

# ECONOMIC IMPACT: How to Measure Your Supplier Diversity Program's Success



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# Introduction

Supplier diversity has traditionally been focused on growing underserved diversity classes and communities, but the challenge has now become how to translate that to stakeholder value. How do we prove the value of our supplier diversity program beyond checking the box on a corporate social responsibility mandate?

We can—and should—present stakeholders with data-driven metrics demonstrating how working with diverse suppliers increases competitiveness and drives down costs; gives us access to innovative, agile solutions; and opens our companies to new networks and marketplaces. But as a supplier diversity

program matures, another important measurement emerges that tells the story of how investing in small and diverse businesses also increases our economic impact in communities across the country.

According to CVM's 2017 supplier diversity survey, only 19 percent of organizations currently measure the economic impact of their supplier diversity program.

If you're only sharing direct spend dollars with your stakeholders, then you're missing a significant part of the story. It's important to show the ripple effect of investments made in diverse suppliers, which is where an economic impact analysis (EIA) comes in.



# Why Economic Impact Matters

Before we dig into how to measure economic impact, let us talk about what it is and why it matters. Economic impact is, in its simplest terms, the impact that doing business has on the economy. In the case of your supplier diversity program, it is a measurement of how doing business with small and diverse companies generates revenue and income, how it creates jobs, and how that activity impacts the local economy.

An EIA examines the effect of an event or activity—in our case, doing business with small and diverse suppliers—on the economy in a specified area, ranging from a localized region to the entire country.

An EIA measures four types of economic impact:

- **Output Effect**

A measure of revenues generated by small and diverse suppliers within your supply chain

- **Income Effect**

A measure of total income generated with small and diverse suppliers within your supply chain

- **Employment Effect**

A measure of the number of jobs created as a result of the business activities of small and diverse businesses within your supply chain

- **Tax Effect**

A measure of federal, state, and local business and personal taxes that are supported through economic activity



## Shifting Demographics

We know that the population of the United States is diversifying quickly. The Census Bureau estimates that by the year 2044, the majority of the U.S. population will be made up of minorities. Furthermore, the minority population is projected to rise to 56 percent of the total in 2060, compared with 38 percent in 2014.

According to a Department of Commerce study, the minority population will contribute to as much as 70 percent of the total increase in purchasing power from 2000 to 2045. A joint report from the Milken Institute and the Minority Business Development Agency suggests that the number of minority business owners in the U.S. (currently estimated at 3.3 million) is growing at a rate of 17 percent annually—a staggering six times faster than the growth rate of all firms. Overall, minority business enterprise (MBE) sales are growing at a rate of 34 percent per year, nearly twice as fast as the national average.

The report concludes that MBEs are a driving force behind economic growth and will be a major segment of the

U.S. economy in the 21st century as the transition to a more diverse demographic majority occurs (Tozzi, 2010).

Keep in mind that these numbers do not include the growth of other diverse business segments: women, LGBT, people with disabilities, and veterans. When those diverse businesses are also included in growth projections, it is apparent that diverse businesses will power the economy of the future.

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Producing an EIA report illustrates to leadership how your supplier diversity program—including the resources and commitment necessary for it to be successful—is strengthening the economy on a local, state, and national level. It will assist in helping you “tell your story” by sharing not only the spend figures that you invest in diverse businesses but also the true trickle-down effect: Each dollar spent with diverse companies has a multiplier effect on economic growth. This is quantifiable data that can be put into a business case for stakeholders from the C-suite to procurement and category managers, aligning your supplier diversity program with a strategy that taps into the economic growth potential of our country's shifting demographics.

An underlying cause of economic inequality is the disproportionately high unemployment rate for women and many minorities as compared to the non-minority population. At 8.5 percent, unemployment among African-Americans is twice as high as that for Caucasians. Similarly, unemployment among Hispanics (5.8 percent) is 30 percent higher than that of their white counterparts. Help your stakeholders see an opportunity to impact these communities through supplier diversity: Create sustainable jobs through diverse spend.

