

White Paper

SUPPLIER DIVERSITY PROGRAMS: A WINNING SOLUTION



Presented by



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How the Survey Was Conducted

The Institute for Supply Management® (ISM®) Research & Analytics survey on supplier diversity was conducted from December 16, 2021, through January 14, 2022. The survey includes random samples of ISM customers, members, and non-ISM affiliated practitioners with a final data set of 513 respondents.

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Supplier Diversity Programs: A Winning Solution

Key Takeaways

- Nearly 80 percent of respondents report that their organization has a supplier diversity program.
- Supplier diversity programs bring awareness of the benefits of diversity and alternative points of view regarding procurement needs.
- Key features of programs include evaluation and performance measurement, and leadership commitment.
- A majority of programs have been operating for more than five years.
- Programs are becoming more adept at reaching diversity milestones.

Introduction

Historically, supplier diversity programs set aside a certain percentage of an organization's spending on goods and services for socially or economically disadvantaged businesses. As supplier diversity programs mature, the benefits have become more quantifiable, and the focus has shifted from doing the right thing to adding business value.

Supplier diversity programs bring awareness of the benefits of diversity and alternative points of view regarding procurement needs. By doing so, these programs can create opportunities for small businesses and help organizations save money. Risk mitigation proves to be another benefit of supplier diversity programs as alternate suppliers provide resilience in the face of disruptions. Additionally, supplier diversity programs help promote competition, resulting in higher quality products, innovation and lower prices.

ISM's annual supplier diversity study seeks to understand the state of supplier diversity programs in organizations, measure their effectiveness and identify emerging trends. The study found that developing supplier diversity strategies and identifying supplier diversity opportunities are primary responsibilities for those involved in these programs. Additionally, critical features of successful programs include evaluation and performance measurement, and leadership commitment.

Demographics

The final data set of 513 respondents included a balanced mix of manufacturing (49 percent) and services (51 percent) industries. The top 5 industry subsectors represented were Electrical Equipment, Appliances & Components, Health Care & Social Assistance, Other Services, Miscellaneous Manufacturing, and Chemical Products.

Commitment to Supplier Diversity

Results convey commitment from organizational leadership is essential for the success of supplier diversity programs. Our study found that 65 percent of respondents agreed that leadership is committed to supplier diversity in 2022. Workforce diversity is another area where leadership commitment is essential, and our study found that 79 percent of respondents agreed that leadership was committed to workforce diversity in 2022, down 5 percent from 2021 results (84 percent).

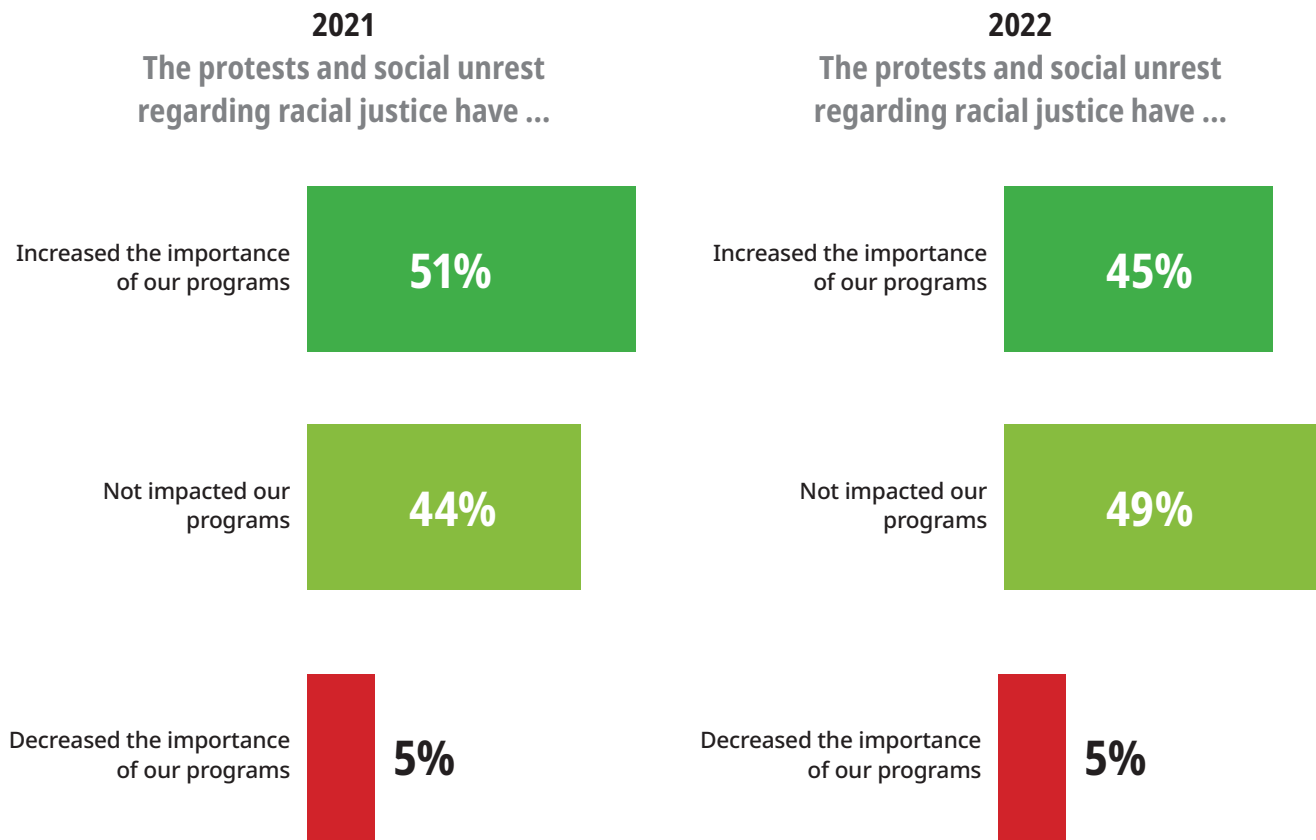
Figure 1: Leadership is supportive of diversity, but possibly slightly less so compared to 2021



