier diversity programs of the 21st century. Corporate programs will need to place more emphasis on supplier development (mentoring programs), creating alliances, and eliminating any e-commerce “digital divides”. Minority-, women- and disabled veteran-owned businesses must become skilled at creating “virtual” corporations, leveraging technology, and rapidly adapting to change.

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