In 2014, the National Minority Supplier Development Council (NMSDC) retained The Institute for Thought Diversity to conduct a study to assess the economic impact that the NMSDC MBE community has on the U.S. economy (and Puerto Rico). This EIA includes the increased business activity created by the 11,978 NMSDC-certified MBEs, the jobs that are maintained/created as a result of this activity throughout the various sectors of the U.S. economy, and the incremental business taxes that are generated. The results of the study paint a vivid picture of MBEs as revenue generators and job creators:

- More than \$400 billion in output
- Creation of and/or preservation of more than 2.2 million jobs, 32 percent of which are directly provided by NMSDC-certified MBEs
- Approximately \$49 billion in tax revenue generated for the benefit of local, state, and federal governments

*(Source: [http://www.nmsdc.org/wp-content/uploads/Economic\\_Impact\\_Report\\_FINAL.pdf](http://www.nmsdc.org/wp-content/uploads/Economic_Impact_Report_FINAL.pdf))*

## TIP

The number of jobs you're supporting through your supplier diversity program will generate impact with stakeholders and bring increased exposure to your program.

# 📈 How to Meaningfully Measure Economic Impact

Each industry that produces goods and services has an influence on, and in turn is influenced by, the production of goods and services of other industries. These relationships are captured through a multiplier effect as the demand and supply from various industries trickle over from business to business. This allows for the quantification of the cumulative total economic impact, which includes output; income; employment; and personal, local, state, and federal tax revenues.

## The Multiplier Effect in Economic Impact Reporting

The multiplier effect uses the sales, employment, and industry data extracted from the study sample and reflects the increased economic activity that comes

from sales being generated, and expenses being incurred, by these businesses.

We know that the impact of spending with a diverse-owned company is greater than just direct purchases made from the company. Money spent with a diverse business is then redistributed again on payroll, goods and services, and other suppliers in its supply chain. Employees will also use their salaries to purchase goods and services from other businesses, many of which will be within the local economy. Downstream suppliers similarly use the proceeds from their sales on their employees and other businesses. A chain reaction of indirect and induced spending continues, hence creating a multiplier effect.



## Economic Impact Metrics

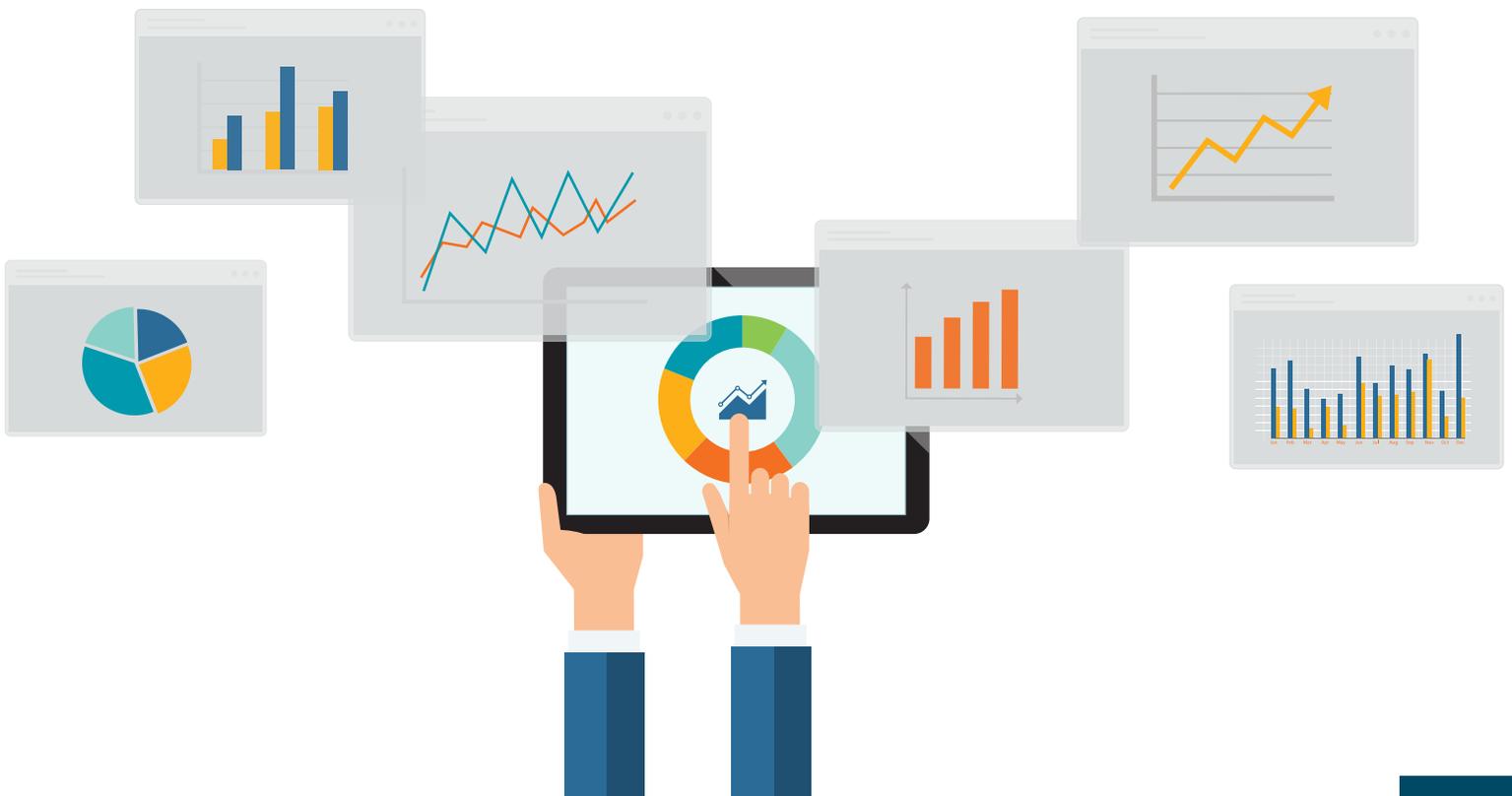
Economic impact is measured with three metrics: direct impact, indirect impact, and induced impact metrics. These are the metrics or methods we use to measure the four types of effects mentioned above.