The protests and social unrest regarding racial justice brought increased attention to the need for organizations to review their supplier diversity efforts. In 2021, 51 percent of respondents felt that these issues elevated the importance of

supplier diversity programs. Sentiment decreased by 6 percent in this year's study, with 45 percent of respondents feeling that these issues continued to contribute to the urgency of supplier diversity programs.

Figure 2. The urgency of diversity initiatives may have lessened since 2021



Supplier diversity programs are becoming more common, with nearly 80 percent of respondents saying their organization had a supplier diversity program in place. Many of these programs fall under procurement/sourcing (37 percent) and supply chain (20 percent). The benefits of supplier diversity programs are becoming more widely

recognized. However, formalizing supplier diversity programs was seen as less of a priority in 2022, with 57 percent of respondents saying it was unlikely their organizations would take that step with their supplier diversity program within the following year.

Figure 3: 79% of respondents report their firm has a supplier diversity program; 21% say no program is in place

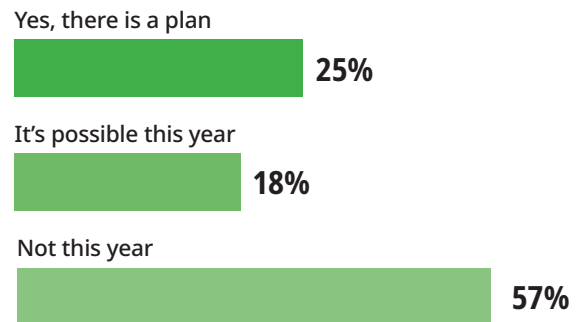
2022

Where does the formal supplier diversity program/function reside within your organization?

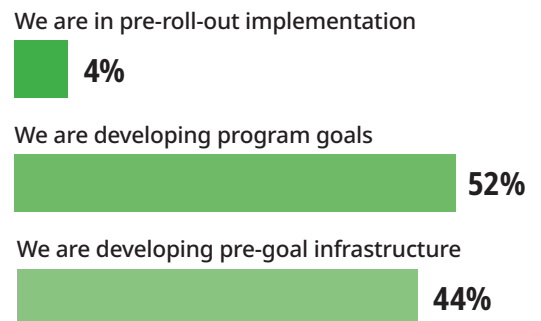


Luis Javier Concepcion, CPSM, CPSD, global category manager facility services, construction and maintenance at DuPont and an ISM Talent Management Committee member says, "We may see newer companies that are embedding supplier diversity in the way they do business because of what is happening in society, and there is no way you can avoid that. Similar to diversity and inclusion in the workplace, supplier diversity is an area where everyone is aware it needs to happen, and they are recognizing the value of it."

Could the informal program become more formalized?



At what stage is program/function development?



DuPont's supplier diversity program is formal and has policies to identify suppliers, manage relationships and make sure those suppliers add value to their supply chains.

Concepcion said that diverse suppliers bring an essential value. "We don't like to see diverse suppliers as a redundancy for market challenges, but we do a lot of work in vetting those suppliers to make sure that we are partnering with the right supplier and for the right labor market, or whatever is happening at that moment," he says.

Supplier Diversity Involvement

Most respondents (68 percent) reported having some involvement in their organization's supplier diversity program. Thirty-three percent have leadership responsibilities for a group responsible

for diversity initiatives, 22 percent report to a leader with supplier diversity goals, and 13 percent are the sole entity at their company accountable for supplier diversity.

