



SUPPLIER DIVERSITY: WHAT IT IS AND WHY YOU NEED IT



INTRODUCTION

A growing number of companies are realising the value of having diversity in their supply base and procurement teams are ideally placed to help affect this change. They are in a prime position to help set a diversity policy, drive it forward and gather the metrics and measures needed to evidence success and maintain momentum.

Those who are already demonstrating good or leading practice in this field are not only winning awards for their work driving economic impact and empowerment in under-represented communities, they credit these programmes with helping to increase their own company's competitive advantage.

Yet, while the number of organisations with supplier diversity programmes is growing, investment remains relatively small. According to Minority Supplier Development UK (MSDUK), less than 1% of corporate spend currently goes to the minority community.

In this whitepaper we examine what is meant by "supplier diversity"; explore the benefits to be gained; and look at how you go about it – while avoiding the common pitfalls.

“

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Natalie Henfrey, CIPS fellow and director at procurement services business, GEP

<1%

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WHAT IS IT AND WHY DO IT?

First, to establish what is meant by supplier diversity. The accepted definition is of an organisation that is at least 51% owned and operated by a group or individual that is traditionally part of an under-represented or under-served demographic. This includes Indigenous people, women, veterans, LGBTQ+ individuals, people with disabilities, and those from ethnic minorities – with what constitutes an ethnic minority group varying from country to country.

Natalie Henfrey, CIPS fellow and director at procurement services business GEP, says: “Supplier diversity concerns how we leverage our spending power to support disadvantaged communities. For us, it’s about how we best use it and how we encourage clients to do the same.”

From a commercial point of view, she says, environmental, social and governance issues (ESG) are now a board-level topic for many organisations, and supplier diversity is part of that agenda. “If you get it right it can drive revenue and growth. If not, it can destroy your reputation.”

The way the Chartered Institute of Procurement & Supply (CIPS) puts it, the most successful businesses know that by creating diversity in their supply chains – as well as in the workplace – they can unlock innovation and agility, and improve their ethical credentials.

GEP senior consulting director Daryl Watkins says programmes that go beyond a tick-box exercise are able to demonstrate benefits >>



51%

A diverse supplier is a business that is at least 51% owned and operated by an under-represented group

WHAT IS IT AND WHY DO IT? cont'd

<< including enhancing their organisation's reputation; contributing to brand value; and have the potential to boost revenue because customers are increasingly looking for greater diversity. A more diverse supply base can also be a great source of innovation since variety generates different perspectives. It can also help to attract and retain talent, since an increasing number of people are interested in supporting, or working for a company that backs diversity, equality and inclusion.

Mayank Shah, founder and CEO of MSDUK, agrees: "University students attending careers fairs now ask far more questions

than the generation before them about how employers make a difference. They demand action and evidence of serious commitment."

Shah says when people ask him about the case for including minority businesses, he asks the counter question: 'What is the business case for exclusion?'

In the UK alone, one in six businesses are minority-owned, Shah says. This covers three million people, which accounts for 10% of the UK's workforce and contributes £78bn to the British economy. "In Europe there are more than 800,000 minority-owned businesses. And not all are small companies. Around 8-in-23 of the UK's unicorns [privately owned firms that reach a valuation of \$1bn] are founded by ethnic minorities," he adds.

The power of procurement means that money spent wisely can have a much broader impact.

Henfrey: "Supplier diversity gives businesses the opportunity to support economic development wherever they operate. It shows authentic commitment to certain causes and generates fresh ideas."

"By helping entrepreneurs, for example, you're helping the whole community," adds Shah. "It enables spend to have a positive multiplier effect."

Getting it right means companies are helping to create wealth and opportunities in disadvantaged areas. This can reduce reliance on state support, increase disposable income, can boost property ownership and typically leads to better health, education and social outcomes.

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1. GEP podcast 'Why and how businesses should focus on supplier diversity': www.gep.com/podcasts/why-and-how-businesses-should-focus-on-supplier-diversity

RISING ACTIVITY

Not only is it a good idea, a 2021 study by the Hackett Group of more than 100 large global and U.S.-based companies shows the number of supplier diversity programmes is on the rise. Almost one-in-seven (69%) either have a global supplier

diversity programme or are planning to expand globally by 2023, with women-owned businesses the top diverse category in all regions.

And in the UK, Shah says he has also seen a rise over the past three years.

“Across our 120-strong corporate network, for instance, where the spend was £15m, it is now closer to £500m.”

