

Diversified Procurement



An Introduction To Supplier Diversity

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Introduction

Diversity.

It's a word you hear quite often. While this is especially true in the tech industry, companies in every sector are working to promote diversity. It's an issue that has become increasingly important.

The fact that the United States' demographic landscape is rapidly changing gives this issue even more weight. As a matter of fact, companies that fail to focus on diversity will find it harder to maintain their competitive edge in the years to come.

For the companies that decide to take diversity seriously, there will be tremendous opportunities. This is especially true when it comes to procurement.

Supplier diversity should be a critical component of any procurement operations. If your procurement department begins to promote diversity in its pool of suppliers, you will be making changes that will greatly benefit the organization as a whole.

This ebook will help you better understand supplier diversity, how it can benefit your organization, and some of the challenges involved in pushing a supplier diversity initiative forward.



Chapter 1: What Is Supplier Diversity?

Defining Supplier Diversity

Supplier diversity is critical to any organization that values diversity. Without it, companies aren't able to leverage their spend in a way that benefits them. While many companies have [done well](#) with promoting supplier diversity, most companies still have much work to do.

Supplier diversity is a procurement practice that involves purchasing supplies and resources from minority-owned businesses. When companies practice supplier diversity, it means they are being intentional about maximizing the amount of money that is spent with minority-owned suppliers.

There are several reasons why a company should focus on supplier diversity. It can bring great benefits to your procurement department. It can also have greater benefits for the organization as a whole. This will be discussed later in this book.

One of the things you must understand when it comes to supplier diversity is the “Minority Business Enterprise.”

What Is A Minority Business Enterprise?

A minority business enterprise (MBE) is a business that is at least 51% owned or operated by one or more ethnic minorities. Minority refers to persons who are:

- African Americans
- Hispanic Americans
- Native Americans
- Asian Pacific Americans

In some cases, an MBE will have special certification that indicates they are minority-owned and operated. Some MBE's will not require certification. Whether or not an MBE is certified can depend on the industry they are in or whether or not they have chosen to become [certified](#).

Many companies have stipulations in place to ensure that the suppliers they do business with are actually MBE's. In some cases, they may require certification. In other cases, they may require other types of proof instead. It's one of the things your organization will need to decide in order to determine which suppliers you will work with.

When diversifying your suppliers, you will need to become familiar with the different categories of suppliers: tier 1 and tier 2.



Chapter 2: Tier 1 & Tier 2 Diverse Suppliers

Tier 1 & Tier 2 Suppliers

The two categories of suppliers refer to the roles they play in servicing your organization. Both are essential to building a more diverse network of suppliers and it's important to know how each relates to your procurement operations.

Tier 1 Diversity Spend

Tier 1 suppliers are the companies that directly supply your organization. Your procurement department would deal directly with these organizations.

Here's an example:

A construction contractor may choose to work with different types of suppliers. In this instance, a tier 1 supplier would sell the tools and materials needed directly to the contractor.

Tier 2 Diversity Spend

Tier 2 suppliers are the companies that supply the tier 1 suppliers. In the case of a construction contractor, the tier 2 may provide the tier 1 supplier with the materials they need to manufacture their tools.

The reason it's important to understand tier 1 and tier 2 suppliers is because it's helpful in assessing how well your organization is diversifying its suppliers. Ensuring that your organization is incorporate more tier 1 suppliers is important, but the inclusion of tier 2 suppliers is also important.

While a particular supplier may not be diverse, they may be supplied by another vendor who is. This means your company is still promoting diversity.

Measuring the effectiveness of your supplier diversity initiative may not be easy. However, if you keep track of your tier 1 and tier 2 suppliers, it will help you ensure that you are truly diversifying your vendors.



Chapter 3: The Benefits Of Supplier Diversity

The Benefits Of Supplier Diversity

Having diverse suppliers is important for any organization. When a company focuses on diversity in their procurement, they can reap numerous benefits.

The Competitive Advantage

The demographics in the United States are [changing](#). Minorities are increasingly representing a larger percentage of the population.