Figure 4: In 2022, 68% of respondents are involved in their organization's supplier diversity program



Role in Supplier Diversity Programs

Overall, the three top three priorities of those involved in supplier diversity programs are identifying supplier diversity opportunities, RFPs, RFQs, IFBs and the like, and developing supplier diversity strategies. Those on a team or leading a group felt identifying supplier diversity opportunities

and the bidding process (RFPs and RFQs) to be primary responsibilities. In comparison, respondents identifying as the sole person responsible for supplier diversity responded that developing supplier diversity strategy was their highest priority.

Figure 5: Regardless of role, developing supplier diversity strategy and identifying supplier diversity opportunities are seen as primary responsibilities

In the context of your organization's supplier diversity function, please indicate the role of your position by the three activities that I'm mainly involved are ... (2021)

	Developing supplier diversity strategy	Identifying supplier diversity opportunities	RFPs, RFQs, IFBs and the like	Coordinating with diversity organizations	Assessing program success via metrics	Onboarding new qualified suppliers	Developing diverse suppliers for our program	Coordinating with internal stakeholders	Working with current qualified suppliers on RFXs	Other
I am the only person doing supplier diversity	2.5	1.7	1.8	3.0	1.8	3.0	2.2	2.2	5.0	0.0
I report to someone that does supplier diversity	2.0	1.7	1.7	2.5	1.7	2.2	2.2	2.7	2.7	1.0
I lead a group with supplier diversity responsibilities	1.7	2.1	2.3	2.8	2.8	3.0	2.7	2.4	3.0	2.4

In the context of your organization's supplier diversity function, please indicate the role of your position by the three activities that I'm mainly involved are ... (2022)

	Developing supplier diversity strategy	Identifying supplier diversity opportunities	RFPs, RFQs, IFBs and the like	Coordinating with diversity organizations	Assessing program success via metrics	Onboarding new qualified suppliers	Developing diverse suppliers for our program	Coordinating with internal stakeholders	Working with current qualified suppliers on RFXs	Other
I am the only person doing supplier diversity	1.7	1.9	2.2	2.5	2.8	2.5	2.1	2.5	3.0	0.0
I report to someone that does supplier diversity	2.1	2.1	1.9	3.0	2.5	2.7	2.8	2.7	2.5	0.0
I lead a group with supplier diversity responsibilities	2.0	1.8	1.9	3.1	2.5	2.9	2.4	2.4	3.4	1.8