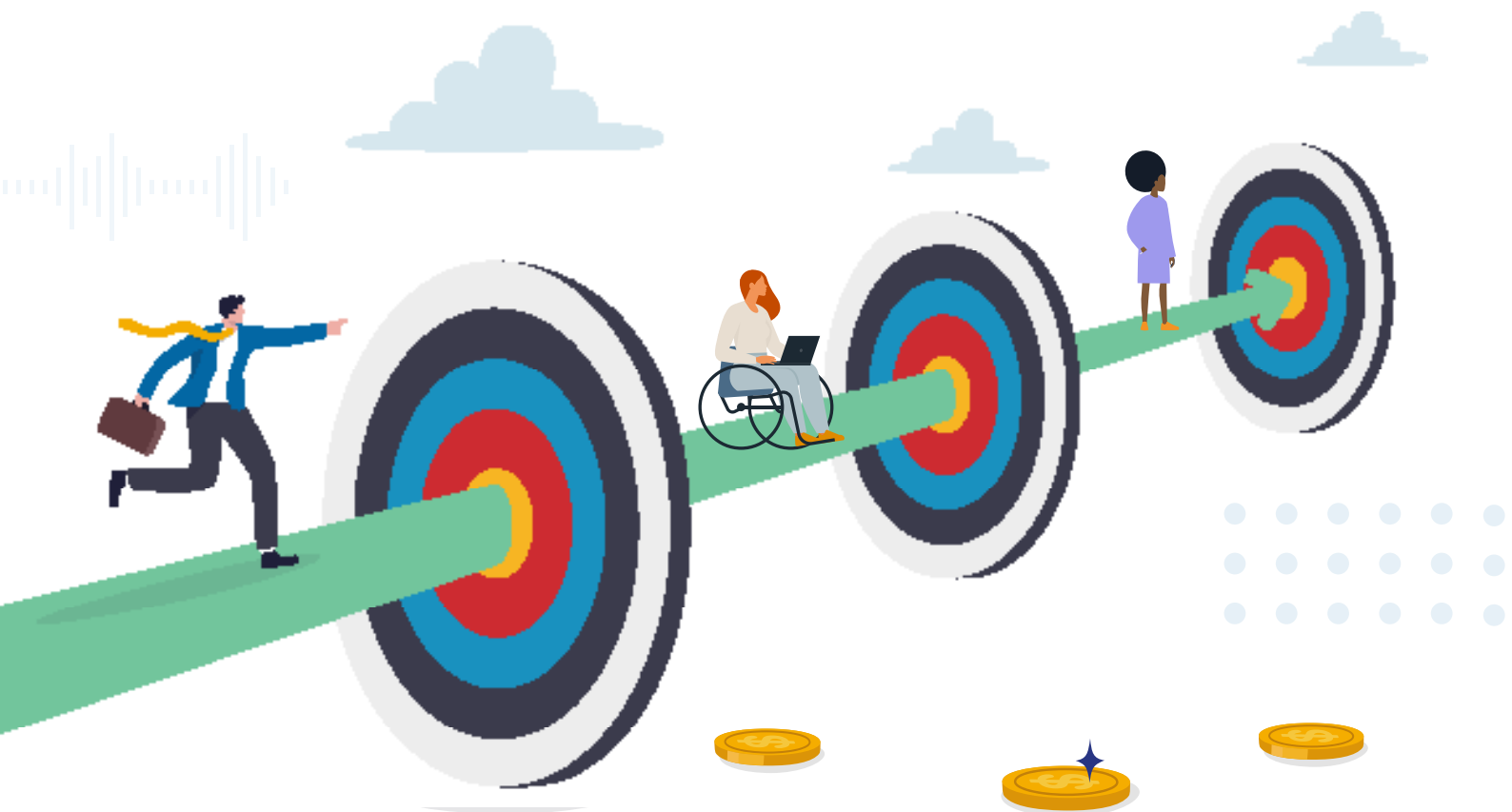
Shah believes the pandemic has helped to highlight that change is needed: “People saw deprivation in ethnic minority communities on their TV screens and realised that they could make a difference through procurement.”

An increase in legislation designed to boost commitments to improve social and environmental outcomes is also having an impact, but it will take time to alter a decade-long trend of supply base consolidation designed to cut costs.