Let's break down what each of those metrics means:

- **Direct impact:** Your diverse spend falls under this category. This is the actual dollars spent purchasing goods and services from diverse suppliers. Another metric included in direct impact is the volume of jobs created by diverse suppliers to support business growth as a result of doing business with you.

- **Indirect impact:** Diverse suppliers boost growth within their own supply chain to manage the increased growth of their business as it relates to the revenue that you invested in that supplier.

- **Induced impact:** This metric measures the wider economic benefit that is a result of both the direct and indirect impact and the total contribution you have made to the local economy and communities where your suppliers and their employees reside.



## Experienced Partners, Robust Reporting

Corporate leadership and stakeholders are interested in job creation and economic growth, but they also want insights into what their supplier diversity resources and efforts are doing at a granular level. This is where the importance of an experienced partner comes in. Not only is it imperative to ensure you are capturing the relevant data correctly, but the most vital step is then being able to present the effectiveness of said results.

CVM Solutions has a two-part solution that can help you do exactly this. Step 1 is a data enrichment engagement that will provide information about dollars spent with diverse suppliers, as well as dollars spent by industry, by region, and by diversity classification. Step 2 utilizes the enrichment results to produce a dynamic EIA report to share with corporate leadership, shareholders, potential government partners, consumers, and beyond. The analysis can be created on schedule or extracted from our real-time portal on demand.

The use of accurate, up-to-date tools such as CVM's data enrichment is critical to ascertaining economic impact. These

reports will be a valuable asset to assist you in sharing the true success of your supplier diversity efforts.

Customizable reporting parameters include choosing between national and regional economic impact. A state-by-state analysis depicts how your supplier diversity program breaks down regionally, and soon reporting will be available at the county level. The report also calculates your program's tax impact from federal to state levels, a metric that can be useful when working with government entities.

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Each report captures impact with all applicable diversity categories you track and includes graphs, charts, and analytics to help stakeholders understand how your supplier diversity program positively impacts the economy.

Of course, economic impact is not just a supplier diversity theme; it can provide a tangible value to multiple stakeholders

across your organization. Beyond supplier diversity, EIA reporting can bring tremendous value to your community and investor relations groups; it can increase competitive advantage when competing on city, state, and municipal government contracts; and it helps with concentrated marketing efforts based on regions where your organization has a large footprint.



# Understanding Economic Impact Is the Next Step for Supplier Diversity

As our country's demographics change and the consumer population becomes increasingly diverse, we must keep pace by diversifying the workforce and our supply chain. One of the most important methods for making progress in these areas is focused efforts within the corporate supplier diversity program.

A sustainable supply chain requires strong suppliers and healthy communities. As a supplier diversity practitioner, it is no small task to quantify the results and impact of a corporate supplier diversity program. Diversity spend and bottom-line results

will always matter, but we must continually adapt to the business environment, react to the changing economy, and deliver value to the community—all of which is measured by economic impact.

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Contact Us to Get Started!



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