First

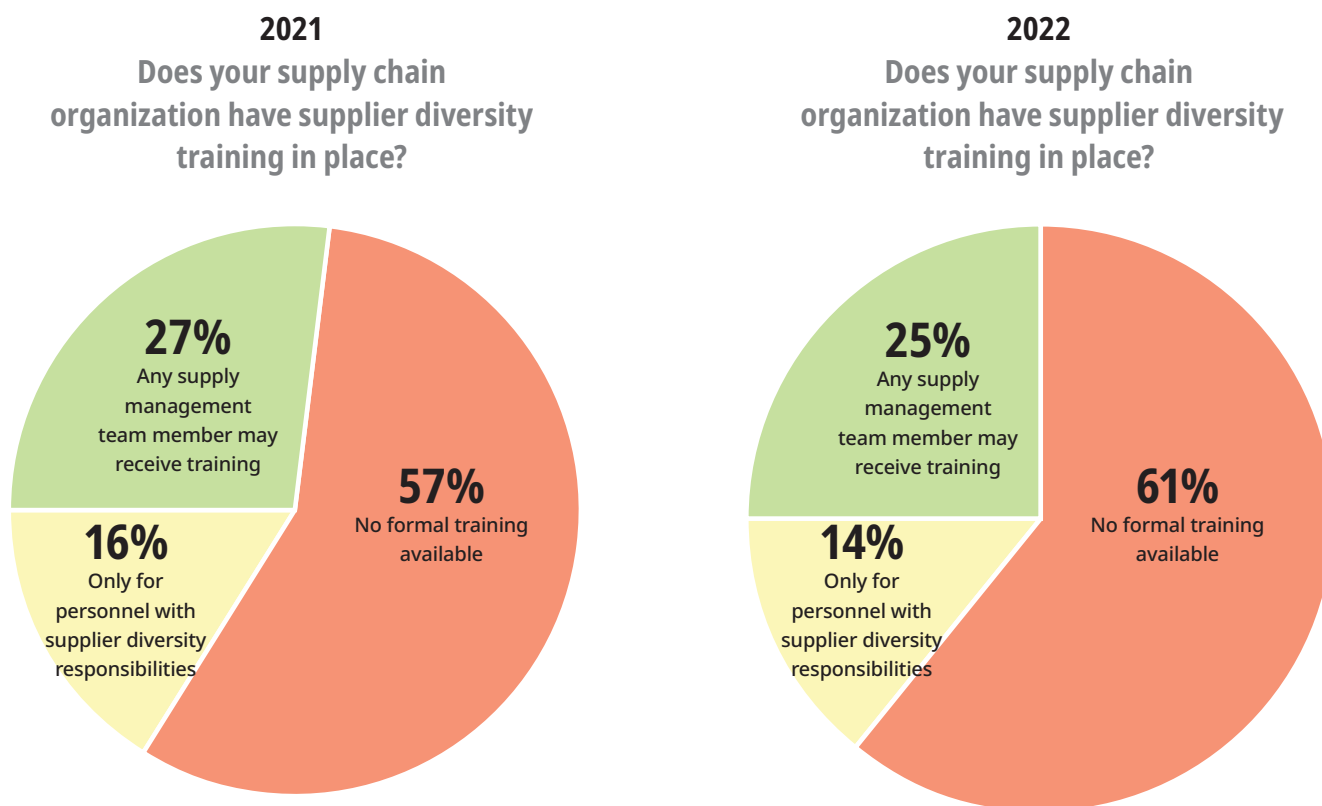
Second

Third

When asked about the availability of supplier diversity training, the majority (61 percent) reported there is no formal training in place. The remaining 39

percent indicated that training was only available for anyone in the supply chain (25 percent) or only for those with diversity responsibilities (14 percent).

Figure 6: 2022 respondents report slightly less access to supplier diversity training



Benefits of Supplier Diversity Programs

Respondents agree that increasing attention to diversity is the most significant benefit of a supplier diversity program. Supplier redundancy/dual-sourcing saw the largest increase (6 percent) over 2021. Providing potential suppliers during the pandemic (up 4 percent) and adding more local suppliers (up 3 percent) were benefits that also increase over last year's results.

"For me, (the benefit of) materially diversified supplier base would be at the top of the list," Concepcion says. "When you have a diverse supplier, typically that organization has less organizational complexity, bringing less overhead to the cost structure that we manage. Meaning, nondiverse suppliers typically have larger organizations where that overhead is getting charged to the customers."

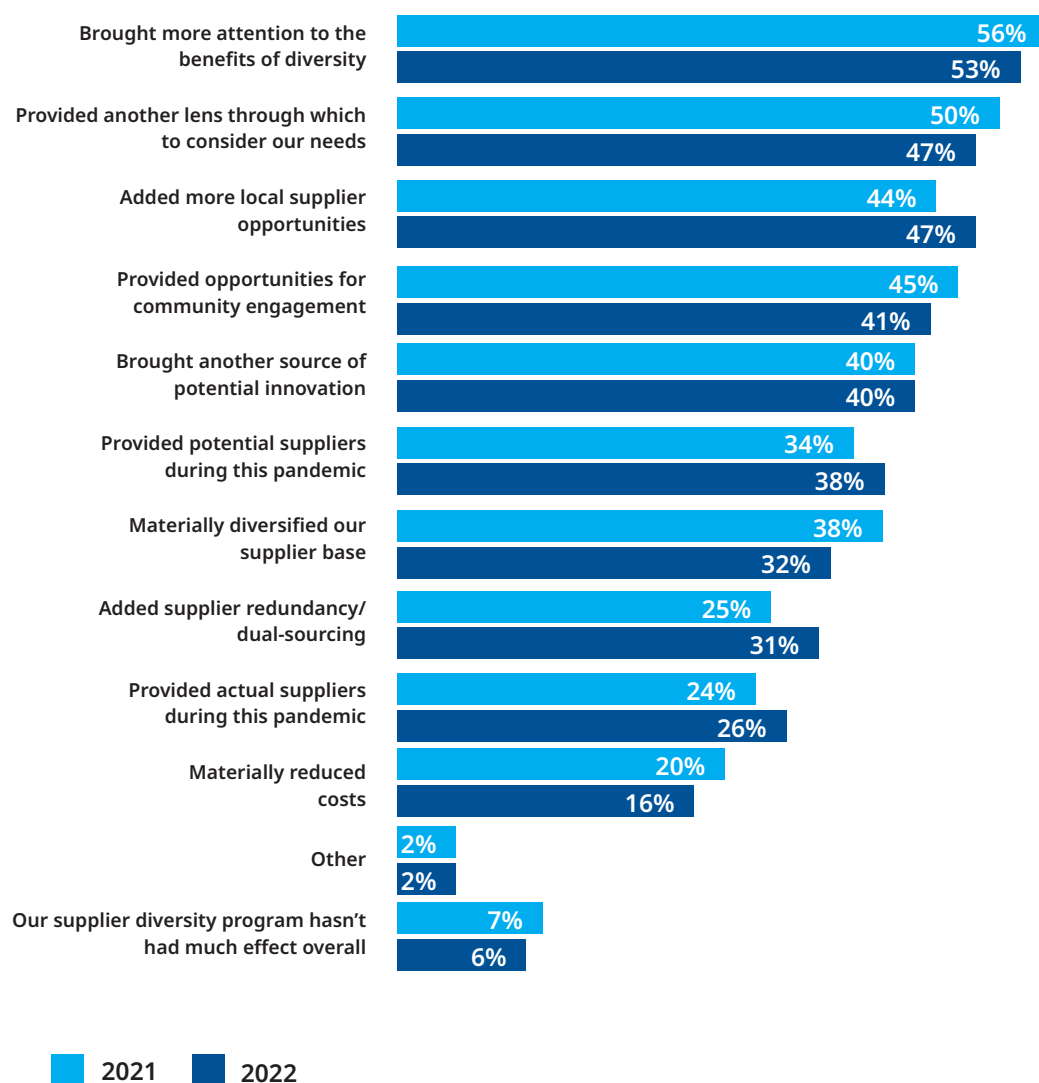
Many diverse suppliers have less overhead and those costs are not passed on to customers, unlike bigger organizations with larger overhead.