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HOW TO DO IT: SUPPLIER DIVERSITY FRAMEWORK



Much of GEP’s work on supplier diversity has been exploring the processes, infrastructure and frameworks required to succeed with this agenda. It has identified the five key steps needed for organisations to introduce diverse suppliers into their supply chains:

STEP 1 Assess the current state

This is about understanding where you are already. Consider the following: Do you already have any diverse suppliers and if so, who? What does diversity mean to your organisation? What type or types of diversity is your business choosing to support?

STEP 2 What is your future state vision?

Decide what areas you will focus on and consider the strategy, policies and procedures required to succeed. Think about how you will track and measure progress to identify success. >>



STEP 3 **Develop your strategy**

Create a roadmap for your vision. Consider how you will validate your supplier diversity programme and if you wish to involve an external party in that. Decide what spend areas or categories you will look at first, i.e. which best lend themselves to a pilot of your programme.

“At GEP, we took the decision to map each procurement category against the UN’s 17 Sustainable Development Goals,” says Henfrey. Developed in 2015, aim number ten is to reduce inequality.

GEP considered the positive and negative impact of each category against the goals to help identify which levers can make the most difference and to support clients in acting on those. “We have \$300bn annual spend on behalf of clients, if our teams pinpoint what will have the most impact, they can help to make those changes,” says Henfrey.



STEP 5 **Monitor and manage**

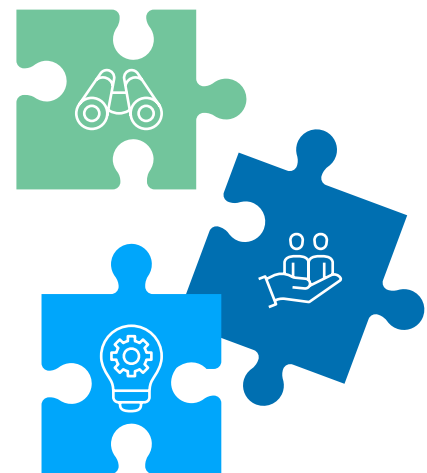
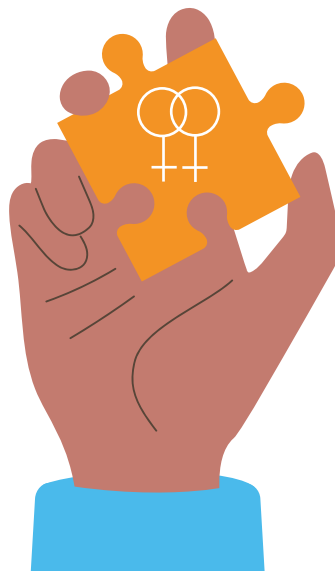
This stage is part of ongoing key performance indicators (KPI) management. Decide how you will measure success and ensure you handle it sensitively with small new suppliers who may not be used to KPIs. Means of measurement include monitoring spend to measuring impact.

Indicators include the amount of overall spend with diverse suppliers (tracked for improvement year-over-year); the number of diverse suppliers in your portfolio; the number of contracts awarded to or lost by diverse suppliers in a given year; revenue impact; economic and social impact; the suppliers market penetration and more. Henfrey says another indicator is whether there is a rise in the average wages of whichever diverse group you’re seeking to support.

Organisations may also wish to encourage their direct suppliers or their suppliers’ suppliers to act on this agenda and incorporate measures such as diversity among board members.

STEP 4 **Execute**

Next, you need to do the work. Start to include diverse suppliers. If you are doing an RFX process, ensure you have a percentage of prequalified diverse suppliers to take part.



STRATEGY DEVELOPMENT

Organisations have a tendency to try to set up a whole new infrastructure for supplier diversity but that is neither necessary nor appropriate, warns Henfrey. What is needed is for it to be incorporated into an existing supplier relationship management structure as part of an overall business strategy – so it can be considered as one key part of the whole picture rather than a separate element.

“For supplier diversity programmes to work, it also requires an inwards look at the purchasing organisation to see if it will operate differently in future,” says Henfrey.

For instance, does your sourcing policy reflect the new supplier diversity strategy? Might you need to alter RFX processes to level the playing field for smaller firms and ensure they are not overloaded with paperwork? Consider pre-qualifying some suppliers and examine how you run processes (such as e-auctions) to ensure they don't exclude particular suppliers. “Consider your overall approach to procurement,” says Henfrey. “The conversation may need to shift from what's cheapest to what's the best purchasing decisions for your company.”