Because of this, it's important to be able to connect with a customer base that is more diverse. Establishing a closer relationship with more diverse communities right now will put your organization in a much better position later on.

An organization that focuses on diversity in their suppliers will be in a better position to relate to a more diverse customer base. In the long run, it will make it easier to remain competitive in their industry. This alone is a great reason for your organization to partner with more diverse suppliers.

If you want to maintain a solid customer base, it's important to show minority communities that your organization is serious about supporting them. Doing this will establish your company as a major brand for more diverse demographics.

Greater Savings

Not only will supplier diversity help your company in the long run, it can also provide financial benefits over the short term. Minority suppliers are typically more lean and agile than others. Because of this, they have lower operational costs. They can pass those savings on to your company.

A recent [study](#) by the Hackett Group showed that organizations who focused on supplier diversity received a 133% greater return than organizations that do not. This is a significant benefit to any company and another reason why your organization should embrace supplier diversity.

It's clear that having diverse suppliers is great for any company. However, it's not always easy for companies to incorporate more diversity in their buying practices. The next chapter will highlight some of the challenges procurement organizations face when diversifying their supplier base.



Chapter 4: The Challenges Of Supplier Diversity

Measuring The Use Of Diverse Suppliers

While it's not too difficult to define what a minority-owned business is, it's not always easy to verify that the entity you're doing business is actually minority owned. You will have to determine how your organization will define what an MBE is.

Some companies require that an MBE has special certification that proves that they are actually owned and run by minorities. Others don't necessarily have this stipulation. It's up to your company to figure this out.

In addition to determining how your organization defines a minority-owned business, you also need a system for keeping up with the suppliers you deal with. Tracking your tier 1 and 2 suppliers can be difficult as you start to embrace supplier diversity. While it's not easy, it must be done in order to understand how well your company is doing when it comes to diversifying its suppliers.

Lack Of Support At The Top

The success of any diversity initiative depends upon the level of support it receives from the top. In order for your supplier diversity initiative to succeed, you **MUST** have the backing of your upper leadership.

The challenge lies in the fact that it's not always easy to get higher-level executives to see the value in embracing supplier. In some cases, they may assume that the push for greater diversity is a passing fad.

You have to get them to see the financial benefits that supplier diversity can bring. If you can show them how it will position your company for success in the years to come, they will be more likely to be on board with your initiative.

Unconscious Bias

Unconscious bias is one of the biggest challenges that diversity faces. This is true in organizations that wish to have a more diverse workforce and those that see the importance of building relationships with more diverse suppliers.

Unconscious bias can be defined as the preconceived notions we hold about different types of people without being aware of it. It's something we all have.

In many cases, we tend to look more favorably upon people who are more like us. People tend to gravitate towards others that are more familiar to them.

Unconscious bias is one of the reasons technology companies have had trouble creating a more diverse staff. It tends to have a negative influence on decisions regarding hiring and promotions.

Unfortunately, it also influences decisions regarding suppliers. Unconscious bias keeps us from making objective decisions about those we do business with. It's what can cause a procurement organization to neglect doing business with more diverse suppliers.

Conclusion

Diversity is increasingly becoming a bigger issue in corporate America. As time goes on, more and more companies have come to understand the benefits of promoting a more diverse workforce.

Diversity is also something procurement organizations have begun to embrace. By diversifying the suppliers they deal with, they are able to take advantage of the many benefits supplier diversity offers.

Unfortunately, there are still many companies who haven't made the decision to have a more diverse array of suppliers. They don't seem to understand why supplier diversity matters.

The companies that decide to embrace supplier diversity will be in a much better position as the United States' demographic landscape changes.



Technology Concepts Group International (TCGi) is your premier procurement resource. We specialize in helping companies optimize their procurement operations by helping them reduce wasteful spending, consolidate vendors, and maintain compliance.

We are also a tier 1 diverse supplier.

If you have any questions about our services, don't hesitate to contact us today!