"Also, the changes in the market — with the pandemic, the war (in Ukraine), fuel costs — everything that's happening combined together is forcing companies to look outside of their normal supply chains and their normal suppliers to look for other options," he says. "The flexibility offered through diverse suppliers adds a lot of value to that conversion."

Concepcion also sees innovation as a benefit to having supplier diversity programs.

"I think diverse suppliers are in a special situation where they continuously look for how they can be highlighted, versus bigger companies," he says. "I see that constantly, at least in my space, where a smaller supplier engages with me to bring ideas around transactional innovation or operational innovation — whatever it is — and we sit down, look at it and work to implement it. If it doesn't work, we keep having the discussion to see how we can innovate."

Figure 7: In what ways have supplier diversity programs helped your organization?



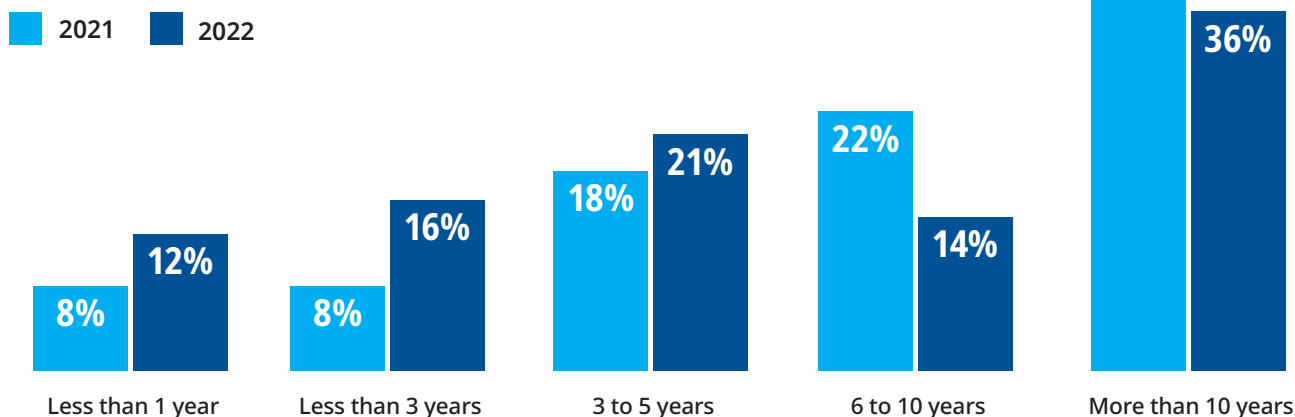
The top three features of supplier diversity programs — evaluation of Tier-1 spend, performance measurement, and leadership support — remained consistent with the 2021 survey. When asked about the main features of the program, data integration with supply management platforms jumped by 6 percent compared to 2021. It is interesting to point out that while leadership support remained the program's main feature in this year's study, sentiment slipped 5 percent compared to 2021.

Supplier Diversity Maturity

Most respondents (72 percent) reported their companies had supplier diversity programs for three years or more. Only 51 percent of 2022 respondents stated their companies' supplier diversity program was in place longer than six years, compared to 65 percent of 2021 respondents. Among this year's respondents, their companies appeared to be in the earlier stages of establishing supplier diversity programs, with 49 percent stating theirs have been operating for five or fewer years. Supplier diversity programs in place for less than six years increased by 14 percent.

Figure 8: As in 2021, a plurality of respondents report their programs have been in place for a decade or more

For how many years has your supplier diversity program been operating?



For Concepcion, at DuPont — an organization with a mature supplier diversity program, going on 50 years — he says one of the things that influences the maturity of a supplier diversity program is leadership.

“Whether you’re starting a company or working for a mature company, it’s about executive commitment,” Concepcion says. “For us, we’ve been lucky to have that for the last 49 years. The C-suite is engaged with what we are doing and are advocates for our goals.”