Since diversity means different things in different places, GEP advises that organisations set global aims but focus on local execution. Precise actions may need to be adapted according to location, culture and circumstance.

GEP has recently supported L'Oréal China, a subsidiary of the global beauty company, with a project called 'Solidarity Sourcing' designed to increase the diversity of its supply base. The initiative, which won the CIPS Asia Excellence in Procurement Award for the 'best initiative to build a diverse supplier



base' has enabled people from underprivileged and minority communities to be a part of L'Oréal China's broad supplier network.

The original target was to provide 500 full-time equivalent jobs across supplier sites in 2021, providing employment opportunities to under-represented groups. By taking a strategic approach, developing an appropriate operating model and implementing process flows, the programme ended up exceeding that goal by 27%. This means it gave more people access to secure employment, which would have otherwise been out of their reach, as well as diversifying L'Oréal China's supply base. >>

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STRATEGY DEVELOPMENT cont'd

<< Which ethnic groups are considered minorities will vary country to country, adds Shah. He points out that including businesses from these communities you are not only supporting a disadvantaged group, you're potentially tapping into international roots or connections that have the potential to boost the resilience of your supply chain.

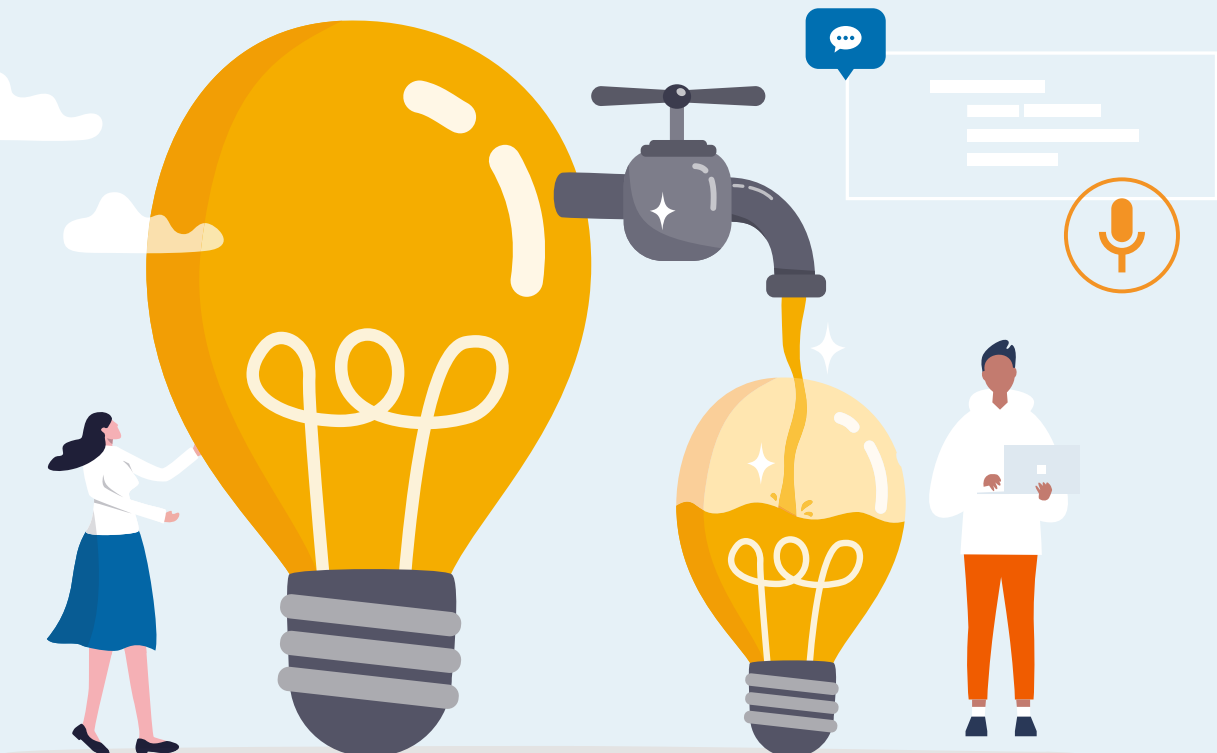
"I stopped going to supermarkets during the pandemic because I was able to get better groceries, more consistently from the cash and carries that had stocks from every corner of the world," Shah says. "In the manufacturing and engineering industries, for instance, some will find solid links to the IT sector in India prove beneficial; elsewhere connections to businesses in Africa, for example, may mean companies are able to bring in goods at more competitive rates. It's not something that's particularly well

documented, so it doesn't tend to be an element that is included in the business case for supplier diversity."