Mature programs are more likely to report long-term success in meeting diversity goals, and Concepcion says the maturity of programs and the meeting or exceeding of goals can depend on business activities.

“In a normal scenario with a mature company with data that goes back, like 50 years for DuPont, you would think that our goals would be now what was set up to do 50 years ago, but there are many aspects of what the company has been doing for the last 10 years,” he says.

Concepcion continues, “In 2017, when I used to lead the program, our spend with diverse suppliers was almost (US)\$800 million, and our goal was to get to a \$1 billion spend, but that went down significantly when we spun into two different businesses in the last five years, and we went back to \$500 million. So, it depends on the actions that the company takes in the market — either selling business, acquiring business — to acquire those goals.”

The proportion of managed spending allocated to diverse suppliers (54 percent) and the proportion of sourceable spending allocated to diverse suppliers (41 percent) continued to be the primary avenues for measuring supplier diversity goals. Communicating and enforcing supplier diversity policies (38 percent) was the third most popular measurement of success.

Figure 9: Portions of managed spend and sourceable spend allocated to diverse suppliers are key metrics of success



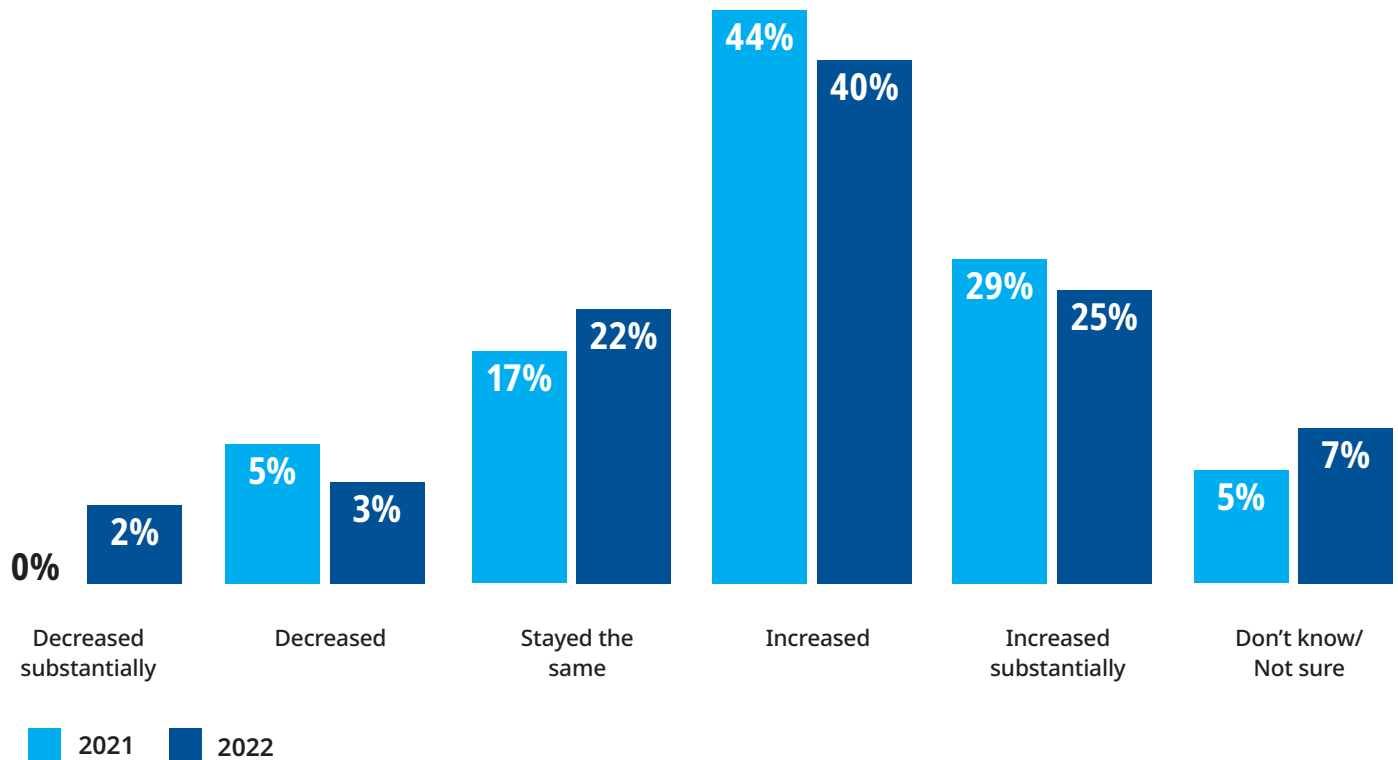
In addition to diverse supplier spend, Concepcion says that supplier development and acting as an advocate internally for diverse suppliers can help programs achieve their goals. "It's all about being an advocate internally for those diverse suppliers, being a voice for them, and showing the value of those companies," he says. "If you don't have those advocates internally in the company, it's pretty difficult for those suppliers because they have limited engagement with internal stakeholders

that make the decisions in terms of what we buy, how much we buy and from who we buy."

When it came to measuring the success of supplier diversity programs, 65 percent agreed their organization's success in achieving supplier diversity milestones had increased compared to three years ago. Only 5 percent of respondents reported a decrease in success.

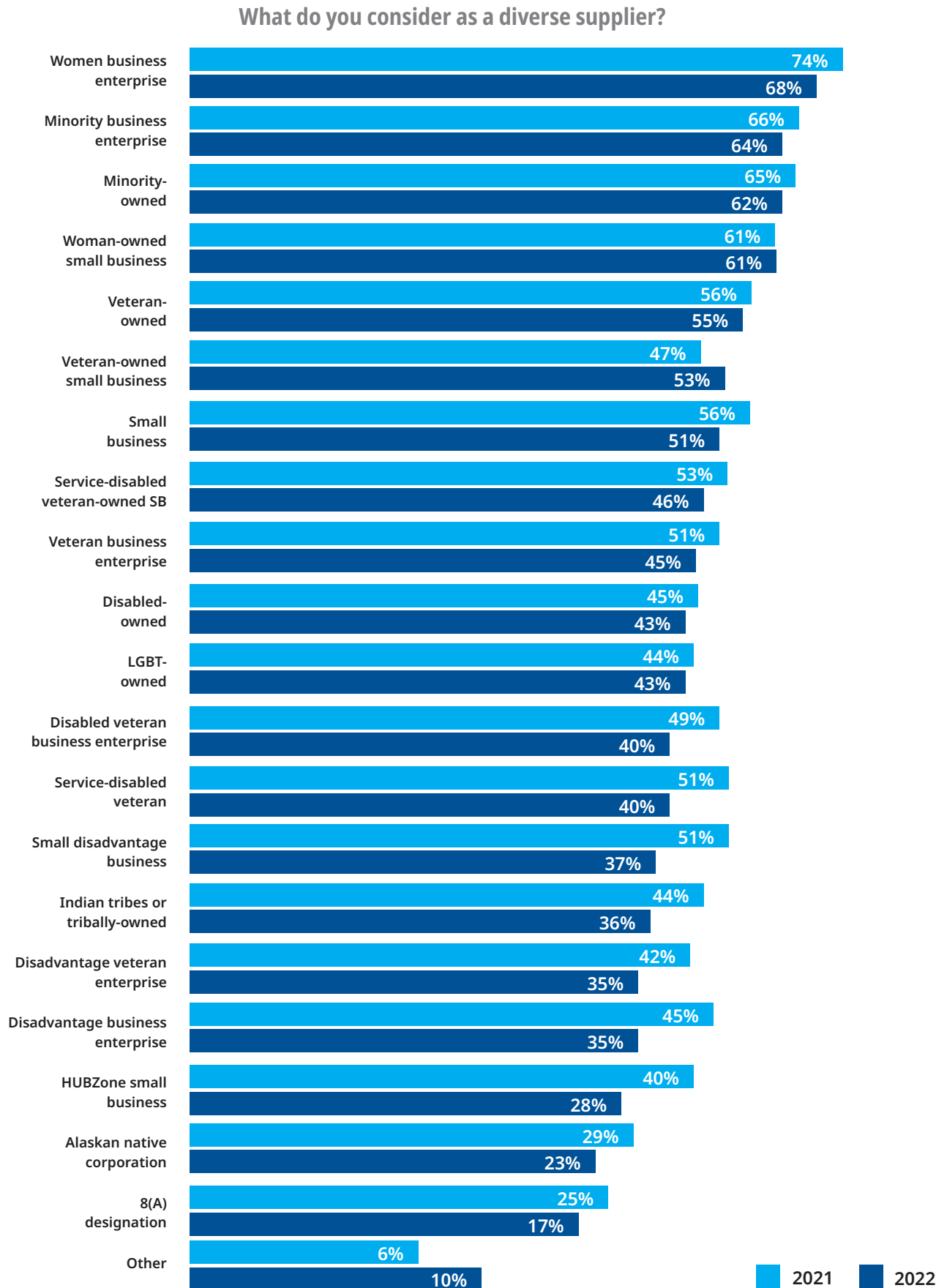
Figure 10: Supplier diversity programs are improving their ability to achieve program milestones

Compared to three years ago, my organization's success in achieving supplier diversity milestones has ...