Another way to boost diversity in the supply chain is to work with tier one suppliers to encourage them to contract with a greater variety of providers down the chain. A GEP project with a waste management company saw it helping the client to partner with tier one and tier two suppliers to help them identify opportunities. This saw spend with diverse suppliers increase 20% year-on-year.

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AVOIDING COMMON PITFALLS AND PROBLEMS



As well as reviewing procurement and company policies to remove unnecessary barriers, a number of other considerations can help to eliminate challenges.

“Where people make a mistake is to look for a one-size-fits-all approach,” says Henfrey. “You can’t fix everything all at the same time, instead you should identify where you can make a difference and prioritise. Set yourself a strategic target to source X per cent from particular diverse suppliers this year, for example. Choose a common aim that can be executed in different ways in different places.”

Effective leadership, commitment and ownership of a supplier diversity programme is also important, says GEP’s Watkins. Those with key roles should be responsible for driving it down through an organisation as well as having support that drives it from the bottom up. And business unit heads should be held accountable to ensure goals are hit

and momentum maintained.

“Ensure you inspect what you expect,” he recommends in the GEP podcast ‘Why and how businesses should focus on supplier diversity’.

Henfrey points out that passion in the procurement department is also key.

“We need procurement to have enthusiasm for supplier diversity and the skills, but unfortunately it’s not an aspect that’s typically included in current job descriptions.”

Strong communication and change management are also essential and require management both internally with stakeholders and externally with suppliers. Define what supplier diversity means to your organisation and what adopting it requires. As outlined in the steps above, you need to ensure you use suitable metrics

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AVOIDING COMMON PITFALLS AND PROBLEMS cont'd

<< and measurements so you can benchmark performance and assess progress. This all helps to gain momentum and helps to persuade stakeholders of the benefit of expanding the programme in future.

In the case of the L'Oréal China project all stakeholders needed to be aligned on the importance of ESG before it was rolled out. The procurement team conducted workshops and training sessions for both internal stakeholders and suppliers, to explain and localise the strategy and

translate it into actionable tasks. A constant flow of communications, alongside workshops and roadshows, helped to raise awareness among the existing supplier base. Michael Seitz, vice-president, GEP Consulting, China, says the key to success is L'Oréal's relentless engagement with and encouragement of its suppliers to evaluate how they could give more jobs to underprivileged people and communities. L'Oréal China also assigned one dedicated resource to act as a knowledge centre within the indirect procurement team to ensure any queries could be handled efficiently.



POSITIVE CHANGE

Diverse sourcing is a business and social imperative that's good for the top and bottom line. It boosts resilience, creates value, and shows your company is serious about its responsibility to make a positive impact.

“Since the pandemic corporate hearts have changed,” asserts MSDUK’s Shah. “Minds were always there; this was about winning hearts – and that happened when people witnessed the growing financial divide. Supplier diversity done well encourages entrepreneurship in some of the most deprived and disadvantaged business communities.”

The way Henfrey sees it: “Procurement is the gatekeeper of where and how an organisation engages with suppliers; it needs to engage proactively with diverse suppliers, consider what it will need or change in order to support them and build credibility.”

In the case of L’Oréal China’s Solidarity Sourcing initiative, the success of its 2021 implementation resulted in a high level of motivation and engagement around the programme. Seitz says it shows how a large business such as L’Oréal can “use its purchasing influence to provide better accessibility to underprivileged communities across China”. It shows, he says, how a procurement function contributes to making a positive social and societal impact.

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Mayank Shah, founder and CEO, MSDUK

FURTHER READING:

■ **GEP: Webinar** - Supplier diversity - why you need it and how to achieve it³; **Podcast** - Why & how businesses should focus on supplier diversity⁴; **Blog** - Turning Supplier Diversity Programmes into Competitive Advantage⁵

■ **CIPS: The Supplier Diversity** section of its Equality, Diversity & Inclusion hub⁶ provides resources to help organisations develop their programmes, particularly for those wishing to work more with ethnic minority-owned and/or women-owned businesses.