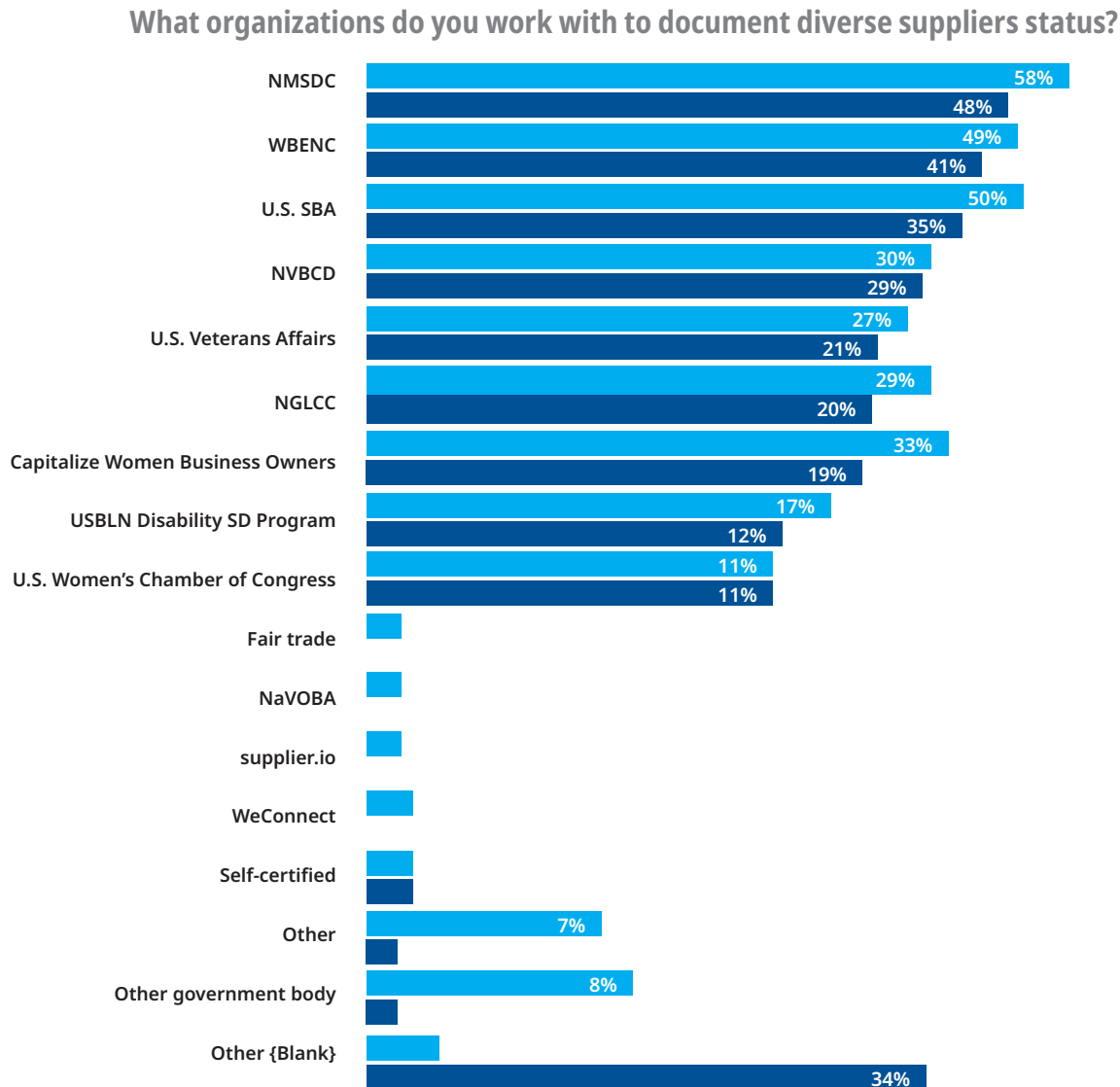
When respondents were asked what they considered a diverse supplier, women-owned and minority-owned entities were the most prevalent answers.

Figure 11: Woman-owned and minority-owned businesses are most likely to be considered to be diverse suppliers



Organizations rely on various third-party resources to document diverse supplier statuses. The most prevalent third-party organizations used were the National Minority Supplier Development Council (NMSDC), Women's Business Enterprise National Council (WBENC), and U.S. Small Business Administration.

Figure 12: NMSDC, WBENC, and the U.S. SBA are the most frequently consulted supplier diversity facilitators



Conclusion

The advantages of a well-run supplier diversity program are clear, including increased benefits to both the organization and diverse suppliers. To get the most out of these programs, it is important to understand the key features and benefits. Additionally, organizations should focus on setting clear goals, establishing proper program management, and ensuring leadership commitment. By doing so, they can maximize the benefits of supplier diversity programs for all involved.

As the adoption and formalizing of supplier diversity programs continue to increase, we can expect to see increased benefits in terms of cost savings, competition, and quality. Supplier diversity programs have proven that investing in businesses for the greater good can be a win-win for all parties.