2. GEP podcast ‘Why and How Businesses Should Focus on Supplier Diversity’: www.gep.com/podcasts/why-and-how-businesses-should-focus-on-supplier-diversity

3. GEP webinar: www.supplymanagementinsider.com/supplier-diversity-why-you-need-it-and-how-to-achieve-it

4. GEP podcast: www.gep.com/podcasts/why-and-how-businesses-should-focus-on-supplier-diversity

5. GEP blog: www.gep.com/blog/mind/turning-supplier-diversity-programs-into-a-competitive-advantage

6. CIPS Equality, Diversity & Inclusion hub: www.cips.org/intelligence-hub/equality-diversity-and-inclusion

AWARD-WINNING SUPPLIER DIVERSITY PROGRAMMES

SHOWCASING EXAMPLES OF GOOD PRACTICE

Work by procurement teams to deliver a more diverse supply base is now one of 15 team categories in the annual CIPS Excellence in Procurement Awards. This year, a programme developed by Kenyan telco Safaricom to incorporate more women-owned providers into its supply chain topped the list. Other finalists included Diageo, CBRE and Lloyds Banking Group. CIPS isn't alone in celebrating these efforts. MSDUK, among others, also run awards designed to highlight the successes of those that recognise the advantages of having a more inclusive supply base.

Safaricom

In September, Kenyan mobile network operator and digital service solution provider Safaricom scooped the CIPS Procurement Excellence Award for this year's 'Best initiative to build a diverse supplier base'.

It won for its 'Women In Business Diversity and Inclusion Movement', a programme established in 2017 to encourage and empower women-owned businesses and as part of the company's commitment to reduce inequalities in the supply chain.

Safaricom seeks to foster economic empowerment by ensuring a fair share of procurement opportunities are allocated to women-owned businesses; and provides capacity-building training, mentorship and coaching. Its 2021 Sustainability Report reveals that since setting up the scheme, the company has onboarded 227 women-led businesses, which represents 9.7% of its supplier base, accounting KES1.7bn [around US\$14m] of procurement spend.

Its scheme is now also used by other organisations seeking to achieve the same.

CBRE

Commercial real estate services firm CBRE scooped the top spot in the 'Established Corporate Supplier Diversity' category of the MSDUK Awards this autumn.

It announced a pledge in 2020 to spend at least \$1bn with diverse suppliers in 2021 and expand this to at least \$3bn in five years.

CBRE says that with clients in more than 100 countries, it plays a "key role in industry leadership that grows our business in socially responsible ways".

"Supplier diversity enables CBRE to assist our clients in meeting their supplier goals; facilitates the success of diverse suppliers; increases our competitive advantage; and drives economic impact or empowerment in under-represented communities and in communities where we live and work," it says.

To help support its efforts, it is a corporate member of the National Minority Supplier Development Council, the Women's Business Enterprise National Council and the National Veterans Business Development Council, among others.

Meta

Meta (formerly the Facebook company) recently won the MSDUK award for the best 'Emerging Corporate Supplier Diversity Programme' and says it looks forward to using its influence to "push the industry toward a more global, scalable, and collaborative future".

The company buys goods and services from thousands of businesses across industries. It has a Global Supplier Diversity team which works to give diverse suppliers the opportunity to compete for and win its contracts.

Meta says it is a proud member of the Billion Dollar Roundtable⁷, which aims to drive supplier diversity excellence through best practice sharing and thought leadership. To become a member, a business has to have achieved spending of at least \$1bn with minority and women-owned businesses.

7. Billion Dollar Roundtable: <https://billiondollarroundtable.org/>



ABOUT GEP

GEP® delivers transformative supply chain solutions that help global enterprises become more agile and resilient, operate more efficiently and effectively, gain competitive advantage, boost profitability and increase shareholder value.

Fresh thinking, innovative products, unrivalled domain expertise, smart, passionate people — this is how GEP SOFTWARE™, GEP STRATEGY™ and GEP MANAGED SERVICES™ together deliver supply chain solutions of unprecedented scale, power and effectiveness. Our customers are the world's best companies, including more than 550 Fortune 500 and Global 2000 industry leaders who rely on GEP to meet ambitious strategic, financial and operational goals.

A leader in multiple Gartner Magic Quadrants, GEP's cloud-native software and digital business platforms consistently win awards and recognition from industry analysts, research firms and media outlets, including Gartner, Forrester, IDC, ISG, and Spend Matters. GEP is also regularly ranked a top supply chain consulting and strategy firm, and a leading managed services provider by ALM, Everest Group, NelsonHall, IDC, ISG and HFS, among others.

Headquartered in Clark, New Jersey, GEP has offices and operations centres across Europe, Asia, Africa and the Americas.

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